



# VITAL SIGNS OF THE PLANET REVISITED: CLIMATE CHANGE AND GREEN FINANCE

Climate change is a topic that continues to be a key focus for regulators, governments and ordinary people who want to invest with a conscience.

In October 2018, the UK Financial Conduct Authority (FCA) published a Discussion Paper (DP18/8) on Climate Change and Green Finance. See our earlier briefing note for further details [here](#).

Almost one-year to the day, on 16 October 2019, the FCA published a Feedback Statement (FS19/6) which sets out the UK regulators' vision for climate change and green finance.

FCA FS19/6 provides commentary in three areas:



1 Why climate change is an important issue for the FCA, the financial services sector and for the users of financial services.



2 A summary of feedback to DP18/8, along with FCA responses.



3 FCA actions and next steps.

### What is driving this?

Climate change itself, and the legislative response to combating climate change, is having a significant impact on the UK economy and on financial services markets.

There are a number of global, EU and UK initiatives on this issue. For example, the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD), the EU Commission's Sustainable Finance Action Plan (SFAP) and the UK Government's Green Finance Strategy (GFS).

Within the scope of the FCA's responsibilities, they want to make sure their regulatory approach creates an environment where market participants can adequately manage the risks from moving to a low carbon economy and are able to capture opportunities to benefit consumers.

More broadly, the FCA wants to help firms and consumers bring about wider societal benefits by accelerating the transition to a net zero emissions economy, consistent with the UK Government's commitment as set out in the GFS.

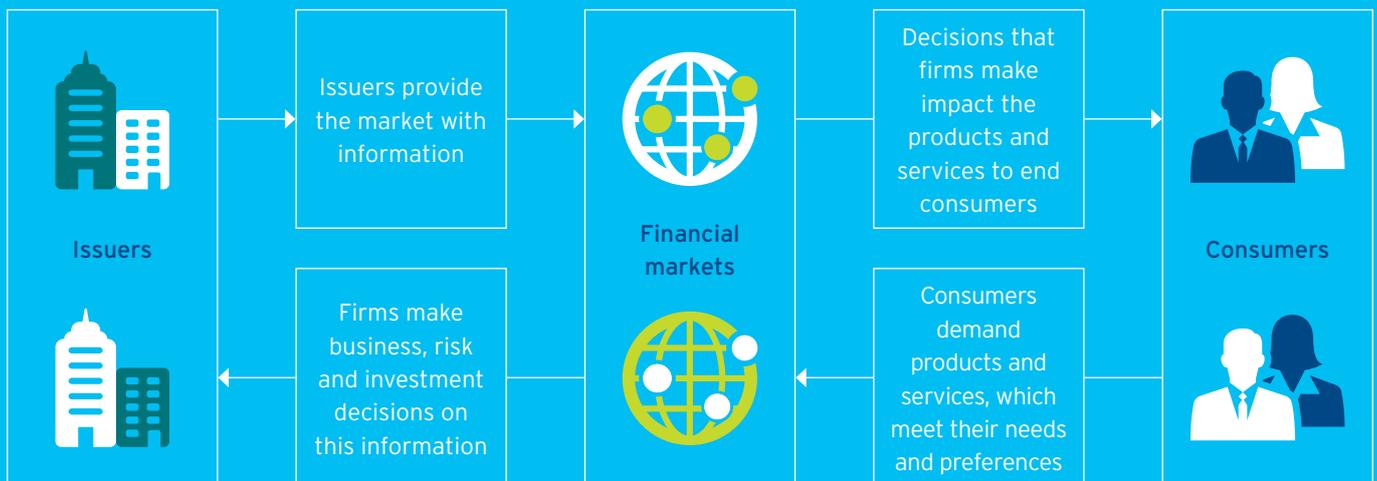
### Desired outcomes

The outcomes that the FCA would like to achieve include:

- Issuers provide markets with readily available, reliable and consistent information on their exposure to material climate change risks and opportunities.
- Regulated financial services firms integrate consideration of material climate change risks and opportunities into their business, risk and investment decisions.
- Consumers have access to green finance products and services, which meet their needs and preferences, and receive appropriate information and advice to support their investment decisions.

The diagram below illustrates the desired outcomes.

These interactions may capture a variety of activities. For example, they may entail the flow of information, funds, assets or products between issuers, financial markets and consumers.



Source: FCA Climate Change and Green Finance: summary of responses and next steps. Feedback to DP18/8. Feedback Statement FS19/6 – Oct 2019.



## Main areas of feedback

The FCA received industry feedback in five main areas:



Climate-related disclosures by securities issuers



Climate-related disclosures by regulated firms



Common metrics and standards on sustainability



Stakeholders' concerns, commercial priorities and barriers to growth



Industry engagement

## FCA actions and next steps

In FS19/6 the FCA discusses the key actions required to achieve their desired outcomes. These can be seen in the table below:

		FCA key actions	
Outcomes that the FCA want to enable	Issuers provide markets with readily available, reliable and consistent information on their exposure to material climate risks and opportunities	<b>Issuers' climate change disclosures</b> <ul style="list-style-type: none"> <li>• Publish CP on new rules on Taskforce for Climate-related Financial Disclosures – aligned to climate change disclosures</li> <li>• Clarify that existing rules require disclosure of all financially material climate related risks</li> </ul>	<b>Joint work with Government, other regulators and industry</b> <ul style="list-style-type: none"> <li>• Supporting the Climate Financial Risk Forum which includes working groups (WG) on:               <ul style="list-style-type: none"> <li>- Disclosures</li> <li>- Innovation</li> <li>- Risk Management</li> <li>- Scenario analysis</li> </ul> </li> <li>• Contributing to the Fair and Effective Markets Review WG</li> <li>• Work to support the Green Finance Strategy, including:               <ul style="list-style-type: none"> <li>- Government-led cross-regulator taskforce on disclosures</li> </ul> </li> <li>• Wider engagement in the development of the EU Commission's Sustainable Finance Action Plan, incl. work on:               <ul style="list-style-type: none"> <li>- Benchmarks</li> <li>- Disclosures</li> <li>- Taxonomy</li> </ul> </li> </ul>
	Regulated financial services firms integrate consideration of material climate change risks and opportunities into their business, risk and investment decisions	<b>Firms' integration of climate change risk</b> <ul style="list-style-type: none"> <li>• Publish a FS on stewardship, which will signal FCA's continued supervisory and policy interest in this topic and next steps</li> <li>• Publish PS on Independent Governance Committee's consideration of ESG factors</li> <li>• Finalise measures to facilitate investment in patient capital</li> </ul> <b>Innovation</b> <ul style="list-style-type: none"> <li>• Green FinTech Challenge</li> </ul>	
	Consumers have access to green finance products and services, which meet their needs and preferences and receive appropriate information and advice to support their investment decisions	<b>Expectations around green financial products and services</b> <ul style="list-style-type: none"> <li>• Challenge firms where the FCA see potential greenwashing, clarify its expectations, take appropriate action to prevent consumers being misled</li> <li>• Carry out further policy analysis on greenwashing and take action (e.g. guidance) to address concerns as appropriate</li> <li>• Engage and consider the proposals of the EU Commission's Sustainable Finance Action Plan relevant to products and services, particularly around product disclosures</li> </ul>	

## Next Steps

As climate change and green finance are complex and evolving topics, the FCA will regularly review its approach to ensure they are focusing on the right issues at the right time.

The FCA will therefore consider future priorities as part of their business planning. They will also provide an update on their work and future priorities on climate change and green finance as part of the adaptation report they will submit to the Department for Environment, Food and Rural Affairs (DEFRA) ahead of the deadline in 2021. These include:

- Consulting on new rules to improve climate-related disclosures;

- Finalising rule changes requiring Independent Governance Committees (IGCs) to oversee and report on firms' environmental, social and governance (ESG) and stewardship policies, as well as separate rule changes to facilitate investment in patient capital opportunities;
- Publishing a feedback statement in response to a joint discussion paper with the Financial Reporting Council on Stewardship; and
- Clarifying expectations around consumers' access to green financial products and services.

For further details on timing, please see the indicative timetable below:

### Q4/2019



FCA will focus on finalising rules and requirements, undertaking consultations and setting out next steps in a range of areas to support its overarching policy aim. This builds on the work they have done throughout 2019 and before.

Key work/developments will include:

#### 1) Publishing:

- Feedback Statement on stewardship
- Policy Statement on Independent Governance Committees

2) Engaging with firms to clarify expectations around green financial products and services

3) Engaging with and considering the expected European Commission's Sustainable Finance Action Plan proposals around benchmarks and disclosures

4) FCA Letter of Recommendation from HMT is expected to set out a need for the FCA to have regard to the Paris Climate Agreement when advancing its objectives and discharging its duties

### Q1/2020



FCA will focus on working collaboratively with Government, other regulators and industry in support of a number of initiatives. The FCA is likely to have continuing involvement in each of these areas going beyond Q1, 2020. The FCA will also be continuing to deepen their understanding of key issues and considering whether further action is necessary.

Key work/developments will include:

- Publishing a Consultation Paper on new issuer disclosure rules and clarifying existing requirements
- Finalising proposed rule changes to facilitate investment in patient capital opportunities (may extend beyond Q1)
- Carry out further policy analysis on greenwashing and take action (e.g. guidance) to address concerns as appropriate
- Engaging with and considering the development work of the European Commission's Sustainable Finance Action Plan
- Publication of initial outputs from the Climate Financial Risk Forum
- Contributing to the Fair and Effective Markets Review WG and Government-led cross-regulator taskforce on disclosures

### Q2/2020 and beyond



FCA will consider future priorities on climate change and green finance as part of their business planning. They will consider where they can add the most value within the scope of their remit, building on existing work.

FCA will provide an update on its work and future priorities on climate change and green finance as part of the adaptation report that it will submit to DEFRA ahead of the deadline in 2021.

In summary, it would be very difficult to deny that concerns about climate change and the importance of green finance is on the rise globally.

As the UK FCA continue to review their approach and actions to inform where they may undertake further work in line with their objectives and the outcomes that they wish to achieve, we will continue to track its developments and report them in further updates.

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