Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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By email: cp21-18@fca.org.uk

Dear Sir / Madam,

Financial Services Consumer Panel response to the FCA's consultation on Enhancing Climate-related Disclosures by Asset Managers, Life Insurers and FCA-regulated Pension Providers.

The Consumer Panel welcomes the FCA's proposals and objectives regarding enhancing climate related disclosures by asset managers, life insurers and FCA-regulated pension providers.

The Consumer Panel wish to additionally highlight:

- The Panel feel it is important consumers can readily access relevant climate disclosures during their initial engagements and believe it is important to check and test that the entity disclosures are both accessible and understandable by the average "investing" consumer.
- The approach to both having a threshold and setting the hurdle point of this threshold appears to be driven by considerations of firm overheads, not by consumer impact. The Panel appreciate that any increases in a firm's costs due to compliance with new rules may be passed onto consumers. However, we are also aware that many retail consumers are attracted to, and investing in, smaller boutique funds.
  We would therefore question whether, rather than use this threshold as a complete cut-off for climate-related disclosure, a light touch approach to disclosure below the intended threshold would be appropriate. If such disclosures were easily accessible by the consumer, they might provide better outcomes.
- The Panel are concerned that whilst the metrics will give an indication to the data relating to the investment and enable comparisons between investments – what the data won't do is help the consumer understand what 'good looks like'. For this, the climate impact data needs to be understood in the context of the best available investments, or where the investment sits within its sector, based on climate measures.

Our responses to the questions posed in the consultation are included at Annex 1 below.

Yours sincerely,

Wanda Goldwag

Chair, Financial Services Consumer Panel

Annex 1

Question 1

Do you agree with our proposed scope of firms, including the £5 billion threshold for asset managers and asset owners? If not, please explain any practical concerns you may have and what scope and threshold you would prefer.

Whilst the panel broadly agrees with the proposed scope of firms, we would make two qualifying comments:

1. The approach to both having a threshold and setting the hurdle point of this threshold appears to be driven by considerations of firm overheads and costs, not directly by considerations of the impact on consumers. The Panel appreciates that any increases in a firm's costs due to compliance with new rules may be passed onto consumers, therefore increasing costs. However, we are also aware that many retail consumers are attracted to, and investing in, smaller boutique funds. As proposed, these investments will not be comparable from a climate-impact perspective and consumers will not have the opportunity to include climate-related considerations in their decision-making processes.
   We would therefore question whether, rather than using this threshold as a complete cut-off for climate related disclosure, a light touch approach to disclosure might be appropriate when below the intended threshhold. This way, comparable information could still be easily accessible by the consumer, producing better outcomes.
   We would also propose that the exemption only applies to firms in existence (authorised and trading) prior to implementation. Any new firms incorporated after the implementation date should have to comply with the regulation (potentially with a lighter touch model) and should have included this in their business and cash flow plans prior to launch.
2. The panel would suggest that consideration be given to the opportunities and potential impacts on consumers that have invested in products from a firm that crosses the proposed threshold. Should a customer, who has invested in a firm's products, find themselves unhappy with the firm's approach to investing upon the first publication of the client related disclosure, they should be able to divest themselves of such investments without any financial penalty or bid/offer spread costs.

Question 2

Do you agree with our proposed scope of products? If not, what types of products should, or should not, be in scope and why?

Yes. We believe it is important to support consumers in understanding the climate impact of their current or intended investment and therefore support a wide reaching and consistent approach to climate-related disclosures.

Question 3

Do you agree with our phased implementation and timings? If not, what approach and timings would you suggest and why?

The Panel agrees with the proposed implementation timings. We would also suggest that firms who will be subject to the disclosure but are not included in the first phase, publicise both the fact that they will be making a disclosure in the near future and the date on which that disclosure is likely to be made. They should do so both in their pre-sales literature, on their websites and in other consumer-focused reports. This will give consumers information needed to enable them to decide whether to delay consideration of a firm/product until the climate-related disclosure has been made.

Question 4

Would there be significant challenges in using proxy data or assumptions to address data gaps? If so, please describe the key challenges and implications as well as any preferred alternative approach.

No response.

Question 5

Do you agree with our proposals for the provision of a TCFD entity report, including the flexibility to cross-refer to other reports? If not, what alternative approach would you prefer and why?

Whilst the Panel understands the benefits to firms of being able to cross reference other reports, we feel that it is important consumers can readily access relevant climate disclosures during their initial engagement. We would therefore expect that the summary of an entity report would be standalone (i.e. it would not require the reader to cross refer to other reports) and cover the key elements of disclosure. Furthermore, we would expect that any cross referral is limited to only one-referral-deep, by which we mean if a consumer is referred to another document, this document should not refer the reader to yet another document. Otherwise there is a risk of circular referrals where the reader keeps being referred to documents they have already accessed, or that the process of trying to access the disclosure becomes so complicated that it deters the consumer from continuing.

Question 6

Do you agree with our proposed approach to governance, strategy and risk management, including scenario analysis? If not, what alternative approach would you prefer and why?

We agree with the proposed approach to governance, strategy and risk management including scenario analysis. We also believe it is important to check, and test, that the entity disclosures are both accessible and understandable by the average "investing" consumer. We would like to see the regulation include an obligation on firms to test their disclosures with consumers to ensure that they are easy to understand. Additionally we would hope the regulator would also test a sample range of disclosures on a regular basis, to ensure that they are both easy to access and simple to understand.

Question 7

Do you agree that firms not yet setting climate-related targets must explain why not? If not, what alternative approach would you prefer and why?

Yes.

Question 8

Do you agree with our proposals for AFMs that delegate investment management services to third-party portfolio managers? If not, what alternative approach would you prefer and why?

We agree with the proposals for AFMs that delegate investment management services to third-party portfolio managers. However, we would reiterate our concern that any cross references must be easy to access and tested to ensure that they are only one referral deep.

Question 9

Do you agree with our proposals for asset owners to cross-refer to group-level, third-party or delegate reports, where relevant? If not, what alternative approach would you prefer and why?

No response.

Question 10

Do you agree with our proposed requirements for product or portfolio-level disclosures, including the provision of data on underlying holdings and climate-related data to clients on demand? If not, what alternative approach would you prefer and why?

We agree with the proposed requirements for product or portfolio level disclosures. We would however expect the firm to remain responsible for all disclosures, even when cross referring to any delegate report. Additionally, we would ask the regulator to consider amending the required contents of the assessment value report to include a summary and analysis of the climate disclosure. It is clear that many investors consider climate impact in the overall assessment of their investments and the value that they offer. It would therefore make sense to include elements of the climate disclosure in the overall firm assessment of value.

Question 11

Do you agree with the list of core metrics, including the timeframes for disclosure? If not, what alternative metrics and timeframes would you prefer and why?

The panel agrees in part with the list of core metrics. We note paragraph 5.18, however our main concern is that when a consumer

- Is researching only one investment, or
- Is comparing two, or more, investments against each other

the metrics will give an indication as to the data relating to the investment and will enable the comparison of investments detailing which is or are better. The data will not, however, help the consumer understand what 'good looks like'. For this, the climate impact data needs to be understood in the context of the best available investments, or where the investment sits within its sector based on climate measures.

We therefore wonder whether either some sort of rating should be applied to the metrics (such as with energy efficiency) or whether some contextual data should be included (such as detailing the range of results across investments in the same sector). In this way consumers can not only compare and contrast the investments that they are interested in but also understand in absolute terms how the investment performs and ranks in relation to carbon emissions and carbon intensity metrics.

Question 12

Do you agree that firms should calculate metrics marked with an asterisk according to both formulas set out in columns A and B of Appendix 3? If not, please explain why, including any challenges in reporting in accordance with either or both regimes.

To be easy to understand and simple to use in decision-making it is important that the data is clear and unambiguous. We therefore wonder whether there is a risk in calculating reporting using two different methodologies. This could lead consumers either to make decisions based on inaccurate comparisons, or to disengage owing to the complicated nature of the comparisons. We would therefore ask the regulator to consider whether just one measure would be appropriate and or what the detriment might be from only using one measure.

Question 13

Do you agree that, subject to the final TCFD guidance being broadly consistent with that proposed in the current consultation, our proposed rules and guidance should refer to: a. The TCFD Final Report and TCFD Annex in their updated versions, once finalised, and b. The TCFD's proposed guidance on metrics, targets and transition plans and the proposed technical supplement on measuring portfolio alignment. If not, what other approach would you prefer and why?

No response.

Question 14

Do you agree with our approach to additional metrics and targets? If not, what alternatives would you suggest and why?

Our main concern with the use and reporting of additional metrics and targets is to ensure that any figures that either use assumed data or are predictions (and therefore guesses) are clearly and unambiguously labelled as such. This will enable consumers to make their own decisions as to the weight they place on such metrics in their decision-making.

Question 15

Do you agree with our approach to governance, strategy and risk management, including scenario analysis at product or portfolio-level? If not, what alternative approach would you prefer and why?

No response.

Question 16

What form(s) could quantitative scenario analysis outputs at product or portfolio-level take? What do you consider the cost and feasibility of producing such outputs might be? How useful would such outputs be for users' decision-making?

The panel questions whether quantitative scenario analysis outputs will aid a consumer's understanding of the investment and their decision-making. We would propose that any such outputs should be tested with average consumer investors to gauge what benefit they add to consumers' decision-making and outcomes.

Question 17

Do you agree with our proposed approach that would require certain firms to provide product or portfolio-level information to clients on request? If not, what approach and what types of clients would you prefer and why?

No response.

Question 18

Do you agree with our proposed approach for life insurers when mirroring an external asset manager's strategy? If not, what alternative approach would you prefer and why?

Yes.

Question 19

Do you agree with our specific proposals for asset owners, including the proposed threshold to exclude the smallest default schemes? If not, what alternatives would you prefer and why?

Yes, the panel agrees with the specific proposals. In addition to the proposal regarding the reporting of the metrics relating to pre-selected portfolios we would also propose that any curated lists of funds provided to the consumer (either as a shortlist of available funds for investment, or a list of selected 'best' funds) should also include key climate impact metrics as part of any list of funds, table of funds or indeed ranking of funds.

Question 20

Do you agree with the analysis in our CBA? If not, we welcome feedback in relation to the one-off and ongoing costs you expect to incur and the potential benefits you envisage. Contextual information about your firm's size and structure would be helpful.

No response.