

# FCA seeking views on firms' sustainability - related governance and culture

## AT A GLANCE

February 2023

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### What's new?

- The FCA published [DP23/1 Finance for positive sustainable change: governance, incentives and competence in regulated firms](#) on 10 February 2023. It seeks views on how regulated firms are approaching governance, incentives and competence with regards to a broad range of sustainability topics.
- The regulator seeks to encourage an industry-wide dialogue, highlight good practices and consider whether further regulatory intervention is necessary.
- The FCA also commissioned and published ten articles written by a range of external groups that cover aspects of the key topics covered by the consultation.

### What does this mean?

- The proposals are relevant to all regulated firms, particularly: banks, building societies, insurers, asset managers, and investment firms. It is set in the context of the regulator's role in supporting the transition to net zero by 2050 and the FCA's [ESG Strategy](#) (published 3 November 2021).
- In the DP, the FCA notes existing frameworks that will guide its thinking on what may need to change regarding governance, incentives and competencies in order for firms to "play their part in embedding and accelerating" the transition to net zero. These include:
  - The Taskforce on Climate-related Financial Disclosures (TCFD)
  - The International Sustainability Standards Board (ISSB)
  - The Transition Plan Taskforce (TPT)
  - The Glasgow Financial Alliance for Net Zero (GFANZ).
- The responses to the consultation will inform the FCA's future approach to moving beyond disclosure-based initiatives (i.e. supporting firms to develop their internal arrangements in these areas).
  - The FCA seeks to better understand whether firms have environmental or social objectives, how firms can effectively deliver on these objectives, and where there may be practical challenges or observed gaps/ shortcomings. To this end, there are 15 questions in the DP across several key themes:
    - **Objectives, purpose, business and strategy:** Whether all FS firms should be expected to embed sustainability-related considerations into their business objectives and strategies.
    - **Culture as an enabler:** What else might be needed beyond the FCA's work on diversity & inclusion (D&I) and the new Consumer Duty.
    - **Governance, responsibility and accountability:** Whether there is good governance with board oversight, clear board-level accountability and independent challenge. e.g. the role of the board and senior management, responsibility for a firm's sustainability-related strategy, monitoring and oversight, and governance of products and services.

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- **Integration, remuneration and incentives:** What should firms consider when designing their remuneration and incentive plans linked to their sustainability-related objectives.
  - **Governance of investor stewardship to influence positive change:** How to encourage effective stewardship, particularly around governance/ resourcing, incentive mechanisms and conflict of interest policies.
  - **Training and competence on sustainability in regulated firms:** Where key knowledge gaps might exist, what might be examples of misrepresentation of ESG credentials, and what metrics could be used to help compare firms' capabilities.
- Asset managers and asset owners should review their stewardship programmes due to the focus on stewardship in the DP. Combined with requirements proposed in the Sustainability Disclosure Requirements (SDR) proposal, this suggests Stewardship is a key focus area for the FCA. See our '[At a glance](#)' for more detail on SDR.
  - Firms should consider the points raised in this DP as they prepare to comply with the FCA's proposed anti-greenwashing rule (expected to come into effect Q2 2023 when the FCA finalises its rules for SDR and investment labels).
  - This DP signals that the FCA is broadening its sectoral focus on ESG regulation. Firms who have not already done so should consider their approach to ESG regulation compliance from a conduct perspective.

## What do firms need to do?

- The FCA's focus on good governance and culture is not new; issues raised in this DP also link to some of the FCA's existing supervisory priorities. This means regulatory action of some form is likely in these areas. Firms should consider what steps they have taken to date related to these issues - for example, examining what objectives have been set around sustainability or how sustainability is being considered as part of Board skills mapping and effectiveness reviews.
  - Asset management firms should consider the questions posed in this DP alongside the FCA's recently issued Asset Management supervisory priorities (see our '[At a glance](#)' for more details). There may also be lessons learned firms can draw on from ESG-related amendments to MiFID II, AIFMD and UCITS which have largely principles-based requirements around governance and other organisational requirements.
- Given the FCA's role in supporting the transition to net zero, and the focus given to the transition in the DP, firms should consider the potential implications on their own transition planning. In future, SDR will incorporate the TPT outputs and require firms to disclose their transition plans. Firms will then need to be able to effectively deliver on any commitments they make.
  - Firms should review their approach to governance to ensure it demonstrates good practice and outcomes in a wider sustainability context as envisaged in the DP. Areas where shortfalls are identified should be addressed and firms should then review/ update what has been publicly disclosed.
  - Firms should continue to carefully consider how their remuneration and incentive arrangements are best linked to sustainability objectives.

## Next steps

The consultation closes on 10 May 2023. The FCA will consider the feedback alongside ongoing analysis and supervisory engagement with firms to determine next steps.

