

MEMO# 33705

July 29, 2021

FCA Issues Guiding Principles for ESG Funds

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TO: ICI Members
ICI Global Members
ESG Task Force
EU ESG Disclosure Regulation Working Group
Global Regulated Funds Committee SUBJECTS: ESG
International/Global RE: FCA Issues Guiding Principles for ESG Funds

On July 19, 2021, the UK FCA published a "Dear Chair" letter to the chairs of authorized fund managers.[\[1\]](#) The letter sets out the FCAs expectations on the design, delivery, and disclosure of environmental, social and governance (ESG) and sustainable investment funds.[\[2\]](#) The letter includes a set of guiding principles developed with broad stakeholder input and consumer research to help firms apply the existing rules. The overall goal of the letter, and guiding principles, is to "ensure that any ESG-related claims are clear and not misleading, both at the time of application and on an ongoing basis, so that consumers can make informed choices."

The FCA cites the increasing number of applications for authorized funds with an ESG/sustainability focus that have fallen below the FCA's expectations, with a few notable examples:

- A proposed passive fund had an ESG-related name that we found misleading as it was looking to track an index that did not hold itself out to be ESG-focused. It also had very limited exclusions from the index, based on high-level ESG criteria.
- A fund application claimed to have a strategy to invest in companies contributing to 'positive environmental impact'. The fund intended to invest predominantly in companies that, while reporting low carbon emissions, would not obviously contribute to the net-zero transition. We had expected to see a measurable non-financial objective alongside the financial objective or strategy with information on how that impact would be measured and monitored.
- Instances where it was challenging to reconcile the fund's proposed holdings with statements made setting expectations for consumers. One example was a sustainable investment fund containing two 'high-carbon emissions' energy companies in its

top-10 holdings, without providing obvious context or rationale behind it (e.g., a stewardship approach that supports companies moving towards an orderly transition to net zero).

Like many regulatory authorities, the FCA is increasingly focused on ESG-related issues. The FCA is currently consulting on climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers.^[3] While the "Dear Chair" letter applies to funds with an ESG-related strategy or objective, the FCA's climate-related disclosure rules would apply broadly to funds regardless of whether they have an ESG-related strategy.^[4]

The FCA notes in the letter that it will continue to scrutinize and challenge firms on their fund strategies and disclosures.

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endnotes

[1] The letter is *available at* <https://www.fca.org.uk/publication/correspondence/dear-chair-letter-authorised-esg-sustainable-investment-funds.pdf>.

[2] The FCA's guiding principles target funds that pursue a "responsible or sustainable investment strategy and claims to pursue sustainability characteristics, themes, or outcomes."

[3] FCA Consultation Paper CP21/17: Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers (22 June 2021), *available at* <https://www.fca.org.uk/publications/consultation-papers/cp-21-17-climate-related-disclosures-asset-managers-life-insurers-regulated-pensions>.

[4] See ICI Memorandum No. 33703 summarizing the FCA Consultation Paper, *available at* <https://www.ici.org/memo33703>.

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