31 January, 2019

Shamamah Deen
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Financial Conduct Authority
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Email: dp18-08@fca.org.uk

Dear Ms Deen,

CFA UK response to the FCA regarding DP18-08 Climate Change & Green Finance

The CFA Society of the UK (CFA UK) is pleased to have the opportunity to share its views on the FCA's Discussion paper DP18-08 on Climate Change & Green Finance. Climate change is already affecting and will increasingly impact the markets and firms that the FCA regulates and also by extension the consumers it is tasked to protect. CFA UK therefore welcomes the FCA's initiatives in this area.

CFA UK wishes at the same time to take the opportunity to underline that (whilst arguably more immediately measurable) climate change reporting is only one aspect of the broader sustainable investment agenda, which encompasses both social as well as other environmental aspects (water resource use, plastic waste etc.). While welcoming the FCA's interest in climate change and green finance, we encourage you to extend your focus to take in social issues and engage with the broader issues around sustainable investment. In this context, CFA UK would:

- note the recently launched consultation by the Investment Association on sustainable and responsible investment[1] and the important role that new standards could play in helping to categorise sustainable investments (thereby reducing the risk of misselling); and

- wish to draw your attention to its own new ESG (Environmental, Social and Governance) qualification[2] to be launched this year which will give investment professionals the skills and knowledge to integrate ESG issues into their day-to-day roles; and

- lastly, refer you to the CFA Institute's most recent publications and position statements on ESG[3].

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1 https://www.theinvestmentassociation.org/media-centre/press-releases/2019/ia-launches-first-industry-wide-consultation-on-sustainability-and-responsible-investment.html

2 https://www.cfauk.org/esg

3 https://www.cfainstitute.org/en/advocacy/issues/esg-sustainable-investing

CFA Society United Kingdom

<u>THEME 1: Climate Change Disclosures</u>

Qu1. What, if any, difficulties do issuers face in determining materiality? We are also interested in exploring how investors consider materiality in this context.

- Issuers (i) in sectors where climate change is not a daily consideration and a driver of strategy; (ii) with long and complex supply chains; (iii) with significant operations or critically important suppliers in the developing world may encounter difficulties in assessing the materiality of their climate change risk exposures.

- From an investor's perspective, the materiality of climate change is typically assessed "bottom-up" and not "top-down", i.e. on an individual company basis rather than across the market. Investors would expect companies and auditors to have a robust process for determining materiality in relation to climate change and expect transparency on this process and outcomes. It is worth emphasising that most investors now regard climate change risks as a "Financial" and not a "Non-financial" risk.

Qu2. We are interested in understanding whether greater comparability of disclosures would help investors in their decision-making more generally. If so, what framework would be most useful?

- Investors do find great benefit in being able to compare company disclosures in a consistent and universal reporting framework, such as the TCFD Framework.

- However, CFA UK would caution against issuers being shoe-horned into only referencing one framework if it felt the climate change risks in its business could be better explained by using a different framework. Ideally an issuer in this position would choose to report against both the TCFD Framework as well as the additional framework.

- Quality of disclosure is probably more important than consistency of exposure to investors.

Qu3. Would exploring a "comply or explain" approach (to the TCFD Framework) or other avenues to encourage more consistent disclosures be an effective way of facilitating more effective markets?

- If an issuer elected to adopt a different framework, ideally it would record why this other framework would be chosen.

THEME 2: Firm Disclosures

Qu1. Do you think that a requirement for firms to report on climate risks would be a valuable measure?

- Yes.

- Most large UK financial services have been measuring and reporting on sustainability for some years already - not just as a PR exercise, but as a tool to properly assess climate change exposures as well as other environmental risks in their business.

- As climate change is predicted to have an increasing impact on our world in the future investors and other stakeholders in UK financial services firms will increasingly wish to understand the climate change risks within those businesses.

- To avoid arbitrage, CFA UK believes it is critical that this obligation is extended not only to those firms that have issued securities on a regulated market but also those firms that are privately owned and funded.

Qu2. Do you have any suggestion for what information could be included in a climate risks report?

- Stakeholders would find it helpful if this report explained the internal processes that a firm had in place to monitor its climate change exposures.

- This report should cover the firm's governance regime, a description of its climate change exposures now and potentially in the future, its strategy to limit the risks and maximise the opportunities arising from them and lastly the systems behind how the firm's climate change risks are measured.

- Ideally the report would contain scenario analysis – most likely linked to variation of global temperature increases, and the severity of localised extreme weather events.

- The TCFD sets out a helpful framework for the disclosure of all the above.

Qu3. Do you have any views on which regulated firms should be required to compile a climate risks report?

- CFA UK believes that initially this reporting requirement should be required from major firms and not start-ups or small firms.

- Larger firms are in most cases voluntarily undertaking this self-analysis already and generally already have the resources and infrastructure in place.

- The FCA is probably best-placed to determine what precise metric(s) to use, but as a guide, CFA UK would propose the threshold of a balance-sheet or AUM exceeding £15 billion. This would capture all listed and privately-held major banks and approximately the top-60 asset managers.

- In time, this threshold could be reduced and the requirement rolled out to smaller firms once practice had become more embedded.

In compiling its response to this survey, CFA UK has not surveyed its membership.

Yours sincerely,

Will Goodhart,
Chief Executive
CFA Society of the UK

Andrew Burton
Professionalism Adviser
CFA Society of the UK

With thanks to contributions from the CFA UK Professionalism Steering Committee

About CFA UK & the CFA Institute

CFA UK: serves nearly 12,000 leading members of the UK investment profession.

- Its mission is to build a better investment profession and to do this through the promotion of the highest standards of ethics, education and professional excellence in order to serve society's best interests.

- Founded in 1955, CFA UK is one of the largest member societies of CFA Institute (see below) and provides continuing education, advocacy, information and career support on behalf of its members.

- Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation, or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

CFA Institute: is the global association for investment professionals.

- Its mission is to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.

- It administers the CFA and CIPM curriculum and exam programs worldwide; publishes research; conducts professional development programs; and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry.

- CFA Institute has more than 155,000 members in 159 countries, of which more than 148,000 hold the Chartered Financial Analyst (CFA) designation.