

Shadow City Minister, Tulip Siddiq MP
House of Commons
London
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Contribution to Labour Party Financial Services Review

I am writing on behalf of ShareAction to provide input for the Labour party Financial Services Review.

ShareAction works to define the highest standards for responsible investment, mobilising investors to take action to improve labour standards, tackle climate change and the biodiversity crisis, and address pressing global health issues. We have strong relationships with financial regulators, government bodies, investors and asset owners such as pension funds, charities and universities with significant endowments. Our investor networks have successfully achieved change in some of the UK's largest companies and banks, and our reports, research and rankings are highly-regarded across the sector.

We have considered all five themes of the review, with a particular focus on sustainability, consumer protection, and competitiveness, and would like to provide detailed responses to the two specific questions below:

1 – What is the most significant change you would like to see to Financial Services policy?

We believe that **reforming the fiduciary duties of pension scheme trustees** is the single most impactful change required to unlock investment for sustainable growth across the entire country, to achieve the Labour party's ambition for London to be the world's first net-zero aligned financial centre, and to ensure the financial system serves hard-working savers in the future.

UK pension scheme participation now stands at over 25 million peopleⁱ, meaning pension fund trustees manage the future interests of a significant proportion of the population. The majority of pension savers ([73% according to our recent research](#)) would like fund managers to consider ESG factors alongside profits. However, UK pension funds still heavily invest in fossil fuels and other unsustainable activities while failing to fund the transition to net-zeroⁱⁱ.

Not only does this go against savers' explicit priorities, it also puts their financial futures at risk by neglecting to properly take into account the impact of systemic environmental and social issues on long-term returns. Furthermore, continued contribution to activities which are damaging to people and planet threatens our collective wellbeing and jeopardises the UK's future prosperity.

This inadequate approach to pension fund management is driven by the current law around fiduciary duty, which understands the purpose of pensions to be purely financial and incentivises maximising short-term returnsⁱⁱⁱ. Pension fund trustees also express confusion and uncertainty around how to consider ESG factors in investment decisions^{iv}.

Central to this challenge is the requirement for pension trustees to act in savers' "best interests". Amending the law to clarify and expand the definition of savers' "best interests" to include non-financial factors, alongside issuing comprehensive guidance for trustees which encourages greater action on environmental and social impacts, could therefore create a radical shift with minimal government intervention.

The potential positive impact of such legislative is significant. The UK is the largest pensions market in Europe, and occupational pension schemes now hold around £3 trillion in assets under management^v. Mobilising even just a fraction of this vast sum of private capital to fund national green infrastructure projects, clean energy development and innovative technology research, could therefore support Shadow Chancellor Rachel Reeves' ambition to match the £28 billion National Wealth Fund with 3:1 private sector investment, and should form a central consideration of her planned pensions system review.

Secondly, we would like to see **robust measures to tackle greenwashing** across the financial services sector. Our recent report ["Green Ambitions, Grey Realities"](#) found that Europe's 20 largest banks – some of which are headquartered in the UK – actively promote their 'green' credentials without transparently or consistently disclosing their definition of 'green finance', and often include activities which are controversial (biomass), carbon-intensive (natural gas) or unrelated to the transition to net-zero (purchasing existing infrastructure)^{vi}.

Furthermore, there are discrepancies between how banks calculate their 'green' investments compared with their contribution to climate-changing emissions - for example, by neglecting to count capital markets facilitation, or weighting green finance deals more heavily than fossil fuel deals in their calculations. Similarly, our recent [RISE \(Responsible Investment Standards and Expectations\) guidance paper #2](#) found that many asset management firms with net-zero targets in fact vote against climate resolutions at their investee companies^{vii}.

From the perspective of both consumer protection and effective capital market regulation, it is vital that banks and asset managers are effectively held to account and not allowed to publish misleading claims regarding green finance. One first step would be to extend the FCA's new greenwashing rule to cover institutional as well as retail funds, including pension funds. Further measures should also be introduced to require banks to publicly report against a robust green finance framework, introduce stronger punitive measures for those who deliberately mislead consumers and investors, and actively encourage environmentally and socially conscious investment decisions.

Finally, we would like to draw your attention to the damaging implications of the proposals in the **Digitisation Taskforce Interim Report**. We consider that the proposals risk seriously undermining the shareholder rights of retail investors who currently hold paper certificates as it would become more difficult (or even impossible) for such investors to vote, attend AGMs, file shareholder resolutions and exercise other important shareholder rights. Furthermore, the proposal to hold all shares via a nominee would lead to increased costs and administrative burdens for these shareholders. It is also possible that inactive investors could lose their shares. Given the complexity and importance of digitising the UK's shareholding system, there is a serious lack of detail in the Interim Report and a concerning lack of consultation on the content of the proposals.

2 - What is required from a future Labour government to crowd in more private investment to fund the transition to net zero?

A future Labour government should take actions to incentivise investment in green growth projects in favour of continued funding for fossil fuels, increase the competitiveness of financial institutions and asset managers by holding them to greater account, and improve regulation by setting higher standards and more robust frameworks for green finance.

In order to achieve this, we recommend the following specific measures:

- **Introduce mandatory Sustainability Disclosure Requirements (SDR), including social and health disclosures; adopt Taskforce for Nature-related Financial Disclosures (TNFD) reporting; require companies to have and disclose transition plans.** A recent survey conducted by the FCA found that 76% of respondents “would like to invest in a way which protects the environment”, but “consumers find it difficult to identify products that meet their sustainability preferences”^{viii}. In response, the FCA is introducing new sustainable investment labels for retail funds. These are a step in the right direction to help consumers understand their investment options, but the government should go further by adopting the Environmental Audit Committee’s recent recommendations to introduce an economy-wide SDR regime which includes mandatory TNFD reporting and compulsory transition plan disclosure for large companies and investors. This would increase competitiveness and consumer protection, and would enable the UK to remain a global financial leader by aligning all existing reporting requirements under one innovative, integrated framework.
- **Increase capital requirements for banks and insurers.** Fossil fuel funding presents both systemic and financial risks. Currently, these factors are not adequately accounted for, allowing banks and insurance companies to continue investing in climate-damaging activities while at the same time putting them at risk of making massive material losses in the future (for example, from stranded assets). Introducing a one-to-one rule whereby investments in companies involved in new fossil fuel projects are subject to a 100% capital charge would simultaneously better protect the insurance and banking sectors, and disincentivise fossil fuel funding in favour of investment in the transition to net-zero.
- **Reform the planning system.** In order to increase investment in net-zero projects, the planning system must enable development of net-zero infrastructure at greater pace and on a larger scale than previously permitted, as Shadow Chancellor Rachel Reeves has set-out, while ensuring that biodiversity net gain (BNG) requirements are rigorous.

Furthermore, we would like to see the introduction of a number of measures to raise stewardship standards. Stewardship is a powerful vehicle to change corporate behavior for the better, if used effectively. It provides a foundation for responsible investors to evidence the impacts their investments have on society and the environment; it also represents one of the most effective ways to transition the economy to net-zero by 2050. Despite this, the UK regime for stewardship is weak and extremely fragmented, with rules and guidance stemming from various sources. Crucially, the Stewardship Code is ambitious but only voluntary, while some of the FCA’s rules are mandatory but tend to be weak with often opaque reporting. In order to bolster the UK’s stewardship regime, we recommend the following:

- **Introduce mandatory voting disclosures.** While SRDII places some requirements on asset management firms around how they exercise their rights as shareholders, the regulation is weak and represents a lowest-common denominator approach to policy making. As part of its Vote Reporting Group work, the FCA is currently considering publishing a voluntary vote reporting template for industry. While this is welcome, the FCA should move ahead with more ambitious measures to require transparency from firms, specifically a mandatory voting disclosure regime. This should apply to shareholder resolutions as well as for votes against standing items such as director elections.
- **FCA should publish guidance on best practice engagement reporting.** Tracking and reporting on the effectiveness of shareholder engagement is crucial in understanding and enhancing the impact of financial institutions over investee companies. However, engagement strategies are often inadequately articulated (if at all), reporting is inconsistent and vague, and activities and outcomes are rarely reported on. The FCA has a clear role to play in driving up standards of engagement reporting, and should work with industry to publish best practice engagement reporting guidance. ShareAction's [Power in Numbers?](#) report includes further best practice engagement reporting guidance.
- **FCA should publish guidance around escalation expectations.** ShareAction's recent Point of No Returns series found that, while the majority of firms reference escalation, little detail is provided about the application and outcomes of escalation activities, including on the speed of escalation. Shining a light on the outcomes of stewardship, and specifically escalation, is vital to ensuring engagement is effective and doesn't become a "tea and biscuits" affair which lacks real outcomes. We welcome the FCA's new rules that require firms to set out an escalation plan to take action when assets do not demonstrate sufficient progress towards a funds sustainability objective in sustainably labelled funds. We are concerned, however, that without the FCA setting sufficient expectations on firms' approach to escalation, this could represent a missed opportunity to promote effective stewardship by relevant funds. Our [RISE guidance paper #2](#) provides further detail and sets out a clear escalation framework with implementation guidelines and expectations.

Finally, we fundamentally disagree with the arguments put forward in [the recent open letter from the Capital Markets Industry Taskforce \(CMIT\) regarding the UK's approach to corporate governance and stewardship](#), and we completely reject the implied contradiction between robust governance and stewardship requirements and economic growth. We believe that good governance and stewardship is in fact vital for the strength and competitiveness of UK companies and the UK economy. Effective stewardship is not only compatible with, but necessary for, long-term and sustainable growth, and we urge the Labour Party to make strengthening the UK's stewardship framework along the lines set out above a core part of their strategy should they enter government. The Corporate Governance Code already allows a degree of flexibility through its "comply or explain" model, and allowing companies to further deviate from it would open a slippery-slope towards poor practice. Similarly, discontinuing the IA Public Register and removing the requirement for companies to respond to significant votes against resolutions (as the CMIT recommends) would seriously compromise corporate accountability and transparency, as well as fundamentally undermining shareholder rights.

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- ⁱ New Financial (2023). *UK Capital Markets: A New Sense Of Urgency*. Available online at <https://newfinancial.org/wp-content/uploads/2023/09/2023.09-UK-capital-markets-a-new-sense-of-urgency-New-Financial.pdf>
- ⁱⁱ ShareAction (2023). *In All Our Best Interests Reforming Fiduciary Duty for the 21st Century - a briefing for policymakers*. Available online at <https://cdn2.assets-servd.host/shareaction-api/production/resources/policies/In-All-Our-Best-Interests-fiduciary-duty.pdf>
- ⁱⁱⁱ ShareAction (2023). *In All Our Best Interests Reforming Fiduciary Duty for the 21st Century - a briefing for policymakers*. Available online at <https://cdn2.assets-servd.host/shareaction-api/production/resources/policies/In-All-Our-Best-Interests-fiduciary-duty.pdf>
- ^{iv} HM Treasury (2023). *Government response to 'pension trustee, skills, capability and culture: a call for evidence'*. Available online at <https://www.gov.uk/government/calls-for-evidence/pension-trustee-skills-capability-and-culture-a-call-for-evidence/outcome/government-response-to-pension-trustee-skills-capability-and-culture-a-call-for-evidence>
- ^v ShareAction (2023). *In All Our Best Interests Reforming Fiduciary Duty for the 21st Century - a briefing for policymakers*. Available online at <https://cdn2.assets-servd.host/shareaction-api/production/resources/policies/In-All-Our-Best-Interests-fiduciary-duty.pdf>
- ^{vi} ShareAction (2023). *Green Ambitions, Grey Realities: European Banks' journey from pledges to practice*. Available online at <https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/Green-Ambitions-Grey-Realities.pdf>
- ^{vii} ShareAction (2023). *Introducing a standardised framework for escalating engagement with companies*. Available online at <https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/RISE-paper-2.pdf>
- ^{viii} FCA (2023). *Sustainability Disclosure Requirements (SDR) and investment labels*. Available online at <https://www.fca.org.uk/publication/policy/ps23-16.pdf>