Climate Change and Green Finance

Discussion Paper
DP18/8

October 2018

How to respond

We are asking for comments on this Discussion Paper by 31 January 2019.

You can send them to us using the form on our website at: www.fca.org.uk/dp18-08-response-form.

Or in writing to:
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How to navigate this document onscreen

returns you to the contents list

Contents

1 Foreword by Andrew Bailey

1.1 Climate change presents a potentially irreversible threat to the planet. This has been widely recognised by the 181 parties[1] that have signed the 2015 Paris Climate Change Agreement. Climate change is likely to have a significant impact on the UK's economy and financial services markets.

1.2 This will affect our work, as the FCA's strategic objective is to ensure that financial markets work well. Our Mission explains that we aim to act where we add the most public value, and so we must take into account the ways markets are likely to develop and users' changing needs. This awareness covers a wide range of relevant issues, such as intergenerational changes, the macroeconomic outlook, geopolitical risks and climate change. While the UK Government sets the UK's position on climate change, in this document we explain how climate change-related matters are relevant to our statutory objectives.

1.3 The impact of climate change on financial markets is uncertain; it is just one of many factors that will influence how these markets will look in the future. However, climate change differs from other issues in that legal frameworks – at an international, European and UK level – have already begun to change to support the transition to a low carbon economy. This transition, as well as the effects of climate change itself, may have a major impact on financial markets and products.

1.4 We are also seeing increasing consumer demand for 'green' financial services products. As this demand grows, questions of green taxonomy[2], (how green products and markets are classified) green disclosure, green performance measurement, and ultimately fairness and consumer protection, will become more important. The FCA has a role to play in providing more structure and protection to consumers for these products, ensuring the market develops in a fair, orderly way to meet users' needs.

1.5 Our remit is broad, which means there are a number of areas where climate change can have an impact on our role.

1.6 Firstly, our responsibility for ensuring that issuers of listed securities admitted to a regulated market are meeting their disclosure obligations. This can include disclosures about climate change risks.

1.7 Secondly, as the prudential regulator for 18,000 firms, ensuring firms have adequate controls in place for considering risks, including those from climate change and the transition to a low carbon economy.

1.8 Thirdly, our role in protecting consumers and market integrity. This includes ensuring that consumers, including those seeking green finance products, are appropriately protected. And, finally, as demand for green finance grows, and new products develop, we must ensure that regulation does not stifle positive innovation. This has

1 United Nations climate change, Paris Agreement- status of ratification. Retrieved from: https://unfccc.int/process/the-paris-agreement/status-of-ratification

2 European Commission (2018) Proposal for a Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment. Retrieved from: https://ec.europa.eu/info/publications/180524-proposal-sustainable-finance_en

implications for all our functions, and for the way we promote innovation. We also have a role in other markets that may in turn be affected by climate change, such as commodity derivatives and emission allowances trading.

1.9 We are publishing this Discussion Paper to set out our proposed approach, which we will keep under review. At this stage, we are seeking views on areas to develop further to ensure we continue to take decisions in the public interest and support innovation in the growing market for green finance.

1.10 I am grateful to the many organisations, firms and individuals who have engaged with us on this topic over the past year. Their comments have provided critical challenge in important areas and useful confirmation in others. Both have been equally valuable in clarifying our proposed approach.

1.11 I hope this Discussion Paper gives firms and consumers greater clarity over what we see as the biggest challenges in this area, how we are currently responding to them and how we can best respond in the future.

2 Executive Summary

2.1 Over the next few decades, climate change is likely to fundamentally transform our economies. The FCA must consider all major risks that have an impact on the markets and institutions we regulate, including those posed by climate change. The physical risks of climate change, international and domestic political commitments on climate change, and the subsequent response of corporations, capital markets, and investor demand, have started to cause changes in the financial services sector. These changes are likely to accelerate as the UK transitions further along the pathway set out in the Paris Agreement.

2.2 Our Mission explains that, as a public body, our aim is to serve the public interest by improving the way financial markets work and how firms conduct their business. Parliament has given us independent powers to make decisions about how best to use our range of tools. We aim to use these tools efficiently and cost-effectively, in a way that delivers the greatest value to the public.

2.3 We have been working closely with domestic and international regulators, the Government, industry and experts in the sustainable finance field to understand the specific areas where we might intervene and add the most public value. These areas continue to evolve, and we will continue to revise our approach following consultation. We are publishing this Discussion Paper to set out:

- how the different impacts of climate change could impact the FCA's long and short-term objectives
- some of the opportunities and risks the transition to a low carbon economy presents in the UK's financial services markets
- the specific action we will take in the near term to ensure that markets function well and deliver good outcomes for consumers

Who will be interested in this Discussion Paper?

2.4 We invite views from everyone with an interest in this issue. This includes:

- consumer groups and individual consumers
- charities
- industry groups/trade bodies
- regulated firms
- policy-makers and regulatory bodies
- industry experts and commentators
- academics and think tanks

Next steps

2.5 We welcome discussion and feedback on this important and complex area. We ask for views, including responses to our questions, by **31 January 2019**. Details on how to respond are on page 2.

3 Why does climate change matter to the FCA?

3.1 The FCA's overarching strategic objective is to ensure that the relevant markets function well. Under our strategic objectives, we have three operational objectives; protecting consumers, improving market integrity and advancing competition in the interests of consumers. When we carry out our general functions, we must, as much as possible, act in a way which is in line with our strategic objective and advances one or more of our operational objectives.

3.2 As set out in our Mission, as a public body our aim is simple: to serve the public interest by improving the way financial markets work and how firms conduct their business. Parliament has given us independent powers to make decisions about how best to use our range of tools. Our aim is to use these tools efficiently and cost-effectively, in a way that delivers the greatest value to the public.

3.3 It is widely recognised that the risks from climate change – both physical and those resulting from the transition to a low carbon economy – will affect the risks to, and therefore value of, some kinds of investments. Institutional investors are considering climate change-related issues, and asset managers are increasingly being given mandates that refer to climate change. This means that readily available, reliable and consistent disclosures about climate change issues would help ensure those making investment decisions had accurate information to help them.

3.4 **Our market integrity objective** aims to protect and enhance the integrity of the UK financial system. Among other aspects, this includes:

- its soundness, stability and resilience
- that financial markets operate in an orderly way and that the process of deciding prices is transparent

3.5 That climate change will have far reaching consequences for the planet, is recognised by international initiatives such as the Paris Agreement, to which the UK is a signatory, as well as domestic UK legislation such as the Climate Change Act 2008. The expected transition to a low carbon economy is likely to have a significant impact on our economy. So it is important that the UK's financial markets can both respond to and support the transition in a stable and orderly way. Adequate disclosures of material risks and opportunities, including those which are climate change-related, are also essential for a transparent and efficient price formation process. As the regulator of UK financial markets, we need to ensure we are adequately prepared for the risks that climate change poses to meeting our objectives.

3.6 **Our competition objective** seeks to promote effective competition in the interests of consumers in financial products and services.

3.7 Under this objective, we consider a range of issues. These include the needs of different consumers who do or may use financial services, how easily new providers can enter the market and how far competition is encouraging innovation. We also take into account supporting sustainable growth in the UK economy in the medium or long term. All consumers have a stake in this. We believe that beneficial innovation in financial services, particularly 'green finance', will help support the successful transition to a low carbon economy while helping ensure the UK's position as an attractive prospect for international businesses and finance.

4 The UK's transition to a greener economy: opportunities and risks

Current state of the green finance market

4.1 The Paris Agreement and UN Sustainable Development goals have significantly raised international awareness of the financial impacts of climate change. They have also increased collaboration on the work needed to transition to a low carbon economy, including the growth of green finance.

4.2 Green finance is defined by the G20's Sustainable Finance Study Group[3] as the 'financing of investments that provide environmental benefits in the broader context of environmentally sustainable development'. Globally, demand for green financial services has significantly increased as part of the transition towards a low carbon economy.

4.3 Growing demand is leading to the growth of green finance products in the UK financial services market, with specific sectors such as asset/investment management and retail banking capitalising on changing consumer needs.

> There are now over 70 green bonds[4] listed on the London Stock Exchange in seven currencies, worth over US $22 billion. Thirty-eight green companies[5] have raised $10 billion in London, including 14 renewable investment funds.
>
> The retail banking sector has seen the introduction of green mortgages. Home owners who want to buy an energy efficient new-build property can be offered lower rates on some mortgages. Green loans are also available for a range of projects such as reducing greenhouse gas emissions.

4.4 The FCA has a clear role to ensure markets for green finance are open to new entrants and innovation, enabling successful firms to thrive and deliver better outcomes for consumers.

The impact of the transition to a low carbon economy on financial services

4.5 The transition to a low carbon economy presents many opportunities for the UK to grow as a centre for green finance. However, the transition also presents challenges to the financial services markets we regulate.

4.6 The Financial Stability Board's (FSB) Taskforce on Climate Related Financial Disclosures (TCFD) reported on the challenges of measuring and disclosing information on risks related to climate change. The Taskforce conducted a climate related financial

3 G20 Green Finance Synthesis Report (2016). Retrieved from: http://unepinquiry.org/wp-content/uploads/2016/09/Synthesis_Report_Full_EN.pdf

4 House of Commons, Environmental Audit Committee (2018) Green finance: mobilising investment in clean energy and sustainable development: Government Response to the Committee's Sixth Report. Retrieved from: https://publications.parliament.uk/pa/cm201719/cmselect/cmenvaud/1450/1450.pdf

5 Green Finance Initiative facts and figures. Retrieved from: http://greenfinanceinitiative.org/facts-figures/

disclosure review[6]. This found that few companies disclose the financial impact of climate change on the company or the resilience of their strategies under different climate-related scenarios. The Taskforce also noted the risks to the value of longer term investments if current valuations do not adequately factor in climate-related risks because of insufficient information. Another recent study[7] has found there is a lack of sufficiently detailed, consistent asset-level data on climate-related value creation or erosion, which among other issues makes it difficult for financial institutions to identify assets likely to become stranded.

4.7 There are currently no universally agreed common, minimum standards and guiding principles for measuring the performance and impact of green finance products. Minimum standards can be helpful for enhancing investor confidence and trust and enabling markets to develop. For example, minimum standards may help ensure investors understand what they are buying and prevent misleading 'green washing' of financial products and services. Green washing is marketing that portrays an organisation's products, activities or policies as producing positive environmental outcomes when this is not the case.

4.8 Adequate disclosure of climate change risks can have an impact on the value of long term investment decisions. There are particular risks in:

- The pensions sector, due to the long-time horizons of the investments, which makes climate change a material factor in the financial performance of pension funds.
- The UK insurance sector, which is responsible for investments of £1.9 trillion, equivalent to 25% of the UK's total net total worth[8]. If these investments are used to provide for people's retirement, they could be heavily affected if they do not take into account the impacts of climate change.

4.9 As part of exercising stewardship of investee companies, asset managers and other financial services providers will necessarily have to consider the impact on valuation of underlying investments. Firms may also take the effect of climate change into account as part of broader considerations of sustainability.

4.10 We want to ensure our regulatory approach creates an environment where financial services firms can adequately manage the market risks from moving to a low carbon economy, but are also able to exploit opportunities to benefit consumers.

6 Task Force on Climate-related Financial Disclosures: Status Report (2018). Retrieved from: https://www.fsb-tcfd.org/wp-content/uploads/2018/08/FINAL-2018-TCFD-Status-Report-092518.pdf

7 EY, Climate change the investment perspective (2016). Retrieved from: https://www.ey.com/Publication/vwLUAssets/EY-climate-change-and-investment/%24FILE/EY-climate-change-and-investment.pdf

8 Association of Business Insurers, Climate change. Retrieved from: https://www.abi.org.uk/products-and-issues/topics-and-issues/climate-change/

5 Specific FCA actions

5.1 Climate change and the growing international green finance market has intensified international engagement and work in this area, as set out in pages 18 and 19 of this document. This change will continue. There are many initiatives we could consider as this situation evolves, but in the short term we have identified the following four areas which we believe require our greater regulatory focus:

- Firstly, given the long-term nature of pension investments, where the potential impact of climate change related risks is much more likely given the time periods products are held for, we propose to address the recommendations of the Law Commission's report on Pension Funds and Social Investment.

- Secondly, we are taking steps to boost innovation in specialist green products and ensure these markets work well and deliver good outcomes for all consumers.

- Thirdly, for disclosures by issuers of securities admitted to trading on a regulated market, we intend to explore whether greater encouragement is needed to ensure issuers give investors appropriate information, and whether issuers require further clarity over what is expected of them.

5.2 Finally, we are seeking views on introducing a new requirement for financial services firms to report publicly on how they manage climate risks to their customers and operations.

Climate change and pensions

5.3 Climate change is no longer only an 'ethical' concern, but a practical consideration for the UK pension industry. When taking investment decisions, pension providers increasingly recognise that climate change may reduce investment values and pension outcomes. As the regulators of personal pension schemes, including workplace personal pension schemes, we want to ensure that those making investment decisions take account of all financially material risks, including climate change.

5.4 This is particularly important for the investment strategies of workplace personal pension schemes, where consumers are generally 'defaulted' into investments, rather than choosing them themselves. Over 90% of these schemes' members have their pension savings in the default strategy, and rely on the investment decisions made for them.

5.5 Independent Governance Committees (IGCs) provide independent oversight of workplace personal pension schemes. In June 2018, we published our response to the Law Commission's recommendations in its report on Pension Funds and Social Investment. Our response announced our intention to consult on rule changes requiring IGCs to report on their firm's policies on:

1. evaluating environmental, social and governance (ESG) considerations, including climate change

2. how they take account of members' ethical and other concerns, and

3. stewardship

5.6 At the same time, we will also consult on introducing related guidance for providers of workplace personal pension schemes. This guidance would clarify how providers should consider financial factors (such as ESG and climate change risks and opportunities) and non-financial factors (such as responding to members' ethical concerns) when making investment decisions.

5.7 As some of our other work may also result in changes to the remit of IGCs, we intend to consult on a single package of changes in the first quarter of 2019.

Enabling competition and market growth for green finance

5.8 We see opportunities for financial services to play a positive role in helping global efforts on climate change. Financial services play a key role in supporting the development of 'greener' products and services, improving customer choice and transparency about the relative 'greenness' of market participants, and in developing solutions that may help match consumers' preferences for green products with opportunities.

5.9 Since the launch of our Innovate programme in 2014, we have focused on encouraging innovation in the interests of consumers. Our Innovate programme supports businesses through a range of services. These include:

- the regulatory sandbox, which allows eligible businesses to test innovative products, services, business models and delivery mechanisms in the real market, with real consumers
- Direct Support gives innovative businesses a dedicated contact, whether they are considering applying for authorisation or a variation of permission, need support when doing so, or do not need to be authorised but could benefit from our support
- the Advice Unit, which gives regulatory feedback to firms developing automated models that will deliver lower cost advice and guidance to consumers

5.10 Since its inception, Innovate has supported many firms that want to provide innovative financial products and services in the green finance and social investing space, such as IGreenBank below.

IGreenBank
This firm has developed an AI engine to help risk managers detect environmental risks through Environmental Stress Testing ('EST'). IGreenBank will perform environmental stress testing on a selection of companies that institutional firms are considering lending to /investing in. This testing will measure the component of these companies' credit/investment risk from environmental factors. The AI engine ('EnRobot') will then generate a report to predict the risk associated with a specific company/group, so helping improve the visibility on the risks from environmental factors.

5.11 We are keen to further enable innovative models in green finance and ethical investing and see two potential ways to achieve this:

1. Building on our 2018 proposal to create a 'global sandbox', FCA Innovate has collaborated with 11 financial regulators and related organisations to create the Global Financial Innovation Network (GFIN). This network aims to provide a more efficient way for innovative firms to interact with regulators, helping them navigate between countries when seeking to scale up new ideas. GFIN will also create a new framework for co-operation between financial services regulators on innovation related topics, by sharing different experiences and approaches.

2. GFIN could also be used to explore green finance. Green finance is relevant to each of GFIN's three proposed functions. For example, an innovative firm looking to develop and test a green product or service may want to test market demand and feedback as part of a cross border test. Alternatively, regulators with an interest in green finance could use the GFIN network to share experience, latest trends, and possible barriers to innovative firms entering the market. Finally, where relevant, regulators may collaborate on joint pieces of work involving green finance, such as policy research or setting a challenge problem for industry to solve.

The Innovate FinTech Challenge
We are now setting a Green Fintech Challenge to industry: calling for the market to develop innovative financial products and services to assist in the UK's transition to a low carbon economy. This involves taking a view on areas where financial services markets could benefit most from innovation, and actively encouraging the development of relevant creative, market led solutions. By focusing on this area, we aim to serve the public interest by supporting innovation with the potential to deliver maximum benefit to UK markets and consumers.

This involves calling for innovative solutions in a range of areas, which could include:

- supporting capital flows/investment towards 'green' products and services
- driving efficiency in the issuance, distribution or adoption of 'green' products
- managing climate-related risk affecting market participants
- environmental impact measurement
- delivering new 'green' financial products

We will publish details of how firms can apply to, and benefit from, the Innovate Green FinTech Challenge on our website from **19 October 2018**.

Disclosures in capital markets

5.12 The consequences of climate change are relevant to capital markets. For example, the valuation of securities will be affected by the impact on companies of both the physical effects of climate change and the transition to a low carbon economy. Equally, as investors begin to make different choices, the relative attractiveness of certain business propositions may become directly relevant to their valuations. We are already starting to see some impacts on capital markets, some have yet to materialise but can be predicted increasingly accurately and others are as yet unknown. Given this, we will use some regulatory responses in the short term, while developing others over time so that we can carefully consider the issues with industry and other regulators, both domestically and internationally.

5.13 A core aim of this work will be to ensure that the regulatory environment supports asset buyers to make informed risk assessments on investments and asset allocation, making valuations more robust and promoting transparent price formation. Having access to the relevant information will also help asset buyers meet their fiduciary obligations. Overall, a well-designed regulatory environment will support the transition to a low carbon economy and encourage the effective allocation of capital, for example, towards green investments. In this context, the disclosures made by investee companies are relevant.

5.14 Companies with securities admitted to trading on a regulated market must meet a range of disclosure requirements, both when securities are first issued and on an ongoing basis. Many of these requirements stem from securities legislation and related regulations, such as the Prospectus Rules (PRs) and the Disclosure and Transparency Rules (DTRs), whilst other requirements sit outside FCA rules, such as accounting and auditing standards. These disclosures are intended to allow investors to reach an informed view on the value of the traded securities. For this to happen, the investor needs to be able to assess the prospects of the underlying business, including its true asset value, risks and opportunities.

5.15 In this context, issuers of securities have to consider what disclosures they should make to adequately inform investors of the financial implications of climate change on their business, including what adjustment they may need to make to their business to manage risks or explore opportunities. The impact of climate-related matters on an individual business will vary, as will the time it may take for the impact to materialise. The specific circumstances of a particular company will determine the scope and nature of the disclosures it needs to make to adequately inform investors. However, there is a significant risk that a company will not satisfy disclosure requirements if it provides no information on climate-related issues or if the company's board has not considered whether the company needs to provide such disclosure.

As noted already in our response to the Environmental Audit Committee, we will be **consulting on guidance to issuers about how the current regulatory regime might be interpreted to apply to climate change-related risks**. This proposed guidance will reflect our view that existing disclosure obligations would capture the reporting of implications of climate change on a business where it is material to the company's prospects. The guidance will seek to ensure issuers clearly understand what is expected of them and will allow investors to understand what they should expect of issuers.

5.16 Notwithstanding the general relevance of climate-change related factors, it may still be difficult for issuers to decide whether a materiality threshold is reached in a specific scenario.

Q1: What, if any, difficulties do issuers face in determining materiality? We are also interested in exploring how investors consider materiality in this context.

5.17 Issuers need to not only make disclosures, but make them in a way that is meaningful to investors. Some companies with securities already provide disclosures on sustainability matters as part of their regular reporting and a number of issuers have adopted the TCFD recommendations. However, issuers do not have a consistent approach to disclosing climate-related risks and it is not clear whether the currently available data are helping investors make informed assessments, or if they may be causing confusion or even distorting markets.

Q2: 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?

5.18 We are also interested in understanding whether greater regulatory encouragement is needed to ensure greater consistency of disclosures. This could, for example, allow investors to compare the standards of climate change-related disclosures across different companies more effectively and have greater confidence that they are meeting the requirements of any specific mandates or fiduciary duties.

5.19 We recognise that, to date, issuers have not had a consistent approach to climate change-related disclosures. This raises the legitimate question of whether the existing regime goes far enough in prescribing climate change-related risk disclosures.

5.20 One method of encouraging greater consistency would be to require issuers to provide a statement to investors explaining whether or not they have followed the TCFD recommendations in preparing their disclosures. If they had not, issuers could be required to explain why. Such a requirement could be focused on companies with premium listed equity shares, where investors may have greater expectations that issuers meet the highest standards.

5.21 The TCFD framework was designed as a voluntary standard, and taking a 'comply or explain' approach would be consistent with this underlying principle. It would also recognise that the TCFD framework is relatively new and companies may still be adapting their reporting mechanisms, particularly on scenario testing, which has a cost.

5.22 We recognise these questions are complex and that there are already a number of existing industry-led initiatives in this field. We would welcome industry views on whether regulatory changes could provide benefits and ensure a coordinated approach with other regulatory bodies and interested organisations.

Q3: Would exploring a 'comply or explain' approach, or other avenues to encourage more consistent disclosures, be an effective way of facilitating more effective markets?

Public reporting requirements

5.23 International work on financial services and climate change has focused heavily on the financial implications of climate factors. In June 2017 the TCFD published its Final Report[9]. The TCFD was charged with developing a voluntary framework for disclosure of material climate change financial impacts and made four key recommendations. These were that disclosures should be:

- adoptable by all organisations
- included in financial filings
- designed to solicit decision-useful, forward-looking information on financial impacts
- focused on risks and opportunities from the transition to the lower-carbon economy

5.24 The core parts of TCFD's recommended climate disclosures cover an organisations' governance, strategy, risk management, metrics and targets. There is an opportunity for us to build on the work of the TCFD to help organisations, including firms, manage the transition to a low-carbon economy and encourage the financial services industry to consider the impact of climate change.

In the context of the TCFD framework, we welcome views on introducing a new requirement for financial services firms to report publicly on how they manage climate risks to their customers and operations. This reporting would reflect the risks in the financial sector a firm operates within. For example, a report prepared by an asset manager would set out how it is managing the risk to long-term investments, such as pension assets, created by climate change.

5.25 We are seeking specific views on the following:

Q1: Do you think that a requirement for firms to report on climate risks would be a valuable measure?

5.26 We also seek input on the information that could be included in such a climate risks report. We are particularly interested in what firms are doing to manage the effects and risks from climate change and the transition to a low-carbon economy for:

- their customers (eg where the impacts of climate change may affect the appropriateness of certain products or assets)
- their operations (eg where services are outsourced to jurisdictions more severely affected by climate change)

Q2: Do you have any suggestions for what information could be included in a climate risks report?

9 Recommendations of the Task Force on Climate-related Financial Disclosures, final report (2017). Retrieved from: https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf

5.27 The FSB recommended that disclosures should apply to financial services firms, including banks, insurers and asset managers. The reporting requirement could apply to the largest firms across the UK financial services industry or to firms operating in specific sectors. We welcome views on which regulated firms the requirement should apply to.

Q3: Do you have any views on which regulated firms should be required to compile a climate risks report?

6 Domestic and international engagement

Global developments

6.1 The signing of the Paris Agreement on Climate Change in 2015 marked a milestone for the global economy. Combined with the UN's 2030 Sustainable Development Goals, it demonstrates an international commitment to achieving a low carbon future and signalled a shift towards a less carbon intensive and more climate-resilient economy.

6.2 Following the Paris Agreement, there have been a number of international initiatives on climate change.

Domestic developments

6.3 To ensure a harmonised approach on climate change-related financial issues, the FCA liaises closely with other UK regulators, including the Prudential Regulation Authority, The Pensions Regulator and the Financial Reporting Council. This included a workshop the FCA held earlier this year with UK regulators and members of the Green Finance Taskforce to discuss the problems that could arise within the financial services sector as a result of climate change. This generated ideas for how we, and other organisations, might respond.

The FCA and Prudential Regulation Authority have also been working closely together to develop a joined-up approach to enhance the UK financial system's resilience to climate change. To build our joint knowledge and share best practice in this area, the PRA and FCA will be establishing a **Climate Financial Risk Forum**. It will seek to encourage financial sector approaches to managing the financial risks from climate change, as well as supporting innovation in green finance. It will achieve this by supporting, for example, the development of analytical tools and techniques, such as climate-related scenarios for risk assessments, to help bring future financial risks into current financial decision- making.

The Forum will include representatives from industry, technical experts and other stakeholders. The PRA and FCA expect to finalise membership of the forum by the end of November with a view to having a first meeting in **early 2019**.

The European Commission Action plan on financing sustainable growth

6.4 In March 2018, the European Commission published an Action Plan on financing sustainable growth, based on the recommendations of its High-Level Expert Group on Sustainable Finance. The Action Plan aims to re-orientate investments to more sustainable technologies and business, finance growth in a sustainable way and help create a low-carbon, climate-resilient economy. It has an objective of managing financial risks from climate change, and includes the management of financial risks from environmental degradation and social issues. It also refers to social and governance factors.

6.5 The Action Plan sets out a timetable for initiatives, including legislative proposals, that will conclude towards the end of 2019. The first three legislative proposals were for regulations on an EU taxonomy, disclosures on sustainable investments and sustainability risks, low carbon benchmarks and positive carbon benchmarks. These proposals were published in May 2018, together with a measure on suitability assessments under the Markets in Financial Instruments Directive and Insurance Distribution Directive. The Commission's aim is that these proposals will help to develop existing standards. The proposals will focus first on building environmental considerations into these standards, followed by bringing social and governance considerations into the taxonomy. The Commission has also asked the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) to provide technical advice on how existing legislation can be amended to require that sustainability risks are included in investment decision-making or advisory processes.

6.6 Looking ahead, the Action Plan lists a body of initiatives which it classifies as 'non-legislative'. Key examples include a report by the Commission's technical expert group on a standard for green bonds and work to specify content of the prospectus for green bond issuances. Both of these fall due in Q2 2019.

FCA engagement

6.7 We play an active role in international work, including the development of international regulatory standards. Through the International Organization of Securities Commissions (IOSCO), we participate in discussions with our international peers about non-financial reporting and sustainability disclosures. We are also a member of IOSCO's information-sharing network to gain insight into sustainability issues, including the details of issuer disclosure and its relevance to investors' decision-making. The International Association of Insurance Supervisors (IAIS) published an Issues Paper with the Sustainable Insurance Forum on climate change risks to the insurance sector in July. We will look to contribute to further IAIS developments in this area.

6.8 The FCA engages regularly with the European Commission, the European Parliament, the European Supervisory Authorities and our European counterparts to discuss and share thinking on relevant issues. We work to achieve effective, proportionate and consistent European and international standards on these issues. Our active engagement on the legislative proposals under the European Commission's Action Plan is consistent with this approach and we continue to welcome discussions on the proposals with interested stakeholders.

7 Next steps

We will consider the feedback and responses to this paper in our future work. We have set out specific questions on the proposals in the body of this paper and also some broader additional questions in Section eight of this document. We are seeking views on these questions by **31 January 2019**.

8 Additional questions

Q1: **How can authorities, including the FCA, most effectively work with industry to meet investor demand for green investment opportunities and encourage those raising capital and investing in it to pursue sustainable outcomes?**

Q2: **Do you agree with the extent of the FCA's proposed interventions on climate change-related financial disclosures? Is there a specific need for us to intervene further in the interests of market integrity or consumer interests?**

Q3: **In light of the EU work on taxonomy, what are your views on the form common standards and metrics for measuring and reporting against green financial services products should take?**

Q4: **How could regulators and industry best work together as part of the Climate Financial Risk Forum?**

Q5: **What are your biggest concerns and commercial priorities regarding climate change?**

Q6: **What are the biggest barriers to the growth of green financial services in the UK?**

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