

Environmental, Social and Governance (ESG) Division
Financial Conduct Authority
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Sent via email: dp23-1@fca.org.uk

10th May 2023

Dear Culture and Remuneration Team,

ShareAction response to FCA DP23/1: Finance for positive sustainable change

I am pleased to respond to the FCA discussion paper 23/1: finance for positive sustainable change on behalf of ShareAction, a registered charity established to promote transparency and responsible investment practices throughout the financial services sector. We are a member organisation and count amongst our members well-known NGOs and charitable foundations, as well as over 26,000 individual supporters. Among other activities, we work with the financial services sector, including asset management firms, to promote integration of sustainability factors in investment decisions, long-term stewardship of assets and the consideration of the views of clients, beneficiaries and pension scheme members.

We are greatly encouraged by the release of this discussion paper, and the deep consideration the FCA is giving to its role in ensuring the governance, culture and remuneration structures of regulated firms are oriented towards positive, sustainable change. The strength of these factors are crucial for firms to address the environmental and social considerations that are of increasing concern to consumers, and we believe the FCA has a key role to play in setting and enforcing high mandatory standards.

We welcome the work the FCA has done to promote transparency in sustainable finance, and we were pleased to make a submission to consultation CP22/20 on SDR and sustainable investment labels earlier this year. However, we increasingly believe that disclosure, whilst a necessary condition for ensuring responsible investment is embedded as the default approach of the financial sector, is not sufficient on its own to ensure investment is conducted in ways that protect climate, biodiversity and people. There is a strong case for the FCA as a regulator to be more pro-active in driving up standards and outcomes, and our response sets out some of the options we think the FCA should explore in this regard.

ShareAction has a strong and constructive relationship with the FCA, and we strongly support the steps you are taking to develop a more effective regulatory framework for sustainable finance. As such we would like to continue to work with the FCA following this discussion period to explore the points raised in this submission in more detail, and to advise on how to deliver against your stated objectives.

We have answered the majority of the paper's questions below. Please don't hesitate to contact us if you require any clarification on specific points.

Question Responses

1. Should all financial services firms be expected to embed sustainability-related considerations in their business objectives and strategies? If so, what should be the scope of such expectations? Please explain your views.

Yes, we strongly believe that financial services firms should be expected to integrate sustainability considerations – encompassing a comprehensive range of environmental and social factors – in their business strategies. Furthermore, our view is that the FCA has a crucial role to play in establishing this expectation for the sector.

As the FCA Financial Lives Survey made clear, an overwhelming majority of consumers (79%) believe that ‘businesses have a wider social responsibility than simply to make a profit’¹. Financial services firms must explicitly reflect this in their objectives and strategies. Indeed, this is the implication of the FCA’s new Consumer Duty given that it requires firms to understand ‘the needs, characteristics and objectives’ of their customers. Increasingly, we believe that the FCA’s purpose of protecting consumers is inseparable from the need to set robust expectations and requirements for regulated firms to integrate environmental and social objectives, properly addressing both risks and impacts.

ShareAction’s recent Point Of No Returns II report² showed that asset managers continue to consistently fail to invest in a way that will protect climate, biodiversity and people, and are failing to develop standards and governance structures commensurate with the social and environmental challenges we face. Whilst there has been some limited progress in improving internal policies and procedures, the overall picture remains inadequate to the scale of those challenges. There is therefore a clear need for the FCA to remedy this deficiency by establishing strong regulatory expectations for all regulated firms. Specifically, these expectations should include:

- Accountability for responsible investment policies at Board level as well as with the core executive team
- Ensuring that sustainability-related expertise is present at Board level (see response to question 3)
- Clear and robust stewardship policies that detail specific engagement tactics for climate, biodiversity and social factors, and include meaningful escalation protocols
- Mandatory voting disclosure rules with compulsory timeframes and clear guidelines for comprehensive and meaningful disclosure

As this discussion paper states much of the regulatory focus to date has been on climate-related matters. There is an opportunity to build upon that success by broadening the scope to include social factors. We specifically ask that the scope include and prioritise health within the social pillar. ShareAction has developed a framework on health for investors centred on three pillars: consumer health, worker health, and community health. Using this framework, investors can assess health-related risk factors by considering company impacts in these key areas. According to the CBI’s Seize the Moment report, 63 per cent of years lost from poor health are in the working age population. This costs the UK around £300 billion in lost economic output annually, excluding direct health costs.³

Board-level oversight and firm alignment are key to expanding the scope beyond climate. Firms can begin linking climate-related strategies to health-related strategies. For example, air pollution which

¹ FCA 2022 Financial Lives Survey <https://www.fca.org.uk/data/financial-lives-2022-early-survey-insights-vulnerability-financial-resilience>

² ShareAction, Point of No Returns 2023 Part II: Stewardship and Governance (March 2023) <https://shareaction.org/reports/point-of-no-returns-2023-part-ii-stewardship-and-governance>

³ CBI, Seize the moment – How can business transform the UK economy? <https://www.cbi.org.uk/seize-the-moment>

causes between 28,000 and 36,000 deaths every year in the UK⁴, is often linked to greenhouse gas emissions, which is a risk already identified by investors. Also, upcoming health regulation can identify new material risk. Regulations increasingly require investors to demonstrate how they are addressing a range of sustainability topics, including climate, nature, and human rights. These topics have a direct impact on people's health through their association to air pollution and labour rights. Governments around the world are also acting on health, including regulations on tobacco⁵ and sugar taxes. With clearly defined social objectives and full buy-in, firms will be able to define the scope of health issues most relevant to them based on their responsible investment priorities and portfolios.

2. Beyond the FCA's ongoing work on diversity and inclusion, and introduction of the Consumer Duty, should we consider setting regulatory expectations or guidance on how firms' culture and behaviours can support positive sustainable change? Please explain your views.

Yes, the FCA should explore where additional regulatory expectations for firms' culture and behaviours could improve sustainability outcomes. Culture is a crucial determinant of whether formal sustainability-related objectives can actually be achieved in practice, and it must reflect a genuine recognition of and commitment to those objectives. As a regulator, the FCA is uniquely placed to provide guidance and support to firms on how to inculcate such a culture at all levels of the organisation.

We strongly support the introduction of the Consumer Duty, and welcome the emphasis it places on the role of culture and behaviours in ensuring positive outcomes for consumers. The accompanying guidance the FCA have provided should be broadened to specifically cover the relationship between culture and positive sustainability outcomes.

3. What steps can firms take to ensure that they have the right skills and knowledge relating to material climate- and sustainability-related risks, opportunities and impacts on their boards? Should we consider setting any regulatory expectations or guidance in this area? If so, what should be the scope of such expectations?

We are pleased that the FCA has recognised in this discussion paper the need for clarity on which individuals within a firm are responsible for advancing priorities and commitments, and that this should cover a range of sustainability factors from climate to diversity and inclusion (D&I). We strongly believe that expertise on a comprehensive range of factors must be available at Board level.

We have previously argued that asset managers should ensure that at least one member of their board has deep climate-related expertise⁶. There is a strong argument for this given the scale of the specific challenge financial firms face in making the transition to a net-zero economy. However, we also strongly believe that financial firms should incorporate a wider range of sustainability factors in their strategies and decision-making. Given the breadth of these factors (such as biodiversity, D&I, fair pay and health and safety), we recognise it may be difficult to ensure individual expertise in each of these areas at the board level. As such, boards may need to identify alternative ways of sourcing the appropriate knowledge needed to inform the board's oversight of the firm's strategy.

⁴ <https://www.gov.uk/government/publications/air-pollution-applying-all-our-health/air-pollution-applying-all-our-health>

⁵ Bloomberg, Investors Lose a Major Justification for Holding Tobacco Stocks, <https://www.bloomberg.com/news/articles/2019-03-13/tobacco-stocks-lose-world-beating-status-as-pension-funds-exit>

⁶ ShareAction, 'Point of No Returns 2023 Part II: Stewardship and Governance' (March 2023), p. 11 <https://shareaction.org/reports/point-of-no-returns-2023-part-ii-stewardship-and-governance>

The FCA should consider setting regulatory expectations for firms to demonstrate specifically how they ensure board-level access to deep technical expertise in sustainability issues. These expectations may encompass ensuring permanent representation on the board in priority areas. However, they should also cover continuous training and knowledge management to ensure that deep technical skills and knowledge are available to boards across a wide range of sustainability factors, such as biodiversity and public health. In all respects, any guidance should also make clear the importance of developing an understanding of sustainability factors at all levels of the organisation (not just with individual members of the board).

4. What are likely to be the most effective strategies in embedding climate- and sustainability-related considerations across a firm's operations? What is the potential benefit of initiatives such as the appointment of functional 'champions', or the creation of dedicated working groups or forums? And how can the value of such initiatives be enhanced?

We agree with Will Martindale's observation that the whole of an organisation must be oriented towards sustainability outcomes if positive changes are to be achieved⁷. In addition to ensuring that appropriate knowledge is available at board level (see response to question 3), firms should also ensure that all key decision-makers within the organisation are subject to mandatory training from subject-matter experts. Functional champions and dedicated working groups/forums can also have important roles to play in ensuring that sustainability-related considerations are incorporated at all levels of the organisation. 'Champions' in particular can help to continuously promote and build understanding of the firm's sustainability objectives at all levels and in all areas of a firm. However, we would caution against specific dedicated working groups inadvertently becoming 'silos' which isolate the consideration of sustainability factors from the rest of the organisation.

We are conscious that there is often an excessive focus on climate-related issues at the expense of other sustainability-related considerations. This is particularly true for public health. The implications of poor health outcomes for investors following the Covid-19 pandemic were clear, and the scope of the FCA's thinking in this area should definitely encompass health.

ShareAction recently published guidance specifically focusing on health, as part of the social pillar of the ESG framework. ShareAction's Investor Guide on Health aims to support investor action on health by explaining why health must be integral to sustainable investment strategies. One of the most effective strategies in embedding sustainability-related considerations across a firm's operations is by creating a formal policy on that topic which should receive board sign-off. In the case of health, the policy should:

1. Acknowledge health as a relevant investment topic.
2. Signal publicly that health issues are important.
3. Identify the priority health issues of relevance to investment holdings taking a double-materiality approach.
4. Commit to assessing company- and portfolio-level exposure to prioritise health issues at the company/asset level and at the portfolio level. Commit to taking action to manage and report on significant and financially material health exposures.
5. Commit to setting health-related objectives in line with recognised initiatives and benchmarks.
6. Allocate responsibilities (for oversight and day-to-day implementation) and resources (e.g., financial, personnel) to deliver on these objectives. Investors should be able to demonstrate concrete actions they have taken.
7. Commit to reporting on health-related exposures and impacts in their investment portfolios and to reporting on their performance against their health-related objectives and targets.

⁷ FCA DP23/1: Finance for positive sustainable change, p. 69 <https://www.fca.org.uk/publications/discussion-papers/dp23-1-finance-positive-sustainable-change>

8. Commit to working with other investors to address systemic health issues.

Having these practices and processes in place publicly signals to companies and business partners the importance of health-related exposures and issues. Also by having a set policy that is embedded from the top down, it helps legitimise the role of the champion and allow them to execute on an already established policy.

There is rarely health expertise found in a firm's operations, which can leave firms exposed to regulatory, reputational, and litigation risk. The allocation of clear responsibilities and resources at board level and amongst org-wide champions allows for health trends to be monitored from the macro-level. Broad, diversified portfolios are most at risk from these macro-level trends, as narrow focus on company-specific risk limits the ability to assess how the negative external impacts of one company in the portfolio may have negative financial consequences on another part of the portfolio. For example, poor physical and mental worker health not only affects specific day-to-day company operations but longer-term, chronic conditions affect the labour market as a whole by reducing the size and productivity levels

The value add of these 'champions' is that once these practices are in place, it becomes embedded in a firm's long-term behaviour. Also, by publicly signalling that sustainability-related risk, especially social factors, are important, it can have a ripple effect across firms. This will hopefully lead to more formalised regulatory guidance.

5. What management information does senior management use to monitor and oversee climate- and sustainability-related developments, and to monitor progress against public commitments? Should we set expectations or guidance for decision-making processes, including systems and controls, audit trails and the flow of management information to key decision-makers? If so, what should be the scope of such expectations?

The form and nature of information required by senior management to monitor progress against public commitments will vary greatly depending on the particular sustainability factor involved. For example, when measuring progress against climate commitments and ensuring that a transition plan is being delivered against, key decision-makers will need up-to-date, accurate and complete data on the firm's Scope 3 emissions, whereas for D&I, different metrics and data will need to be monitored.

The FCA should consider providing detailed guidance for regulated firms on how information flows should be managed to ensure informed decision-making (as well as accountability for performance against stated targets). This guidance should include specific examples relating to different sustainability factors.

6. Should we consider setting new regulatory expectations or guidance on senior management responsibilities for a firm's sustainability-related strategy, including the delivery of the firm's climate transition plan? If so, which existing SMF(s) would be the most suitable to assume these responsibilities? Please explain your views.

Yes, there should be robust expectations in place for how firms allocate responsibility for the delivery of their sustainability-related strategy to ensure individual ownership and accountability. For climate considerations in particular, we note that the PRA Supervisory Statement SS3/19⁸ already sets an expectation that firms allocate responsibility for material risks arising from climate change to an

⁸ PRA Supervisory Statement SS3/19, 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change' (April 2019) <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss319>

appropriate senior management function (SMF). The FCA should introduce a similar expectation for solo-regulated firms encompassing both climate strategies and wider sustainability factors. More fundamentally, we would also argue that these responsibilities should be defined on a 'double-materiality' basis, covering the environmental and social impacts of a firm in addition to the financial risks those factors pose to the firm itself.

With regards to delivery of climate transition plans, ShareAction is represented on the Transition Plan Taskforce (TPT), and we endorse the framework the TPT are developing. We have consistently advocated for transition plans to be made mandatory based on the TPT framework, and this should include those elements relating to governance and accountability. The FCA's introduction of regulatory expectations for the disclosure of climate transition plans (with reference to the Taskforce on Climate-Related Financial Disclosures) was a welcome step, but ultimately disclosure is not sufficient on its own to effect positive sustainable change. Transition plans should be mandatory for regulated firms, and there should be clear expectations set for how responsibility for the delivery of the plan is allocated. TPT implementation guidance in this area sets out that entities should allocate responsibility for delivery of the plan to functions across the entity, and that this should include ultimate sign-off of the strategy and plan sitting with an SMF⁹.

We agree with Will Martindale's observation that ultimate leadership on sustainability matters must come from the CEO if positive change is to be effective. This is also important for ensuring that the full spectrum of relevant sustainability factors are incorporated into the firm's strategy, including social factors such as health and D&I in addition to climate related considerations.

7. Should we consider introducing specific regulatory expectations and/or guidance on the governance and oversight of products with sustainability characteristics, or that make sustainability claims – for example to clarify the roles and expectations of governing bodies such as Fund Boards? If so, which matters in particular would benefit from clarification?

Disclosure and transparency are critical for market confidence in sustainable investment products. The FCA therefore has a vital interest in protecting consumers by ensuring that financial products are labelled effectively, and in our response to CP22/20 earlier this year we supported the FCA's proposals on Sustainability Disclosure Requirements (SDRs) and investment labels¹⁰, whilst calling for the regime to be extended to institutional and well as retail funds. For the regime to be effective and credible, there must be confidence in the ability of firms to properly monitor the sustainability profile of products marketed with particular claims. Effective governance and oversight is crucial for achieving this.

Whilst existing FCA expectations set out in the product governance sourcebook¹¹ sets out general requirements for the governance of all financial products, there is a strong case that sustainability-related products require specific guidance. As the discussion paper references, research from the Fund Boards Council indicates that there may be specific issues affecting the ability of Fund Boards to adequately oversee products with particular sustainability dimensions¹². The SDR regime was introduced in recognition of the specific challenges in ensuring that there is market confidence in

⁹ TPT, 'The Transition Plan Taskforce Implementation Guidance' (November 2022), p.18

<https://transitiontaskforce.net/wp-content/uploads/2022/11/TPT-Implementation-Guidance-1.pdf>

¹⁰ ShareAction submission to CP22/20 (January 2023) <https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/ShareAction-response-FCA-CP22-20-FINAL.pdf>

¹¹ FCA, 'Product Governance Sourcebook' (PROD)

<https://www.handbook.fca.org.uk/handbook/PROD/1/?view=chapter>

¹² Fund Boards Council, 'Sustainable investment – navigating challenges for fund governance' (October 2022)

<https://www.firstsentier-mufg-sustainability.com/content/dam/sustainabilityinstitute/assets/research/fund-governance/Sustainable-Investment-Institute-Fund-board-governance-report.pdf>

sustainability-related products. This recognition should also inform specific guidance on the role of governing bodies in the oversight of such products, including their specific approach to monitoring sustainability products, and how they should ensure that they have access to the required knowledge and expertise to provide adequate product oversight.

- 8. What matters should firms take into consideration when designing remuneration and incentive plans linked to their sustainability-related objectives? In particular, we welcome views on the following:**
- a. the case for linking pay to sustainability-related objectives**
 - b. whether firms should break down their sustainability-related commitments into different factors, allocating specific weightings to each**
 - c. whether short-term or long-term measures are more appropriate, or a combination of both**
 - d. whether sustainability-related incentives should be considered for senior management only, or a wider cohort of employees**
 - e. how firms could consider remuneration and incentive plans in the design and delivery of their transition plans**
 - f. remuneration adjustments where sustainability-related targets (at either the firm level or individual level) have not been met.**

Please explain your views.

There has been a clear increase in the number of firms integrating responsible investment related KPIs within their remuneration policies. Recent ShareAction research showed that 83% of asset managers surveyed now report financial incentives relating to responsible investment, an astonishing increase from just 7% in 2020¹³. Such incentives can be an important way of holding asset managers to account for their sustainability performance. Research presented at the 2023 World Economic Forum set out the key characteristics such policies should adopt¹⁴, and our own research has shown a positive correlation between asset managers' overall performance in our benchmark and the extent to which they had remuneration-linked KPIs related to responsible investment¹⁵.

However, we recognise that the implementation of sustainability-linked remuneration policies has been mixed, and we strongly believe that such approaches should not become merely another means of inflating executive reward packages and widening income inequality. Responsible investment incentives should be proportionate, clearly linked to factors within the control of executives, weighted appropriately against other factors, and with a clear focus on impact rather than process. Staff should not be rewarded for taking steps which have no real effect on the sustainability factor in question. Incentives should also be clearly broken down into different factors to ensure specificity – this mitigates the risk of executive performance being measured for the purposes of pay calculation against broad and vague metrics, effectively greenwashing those firms with no actual positive sustainable impact. It is also important to ensure that different levels of progress against different factors are not simply offset against one another to give a false picture of sustainability performance overall, with important issues consequently being ignored.

Measures should be based on long-term objectives (such as reducing portfolio carbon emissions by a specific percentage in a timeframe of years or decades), but with clear short-term and interim milestones to monitor progress against that objectives (such as emissions reduction in a given year), and notwithstanding the difficulty of designing effective clawback mechanisms. Our research has

¹³ ShareAction, 'Point of No Returns 2023 Part II: Stewardship and Governance' (March 2023), p. 45
<https://shareaction.org/reports/point-of-no-returns-2023-part-ii-stewardship-and-governance>

¹⁴ Reward Value, 'Principles of Responsible Remuneration' (2023) <https://www.rewardvalue.org/principles-of-responsible-remuneration/>

¹⁵ Ibid. The Pearson correlation coefficient was 0.467

shown that the firms demonstrating best practice in sustainability-linked KPIs take this approach¹⁶. We also found that there is a gap in sustainability-linked incentives for executive board members, with only 27% of the asset managers we surveyed setting responsible investment objectives at this level¹⁷.

9. Should we consider additional regulatory expectations or guidance in any of the areas considered in Q8? Please explain your views.

Existing FCA Remuneration Codes set out expectations for how firms should structure their remuneration policies, and we support that fact that they explicitly require individual performance to be measured against both financial and non-financial factors. Given the specific challenges inherent in ensuring sustainability-linked KPIs are credible and meaningful, and not merely a way of providing additional reward for simply 'doing the day job' as argued by Tom Gosling, we believe there is a clear case for considering regulatory expectations for sustainability-related remuneration.

Such expectations should address the risk of firms setting vague targets that have only a tenuous link to the performance of the particular individual in question. They may include robust guidance on how meaningful, outcomes-based targets can be established, with a long-term horizon coupled with clear and well-defined interim and short-term milestones that must be achieved if particular incentives are to be granted. We would welcome the opportunity to work with the FCA to further explore how such expectations should be structured in practice.

10. Should we consider additional regulatory measures to encourage effective stewardship, particularly in relation to firms' governance and resourcing of stewardship, and associated incentive mechanisms and conflict of interest policies? Are there regulatory barriers that we should consider? Please explain your views.

Effective stewardship is absolutely essential for leveraging the power of the financial system to effect positive sustainable change, but ShareAction research shows a mixed picture for stewardship amongst leading asset managers. Regulation can build on the progress that has been made and help ensure that stewardship is robust, meaningful and credible.

Most importantly, we advocate a shift in emphasis for the FCA away from disclosure and transparency and towards a stronger framework for linking stewardship activity to real world outcomes. Engagement with investee companies must not be merely cursory or 'tick-box', but too often stewardship can be conducted in this way. Disclosure is only a means to an end – it is not the end in itself. Whilst disclosure can help the market function by providing effective signals to inform capital allocation, it does not address the need for stewardship activities that have a material impact on sustainability factors.

In terms of voting, ShareAction has been represented on the Vote Reporting Group established by the FCA in November 2022¹⁸. We strongly support the development of a standardised vote reporting framework, and we are pleased that the FCA has signalled an increasing supervisory interest in stewardship (of which voting is a crucial element). Our position is that investors should publish clear voting policies detailing how they will approach votes on different sustainability factors, including climate, biodiversity, health, and other social factors. We also believe that voting disclosure should be made mandatory for institutional investors, and that such disclosures must be made against a clear and compulsory timeframe. These requirements would in turn necessitate that firms show how their

¹⁶ Ibid, p.47

¹⁷ Ibid, p.46

¹⁸ <https://www.fca.org.uk/firms/climate-change-and-sustainable-finance/vote-reporting-group>

internal governance structures are oriented towards adhering to robust policies, and ensuring that disclosures are made effectively.

For wider engagement, we welcomed the FRC Stewardship Code, and later this year will be engaging with the review of the Code announced in the Green Finance Strategy. However, the FCA 'comply or explain' requirements for institutional investors in relation to the Code should be built upon with a higher mandatory baseline standard for stewardship. This is particularly important given the recent FCA announcement regarding the loosening of listing rules to address the decline in UK listings¹⁹. By reducing the burden of checks on companies, these changes will expose investors to greater risk. Stronger mandatory stewardship requirements are therefore important to offset this effect and help protect investors.

It is also important for the FCA to consider fixed-income stewardship within its regulatory framework. Whilst the mechanism for influence is different for bondholders than it is for equities (in that companies are accountable to their shareholders), there is a definite opportunity for bondholders to exercise more influence over companies in terms of sustainability²⁰. The FCA should publish guidance for bondholder stewardship, including best practice support on how stewardship should be governed and resourced.

11. What additional measures would encourage firms to identify and respond to market-wide and systemic risks to promote a well-functioning financial system? How can the collective stewardship efforts of asset owners and asset managers best be directed towards the most pressing systemic issues? And how can remaining barriers best be reduced? Please explain your views.

Giving firms greater confidence that collective stewardship will not fall foul of competition law would remove a regularly cited barrier to collective action that may otherwise address market-wide risks. We responded to the recent CMA draft guidance on the application of the Chapter I prohibition in the Competition Act 1998 to environmental sustainability agreements²¹. The FCA should reflect this guidance in its own guidance for regulated firms, and specify further how it applies to asset managers, asset owners, and other financial service providers. We would also welcome further clarification that collaborative stewardship will not contravene Market Abuse Regulations, and support for firms on how to ensure this is not the case.

Another factor we have identified is the relative lack of action to lobby for stronger policy and regulation on responsible investment. Our research shows that fewer than half of asset managers surveyed engage in such lobbying²². Furthermore, many firms belong to trade bodies or membership organisations that actively oppose stronger policies and regulatory requirements, often in direct contradiction of their member's own public pledges on sustainability. This is a real hindrance to the development of a legal and regulatory framework capable of embedding at a deep level the kind of fundamental shift we need to see in the financial sector if it is truly to be a force for positive sustainable change.

¹⁹ <https://www.investmentexecutive.com/news/from-the-regulators/fca-relaxes-rules-to-rejuvenate-listings/>

²⁰ ShareAction, Sleeping Giants: Are bond investors ready to act on climate change? (January 2019) https://api.shareaction.org/resources/reports/Sleeping-Giants_BondInvestors_2019.pdf

²¹ CMA, 'Draft guidance on the application of the Chapter I prohibition in the Competition Act 1998 to environmental sustainability agreements (February 2023) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1139264/Draft_Sustainability_Guidance_document_.pdf

²² ShareAction, 'Point of No Returns 2023 Part II: Stewardship and Governance' (March 2023), p. 33 <https://shareaction.org/reports/point-of-no-returns-2023-part-ii-stewardship-and-governance>

12. What do you consider to be the main sustainability-related knowledge gaps across the financial sector and how can these best be addressed? What do you consider to be the potential harms to market integrity, consumer protection or competition arising from these knowledge gaps?

Our research shows that whilst training on sustainability issues is increasingly common within asset managers, it is less prevalent for board members and senior management. Only 51% of asset managers reported that their board members receive any training in responsible investment related issues, and only 23% reported that it is mandatory²³. The gaps will differ between firms and sectors, although our analysis would suggest that issues around biodiversity loss are particularly neglected in terms of firms' knowledge and expertise.

The lack of sufficient sustainability-related knowledge within financial services firms risks leaving key decision-makers without the tools necessary to properly assess environmental and social risks and ensure their activities contribute to the well-being of the planet and its people. It could undermine market confidence in the sustainability commitments of financial services firms and the integrity of products marketed with a sustainability dimension.

13. Do you think there is a need for additional training and competence expectations within our existing rules or guidance? If so, in which specific areas do you consider further rules and/or guidance are required? Please explain your views.

Not applicable

14. Which aspects of the training and capability-building initiatives discussed above, or any others, would be particularly useful to consider (for example in identifying which skills and/or training is needed) and how best should we engage with them?

Not applicable

15. Have you seen misrepresentation of ESG credentials among ESG professionals and, if so, what are the potential harms? Have you seen any consistent training metrics that can help compare firms' knowledge/capabilities? Please describe.

Not applicable

We are encouraged that the FCA have conducted this discussion exercise, and hope that the points we've made in this submission are clear. We look forward to continuing working closely with the FCA on the role it should play as regulator in ensuring the finance sector plays a central role in delivering positive sustainable change.

Yours sincerely,

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²³ Ibid, p. 42