FCA and PSR Net Zero Transition Plan

July 2023

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Foreword

We are proud to present our plan for the FCA and PSR to transition towards net zero greenhouse gas emissions by 2045. Many people see transition plans as increasingly important to meet the UK's 2050 target for net zero greenhouse gas emissions. Lots of organisations are making pledges to reduce emissions and transition plans say how they are going to do it; they provide the substance to back up claims.

Finance has an important role to play in helping to meet the net zero target. We are committed to playing our part in the Government's vision for the UK to be the world's first net zero aligned financial centre. The Government has called out our important role and requested that we have regard to the commitment to a net zero economy by 2050.

Transition plans will help people understand the climate impact of their financial decisions. That's why we have been a key part of the Transition Planning Taskforce (TPT) that developed the 'gold standard' disclosure framework that this plan is based on. And it is why we have committed to draw on this framework as we develop our regulatory approach in this area.

We hold ourselves to the same standards we expect of others and our own transition plan follows this gold standard. The TPT recommends taking a 'strategic and rounded approach' to net zero transition. So, this plan considers both our own greenhouse gas emissions and how our regulation can support the transition in wider society. We include snapshots of how our regulation and engagement support this society-wide shift.

The complex challenge of achieving net zero means that collaboration is vital. To meet our net zero target, we need to work in collaboration with our suppliers and our staff. This plan is the starting point for that.

Developing this plan has given us valuable insights into the practicalities of transitioning to net zero. It is really hard and, like everyone else planning for a net zero world, we are finding our way. Getting meaningful data on indirect greenhouse gas emissions can be a particular challenge. But we can't wait for perfection: we have to start somewhere and our plans (like others) will get much better over time. This report is an important step forward and I thank everyone involved.

Sacha Sadan
Director of Environment Social and Governance

Non-Technical Summary

This document is the FCA and PSR's plan to reduce our emissions of greenhouse gases. Greenhouse gases are heating the planet and causing changes to global weather patterns, which are severely affecting societies across the world.

We plan to reduce our emissions of greenhouse gases over time, so by 2045 we will not be contributing to climate change. This is known as 'net zero'. If we are unable to avoid all greenhouse gas emissions, we will compensate for ('offset') any emissions we generate.

Our staff work in offices, at home and travel on business. We use computers, data systems and communication technology. All these activities create carbon dioxide from burning fossil fuels, including oil and gas. This provides power and heats and cools our offices and homes of our staff working at home. It also transports our staff travelling to work in our offices or on business. We don't have direct control over our emissions: they are generated by others, mainly as part of the services and goods that we buy.

This document summarises our plan for reducing our greenhouse gas emissions. We will work with the suppliers of the goods and services that we buy to help reduce the greenhouse gas emissions associated with them. We aim for our suppliers that together account for at least 70% of our emissions to have science-based targets by 2028.

We will also work with our staff to help them reduce emissions from working at home and travelling on business. By making different choices every day, we can make a big difference to the amount of greenhouse gas we release into the atmosphere.

We cannot meet our target alone. We need to work collaboratively with our staff and our suppliers. We need to see changes in wider society, like the move to less polluting ways of generating electricity and transporting people. These will be big changes for everybody and will be hard to achieve. We will need new technology and new ways of calculating the greenhouse gas emissions we are responsible for.

This plan is an important part of our work to become more sustainable organisations. We use our power and influence as regulators to enable others to make more sustainable choices too. We expect this plan to change and will update it regularly.

Introduction

In our 2021/2022 climate-related financial disclosure, we committed to publish a net zero transition plan to support the Government's intention to transition to a net zero economy by 2050.

This transition plan sets out targets and actions to reduce our greenhouse gas (GHG) emissions in line with the UK net zero commitment, as set out in the Climate Change Act 2008. This plan applies to the Financial Conduct Authority (FCA) and the Payment Systems Regulator (PSR). The PSR is a fully independent subsidiary of the FCA but is co-located in the FCA's offices and is operationally supported by the FCA through a provision of services agreement. Our plan relates to the operational emissions of our Group as a whole, in line with economy-wide best practice. Aspects of this plan which refer to regulation and policy relate to the FCA specifically, but aspects related to operational emissions also include the PSR.

We are an active member of the UK Government's Transition Plan Taskforce (TPT) and have developed this plan in line with its draft transition plan disclosure framework and guidance. The TPT framework aims to be a gold standard for these types of disclosures across all sectors of the economy. We have used the TPT's recommended disclosures element-by-element throughout this plan to make our disclosures are as clear and transparent as possible. This plan is based on the consultation version of the disclosure framework (November 2022) and we will amend subsequent versions to reflect any changes made to the disclosure framework following consultation.

In line with the TPT framework's recommended 'strategic and rounded' approach, this plan should be viewed in the context of our wider work to mitigate and adapt to climate change. We summarise this below, set out across the 3 TPT's interrelated channels.

Decarbonisation

This net zero transition plan sets out our approach to reducing GHG emissions from our operations and value chain.

Our annual Environmental Sustainability Report explains the broader impact of our activities on the environment (including issues such as waste, recycling and water use) which have a GHG footprint.

Responding to climate-related risks and opportunities

Our climate-related financial disclosures (using the Taskforce for Climate-related Financial Disclosure (TCFD) framework) disclose how potential risks and opportunities from climate change might affect us, both now and in the future.

Our Climate Change Adaptation Report (CCAR): in response to a Government request, we produced a report in 2021 setting out our assessment of how the financial services industry and listed companies were adapting to climate change. We expect to be asked to produce further CCARs in future.

Contributing to economy-wide transition

This plan summarises our wider contribution to economy-wide transition (see Section 3 in particular).

Our Environmental, Social and Governance (ESG) Strategy sets out our target ESG outcomes and the actions we expect to take to deliver them. An important aim of our strategy is to support the financial sector in driving positive change, including the transition to net zero.

How the Transition Plan Taskforce defines a transition plan

'A transition plan is integral to an entity's overall strategy, setting out its plan to contribute to and prepare for a rapid global transition towards a low GHG-emissions economy.'

A good practice transition plan should cover:

a. an entity's high-level ambitions to mitigate, manage and respond to the changing climate and to leverage opportunities of the transition to a low GHG and climate resilient economy. This includes GHG reduction targets (e.g., a net zero commitment);
b. short-, medium- and long-term actions the entity plans to take to achieve its strategic ambition, alongside details on how those steps will be financed;
c. governance and accountability mechanisms that support delivery of the plan and robust periodic reporting; and
d. measures to address material risks to, and leverage opportunities for, the natural environment and stakeholders such as the workforce, supply chains, communities, or customers which arise as part of these actions.

(taken from TPT Disclosure Framework, page 8).

We will continue to refine our approach to publishing our climate-related disclosures, so the information is as accessible as possible for all our stakeholders. Where we can, and in line with economy-wide disclosure guidance, we will try to integrate our reporting to make it easy to find and understand. Where this is not possible, we will signpost to relevant documents rather than duplicate information.

As recommended in the TPT disclosure framework, we will update this transition plan periodically, either when there are material changes to the plan or, at the latest, every 3 years.

Chapter 1

Element 1: Foundation

1.1: Objectives and priorities

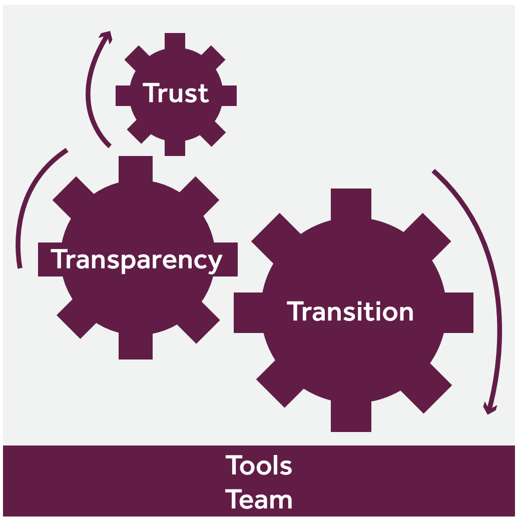
Describe the strategic ambition of the entity's transition plan by disclosing its objectives, priorities, interim targets and milestones for responding and contributing to an early and orderly whole-of-economy transition. The entity should have regard to reducing its own GHG emissions, responding to its climate-related risks and opportunities, and the actions it may take within its business model to embed and accelerate the transition.

The FCA have been developing our strategic ambition on climate change, in consultation with the financial services industry, since our first Discussion Paper on Climate Change and Green Finance in 2018. Our ESG Strategy sets out our role:

> 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.

We summarise the themes and core principles of our ESG Strategy in Figure 1 below. This shows how the Strategy is designed to support a market-based transition to a more sustainable future, with the transition to net zero as a crucial aspect. Annex 1 includes a summary of actions in the ESG Strategy that can help support this transition.

Figure 1. FCA ESG Strategy



Trust: Building trust and integrity in ESG-labelled instruments, products and the supporting ecosystem.

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

Transition: We will deepen our work to support the role of finance in delivering a market-led transition to a more sustainable economy.

Tools: We are committed to working with others to enhance industry capabilities and support firms' management of climate-related and wider sustainability risks, opportunities and impacts.

Team: We are developing strategies, organisational structures, resources and tools to support the integration of ESG considerations into our activities.

Figure 1. FCA ESG Strategy	
Core Principles	
• Global solutions to global problems • Walking the walk • Building an ESG capability beyond climate • Supporting market-led solutions	• Influence beyond rulemaking • Maximising impact • Readying for a digital and data-led world

This transition plan's core objective is to reduce our operational GHG emissions to net zero by 2045. Our targets to achieve this (set out in 4.3 GHG emissions metrics and targets) are based on the Science Based Targets initiative (SBTi) criteria and recommendations. These aim to halve GHG emissions by 2030 and reduce them to net zero by 2050. This is consistent with the aims of the 2015 Paris Agreement to limit warming to 1.5°C above pre-industrial levels.

This headline target is underpinned by the following SBTi commitments.

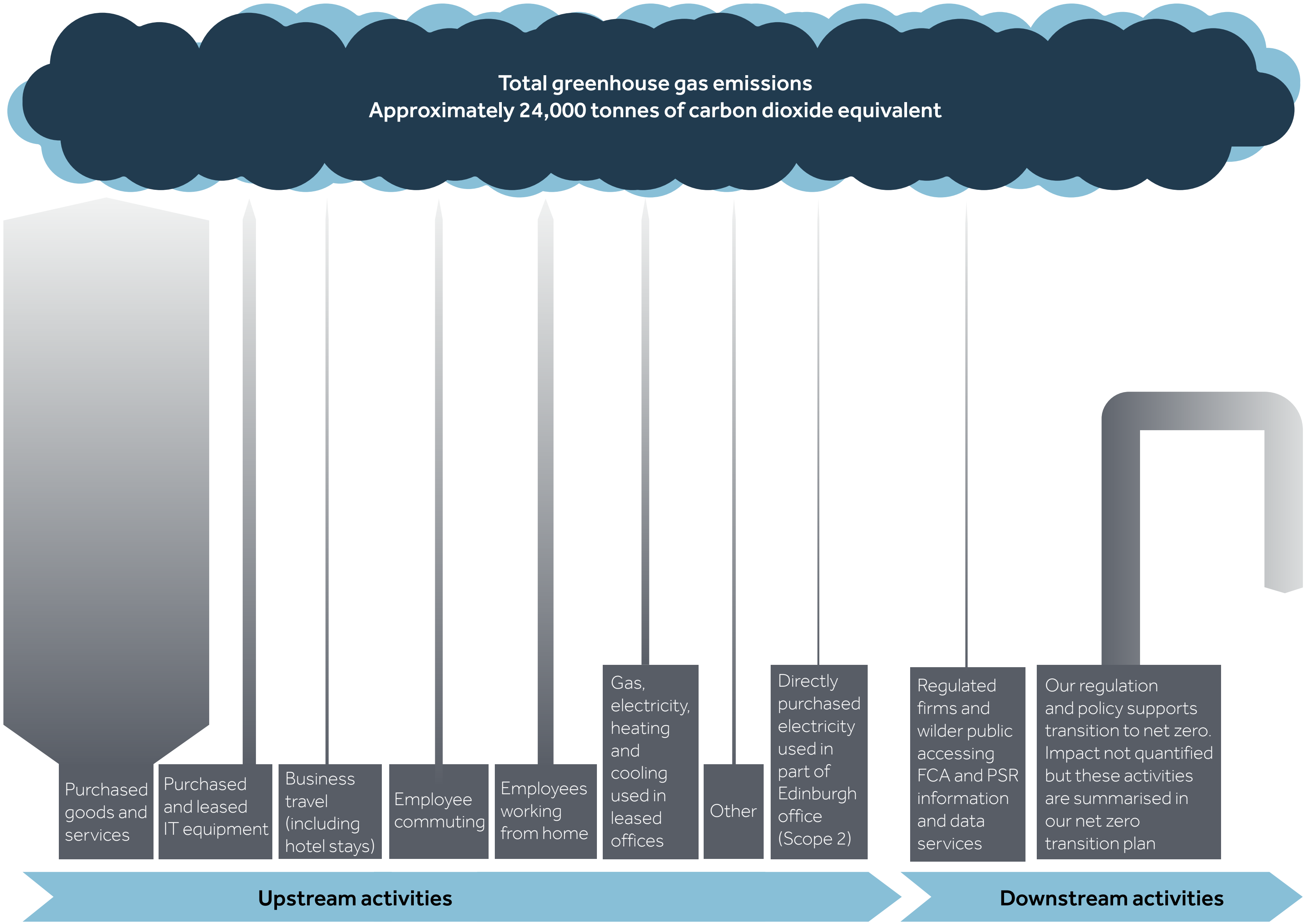
- Reducing Scope 3 GHG emissions by 90% by 2045 from a 2021/22 baseline year.
- Continuing annually to source 100% renewable electricity through to 2045. This applies to our Scope 2 emissions, which is electricity that we buy directly (applies only to part of our Edinburgh office).
- Ensuring that suppliers that together account for at least 70% of our Scope 3 emissions (from a 2021/22 base year) have science-based targets by 2028.

GHG emissions from our staff working from home and staying in hotels while on business are optional under SBTi. We have not included these categories of emissions in our SBTi targets, but we monitor and manage them.

We summarise our GHG emissions in the graphic and break them down in detail in 4.3 GHG emissions metrics and targets. Nearly all our GHG emissions are indirect Scope 3 emissions under the GHG Protocol. This means that we do not directly control these emissions but instead try to influence them through our suppliers and our staff.

Our influence on the financial services industry feeds through to the real economy as a whole, so we expect our role to make a significant contribution to the orderly transition to net zero. It isn't possible for us to meaningfully quantify the impact of this influence in a way that would allow it to be captured in our calculation of Scope 3 emissions. So we cannot quantify and track it under this disclosure framework. To acknowledge the importance of our wider influence, this plan signposts our regulatory activity (particularly in Element 3).

Graphic illustration of our greenhouse gas emissions (not to scale, for illustrative purposes only)



1.2 Business model implications

Summarise how the entity will embed the strategic ambition of its transition plan in its business model, highlighting key implications for products and services, resourcing and operational and capital expenditure, as well as material interdependencies for the natural environment, the entity's workforce, value chain, impacted communities and consumers.

The FCA's business model is based on our role and responsibilities under UK law, in particular the Financial Services and Markets Act 2000 (as amended) (FSMA). It is also influenced by 'remit' letter from the Chancellor, to which we must have regard. Our activities change over time to respond to the Risks of Harm we identify to consumers and markets and to changes in UK law, including for the activities we regulate. This is reflected in our 3-year strategy and in the Business Plans we publish each year.

Our transition plan shows how we will reduce our operational emissions while recognising we have limited freedom to change our business model, products or services. Our focus is on how we reduce our emissions while still discharging our statutory remit. We are reducing operational emissions by integrating GHG considerations into the work of our teams. Given the nature of our role, we do not expect any significant changes to cross-organisation resource allocation will be necessary (including for capital expenditure). We will need additional resources to oversee our programme of emissions reduction activity and monitor and report on our progress. However, we do not expect that this will be significant against our resources as a whole.

We need both our suppliers and our staff to help us effectively manage our operational emissions.

- As outlined in 1.1: Objectives and Priorities, most of our emissions come from the goods and services we buy. We are working closely with our suppliers on how they can help us meet our net zero aspirations (see 3.1: Engagement with value chain)
- Our staff are our most important asset. We operate a hybrid working model, where our staff divide their time between working in our offices (in London, Edinburgh and Leeds), in other locations (such as a regulated firm's office) or at home. We are engaging with them to help reduce our emissions from working in offices and at home, as well as from business travel and commuting. We must ensure our staff are safe and comfortable while also reducing energy use. Element 5 includes further details about how we manage our organisation, including our culture, to ensure our staff understand and contribute to our net zero transition.

The roadmap of actions in 2.1 Business planning and operations sets out our plans for further engagement with our suppliers and our staff.

Our transition plan mainly focuses on our own operational emissions but supporting the wider societal transition through our regulatory activities is increasingly important to our business model. Our 3-year Strategy contains a key commitment to deliver our ESG Strategy. The FCA's ESG Strategy sets out our work to support the society-wide transition to net zero, including our commitments and actions we are taking. We discuss this further in Element 3 of this plan.

Chapter 2

Element 2: Implementation strategy

2.1 Business planning and operations

Disclose the roadmap of short-, medium- and long-term actions the entity will take to deliver on the strategic ambition in its transition plan and achieve its stated objectives and priorities, including details of key planned changes to its business strategy and resource allocation, plans for GHG or carbon energy intensive assets, and its approach to managing material interdependencies.

We have put in place an ongoing plan of actions to drive our transition to net zero. This involves engaging with stakeholder areas across the FCA and PSR (particularly our key operational divisions), as well as our staff, senior management and FCA Board. We summarise our initial roadmap of actions in the table below. We will update this roadmap as we continue to work with our suppliers and staff to manage our emissions.

Table 1: Summary Roadmap of Actions

Greenhouse Gas Protocol Category	Short term (3 years) Agreed actions	Medium term (3-8 years)	Long term (8+ years) Low certainty
Purchased products and services	Include our GHG expectations in our supplier management process including specifications, terms and conditions and due diligence.		Ongoing data improvements. Consider options to offset residual emissions.
	Work with existing suppliers that generate most of our GHG emissions and encourage them to adopt SBTi-aligned targets.	Carry out ongoing monitoring of GHG commitments in our supplier base and ongoing assessment of compliance with SBTi interim target (as set out in 1.1 Objectives and Priorities).	
	Improve data quality by working with suppliers to produce specific estimates of GHG emissions from the products and services we buy.		
Leased assets (offices)	Continue to buy 100% renewable electricity in the Edinburgh office.		
	Carry out energy audit of head office in Stratford to find energy-saving opportunities.	Implement identified energy- saving opportunities.	

Greenhouse Gas Protocol Category	Short term (3 years) Agreed actions	Medium term (3-8 years)	Long term (8+ years) Low certainty
Business travel	Integrate sustainability considerations more fully into business travel policy (including a decision-making framework for travel choices).		
	Work with business travel provider to reduce GHG emissions from business travel and overnight stays through better transparency of GHG emissions.		
		Investigate options for low GHG local/ad hoc business travel (eg potential to promote bike hire or low GHG taxi options) and implement any viable options.	
Commuting to work and working from home	Raising staff awareness on steps they can take to reduce energy use when: i) in the office; ii) working from home; and iii) commuting.	Consider options for incentivising sustainable commuting and reducing energy while working from home. Implement any viable options.	

Our initial roadmap does not try to quantify the emissions reductions for each action. This is because, in nearly all cases, these actions affect indirect emissions which have not been directly measured. However, as set out in 4.3 GHG emissions metrics and targets, we will work with suppliers wherever possible to develop more precise estimates of GHG emissions from the products and services we get from them.

2.2 Products and services

Disclose planned changes to the entity's portfolio of products and services to deliver the strategic ambition in its transition plan, highlighting plans to reduce (increase) the portfolio of high-carbon (low-carbon) products and services that it provides, either directly or indirectly.

In the same way as we have limited flexibility to change our business models (see 1.2 Business model implications), we have limited scope to change our 'products' and 'services' to meet our emissions targets. As regulators, we necessarily focus on tackling the greatest risks of harm in the financial services sector. This means we cannot change the fundamental drivers of our regulation solely to reduce our group's GHG footprint, despite recognising the scale of the risks of harm from climate change.

Our products and services include the activities and products we need to carry out our functions. These include our work to authorise and supervise financial services firms, and digital services and publications for our stakeholders – largely through our websites.

As part of our GHG emissions data (see 4.3 GHG emissions metrics and targets), we have disclosed emissions generated by people using our website and information systems (known as 'downstream emissions'). We have estimated these emissions but have limited opportunity to change them, as we need to provide these services to meet our regulatory remit.

Our regulatory work directly affects the products and services the financial services industry offers to enable the wider societal transition to net zero. We use our regulatory powers and wider influence to support a market-led approach to net zero transition, in line with our wider corporate strategy. The box below describes some of the ways our products and services do this.

Our products and services: how our regulatory role supports the net zero transition

- We have introduced rules requiring UK listed issuers, asset managers and FCA-regulated asset owners to make climate-related financial disclosures. These requirements are based on the internationally-adopted recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). These rules aim to ensure these organisations give stakeholders clear, accurate and decision-useful information. This both helps their understanding and can help their own transition planning. In our review last year of the first disclosures under the rules by premium listed companies, 80% included net zero commitments in their disclosures. We will continue to assess how these firms are complying with these rules and review how effectively they promote the transition to net zero.
- Greenwashing: We have taken steps to help reduce greenwashing and help investors in supporting the transition. We have:
  - Published a consultation with proposals on sustainable investment labels, disclosure requirements and restrictions on using sustainability-related terms in product names and marketing. We aim to publish a corresponding Policy Statement in 2023.
  - Provided Guiding Principles to authorised fund managers to help them interpret existing requirements on the design, delivery and disclosure of ESG and sustainable investment funds.
  - Increasingly incorporated climate-related risk into our assessment of the risks of harm from the firms we regulate. This includes assessing whether firms' implementation of net-zero transition plans are in line with their public commitments.

These steps help to ensure market integrity and that capital is allocated properly in pursuit of a net zero economy.

- Engaging and convening: As well as regulation, we influence the net zero transition of the financial services industry by engaging with others. Element 3 describes our approach in more detail.

2.3 Policies and conditions

Disclose key internal policies and conditions that the entity has developed to align its activities with the strategic ambition of its transition plan, and its stated objectives and priorities, including those that relate to energy and water usage, the management of its impact on the natural environment, lending and investment activity and the profile of companies in its supply chain.

We know our operational policies are an important way to meet our net zero targets. They help us influence the Scope 3 emissions that make up the vast majority of our GHG footprint but are often outside our direct control.

We have an Environmental Policy which commits us to continual improvement in environmental performance, including reducing GHG emissions and energy and resource use. This is supported by our Environmental Management System (EMS) which includes aims, targets, key performance indicators and implementation mechanisms to help deliver our Environmental Policy objectives. Our EMS is externally audited against the ISO 14001 Environmental Management System standard and we report on our sustainability performance in the FCA's and PSR's Annual Reports.

Our Environmental Policy also includes a commitment to implement sustainable practices in our supply chain. The December 2022 update of our Supplier Code of Conduct includes environmental objectives for our suppliers, including a requirement to aim to reduce their impact on climate change. This underpins our work with suppliers set out in our roadmap of actions in 2.1 Business planning and operations.

All our staff have a role to play in delivering our Environmental Policy requirements, and we have a rolling programme of internal communications to explain how they can help our transition.

We are considering how we can use other organisational policies, including travel and expenses and human resources (HR), to potentially manage our GHG emissions. We plan to further integrate net zero and wider sustainability requirements into other operational policies including procurement and supplier management and business travel policies.

Our regulatory policies support our ambition to support the wider societal shift to net zero. We describe our approach to developing these policies in Element 3: Engagement.

2.4 Financial planning

Describe the financial implications of the planned changes to the entity's business strategy, resource allocation and products and services arising from its transition plan, including relevant financial plans, investment, where possible.

As set out in 2.2 Products and services, we have limited scope to change our products and services to meet our emissions targets. Equally, we do not expect that we will need to materially change the nature of the products and services we buy to meet our net zero targets.

Most of our operational emissions are from goods and services we buy. We have worked with suppliers in developing our transition plan (see 3.1 Engagement with value chain), in line with the Environmental Policy discussed under 2.3 Policies and conditions. Based on our initial supplier surveys, approximately 30% of our estimated supplier emissions have Science Based Targets, with other suppliers planning to set targets. On this basis, we do not consider it necessary to make separate financial provision in our budgets specifically to meet the cost of meeting our emissions targets from the products and services we buy. Instead, we are working with our suppliers to influence the emissions they generate so any additional costs are an integrated part of the cost of these products and services.

As disclosed in Section 2.1 Business planning and operations, our roadmap to net zero also includes actions to reduce emissions from staff working from home and commuting. We have not quantified the costs of each action at this stage but we do not consider they will be material in the context of our internal financial planning.

Our roadmap also includes actions for business travel and we are engaging with our business travel provider to explore ways to reduce our travel emissions. Together with possible revisions to our travel policy which we are considering, this could affect travel costs. Cost changes will be one factor that affects our decisions, given our obligation to provide good value for money. Our financial planning will reflect these decisions.

Although not in the direct scope of this transition plan, the costs of our ESG regulatory work are increasingly significant. The FCA's ESG Division, including wider ESG aspects than this plan's climate focus, has grown in response to developments in the sector and our 3-year Strategy reflects our ESG priorities. The resourcing of the ESG Division and of our cross-organisational ESG work is fully integrated into our annual business planning process. We allocate resource to where we see the greatest risks of harm, reflected each year in our Business Plan, including for 2023-24.

2.5 Sensitivity analysis

Disclose key assumptions and dependencies underlying the entity's business, operational and financial plans and the implications for achievement of the strategic ambition in its transition plan if its central assumptions are not met.

Like other organisations whose emissions are largely in Scope 3, our ability to meet our net zero targets heavily relies on our suppliers taking action. We need our suppliers to commit to achieving net zero and creating and implementing plans to achieve it. In turn, our suppliers depend on their own suppliers and on wider society to enable their transition to net zero. We expect that the wider societal shift towards net zero will continue until 2045 and be further supported by developments in policy, technology and consumer expectation. Our ability to meet our net zero ambitions depends on these developments and any change to these trends may threaten our ability to meet our targets.

We are encouraged by the level of commitment shown by our existing suppliers towards meeting net zero targets (see 2.4 Financial planning) and know we must continually engage to help drive change. We will continue to use our influence to encourage our suppliers to support our own net zero ambitions. However, we may not be able to exert the necessary influence over some suppliers to encourage them to do so.

We have used a spend-based approach to estimate our Scope 3 emissions for the goods and services we buy. This is a standard approach to estimating Scope 3 emissions but is based on industry average emissions, which may not fully represent our supplier base. We plan to re-baseline our emissions data with data specific to our consumption of goods and services as this becomes available from our suppliers (see 4.3 GHG emissions metrics and targets).

Chapter 3

Element 3: Engagement strategy

3.1 Engagement with value chain

Disclose current and planned engagement activities with companies and customers in the entity's value chain or portfolio to provide support and feedback, and to influence behavioural and business model changes aligned with the entity's strategic ambition and stated objectives and priorities.

Engagement with our suppliers is a crucial part of this transition plan given emissions from the goods and services we buy are by far our biggest category of GHG emissions. Emissions estimates produced by our spend-based method for calculating GHG emissions from our purchased goods and services are set out in 4.3 GHG emissions metrics and targets.

We have identified our suppliers which are the highest priority for engagement, based on these data. These provide goods and services in the following categories:

- information technology
- professional services
- human resources
- facilities

We identified around 55 suppliers for the base financial year 2021/22, which contribute around 70% of our total procurement expenditure. We carried out a preliminary assessment of them and found that around 30% (by emissions) have already set science-based targets. An additional 10% of our suppliers by emissions have committed to set emissions reductions targets in line with SBTi. More have committed to follow other guidelines for carbon reduction plans, such as the Procurement Policy Note 06/21 requirements for Carbon Reduction Plans.

For our high priority suppliers, we use a range of engagement approaches to help us understand their current GHG ambitions and to set our expectations as a client. We hold regular supplier forums and events, often focused on individual product areas. These events allow for detailed discussions on GHG ambitions in a supportive and collaborative environment. For example, we held a technology supplier day where we set out our net zero ambitions and discussed with suppliers how they can help by specific actions and by providing data.

We recognise that our supplier base will change over time as we update and replace existing procurement arrangements. We maintain engagement with suppliers by integrating GHG requirements (such as requirements for emissions reduction targets) into procurement processes and supplier management.

As a crucial part of our value chain, and a vital element for meeting our GHG targets, our approach to engaging our staff is instrumental to the success of our transition. We have an established staff network for sustainability, 'Sustain'. This is a staff-led group which encourages sustainable behaviours among staff and promotes sustainability improvement opportunities to our teams. Sustain has generated a range of ideas to help our transition, which are reflected in this plan.

CEO Challenge

Each year, the FCA's new apprentices and graduates are put in teams and tasked with developing and delivering a 6-month project that benefits wider society. This is known internally as the CEO Challenge.

In 2023, one team is delivering a carbon calculator supported by information materials to influence staff working practices. The calculator will enable staff to input their daily activities, such as sending emails, commuting methods and time spent on video calls, and then visualise their estimated GHG footprint over a day, week, month or year. Combined with the supporting materials, the calculator will help staff think through how they can reduce their impact on the environment.

The team aims to 'work inclusively with colleagues across the organisation by providing them with insight into their individual impact and empowering them to find new ways of working in a more sustainable way'.

This project illustrates how staff-led engagement is supporting our net zero transition plan.

We have estimated the GHG emissions from people who use our products and services ('downstream value chain'). We are investigating ways to optimise user experience across our online platforms in a carbon-efficient and sustainable way. But this is not a high priority in this plan because these emissions form a minor element of our total GHG emissions (see Scope 3, Category 11 in Annex 2), and we have limited control over how people use our information and data services.

3.2 Engagement with industry

Disclose current and planned engagement and collaborative activities with peers in the entity's industry (and beyond, as relevant) to share expertise and experience and address common challenges in support of the entity's strategic ambition and stated objectives, priorities and interim milestones.

We engage with financial services sector participants to help manage our operational GHG emissions. For example, we are part of the Financial Services Qualification System, which is a community of buying organisations in the financial sector including banks, building societies, insurance companies and investment services. This enables collaboration to agree a single standard for managing supplier risk management, including ESG aspects.

But the FCA, as the UK's financial conduct and markets regulator, our greatest impact in enabling decarbonisation of the economy can be achieved through regulation and our wider influence and convening powers.

High quality engagement with industry is instrumental to our ESG Strategy. We are focused on applying our 'influence beyond rulemaking', where we seek to work collaboratively with others to drive better outcomes.

We want to support market-led solutions to reducing GHG emissions. We engage with stakeholders in the financial services industry to ensure our interventions support market practices both domestically and internationally.

This section sets out some of the themes of this current and ongoing engagement to develop tools and market-led solutions and inform future regulatory approaches. This transition plan gives only a brief overview of our work in this area: our ESG Strategy sets out our commitments and planned future actions in more detail.

Convening industry to develop tools and market-led approaches

We work with industry to develop tools and voluntary market-led solutions that firms can use to help them better support the transition to net zero. Some examples are given below.

- Climate Financial Risk Forum: Jointly chaired by the FCA and Prudential Regulation Authority (PRA), the Climate Financial Risk Forum (CFRF) brings together senior financial sector representatives to share their experiences in managing climate-related risks and opportunities. The CFRF has a working group on the Transition to Net Zero, which has published reports and guidance to help the financial services industry develop its approach to the net zero transition.
- ESG Data and Ratings: As industry participants more fully integrate ESG into their activities and expand their ESG-focused product offerings, they increasingly rely on third-party ESG data and ratings products. We have worked to convene, support and encourage industry participants to develop and follow a globally consistent voluntary Code of Conduct ahead of the UK Government potentially extending our regulatory perimeter.
- Stewardship and voting transparency: Stewardship by asset owners and asset managers involves making informed decisions about where to invest, and proactive oversight of assets once invested. We expect this to be an important tool to support an effective transition to a net zero economy. In October 2022, we convened the Vote Reporting Group to develop an industry-led approach to comprehensive and standardised vote reporting by asset managers. This will enable asset owners and their agents to better hold asset managers to account on their stewardship activity and encourage stewardship that supports companies to transition their businesses to align with a net zero economy.

Engaging industry to inform regulatory approaches

While we undertake formal consultation when developing new rules and guidance, we know how important it is to engage industry ahead of this process to help shape emerging policy. This box gives examples.

- Industry groups: We actively engage with numerous industry participants and groups to understand their perspectives and share developing policy themes.
- Net zero transition plans: We are an active member of the UK Transition Plan Taskforce, which is developing a gold standard disclosure framework for net zero transition plans. This will enable firms to disclose plans in a consistent and comparable way that allows shareholders, clients and consumers to hold firms to account and strengthen market discipline. We have committed to drawing on the TPT's final outputs to strengthen our transition plan disclosure expectations of listed companies, asset managers and asset owners. We have also worked with a cross-section of financial services firms and real-economy companies to test the TPT's draft framework through a 'Sandbox'.
- Disclosures and labelling: We established a Disclosures and Labels Advisory Group, an expert advisory group of key financial market stakeholders and subject matter experts. The group gives us feedback and advice about how firms can label products to enable consumers to align their investments with sustainable outcomes.
- Governance, incentives and competencies: We published a Discussion Paper (DP23/1) in February 2023 to start a discussion on how regulated firms may need to transform their governance, incentives and competencies to ensure they can deliver their climate and sustainability-related objectives. This includes a description of the relevant frameworks, including transition plan guidance.

3.3 Engagement with government, public sector and civil society

Disclose current and planned engagement activities with the government, public sector organisations and civil society to support the entity's strategic ambition and objectives, priorities and interim milestones.

As public bodies we fully recognise the importance of strong collaboration across regulators and other sectors, domestically and internationally, to develop effective policies. This is even more acute in the transition to net zero, which requires a robust, system-level response.

Domestically, our ESG Strategy commits us to maintaining close collaboration with UK regulators and government departments. Close collaboration is essential to coordinate policy interventions and avoid confusion among stakeholders.

Engaging with the UK Government and domestic public sector

We have worked closely with the UK Government to support the delivery of its green finance strategy and a net-zero aligned financial centre. The policies we have developed (see 3.2 Engagement with industry) have helped implement the Government's Green Finance Strategy (updated in March 2023) and 'Roadmap to Sustainable Investing'. We summarise our engagement with the UK Government and the public sector below.

- FCA 'Remit' letters: The Chancellor writes to us periodically, setting out the aspects of the Government's economic policy to which we should have regard as we undertake our role. Our work to promote a net zero economy was designed to align with the request in the letter we received in March 2021 to 'have regard to the government's commitment to achieve a net-zero economy by 2050'. Recent amendments to FSMA (introduced by the Financial Services and Markets Act 2023) have introduced a legal requirement that we have regard to contributing towards the UK's net zero emissions targets, where relevant to the exercise of our functions.
- Government: We regularly liaise with government departments to advance our work on net zero. Our work within the TPT is an example of how we have collaborated with the Government and others on a major initiative. More generally, we maintain close dialogue with government departments with a net zero policy remit. This includes the Treasury, the Department for Energy Security and Net Zero and the Department for Environment, Food and Rural Affairs.
- Regulators: We work closely with other regulators on issues involving the transition to net zero, including the Financial Reporting Council, the Bank of England, the PRA and the Pensions Regulator. We also are a member of the UK Sustainable Finance Regulators Group, which coordinates the work of UK regulators with on sustainable finance. Engaging with other regulators enables us to tackle regulatory issues that could otherwise be a barrier to net zero transition. For example, we have worked with the Competition and Markets Authority to explore how investors can collaborate effectively to achieve net zero within the constraints of competition law.

Climate change is a global challenge, so our international engagement is particularly important. For an effective market-led transition to net zero, we need global consistency and comparability in regulatory regimes. So much of our work focuses on global baseline standards for corporate sustainability reporting.

Engaging with international organisations and standard-setters

The UK is a global financial centre and the securities issuers and financial services firms that we regulate operate in global markets. We play a leadership role internationally and work closely with partners to build global consensus on policy approaches. And we aim to implement regulations that, as far as possible, align with international frameworks and standards.

The market-led transition to net zero will require high quality information on how climate-related risks, opportunities and impacts are being managed. International engagement is paramount to ensure information is consistent and comparable between different regulatory regimes. Below we give examples of our international engagement in this area:

- International Organisation of Securities Commissions (IOSCO): IOSCO brings together global securities regulators and sets standards for the sector. As Vice Chair of the Sustainable Finance Taskforce, co-lead of workstreams on sustainability reporting and assurance, and an active member of other working groups (including on matters such as ESG data and ratings, greenwashing and carbon markets) we have been playing a central role in setting the international agenda on sustainable finance regulation.

- International Sustainability Standards Board (ISSB): The ISSB has developed corporate reporting standards for sustainability. We sit on the ISSB's Jurisdictional Working Group and have been closely involved in developing these standards to ensure they are joined up with other regimes. The ISSB standards include a dedicated climate-related disclosure standard which builds on the recommendations of the TCFD. TCFD-aligned disclosures are already widely adopted internationally, including in the UK as a requirement for the firms and companies we regulate (see 2.2 Products and services). We have committed to consulting on using ISSB standards as the basis for disclosure requirements, once available for use in the UK.

We are also strengthening our engagement with civil society. For example, in 2022 we established a new ESG Advisory Committee to the FCA Board. This includes a small number of external experts with experience in industry, academia and NGOs. The Committee advises the Board and the wider FCA on its approach to ESG-related issues. We also engage directly with international bodies (including the United Nations and Organisation for Economic Co-operation and Development) and NGOs to understand their perspectives on our work.

This transition plan provides an illustration of our engagement with the Government, public sector and civil society. Further details are provided in our other ESG-related publications, including our ESG Strategy, and we will update these periodically on our website.

Chapter 4

Element 4: Metrics and targets

4.1 Governance, business and operational metrics and targets

Disclose the governance, business and operational metrics and targets used by the entity to assess progress towards its strategic ambition and its stated objectives and priorities. Report against metrics used to assess progress towards targets on at least an annual basis.

4.2 Financial metrics and targets

Disclose the financial metrics and targets that are used by the entity to assess progress towards its strategic ambition and its stated objectives and priorities. Report against metrics used to assess progress towards targets on at least an annual basis.

We do not expect progress towards meeting our net zero target to have a material impact on our business model (see 1.2 Business model), so we do not have metrics or targets related to our governance, business or finance.

Our operational metrics which are relevant for this transition plan include:

- As part of our environmental management system, we have sustainability targets and metrics. These include for GHG emissions (see 4.3 GHG emissions metrics and targets) and other aspects which contribute to our total GHG emissions such as water use (and wastewater disposal) and waste generation. We report these metrics in the FCA's annual Environmental Sustainability Report, which forms an appendix to our Annual Report and Accounts.
- We have a target for 70% of supply chain emissions (upstream emissions) to be covered by science-based targets by 2028. This means we need to monitor which suppliers have committed to such targets and we are putting a system in place to do this.

4.3 GHG emissions metrics and targets

Disclose the GHG metrics and targets that are used by the entity to assess progress towards its strategic ambition and its stated objectives and priorities. Report against metrics used to assess progress towards targets on at least an annual basis.

Baseline emissions and metrics

We show our baseline emissions in the table below. We have calculated them in line with the Greenhouse Gas Protocol Corporate Standard and appropriate guidance. We include 'optional' emissions separately because they are not included in SBTi target calculations.

Scope of Emissions	Gross emissions (tonnes of CO2 equivalent (CO2e)) for baseline year 2021/22 rounded to nearest whole tonne
Scope 1: Direct GHG emissions	0
Scope 2: Indirect GHG emissions (electricity)	9
Scope 3: Other indirect GHG emissions	22,863 (plus optional emissions of 1,320)
Total	22,872 (plus optional emissions of 1,320)

Our baseline emissions year of 2021/22 is the first year for which full data are available. In this first net zero transition plan, we have not included GHG emissions intensity per unit of physical or economic output, because we do not consider them appropriate for our organisations. As regulators, we do not have clear measures of units of production or sales.

We will consider appropriate emissions intensity metrics in further detail and refine them in subsequent revisions of this plan. For example, emissions per full time equivalent employee (FTE) may be a useful metric, where FTE acts as a proxy for the range of activities we carry out and reflects any changes to our regulatory remit and perimeter over time.

As shown in the table above, most of our emissions are in Scope 3. Annex 2 shows our Scope 3 emissions broken down by the categories used in the GHG Protocol Scope 3 calculation guidance. This includes the optional emissions under this guidance.

Targets

We have publicly committed to SBTi-aligned targets as set out in 1.1: Objectives and priorities. In addition to these targets, and to support our 2045 net zero GHG emissions target, we also have an internal target to reduce absolute Scope 3 GHG emissions 33.6% by 2028, from a 2021/22 base year. Our internal target does not include the optional emissions categories under SBTi, to make it consistent with SBTi targets.

As set out above, we do not currently have GHG emissions intensity metrics, so we do not have intensity targets. We will keep this under review and reflect any changes in updates to this transition plan.

Scope 3 emissions

Annex 2 shows the methods used to calculate our Scope 3 emissions. We have assessed and reported all applicable upstream and downstream emissions; the GHG Protocol categories of emissions which do not apply to us are shown in Annex 2.

We have calculated Scope 3, Category 1 emissions (associated with goods and services we buy) using a spend-based method with emission conversion factors. We are investigating the possibility of using direct measurements from our suppliers. If sufficient suppliers can provide specific emissions data based on the goods and services we procure, we will consider re-baselining our Category 1 emissions. Subsequent revisions of this transition plan will confirm our approach.

As explained in 1.1: Objectives and priorities, our Scope 3 emissions do not include the indirect impacts of our regulation and policy. Although we consider that our regulation supports reductions in GHG emissions, this is not quantifiable and any net reduction lies outside of our Scope 3 emissions calculations.

4.4 Carbon credits

Disclose the intended use of carbon credits which are used by the entity to achieve progress towards the entity's strategic objectives and priorities, and annually report on the use of carbon credits.

Our net zero target includes a projected 10% of residual emissions after achieving a 90% reduction from our baseline emission levels. Our approach to achieving net zero includes buying carbon credits to offset approximately 10% of the remaining GHG emissions that we cannot reduce further. This is in line with the SBTi Corporate Net-Zero Standard.

We have no immediate plans to use offsetting or carbon credits directly, but our suppliers are increasingly offering to offset emissions on our behalf. We will disclose any carbon offsets our suppliers buy in this way against the relevant Scope 3 categories in our annual progress reporting updates.

We recognise that the market for carbon credits is developing. We would need assurance that any investments we make lead to genuine carbon reduction and are carried out in a way that is sensitive to people and the environment. We will disclose any plans to use carbon credits disclosed in future updates of this transition plan.

Chapter 5

Element 5: Governance

5.1 Board oversight and reporting

Describe the entity's arrangements for Board-level governance of the transition plan, including its processes for Board-level review and approval of the transition plan, and for the oversight of monitoring and reporting of progress against the entity's stated objectives and priorities.

5.2 Roles, responsibility and accountability

Describe senior management roles and responsibilities for the execution of the transition plan, as well as the entity's wider control, review and accountability mechanisms.

The FCA's Board considers climate-related issues and metrics annually, as part of its review of the FCA's Business Plan, Annual Report and annual climate-related financial disclosure. The Board also makes strategic decisions affecting the future operation of the FCA and approves a number of related policies, including the procurement policy. Aligned with this, the Board has ultimate oversight of the FCA's transition plan, as well as responsibility for its approval.

This is our first transition plan, so we have not yet established regular reporting against its objectives. We plan to integrate reporting against our transition plan into existing regular reporting to the Board and our annual reporting arrangements to avoid duplication. Updates to our transition plan, whether carried out periodically or required due to a significant change, will require approval from the Board and will generally be integrated into our annual reporting cycle.

The Board also has oversight of our ESG regulatory activities. We have taken 2 key steps to support the Board in governing sustainability issues, including net zero transition:

- As noted in 3.3 Engagement with the Government, public sector and civil society, we established a new ESG Advisory Committee to the Board in 2022. The Committee guides the Board on relevant emerging ESG issues and how we should develop our ESG strategy. This includes how we manage the ESG impacts of our own operations.
- In 2022, we updated the Terms of Reference for the Board's Audit, Risk and People Committees to explicitly draw out their climate-related responsibilities. Read sections 10.1, 10.2 and 10.4 in our FCA corporate governance document.

The FCA's Executive Committee gives executive-level approval for the transition plan, including the targets set out in 1.1: Objectives and Priorities. Our CEO has ultimate responsibility for its implementation. The ESG Director has day-to-day responsibility for approval, implementation and oversight of our corporate environmental and sustainability objectives, targets and metrics, including the FCA's transition plan. Key Executive Directors oversee elements of the plan's implementation. Where appropriate, these responsibilities are reflected in individuals' objectives.

A cross-organisational working group coordinates day-to-day implementation of the transition plan at working level. This includes representatives from relevant business areas and the PSR.

The FCA's Risk and Compliance Oversight and Internal Audit functions provide scrutiny of the plan and our progress against it. Our organisation is a private company limited by guarantee, so our transition plan is not subject to shareholder approval. But it could be of interest to wider stakeholders such as the industry, consumer groups and civil society.

As signatories to SBTi, our targets set out in 1.1: Objectives and Priorities are in line with the SBTi criteria and we are committed to disclosing progress towards them annually. We are certified under the ISO 14001 environmental management system standard. This requires us to take a systematic approach to identifying and managing our environmental impacts, including GHG emissions. Our compliance with this standard is regularly reviewed via external audits.

5.3 Culture

Describe the steps that the entity has put in place to build a culture aligned with the strategic ambition in its transition plan, including through leadership and training programmes, HR policies and procedures and wider workforce engagement.

5.4 Incentives and remuneration

Describe whether and how the entity has put in place arrangements to align remuneration and incentive structures with the stated objectives and priorities in its transition plan.

5.5 Skills, competencies and training

Describe how the entity ensures that it has the appropriate skills, competencies and knowledge across the organisation to effectively design, develop and deliver the transition plan.

We are UK financial services regulators, with values that reflect our statutory objectives. We act in the public interest and our aspiration to improve our own sustainability performance is in line with this.

Our HR team provide support for changing our culture. The corporate responsibility and early careers teams in HR organise the FCA's annual 'CEO Challenge' discussed under 3.1 Engagement with value chain. We have also introduced flexible benefits, including a cycle-to-work scheme and a leasing scheme for ultra-low emission vehicles, to give staff the opportunity to choose more sustainable approaches to commuting.

Our staff-led Sustain network promotes a culture of sustainability among our staff. Sustain runs regular events and campaigns to help raise awareness of environmental issues within the organisation and to encourage sustainable behaviours.

Where appropriate, responsibilities for implementing this plan are reflected in staff objectives. We operate a performance-related pay structure and this is directly linked to performance against objectives. However, we do not operate a bonus scheme to which achievement of transition plan actions can be directly linked.

The FCA's ESG Division has grown in recent years and leads on managing our operational sustainability issues as well as coordination of our ESG regulation and policy. The ESG Division provides subject matter expertise to enable the successful implementation of our transition plan. It is led by the ESG Director, who has significant experience in ESG in the financial services industry.

In terms of training, we provide 2 key components:

- Regulation-related training. The ESG Division provide regular training sessions, briefings and materials to regulatory colleagues to ensure they are able to engage with firms on ESG-related issues, including climate change. Where appropriate, we directly support regulatory interactions with firms, and some training programmes are tailored to the needs of regulators in specific sectors (eg wholesale banking).
- Internal environmental sustainability training. We have developed a mandatory internal training module, delivered online, that aims to help our employees become more environmentally conscious and make sustainable choices at their workplace and beyond. It teaches about current environmental priorities and how to support our organisation's internal environmental strategy and the transition to net zero.

As set out in 5.1 Board oversight and reporting, we have established an ESG Advisory Committee to the FCA Board to help the Board consider ESG-related issues, including net zero. The Board has also carried out training on a variety of ESG-themed topics including climate. Together, these measures ensure that the Board and executive management have access to the appropriate skills to effectively oversee the implementation of this plan.

Annex 1

Summary of FCA ESG Strategy actions to support net zero

- Enhance climate-related financial disclosures.
- Promote global consistency and comparability in corporate reporting on sustainability matters.
- Support the Government's ambition to make the UK a world leader in green finance.
- Encourage an effective ESG ecosystem – including by supporting the integrity and effectiveness of ESG data, ratings, assurance and verification services.
- Consider regulatory intervention to promote a market-led transition to a more sustainable future.
- Encourage effective investor stewardship of net zero and sustainability.
- Embed ESG considerations and the expectation that we 'have regard' to net zero across FCA functions.

Annex 2

Breakdown of GHG emissions by GHG Protocol Scope and Category in our base financial year 2021/22 (rounded to nearest whole tonne) and calculation method

Scope	GHG Protocol Category		Description	tonnes CO2e	Summary of calculation method
1	Direct GHG emissions		Not applicable	0	
2	Indirect GHG emissions (electricity)		Directly purchased electricity used in part of Edinburgh office	9	Metered data and UK Government emissions factors
3	Category 1	Purchased goods and services	Purchasing goods and services including information technology, facilities, professional services, human resources and marketing	20,954	Spend-based method using EU Multi-regional Environmentally Extended Supply and Use/Input Output (MR EE SUT/IOT) database and UK Government emissions factors
3	Category 2	Capital goods	Purchased and leased IT equipment	1,023	Spend-based method using emissions factors supplied by specialist consultants
3	Category 3	Fuel- and energy-related activities (not included in scope 1 or 2)	Transmission and distribution of electricity used	44	Usage-based with UK Government emissions factors
3	Category 4	Upstream transportation and distribution	Postal and courier services	16	Supplier usage data and supplier emissions factors
3	Category 5	Waste generated in operations	Office waste	3	Supplier data and UK Government emissions factors

Scope	GHG Protocol Category		Description	tonnes CO2e	Summary of calculation method
3	Category 6	Business travel	Business travel (optional: hotel stays)	50 5	Supplier data and UK Government emissions factors
3	Category 7	Employee commuting	Commuting (optional: working from home)	376 1,315	Employee survey data and UK Government emissions factors
3	Category 8	Upstream leased assets	Gas, electricity, heating and cooling used in leased offices	393	Usage-based with UK Government emissions factors
3	Category 9	Downstream transportation and distribution	Not applicable	0	
3	Category 10	Processing of sold products	Not applicable	0	
3	Category 11	Use of sold products	Regulated firms and wilder public accessing FCA and PSR information and data services	5	Service usage data (website visits) and UK Government and International Energy Agency emissions factors
3	Category 12	End-of-life treatment of sold products	Not applicable	0	
3	Category 13	Downstream leased assets	Not applicable	0	
3	Category 14	Franchises	Not applicable	0	
3	Category 15	Investments	Not applicable	0	

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