IIGCC response to FCA Discussion Paper 21/4 on Sustainability Disclosure Requirements and investment labels

About us

The Institutional Investors Group on Climate Change (IIGCC) is the leading European membership body enabling the European and UK-based investment community in driving significant and real progress by 2030 towards a net zero and resilient future. IIGCC's 370+ members (over half of which are UK-based), representing €450trillion assets under management, are in a position to catalyse real world change through their capital allocation decisions, stewardship and engagement with companies and the wider market, as well as through their policy advocacy.

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Executive summary

IIGCC welcomes the FCA's proposals to develop comprehensive sustainability reporting requirements for asset managers and FCA-regulated asset owners, alongside the introduction of a product labelling system. The proposals set out in this Discussion Paper will help to provide clients and consumers with a more holistic understanding of how investors identify and manage a range of sustainability risks and opportunities at both entity- and product-level. We are also highly supportive of proposals that recognise the vital role of investors in allocating capital to the transitioning sectors and companies that are most critical for achieving net zero.

Moreover, IIGCC acknowledges the FCA's commitment to build on existing TCFD disclosure requirements and uphold consistency with regional disclosure regimes, such as SFDR. Given that many UK-based investors with EU business are already in scope of SFDR, efforts to align requirements where possible will help to reduce reporting and data gathering burdens on firms and enhance the cross-border comparability of products.

IIGCC is pleased to be able to provide feedback on the FCA's proposals at this critical early stage of the policymaking process. While we are broadly supportive of the FCA's approach, we wanted to take this opportunity to highlight a number of areas where we and our members believe further refinement of the proposals are required:

- Ensuring both retail and institutional investors have access to a consistent set of sustainability-related information, presented in a manner which enables them to choose the extent to which they want to engage with disclosures.
- Re-evaluating the mapping of the proposed product labels against SFDR to mitigate the risk of greenwashing
- Avoiding binary distinctions between transitioning and aligned investments, and clearly articulating what these investments are transitioning towards/aligned with, in line with the UK's broader commitments to net zero by 2050.

- Consideration of a wider range of criteria for assessing the alignment potential of investments, such as the criteria developed by the Paris Aligned Investment Initiative's Net Zero Investment Framework.
- Ensuring appropriate sequencing of SDR-related disclosures by implementing corporate-level disclosure requirements before investment product reporting commences.
- Learning from the challenges the market has encountered in the context of SFDR implementation and avoiding the replication of these challenges in the UK framework.

We would be happy to discuss further any aspect of our response and look forward to hearing from you.

IIGCC response to selected consultation questions

1.1 Approach to product labelling and scope

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

IIGCC believes that all investors in a product should be able to access the same sustainability-related information, and on that basis, disclosures should not be differentiated by client type. We agree that some investors will be seeking more granular detail than others, but that this is as much the case for retail investors as it is for institutional investors. IIGCC would therefore support the disclosure of a standardised set of information, available to all investors, but presented in a way that allows them to choose the extent to which they want to engage with the disclosures. This approach would support the consistent treatment of retail and institutional investors while also recognising the different information needs between and within these client types.

Q2: Which firms and products should be in scope of requirements for labels and disclosures? We particularly welcome views on whether labels would be more appropriate for certain types of product than for others, please provide examples.

IIGCC supports an initial alignment of the scope with the proposed scope of the TCFD regime for asset managers and FCA-regulated asset owners. This will promote a consistent flow of information across the investment chain and ensure that the majority of UK asset managers, FCA-regulated asset owners and their products (c.98% of UK assets under management) are captured by the labelling and disclosure requirements.

IIGCC notes that firms falling below the proposed £5bn TCFD threshold are still likely to need to disclose sustainability-related information to support in-scope clients in meeting their own reporting obligations. We therefore propose that the FCA should bring firms falling under the threshold into scope of the requirements on a phased basis, and produce resources/guidance to support these firms in implementing disclosures. To ensure a proportionate approach, the FCA could consider introducing a streamlined disclosure regime for these firms.

With regards to the treatment of overseas funds, we propose that the FCA recognises disclosure regimes that are broadly aligned to those in the UK as equivalent, rather than impose UK disclosure requirements on top of those that non-UK funds are already subject to. This approach would align with efforts to streamline, and promote consistency between, global regulatory frameworks.

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1.2 Labels

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?

IIGCC highlights IOSCO's recommendations as particularly useful to consider, given that they reflect a general consensus amongst international regulators on best practice for sustainability-related disclosures. IOSCO's recommendation that entity-level disclosures should be consistent with the TCFD recommendations, in particular, aligns with the FCA's policy intent and the wider international direction of travel on climate disclosures.

In addition, IIGCC notes that an increasing number of funds are claiming their investment strategies are 'Paris aligned', without articulating what this means in practice, and how it will be achieved. In particular, IIGCC would emphasise that alignment to climate goals or net zero is often a process rather than a point in time determination, and this should be reflected in how the FCA approaches labelling and disclosure expectations. IIGCC encourages the FCA to consider and reference the Paris Aligned Investment Initiative's (PAII) Net Zero Investment Framework (NZIF) in this regard. NZIF sets out the key components of a credible net zero investment strategy, including the steps and actions investors should take to align their holdings with the objectives of the Paris Agreement.[1]

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.

IIGCC supports the introduction of a labelling and classification system, and we welcome efforts to combine product disclosures with product labels, instead of relying on disclosures alone. However, we suggest that the FCA amends the categories for products that have not been allocated a 'Sustainable' label in line with the below. The proposed approach recognises the importance of ESG integration as a baseline form of risk management for all products, while imposing stricter criteria for products that are actively being marketed as 'responsible':

- *Not promoted as sustainable* - no promotion of sustainable characteristics as a feature of the product. Disclosures should set out whether sustainability risks have been integrated into investment decision-making, and the potential impacts of these risks on returns. If the product manufacturer does not consider sustainability risks to be relevant, the disclosures should include a clear explanation of why this is the case.
- *Responsible* – sustainable characteristics actively promoted as a feature of the product alongside financial returns, including stricter expectations for ESG integration. However, as can be observed from the Article 8 classification under SFDR, a 'responsible' label could cover a very wide range of products and investment strategies. This reduces the ability for investors to meaningfully compare these products, creating the risk of confusion and potentially greenwashing. We therefore suggest that the FCA focuses in the first instance on

[1] Paris Aligned Investment Initiative's Net Zero Investment Framework, available here.

strengthening the baseline sustainability criteria for all products, and developing meaningful and consistent criteria for 'sustainable' product labels.

With regards to categories that are eligible for a 'sustainable' label, IIGCC welcomes the FCA's recognition of the importance of investing in transitioning assets. However, the current approach does not make it clear as to what these products are transitioning towards, or what 'aligned' products are aligning with. IIGCC therefore proposes that any products investing in transitioning / aligned assets should establish objectives to achieve net zero by 2050 or sooner. This approach would also support the FCA's remit from HM Treasury to consider and support the UK's commitment to achieving a net zero economy. We would also note that at present, the proposed labels are very climate-focused, and may not effectively capture a wider range of sustainability-focused products. Given that transitioning and aligning are terms most relevant to the net zero transition or consistency with the Paris Agreement goals, the FCA should make it clear whether these categories only apply to climate-focused products, or if there are other sustainability themes and aims that can be covered by 'transitioning' or 'aligned' criteria.

In relation to relative allocations to taxonomy-aligned activities as a distinguishing factor between transitioning and aligned labels, we would highlight the need for appropriate sequencing of regulatory initiatives to enable investors to accurately assess the taxonomy-alignment of their products. It will be important to ensure that the UK Taxonomy (and related disclosure obligations) are in place for investees before in-scope firms are required to report on the taxonomy-alignment of their products under the SDR regime. This has been a key challenge in the context of SFDR, where investors will be required to disclose on taxonomy-alignment before this information is being reported by corporates.

In addition, IIGCC proposes to recommend that the FCA should not impose a binary distinction between 'transitioning' and 'aligned' products. In line with NZIF, IIGCC would consider a transitioning asset to be 'aligned' if a credible plan is in place for the asset to reach net zero by 2050 or sooner. For listed assets, for example, PAII uses a number of forward-looking indicators to provide a more holistic view of alignment potential for assets in high impact sectors,[2] including short- and medium-term emissions reduction targets, capital expenditure and whether a credible decarbonisation strategy is in place to achieve targets.[3]

NZIF also sets out recommendations for investors to scale investment in the range of 'climate solutions' needed to meet net zero goals. This includes investment in activities which align with the EU Taxonomy's climate mitigation criteria. While we therefore agree that the relative allocations of taxonomy-aligned activities are an important differentiator between product categories, we propose that the distinction should not be applied to differentiate between 'transitioning' and 'aligned' products. Our suggested categories for 'sustainable products' are outlined below:

- *Net zero-aligned* – products with objective of achieving net zero through decarbonisation of holdings, combining the proposed 'transitioning' and 'aligned' categories, and using current and forward-looking criteria established by NZIF to determine the alignment potential of transitioning assets held, with a relevant allocation to taxonomy-aligned activities.

[2] Companies on the Climate Action 100+ focus list; companies in high impact sectors consistent with Transition Pathway Initiative sectors; banks; and real estate are considered high impact under NZIF.
[3] See pages 16-17 of NZIF, available here.

- *Impact products (sustainable solutions)* – we support the distinction between non-impact and impact products, which recognises their different aims, and agree that both could be included under a 'sustainable' label. Impact products should have clear objectives of delivering positive environmental or social impact, evidenced through intentionality. This should include products which invest in climate solutions, with a high allocation to taxonomy-aligned investments, as well as a focus on investing in climate solutions that may not be captured under the Taxonomy screening criteria.

With respect to the mapping of the proposed product categories against SFDR, although we support efforts to introduce more granularity to the responsible and sustainable product landscape, we do not believe the FCA's approach is entirely accurate. We make the following suggestions in relation to the indicative mapping exercise:

- Not promoted as sustainable/Article 6 – proposed UK category is too narrow. An Article 6 product under SFDR is broader than the FCA's categorisation, as it includes products that integrate ESG risks. The indicative mapping suggests that products that consider ESG risks would fall under the 'Responsible' category, which creates a risk of greenwashing if the product doesn't actively promote other sustainability characteristics. Per our response above, we therefore suggest this category should include consideration/integration of ESG risks on a 'comply or explain' basis.
- Responsible/Article 8 – ESG integration and stewardship are not considered binding environmental / social characteristics under SFDR Article 8. 'Responsible' products are therefore unlikely to be considered Article 8 funds under SFDR, and are more aligned with the criteria for Article 6.

Under IIGCC's proposed categories, mapping against SFDR could be undertaken as follows:

- Not promoted as sustainable – Article 6
- Responsible – Article 8
- Net zero-aligned – Article 9
- Impact (sustainable solutions) – Article 9.

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.

IIGCC recognises the importance of entity-level disclosures on the management of sustainability-related risks and opportunities, and that these disclosures should cover criteria such as systems and controls and governance around ESG integration and approach to stewardship. We also agree that as a general principle, firms' entity-level approaches to integrating sustainability should be commensurate with the sustainability ambitions of their products. However, we do not believe that firms should be bound by entry-level criteria before they are able to manufacture 'responsible' or 'sustainable' investment products. Many firms will operate across multiple markets and offer a range of products beyond those with a sustainability focus. Moreover, such an approach could create practical challenges. For example, if a firm's PRI rating changes during the year, this could necessitate taking products off the market and then reintroducing them if the rating changes again, which could incur considerable costs for the firm and confusion for investors.

Where firms are seeking to align their products with net zero, IIGCC recommends that they consider making appropriate entity-level commitments to accompany the product-level approach. This could include becoming a signatory to the PAII Net Zero Asset Owner Commitment or Net Zero Asset Managers Commitment.[4] IIGCC is also developing a Net Zero Stewardship Toolkit (NZST), which sets out a number of recommendations and actions for aligning entity-level stewardship policies and activities with net zero. IIGCC would welcome the opportunity to discuss how NZIF and the NZST could be incorporated into minimum entry level criteria at entity-level.

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.

IIGCC broadly supports the FCA's balance between principles and prescriptions in its minimum criteria for product classification, which should help to reduce ambiguity and mitigate the risk of greenwashing. Where investors are developing net zero-aligned products, NZIF sets out a range of measurable thresholds and criteria for assessing the credibility of alignment strategies that could be applied to evidence suitability for obtaining a 'Sustainable' label (e.g. net zero-aligned or climate solutions products).

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*

IIGCC sets outs its views on the proposed high-level features of impact investing per the below:

- Intentionality – no comment/agree
- Return expectations – no comment/agree
- Impact measurement – agree, but important to ensure metrics for measuring impact are robust and verifiable. NZIF measures impact against two clear alignment objectives (decarbonisation of portfolio, scaling investment in climate solutions) underpinned by targets (portfolio emissions reductions, increased allocation to taxonomy-aligned climate solutions) and assessed against quantifiable current and forward-looking alignment criteria
- Additionality – scope to measure additionality through investment decision-making will vary by asset class (e.g. very limited scope for equity capital funding general expenditure). More scope to measure additionality through stewardship. For example, NZIF recommends that investors engage in direct and collective stewardship and engagement actions in support of net zero objectives and report on the outcomes achieved. However, even in these cases, it can be difficult for investors to be able to effectively demonstrate that it was their stewardship that constituted the 'additional' element in affecting change (particularly in the case of individual engagement). We

[4] NZAO Commitment, available here. NZAM Commitment, available here.

- would therefore emphasise that intentionality, return expectations and impact measurement should be considered the key elements of impact investing
- Other characteristics – no comment.

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?*

IIGCC welcomes the recognition of transitioning assets as a 'sustainable' category under the proposed labelling system. To maximise real world emission reductions, it will be essential to allocate capital to emissions intensive assets on credible alignment pathways. However, as noted above, we believe the FCA should be more explicit in clarifying what these products are 'transitioning' towards. We refer back to our response to Q4 for our detailed views on the treatment of 'transitioning' funds.

IIGCC proposes that a broader set of criteria for assessing alignment, such as that used by NZIF, would better reflect the range of actions transition-focused and aligned products will need to take to support the transition. The portfolio coverage approach adopted by NZIF supports the assessment of the alignment or alignment potential of underlying assets within a portfolio. This allows investors to hold assets that are expected to align to net zero over time, rather than reallocate to assets that are already less carbon intensive and therefore have little/no impact on real world emissions reductions.

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

In line with our draft response to Q4, IIGCC highlights that the criteria currently set out for 'Responsible' products could create a risk of greenwashing. Products that integrate sustainability factors into investment decisions, but don't promote sustainability characteristics, would be better categorised as 'not promoted as sustainable'. This would align with the approach taken by the EU under SFDR for Article 6 products, which includes funds that integrate sustainability risks. This approach would also uphold consistency with the principles set out by the FCA in its Dear AFM Chair letter,[5] which states that "Where a fund integrates ESG considerations into mainstream investment processes (with no material ESG orientation in the fund design/strategy), we do not expect to see prominent ESG claims in the fund's name or documentation, or ESG positioned as a key part of that fund's offering.".

In order to be labelled as 'responsible', we would therefore expect sustainability features to be an actively promoted/marketed element of the fund. However, as noted in our response to Q4, we have concerns that 'responsible' labels could also become something of a catch-all for a wide range of products with little tangible or measurable evidence to substantiate their sustainability credentials. IIGCC therefore proposes that the FCA focuses primarily on ensuring the labelling system upholds a baseline level of ESG integration for all products, as well as robust criteria for the various product categories under the 'sustainable' label. If the FCA does wish to pursue a 'responsible' label, it will be important to ensure the label is underpinned by robust, measurable criteria to mitigate the risk of greenwashing.

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[5] FCA Dear AFM Chair letter, available here.

Finally, we would highlight that the terms 'responsible' and 'sustainable' are often used interchangeably within the market, and it is not necessarily clear that the latter label would be perceived as more rigorous. To avoid confusion, it will be important for the FCA to ensure that the differences between the two labels are clearly articulated, delineating between the classifications in the way that is readily understandable (particularly for retail investors).

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?

IIGCC proposes that, given the materiality of sustainability risks and opportunities to financial returns, integration of these risks and opportunities on a 'comply or explain' basis should be a baseline requirement for all products. These products could be allocated a 'not promoted as sustainable' label, in line with SFDR Article 6 products.

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

IIGCC recognises that products tracking a Climate Transition (CTB), or Paris-aligned benchmark (PAB), can be recognised as sustainable provided the criteria underpinning the benchmarks are clear, measurable and evidenced. We would note that it will also challenging to apply the same criteria for index-tracking products to actively managed funds, particularly in the context of the proposed 'transitioning' and 'aligned' labels.

Certain products, such as alternative climate indices beyond CTBs and PABs, or other thematic indices, may not fit into the FCA's proposed categories. Moreover, it is challenging to find metrics that can be used to define that are suitable for both active and passive. The FCA may therefore wish to consider an additional 'Thematic indexes' label for products such as the FTSE EU Climate Benchmarks Index Series, Climate Transition Benchmarks, the FTSE For Good index and other such products where the index has clearly defined sustainability criteria. Metrics for assessing products using this label could be categorised in accordance with the relevant sustainability themes.

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

IIGCC sees derivatives as being relevant to consider when implementing sustainable investing strategies. In most cases, derivatives and short selling when used alone limit the degree of an investor's influence given that owning part of a company's capital structure is necessary to engage with company management and influence company decisions. Nonetheless, derivatives and short selling provide an investor with the means of managing market risk, prospectively allowing larger overall exposure to a company and hence greater influence. Short selling can be used as part of a public strategy seeking changes in company strategy. Where this is not the case and the price mechanism alone is relied on to affect a company via its cost of capital, the level of influence from short selling will, in most cases, be modest or negligible. Securities lending allows an investor to benefit from market financing arrangements, thereby increasing the liquidity of their portfolio. Given the loss of voting rights and hence greatly diminished scope for company engagement, the investor would need to assess whether securities lending is commensurate with its broader sustainability goals. IIGCC is currently exploring the treatment of derivatives in the context of aligning portfolios with net zero, and we are aiming to publish a discussion paper from our working group in Q1 2022.

2.3 Disclosures

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

IIGCC supports an aligned structure for TCFD and SDR disclosures, and ideally a consolidation of the two regimes. This would help to ensure that the complete range of sustainability-related risks and opportunities, are identified, managed and disclosed against in a consistent and coherent way. However, we would draw attention to the fact that SDR is being developed before UK TCFD disclosure requirements have had time to properly bed in. This could create a situation whereby asset managers commence TCFD reporting in 2022 and are then required to essentially repeat the exercise and amend these disclosures for SDR (presumably in 2023). Following the publication of PS21/24, it is no longer possible to fully consolidate implementation timetables for TCFD and SDR. However, we would encourage the FCA to assess how TCFD has been received by investors before replacing it with SDR. This could also help to facilitate the progression of other relevant regulatory initiatives (e.g. the UK Taxonomy and SDR requirements for corporates) which will need to be in place before investors can effectively meet the disclosure obligations proposed in this Discussion Paper.

Q14: What are your views on consumer-facing disclosures, including the content and any considerations on location, format (e.g. an 'ESG factsheet') and scope?

IIGCC agrees with the FCA's suggested topics for inclusion in consumer-facing disclosures, while noting that retail investors should still be able to access more detailed disclosures if they so choose, in line with our response to Q1. We also propose to support a baseline level of prescription for these disclosures. IIGCC proposes that the disclosures should be accompanied by a short summary to help inform retail investors as to the objectives and aims of the factsheet.

With regards to the inclusion of a baseline set of sustainability metrics, IIGCC proposes to stress the importance of ensuring these are communicated concisely. Disclosure of metrics should be limited to those which could credibly inform retail investment decision-making and support understanding of the sustainability-related characteristics of products. For example, a weighted average carbon intensity metric may introduce undue complexity in this context, in comparison to a product's total carbon emissions. Metrics should be supported by relevant contextual information in the form of narrative disclosures, with disclosure of underlying methodologies likely more suited to disclosures aimed at institutional investors. To support the flow of information across the investment chain, it will also be essential to ensure that corporates are required to disclose a consistent set of metrics under SDR. The disclosures should be appropriately sequenced, with corporates reporting this information before asset managers are required to disclose.

Q15: What are your views on product-level disclosures, including structure, content, alignment with SFDR and degree of prescription?

IIGCC welcomes the FCA's proposals to align SDR disclosures where possible with SFDR. This approach recognises that many investors with cross-border EU business will be subject to both regimes, and consistency between them will help to reduce costs and reporting burdens for in-scope firms, as well as enhance cross-border comparability of products. IIGCC also agrees that the SFDR's Principal Adverse Impact Indicators (PAIIs) could provide a useful starting point for the development of additional sustainability metrics, and support the integration of a 'double materiality' perspective within the UK sustainability disclosure framework.

However, we would also stress the importance of learning from the lessons of SFDR implementation, by ensuring that certain elements are not replicated in the UK's framework for sustainability disclosures. A key issue with PAIIs is that they force investors to report against a range of indicators irrespective of whether they are material to the assets underlying a fund. In addition, PAIIS do not adequately reflect where investors are taking action to influence the trajectory of these adverse impacts (such as through their engagement and stewardship activities). IIGCC therefore suggests that the FCA takes a more principles-based approach, whereby investors are required to assess the materiality of ESG issues (including the impact of investments on the environment and society) and report relevant metrics that are considered to be material for the fund (e.g. GHG emissions). These metrics could be based on the PAIIs in the interest of consistency, as well as the core metrics for disclosure under the FCA's TCFD regime for asset managers. In order to help investors understand how adverse impacts are being addressed through investor action, IIGCC also proposes that any PAII-related disclosures introduced by the FCA should be accompanied by information on how investors are addressing these adverse impacts through their strategies, including stewardship and engagement activities, and through collaborative initiatives such as Climate Action 100+.[6]

It will also be important to learn from the sequencing challenges investors have had to navigate in the context of SFDR. To mitigate these challenges, it will be essential for UK-registered and UK-listed companies to disclose relevant information on the adverse impacts of their activities as part of their SDR requirements. Disclosure requirements for investees should enter into force before the requirements for investors, to ensure in-scope firms have access to decision-useful data from companies that in turn allows them to meet their own reporting obligations.

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?

IIGCC agrees that entity-level SDR disclosures should build on TCFD entity-level disclosures. In line with our response to Q13, we would also support efforts to consolidate the two regimes to streamline disclosure requirements and mitigate the risks of duplicative reporting burdens on firms. However, it will be important to ensure that any consolidated reporting at group level does not reduce transparency around material sustainability risks and opportunities that subsidiaries are exposed to. These entity-level exposures should be clearly signposted in consolidated reports, including any material deviations between group- and entity-level approaches to managing sustainability-related risks and opportunities.

IIGCC notes the Government's intention to require disclosure of transition plans as part of firms' SDR reporting, and that these disclosures should align with the UK's commitment to achieve net zero by 2050 or sooner. At a minimum, IIGCC proposes that transition plans for in-scope firms should include

[6] More information on Climate Action 100+, available here.

the key elements set out in the Investor Agenda's Expectations for Investor Climate Action Plans.[7] Additionally, firms seeking to align with net zero should outline how they intend to take forward action relevant to alignment in line with the more detailed components of the NZIF.

As noted in our response to Q5, IIGCC is developing a Net Zero Stewardship Toolkit which aims to provide investors with a milestone-based framework for enhancing stewardship and voting practices. This includes the development of stewardship and engagement strategies and clear voting policies that are consistent with the objective of net zero emissions by 2050 or sooner. IIGCC proposes to suggest that the recommendations and actions established by the NZST could be a useful reference point for incorporating stewardship and voting into entity-level disclosures, and we would welcome further conversations with the FCA on this topic.

Q17: How can we best ensure alignment with requirements in the EU and other jurisdictions, as well as with the forthcoming ISSB standard? Please explain any practical or other considerations.

Given that the ISSB standards will build on the existing TCFD structure, structural alignment with the disclosure requirements proposed in the DP should be relatively straightforward. However, in terms of content, it will be essential to ensure that the granular disclosures made by corporates in line with the ISSB standards support the information needs of investors under the FCA's proposed TCFD regime and the proposals in this DP. As noted in previous responses to questions, appropriate sequencing of disclosure requirements will be essential to ensure investors are able to access decision-useful information from their investees before they are required to make their own disclosures. It should also be noted that we do not yet have clarity on the ISSB's timetable for developing a set of standards covering sustainability topics beyond climate. This may impact the ability to align the SDR regime with the broader ISSB sustainability standards if the FCA is seeking to introduce a UK-specific regime within the next 2-3 years, per the Government's Sustainable Finance Roadmap.

IIGCC also notes that the ISSB standards focus only on enterprise value, while SDR seeks to go further by requiring wider information on how firms' investment decisions impact the environment. Investors will therefore need more information on a broader range of topics than can be provided by the ISSB standards alone. While disclosures against the forthcoming UK Taxonomy will provide investors with clarity on whether activities undertaken by investees are sustainable, they won't help investors to understand the overall sustainability performance and impact of their investees. In line with previous responses, IIGCC proposes that the FCA incorporates adverse impact disclosures into the SDR regime, although as noted it will be important to avoid the challenges investors have had to navigate in relation to implementing SFDR (including excessive prescription and in relation to sequencing of reporting requirements).

[7] Investor Agenda's Expectations for Investor Climate Action Plans, available here.

2.4 Operation of the system

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?

IIGCC agrees that independent verification can be helpful in ensuring disclosures made under the proposed regime are credible and robust. However, we would caution against the introduction of mandatory requirements for third-party verification at present, given the detrimental cost burdens this could impose on smaller firms, and the potential for these burdens to be passed on to end investors. In general, we believe that the FCA's fund authorisation and supervisory processes, alongside firms' internal assurance activities (which could provide a basis for self-certification), and investee-level verification of data should suffice in providing comfort over products' sustainability credentials. Alternatively, the FCA could consider the approach proposed by the European Supervisory Authorities in relation to SFDR, where market participants disclose on a voluntary basis whether their disclosures will be/have been subject to review by a third party.