Institute and Faculty of Actuaries

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FCA consultation on Sustainability Disclosure Requirements (SDR) and investment labels Discussion Paper DP21/4

IFoA response

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

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Consultation on Sustainability Disclosure Requirements (SDR) and investment labels Discussion Paper DP21/4

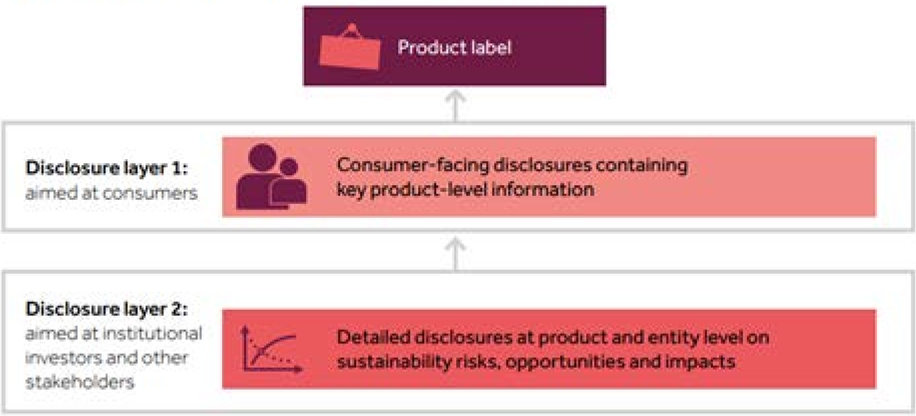
The Institute and Faculty of Actuaries (IFoA) is pleased to submit feedback on the FCA's Discussion Paper DP21/4 on Sustainability Disclosure Requirements (SDR) and investment labels. Within the actuarial profession we have experts in the technical detail, we have executives in small and large financial institutions, and we have experts working with the financial system itself. Our outlook is rooted in our Royal Charter (dating back to 1884) and our long history of working with policymakers to effect change, and it is focused forwards on how actuaries will contribute to solving the problems of the 21st century.

Should you wish to discuss any of the points raised in this submission in more detail please contact Caroline Winchester, IFoA Policy Manager, (caroline.winchester@actuaries.org.uk).

Please find the IFoA Sustainability Board's response to each of the questions in the consultation below.

Q1: What are your views on the tiered approach set out in Figure 2? We welcome views on any concerns and/or practical challenges.

Figure 2: Early views on a product labelling and disclosure system



1. This is a concept similar to Sustainable Finance Disclosure Regulation (SFDR) in relation to pre-contractual disclosures and website disclosures.

2. It is important to provide clarity on the different layers and ensure that the information is appropriate for the end user. Just as too complex information may be overwhelming, oversimplification can lead to misinformation.

3. Guidance will be necessary on how this concept is practically applied.

Q3: Which aspects of these initiatives, or any others, would be particularly useful to consider (for example in defining terms such as responsible, sustainable and impact) and how best should we engage with them?

4. It is important that there is a mandatory base level for labelling to enable consumers to compare across products.

5. Firms: Investors need access to relevant, comparable, consistent, and verifiable information. The quality of disclosures along the chain are dependent on the quality of disclosures from the investee company. It should therefore be noted that the availability of the underlying data from investee companies will have a direct impact on any disclosure requirements under SDR.

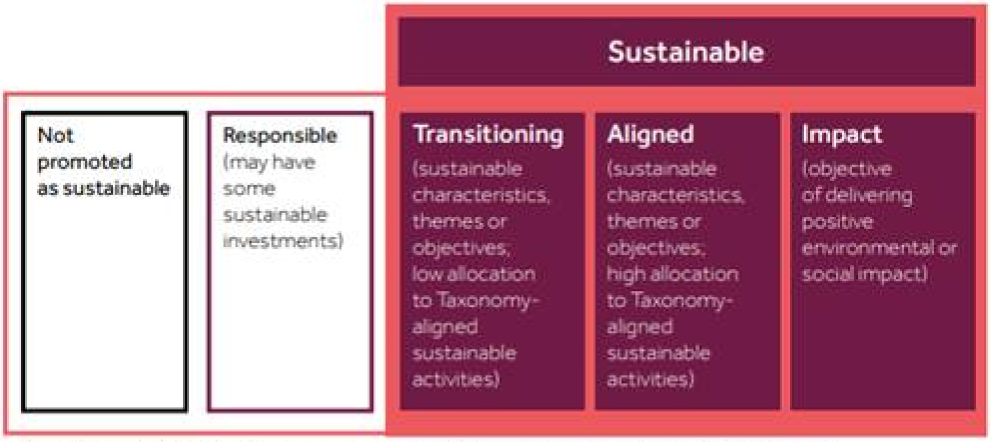
6. Products: all investment products being sold in the UK should be in scope of these requirements.

7. Global consistency is an important factor for asset funds. As noted in the Discussion Paper, many UK firms and their products are subject to SFDR in respect of their cross-border EU business. It therefore will be key to maintain a level of consistency for labels and disclosures. We are supportive of continued engagement with global standards to support this initiative.

8. We agree with the FCA that having standardised definitions for sustainability-related information will be useful to both institutional investors and retail customers. Product labels for retail investors in particular will be helpful where increased uniformity in terms of labelling should not only enable consumers to make more informed choices, but also assist in tackling potential 'greenwashing'.

Q4: Do you agree with the labelling and classification system set out in Figure 3, including the design principles we have considered and mapping to SFDR? We welcome views on further considerations and/or challenges.

Figure 3: Potential approach to a sustainable product classification and labelling system



Note: The five blocks in this Figure represent potential categories of product in the classification and labelling system. Each would be supported by clear definitions and criteria

9. We are supportive of the FCA's approach to bring clarity and note that careful consideration needs to be given to use of Taxonomies in defining the level of sustainability.
10. Further consideration should be applied to the boundaries of the taxonomy alignment and the FCA may wish to consider taxonomy alignment being expressed in relation to only those assets within scope of the assessment. To ensure a percentage is truly representative, this may need to be supported by disclosure of the percentage of a product.

Q5: What are your views on 'entry-level' criteria, set at the relevant entity level, before products can be considered 'Responsible' or 'Sustainable'? We welcome views on what the potential criteria could be and whether a higher entity-level standard should be applied for 'Sustainable' products. We also welcome feedback on potential challenges with this approach.

11. We are supportive of entry level requirements as detailed in the discussion paper, in order to set baseline entity level requirements and standards to be met before labelling sustainable products.
12. There could also be a requirement to have entity level policies on key sustainability issues such as Coal and Controversial Weapons, although an appropriate balance must be struck for the number and granularity of policies.

Q6: What do you consider to be the appropriate balance between principles and prescription in defining the criteria for sustainable product classification? We welcome examples of quantifiable, measurable thresholds and criteria.

13. We are supportive of a principle based approach. This is reflective of the evolving area, but needs to be supported by clear guidance.

Q7: Do you agree with these high-level features of impact investing? If not, why not? Please explain, with reference to the following characteristics:

- **intentionality**
- **return expectations**
- **impact measurement**
- **additionality**
- **other characteristics that an impact product should have**

14. We agree with the high-level features above and that impact investing needs to be strictly constrained within these parameters.

15. While in public markets there is clearly an impact from stewardship and engagement, it can be very difficult to assess direct causality from engagement to changes in investee company behaviour in line with the above. That will present challenges in assessing the criteria.

Q8: What are your views on our treatment of transitioning assets for:

a) the inclusion of a sub-category of 'Transitioning' funds under the 'Sustainable' label?

b) **possible minimum criteria, including minimum allocation thresholds, for 'Sustainable' funds in either sub-category?**

16. This could be useful to support transitioning funds and exiting practices, however, it may create more confusion if clients are not clear on the different terminology – this will be particularly relevant for retail customers where the technical differences between these terms may not be easily understood.

Q9: What are your views on potential criteria for 'Responsible' investment products?

17. We are supportive of the link between entity level requirements and responsible investments, as, for example, Stewardship and ESG integration are entity level activities.

18. It is necessary for the clients, and end-investors, to clearly understand the firm's approach to responsible and sustainable investment.

Q10: Do you agree that there are types of products for which sustainability factors, objectives and characteristics may not be relevant or considered? If not, why not? How would you describe or label such products?

19. Yes – this is covered by the 'not promoted as sustainable' category.

Q11: How do you consider products tracking Climate Transition and Paris-aligned benchmarks should be classified?

20. We welcome further guidance on how these benchmarks should be classified. Using the EU definitions for Climate Transition and Paris-aligned benchmarks, these funds can reasonably be expected to fall into either the 'transitioning' or 'aligned' categorisations. The specific classification should be determined based on the products strategy and the entity's stewardship approach as applied to the product. This is particularly relevant for the aligned classification, if it is to be mapped to SFDR Article 9 status, where all of the requirements need to be met, for example the principle of ‘do no significant harm’.

Q12: What do you consider the role of derivatives, short selling and securities lending to be in sustainable investing? Please explain your views.

21. To ensure transparency of the sustainability characteristics of an investment product, it is important that all material sustainability characteristics are reported.

Q13: What are your views on streamlining disclosure requirements under TCFD and SDR, and are there any jurisdictional or other limitations we should consider?

22. We support international consistency and alignment, and importantly, across the entire investment chain. This may impact on the timing of implementation as financials are dependent on the underlying data disclosures by the corporates.

23. Although still developing our understanding about the most appropriate use and structure of natural capital accounting, both within government and business, we are of the view that biodiversity loss poses serious risks for societies, economies and the health of the planet. We are supportive of the FCA’s intention to go beyond climate-related (TCFD) disclosures and expand into broader sustainability issues i.e. environmental and social topics.

Q16: What are your views on building on TCFD entity-level disclosures, including any practical challenges you may face in broadening to sustainability-related disclosures?

24. The IFoA is a listed supporter of the TCFD. The TCFD recommendations provide a useful framework for companies to deliver forward-looking disclosures about climate-related financial risks and opportunities. Insurers who make disclosures in line with the recommendations will be able to better manage these risks. Alignment with the TCFD recommendations will also ensure a greater degree of global consistency and an element of ‘future proofing’ in that the nature of disclosure in line with the recommendations is an evolving process. Using the TCFD framework, insurers can develop an understanding of good, globally consistent practice with respect to climate change risk disclosure over the next few years and use this understanding to work towards this good practice.

Q18: What are your views on the roles of other market participants in communicating sustainability-related information along the investment chain?

25. There is an increasing need for consistency of message when communicating sustainability-related information along the investment chain. For example, if sustainability ratings are widely utilised for both products and firms, there needs to be greater consistency between ratings providers on the way they define ESG aspects and how they make conclusions for sustainability ratings.

Q19: Do you consider that there is a role for third-party verification of the proposed approach to disclosures, product classification and labelling and organisational arrangements of product providers? Do you consider that the role may be clearer for certain types of products than others?

26. We are generally supportive. You need to have credible, consistent data, but the approach needs to ensure that it reflects the maturity and importance of these disclosures and classifications.