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# A strategy for positive change

The Financial Conduct Authority (FCA) believes that the financial sector has an important role to play in helping the economy adapt to a more sustainable long-term future. Environmental, social and governance (ESG) matters are therefore high on the regulatory agenda. As the regulator has stated, if the financial sector is going to help support the transition to a more sustainable future, market participants and financial services firms need high-quality information, a well-functioning ecosystem and clear standards. Consumers need to be able to rely on firms to take ESG seriously, avoid 'greenwashing' and deliver on their ESG promises.

As such, the FCA's ESG strategy sets out target outcomes and the actions the regulator expects to take to deliver these outcomes. Its aim is to support the financial sector in driving positive change, including the transition to net zero. The FCA's work is based on five core themes, which are summarised in the pages that follow.

**Adviser Solutions**

The FCA's  
ESG  
priorities



**Fidelity**  
INTERNATIONAL

## A summary of the FCA's Business Plan 2021/22

Consistent with its statutory objectives, the FCA is targeting potential harms to market integrity and consumers as companies and firms adapt to the unfolding ESG landscape. It has committed to pursuing a series of outcomes in line with its objectives and these target outcomes are summarised below:

### ESG outcomes

- High-quality climate- and sustainability-related disclosures.
- Trust and consumer protection from misleading marketing and disclosure.
- Governance arrangements for effective ESG.
- Active investor stewardship.
- Integrity in the market for ESG-labelled securities.
- Innovation in sustainable finance.

### Diversity and inclusion (D&I) outcomes

- Diverse representation at all levels.
- Inclusive cultures.
- Products that reflect the diverse needs of consumers, offer fair value and are delivered in a fair and accessible way.

### Core principles

Global solutions  
to global problems

Walking the walk

Building an ESG  
capability beyond  
climate

Supporting positive  
market-led solutions

Influence beyond  
rulemaking

Maximising impact

Readying for a digital  
and data-led world



Financial services and markets have a central role in the transition to a low carbon economy and a more sustainable future. The Government has committed to achieving a net zero economy by 2050. We will support this aim by adapting our regulatory framework to enable a market-based transition.

Taken from the FCA's Business Plan 2021/22



## The FCA's ESG strategy – five themes

The FCA's ESG strategy is based on five core themes and the regulator has highlighted some of the key actions it is taking. This is not an exhaustive summary of the FCA's ESG work programme – it is engaged in other ESG-related work, both internally and with domestic and international partners. The FCA will continue to build on this programme of work as this dynamic space evolves.

### 1

#### Transparency

Promoting transparency on climate change and wider sustainability along the value chain.

##### Enhance client-related financial disclosures

- Implement the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in the FCA's Handbook, for listed companies and FCA-regulated asset managers and asset owners. Target milestones: Policy Statement, end-2021; TCFD-aligned rules phased in from January 2022.
- Roll out appropriate oversight, supervision and enforcement mechanisms to improve the quality of disclosures.

##### Promote global standards for sustainability reporting

- Work actively with the International Organisation of Securities Commissions, the Financial Stability Board and the International Financial Reporting Standards Foundation.
- Encourage rapid progress beyond climate-related disclosures towards wider environmental and social disclosures.
- Promote effective audit and assurance of sustainability-related disclosures, working with domestic and international partners.
- Develop UK implementation plans for forthcoming global standards, jointly with Government and other regulators.

##### Enhance transparency of listed companies' and regulated firms' diversity and inclusion performance

- Published a consultation paper (CP21/24) in July 2021 on proposals to improve transparency on the diversity of listed companies' boards and executive management teams.
- Published a discussion paper (DP21/2) examining how the FCA can accelerate the pace of meaningful change on diversity and inclusion and what role it can most usefully play to support this change.
- Target milestone: Policy Statement/Feedback Statement in Q1 2022.



## 2

### Trust

#### Building trust and integrity in ESG-labelled instruments, products and the supporting ecosystem

**Develop a policy approach to ESG governance, remuneration, incentives and training/certification in regulated firms**

- More work to encourage a strong 'tone from the top' on ESG, supported by clear accountability for ESG claims and promises, and the right incentives (including through remuneration).
- Promote genuine capability-building across the financial sector, including through functional training, and potentially certification.
- Target milestone: begin stakeholder engagement, Q2 2022.

**Support the Government's ambition to make the UK a world leader in green finance**

- The Government's Sustainable Disclosure Requirements (SDR) regime will include entity- and product-level disclosures by asset managers and other institutional investors. Alongside these, the Government's Roadmap to Sustainable Investing also elaborated on plans for work on sustainable investment labels and expectations of investment advisers. The FCA has released a [discussion paper \(DP21/4\)](#) seeking feedback on the shape of the regime.
- Target milestone: Consultation Paper on disclosure rules and labelling, Q2 2022.

**Challenge authorised fund managers' response to the issue of the FCA's guiding principles for the design, delivery and disclosure of sustainable investment products**

- SDR and sustainable investment labels will be complementary to, and build on, the FCA's existing rules framework. The regulator recently issued a letter to chairs of authorised fund managers, drawing firms' attention – through a set of guiding principles – to how it expects existing rules to be applied in the ESG context.
- Follow up on the letter and guiding principles in the FCA's authorisations processes and embed them in its supervisory engagement.

**Encourage an effective ESG ecosystem – including supporting the integrity and effectiveness of ESG data, ratings, assurance and verification services**

- Industry participants are increasingly reliant on third-party ESG data services, ratings and indices and so it's important these services are delivered in a fair, effective and transparent way. In CP21/18, the FCA asked whether there is a case for regulatory intervention here and it is currently analysing responses.
- Target milestone: Feedback Statement on ESG issues in capital markets, Q2 2022.

**Help firms navigate competition law issues when pursuing ESG objectives, providing guidance and advice as appropriate**

- Collaborate with the Competition and Markets Authority, which has work underway in this area.
- Target milestone: begin stakeholder engagement, Q4 2021/Q1 2022.

### 3

## Tools

**Working with others to enhance industry capabilities and support firms' management of climate-related and wider sustainability risks, opportunities and impacts**

**Influence and support internationally-consistent outcomes in ESG, including through leadership of international workstreams and engagement with regulatory partners**

- Position the FCA as a leader internationally and as a conduit, both through active engagement in international settings, and leading by example.
- Continue to leverage the FCA's participation in international groups, influencing and promoting globally-aligned solutions where possible.

**Deliver an extensive and ambitious 'innovation' work programme to develop innovative solutions to support the market, consumers and regulators**

- Follow up on a Sustainability TechSprint on ESG data and disclosure, held in October 2021.
- Invite a second cohort of the Digital Sandbox to test and develop products and services to address industry challenges in ESG data and disclosure.
- Launch the Green Fintech Challenge 2.0.
- Scope how data science and analytics can support the FCA's regulation of ESG.

**Continue to work closely with industry, civil society and academics to promote collaboration, shared experience and mutual support**

- The FCA-PRA co-chaired the Climate Financial Risk Forum.
- Deeper engagement on ESG with the FCA's statutory panels.
- Participation, as an observer, on ESG-related industry working groups.
- An enhanced programme of market intelligence gathering, networking and horizon scanning.

**Maintain close collaboration with other UK regulators and Government departments**

- Alongside extensive bilateral engagement and collaboration, the FCA is an active participant in a range of cross-regulatory and cross-Whitehall fora, including groups on TCFD implementation, the Green Taxonomy, sustainability disclosures and investor stewardship.

## 4

### Transition

Supporting the role of finance in delivering a market-led transition to a more sustainable economy

**Consider regulatory intervention to promote market-led transition to a more sustainable future**

- Promote well-designed, well-governed, credible and effective net zero transition plans by listed companies and regulated firms. Target milestone: Stakeholder engagement, H1 2022.
- Ensure that the FCA's regulatory regime sets the right expectations and incentives across all E, S and G dimensions. Target milestones: Consultation Paper on prudential ESG disclosures, Q3/Q4 2022; stakeholder engagement on other regulatory settings.

**Encourage effective investor stewardship of net zero and sustainability**

- Work closely with the Financial Reporting Council (FRC), other regulators and industry as firms continue to develop their stewardship strategies, building on the FRC's strengthened Stewardship Code 2020
- Consider how well the FCA's regime supports the role stewardship can play in influencing companies' climate strategies, holding Boards and management to account and monitoring performance against their climate commitments.
- Consider how well asset owners' and asset managers' stewardship activities are supported by the voting infrastructure, service providers and the wider stewardship ecosystem (including proxy advisers and investment consultants).



5

## Team

Developing strategies, organisational structures, resources and tools to support the integration of ESG into FCA activities

Embed ESG considerations and the expectation that the FCA 'has regard' to net zero across its functions

- Develop and implement 'embedding' strategies and solutions across all relevant FCA functions and sectors.
- Build resources and capabilities in the FCA's ESG Division and across the organisation, including staff training.
- Develop systems and processes to coordinate activities and evidence delivery.
- Take steps to develop a data-led approach to regulation of ESG to increase the effectiveness of the FCA's regulatory oversight and to enhance capabilities.

Communicate and role model

- Publish inaugural TCFD-aligned disclosure report in summer 2022 and annually thereafter.
- A commitment to enhancing the FCA's performance across other ESG dimensions. As an organisation, the regulator is committed to being as diverse and inclusive as possible.

Continue 'systems thinking' research on ESG landscape

- Continue systems thinking work in the ESG space, which will be used to help identify where the FCA can best bring regulatory tools to bear to achieve its aims.

More information on the FCA's ESG strategy can be found on the [regulator's website](#)



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