

ALLEN & OVERY

ESG  
seminar

26 May 2022



# Speakers



**Tamara Cizeika**

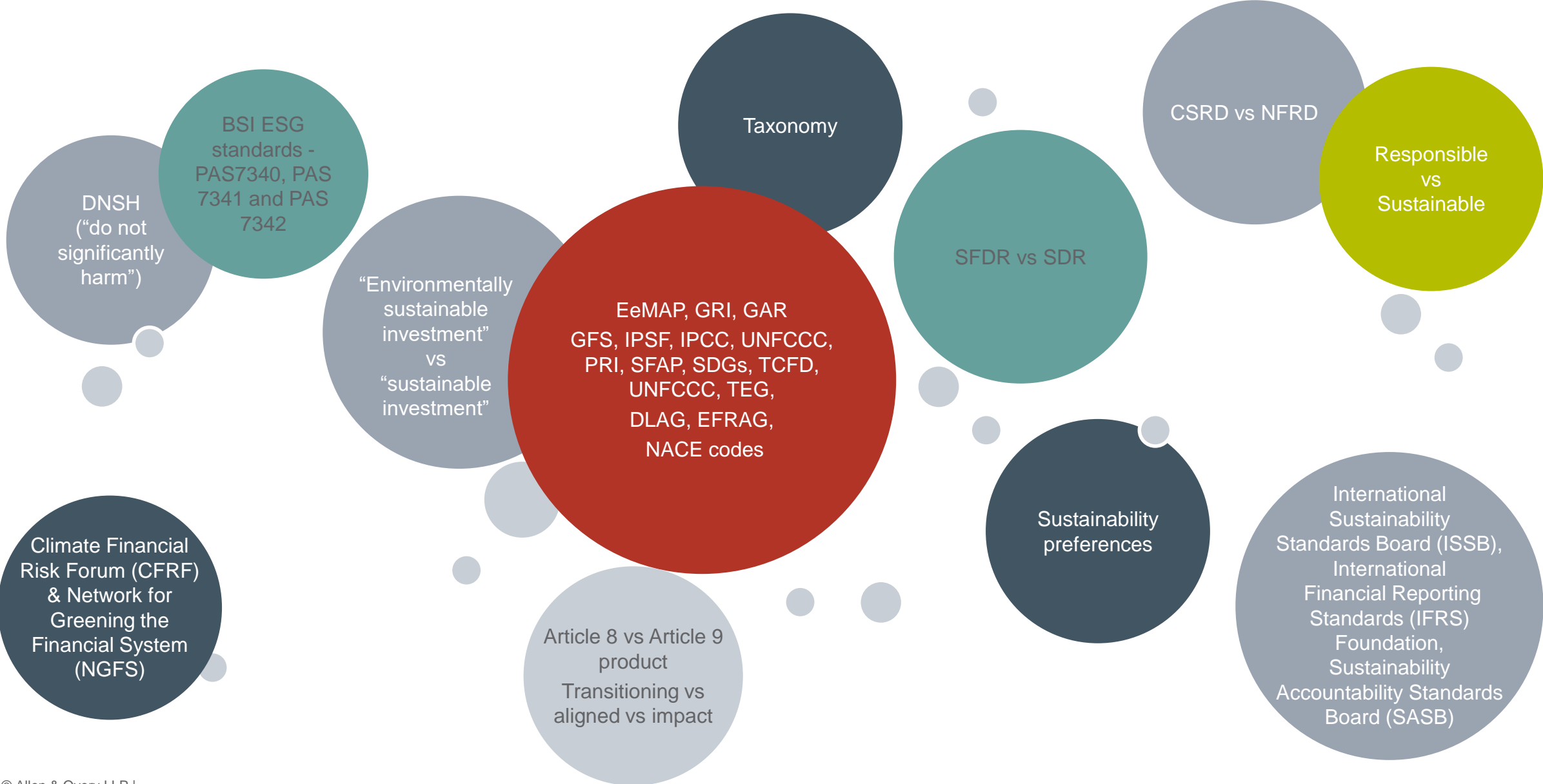
Counsel  
Financial Services Regulatory



**Claire Haydon**

Executive Director  
A&O Consulting

# Industry terminology



# Initial points to note

1

Data

2

UK position post Brexit

3

Markets moving faster than regulation



# Key regulatory concerns driving new laws and regulatory initiatives

*“IMF research concluded that aggregate equity valuations do not reflect various climate change scenarios”*

*Potential losses from stranded assets  
“may run to tens of trillions of US dollars”*

*“Our main focus will be on larger firms in the sectors where there are more likely to be climate-related risks, such as asset management and insurance, and on firms that particularly hold themselves out as ‘green’”*

*“In the UK, ESG investment funds saw net flows of £10bn in 2020 from retail investors. This is a 300% increase on the net flows recorded in 2019”*

*“Research from KPMG in 2020 suggests that a lack of decision-useful ESG data is one of the biggest barriers to sustainable investing practices”*

# Greenwashing

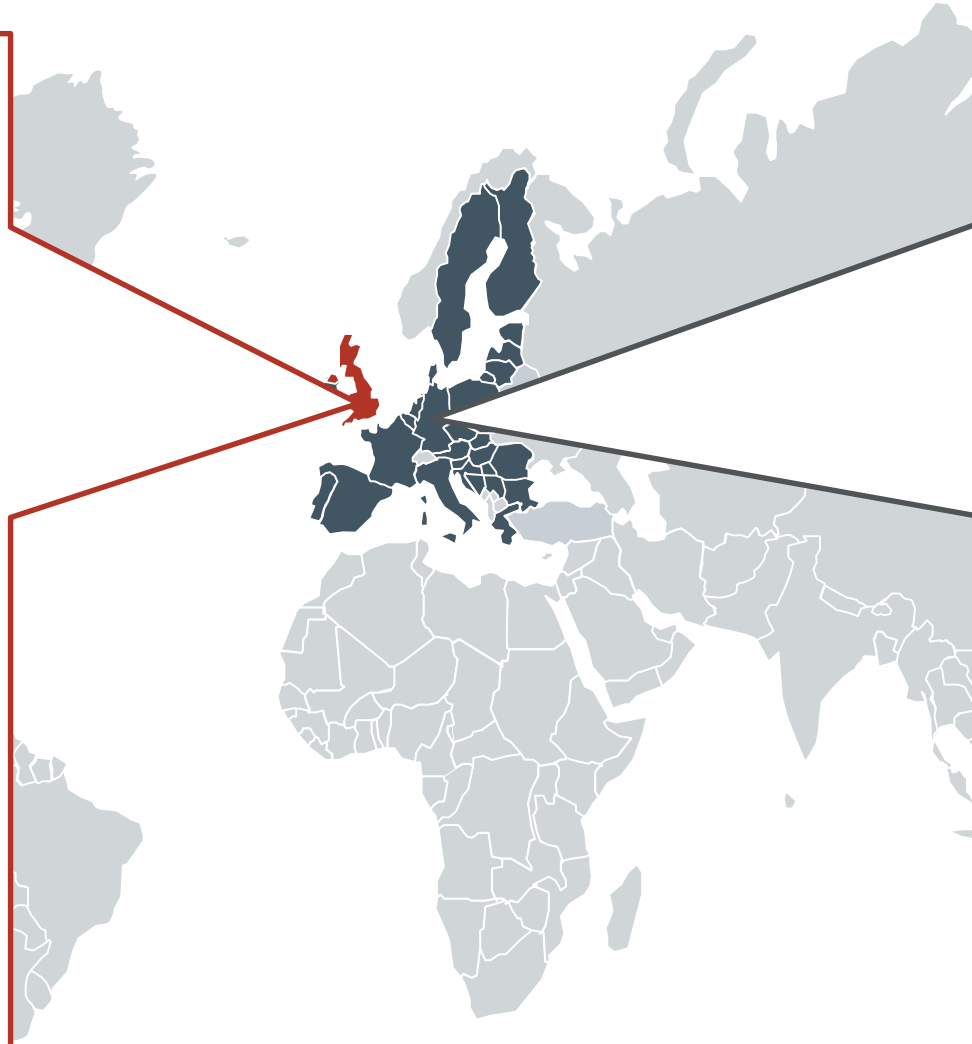
*“International Organization of Securities Commissions (IOSCO) adopts far-reaching 2022 work plan to develop sustainable finance and mitigate greenwashing” (April 2022)*

*“There is a lot of greenwashing out there, let’s be honest,”  
Sacha Sadan, director of ESG, FCA (May 2022)*

# What is greenwashing and why is it on the agenda?



# Specific UK and EU initiatives



## UK initiatives include:

- TCFD required reports by asset managers, listed companies and others, including product level reporting
- UK Government “Greening Finance: A Roadmap to Sustainable Investing” (Oct 2021) and “Fact Sheet: Net Zero-aligned Financial Centre” (Nov 2021)
- FCA “Dear Chair” letter to authorised fund managers re ESG and funds (2021)
- FCA CP due in July on Sustainable Disclosure Requirements (SDR) and new labelling regime
- Disclosures and Labels Advisory Group (DLAG)
- UK green taxonomy – first TSCs finalised end 2022
- Transition Plan Taskforce consultation launched (May)
- FCA “A strategy for positive change: our ESG priorities” (Nov 2021)
- FCA Climate Change Adaptation Report (2021)
- FCA “green tech” and “reg tech” initiatives
- IFPR – ESG disclosures CP Q4 2022
- Feedback Statement on ESG issues in capital markets – due June 2022
- Promise of an “indicative sectoral transition pathway out to 2050” – due 2022
- Diversity in Financial Services - CP due Q3 22
- To consider – centralised register for ESG data
- To consider - ESG data ratings brought within the scope of regulation
- Likely - sustainability-related requirements for advisors

Goal – to be the world’s first” Net Zero-aligned Financial Centre” and “the best place in the world for green and sustainable investment”

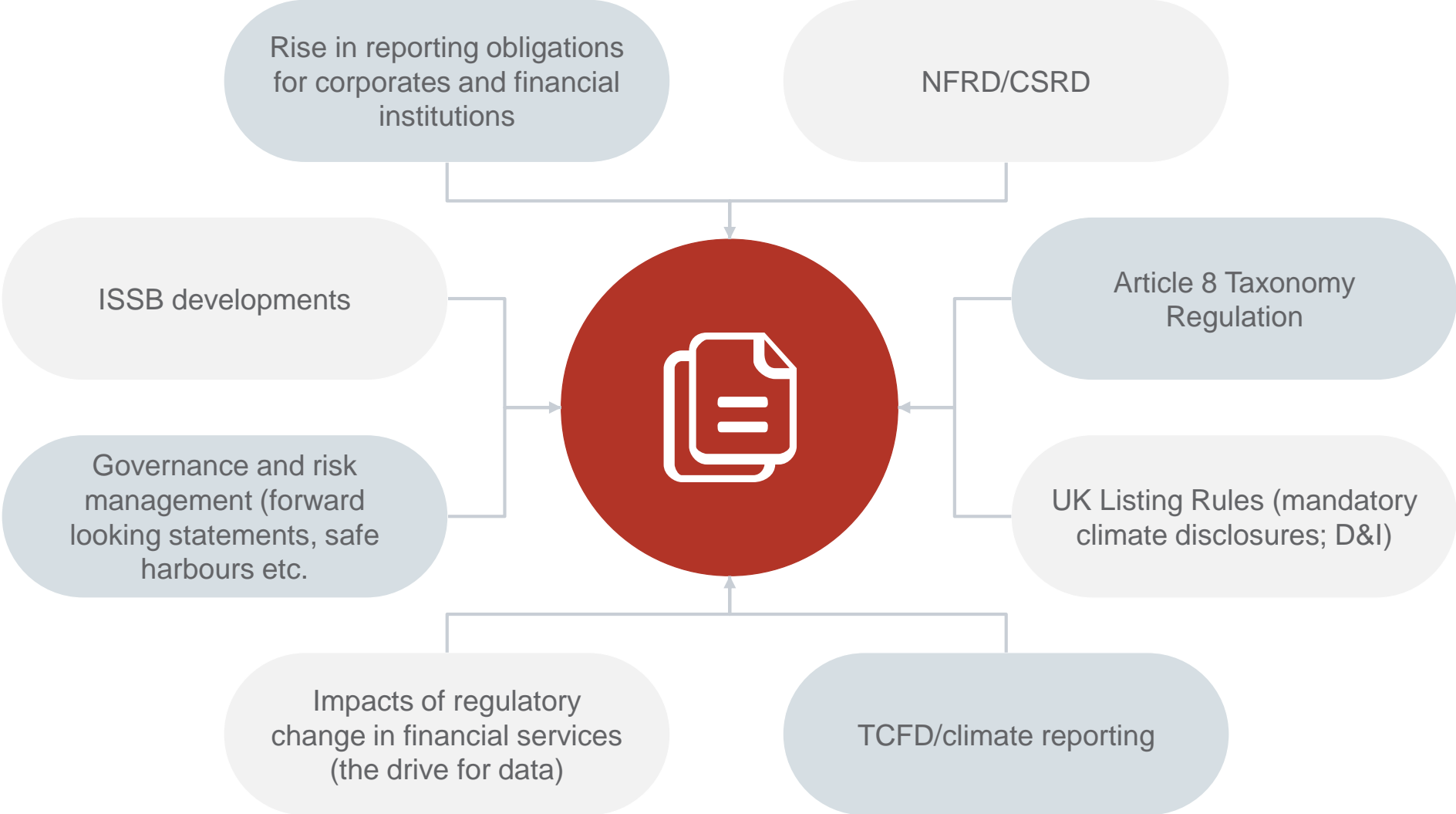
## EU initiatives include:

- SFDR and Taxonomy Regulation, including an RTS:
  - Includes detailed templates for pre-contractual and periodic disclosures, plus website disclosures, and product and entity level reporting under the new PAI regime
- New “sustainability preferences” regime
- Other ESG changes to MiFID II, plus ESG changes to AIFMD, UCITS, Solvency II and IDD – including re ESG risk, systems/controls & product governance
- Proposed EU green bond standard (EUGBS)
- Draft ESMA guidance on “sustainability preferences”
- New ESMA “Sustainable Finance Roadmap 2022-2024”
- Work on Ecolabel - retail financial services products
- Work on minimum sustainability criteria for SFDR Article 8 products (due 2022)
- Call for evidence on ESG ratings (Feb 2022)
- ESMA guidance due on ESG/product governance, plus SFDR and the taxonomy
- Work on a label for sustainability-linked bonds
- ESMA to build tools for monitoring EU carbon markets
- Work on European Single Access Point (ESAP) – a digital database of public financial and sustainability-related information about EU companies and EU investment products
- EC social taxonomy structure proposal
- Corporate Sustainability Due Diligence directive
- ECB Report on banks’ disclosure progress

PLUS New FinDatEx “EET”



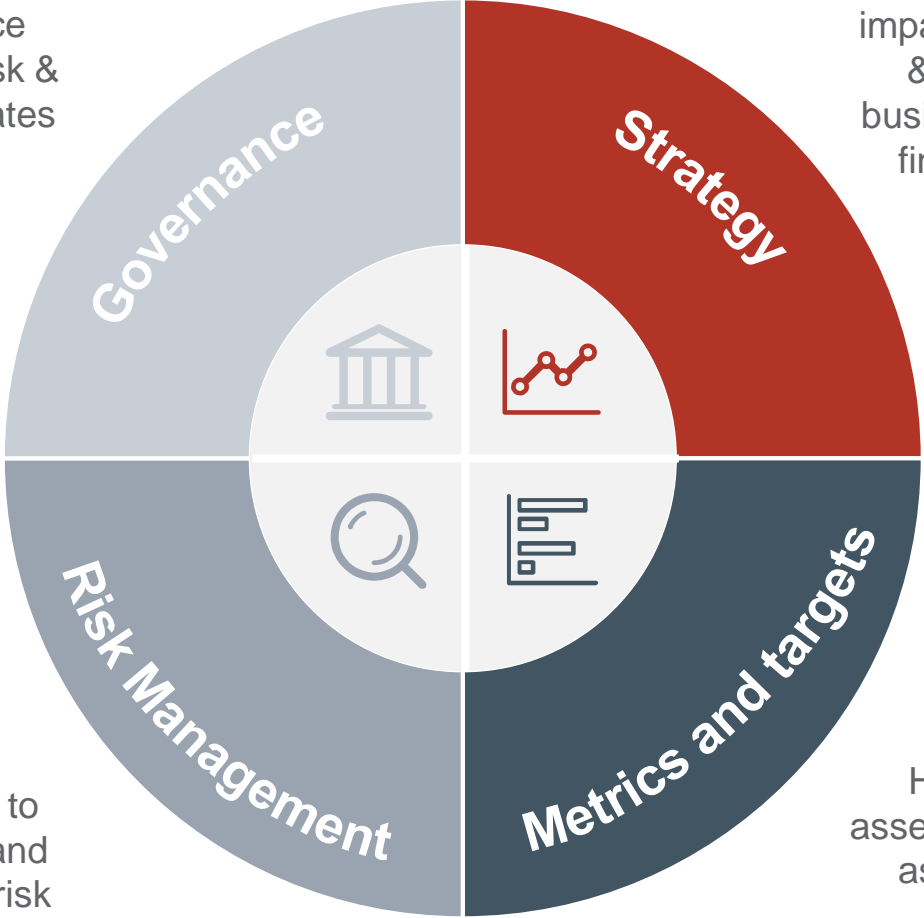
# Corporate disclosure



# Spotlight on TCFD

- TCFD is not just about **how to disclose**, but **what to disclose against**
- Trend towards **mandatory TCFD** – in the UK and globally

How governance around climate risk & opportunity operates



Actual and potential impacts of climate risk & opportunity on business strategy and financial planning

Processes used to identify, assess and manage climate risk

How progress is assessed and what it is assessed against

# Practical challenges and considerations

1 Navigating a fast evolving legislative and regulatory environment

2 Embedding sustainability strategy in all aspects of governance, risk management and decision-making

3 Board and senior management accountability, including ESG-linked remuneration

4 Taking a broad view of ESG matters – beyond just 'climate', including social and sustainability factors

5 Product governance - framework developments

# Practical challenges and considerations

6

Data: quality, sourcing, analysis and uniformity – increased scrutiny of disclosures

7

Skills, capabilities and expertise at all levels of an organisation

8

Increased litigation and reputational risk, and shareholder activism

9

Transition to Net Zero plans

10

Handling ambiguity in regulatory expectations, and regulators intentions to 'get started' imperfectly, raising risks of regulatory look-back

# The bigger picture

