April 28, 2023

Japanese Bankers Association

JBA comments on the Discussion Paper “Finance for positive sustainable change: governance, incentives and competence in regulated firms” by the Financial Conduct Authority (FCA)

Questions	Comments
Chapter 3 – ESG governance, remuneration and incentives in regulated firms	
Q1: Should all financial services firms be expected to embed sustainability-related considerations in their business objectives and strategies? If so, what should be the scope of such expectations? Please explain your views.	• Many firms are already implementing sustainability-related considerations in business strategies, especially around emissions reductions targets. Regulatory expectations in this area should focus on metrics and targets that are financially material and should seek to set minimum standards, allowing for firms to go above these if desired. We note that there are differing views among regulators regarding 'double materiality' and the extent of regulatory expectations on financial institutions. Further work should be done to harmonise standards in this area.
Q2: Beyond the FCA’s ongoing work on diversity and inclusion, and introduction of the Consumer Duty, should we consider setting regulatory expectations or guidance on how firms’ culture and behaviours can support positive sustainable change? Please explain your views.	• There is a limit to the extent to which detailed regulatory expectations will be helpful for directing a firm's culture. We believe that more can be achieved through engagement with firms, rather than strict requirements, as has been evidenced through progress on D&I. • Firms often differ significantly in terms of culture and this is especially true of international firms, where culture is decided to a greater extent by the firm's headquarters. Regulators should adopt flexibility, taking into account different business environments globally. Culture should be led from within firms.
Q3: What steps can firms take to ensure that they have the right skills and knowledge relating to material climate- and sustainability-related risks, opportunities and impacts on their boards? Should we consider setting any regulatory expectations or guidance in this area? If so, what should be the	• Regulatory guidance at a high-level would be welcome as it helps ensure that sustainability-related training happens in a robust way, and clarifies what the regulator is expecting to see. However, as firms have different business models and materiality-based priority areas, there would always need to be flexibility to design

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scope of such expectations?	firm-specific learning programmes. The guidance provided by the CFRF on climate training is very helpful (https://www.fca.org.uk/transparency/climate-financial-risk-forum) without needing to be a mandated requirement. We believe that while best practice guidance is helpful, firms are best placed to design and deliver their own training.
Q4: What are likely to be the most effective strategies in embedding climate- and sustainability-related considerations across a firm's operations? What is the potential benefit of initiatives such as the appointment of functional 'champions', or the creation of dedicated working groups or forums? And how can the value of such initiatives be enhanced?	• The use of 'champions' and cross-departmental working groups and fora are useful ways to engage a large cohort of colleagues across a firm. However, the effective strategies may be those that include remuneration and compensation strategies. Structures are useful for disseminating information, but may be more effective when tied to compensation.
Q5: What management information does senior management use to monitor and oversee climate- and sustainability-related developments, and to monitor progress against public commitments? Should we set expectations or guidance for decision-making processes, including systems and controls, audit trails and the flow of management information to key decision-makers? If so, what should be the scope of such expectations?	• We do not see a need to introduce regulatory expectations around decision-making processes. Rather, regulators should focus on ensuring that data is collected and reported in a reliable and consistent manner.
Q6: Should we consider setting new regulatory expectations or guidance on senior management responsibilities for a firm's sustainability-related strategy, including the delivery of the firm's climate transition plan? If so, which existing SMF(s) would be the most suitable to assume these responsibilities? Please explain your views.	• While the SMF regime is an effective framework for ensuring accountability and visibility for the regulator of senior managers and important decisions affecting a firm, we do not agree that further regulatory expectations are required or are prescribed responsibilities in relation to a firm's sustainability strategy or climate transition plan. We feel that responsibility for these decisions is well covered by the current regime and that more detailed requirements for SMFs would not reflect the way that firms currently deliver on sustainability strategies. • Furthermore, we note the planned review of the Senior Managers Regime (SMR) announced by the UK Government. Any changes to the SMR should be considered as part of this review.

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Q7: Should we consider introducing specific regulatory expectations and/or guidance on the governance and oversight of products with sustainability characteristics, or that make sustainability claims – for example to clarify the roles and expectations of governing bodies such as Fund Boards? If so, which matters in particular would benefit from clarification?	• It may be helpful to have further clarity on what the scope of 'products with sustainability characteristics' is and whether this would include sustainable finance product offerings, such as loans and bonds, as well as fund-related products. • Guidance on products is helpful and there is currently a large body of work in this area. Further expectations in this area may be helpful for standardisation; however, this should be done in tandem with efforts to promote international consistency on how firms interpret green criteria.
Q8: What matters should firms take into consideration when designing remuneration and incentive plans linked to their sustainability-related objectives? In particular, we welcome views on the following: a. the case for linking pay to sustainability‐related objectives b. whether firms should break down their sustainability-related commitments into different factors, allocating specific weightings to each c. whether short-term or long-term measures are more appropriate, or a combination of both d. whether sustainability-related incentives should be considered for senior management only, or a wider cohort of employees e. how firms could consider remuneration and incentive plans in the design and delivery of their transition plans f. remuneration adjustments where sustainability-related targets (at either the firm level or individual level) have not been met. Please explain your views.	• Alignment between a firm's strategy on sustainability and remuneration/rewards for employees is important to drive culture changes and delivery relative to objectives. Regulatory guidance may be able to help define what is material in relation to compensation and what portion of this should be assigned to sustainability considerations. • Regulatory guidance should not focus on the specifics or metrics to guide this compensation, but rather should pay close attention to market practices and international considerations.
Q9: Should we consider additional regulatory expectations or guidance in any of the areas considered in Q8? Please explain your views.	

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Q10: Should we consider additional regulatory measures to encourage effective stewardship, particularly in relation to firms' governance and resourcing of stewardship, and associated incentive mechanisms and conflict of interest policies? Are there regulatory barriers that we should consider? Please explain your views.	-
Q11: What additional measures would encourage firms to identify and respond to market-wide and systemic risks to promote a well-functioning financial system? How can the collective stewardship efforts of asset owners and asset managers best be directed towards the most pressing systemic issues? And how can remaining barriers best be reduced? Please explain your views.	-
Chapter 4 – Training and competence in regulated firms	
Q12: What do you consider to be the main sustainability-related knowledge gaps across the financial sector and how can these best be addressed? What do you consider to be the potential harms to market integrity, consumer protection or competition arising from these knowledge gaps?	• To support clients in their journey to sustainability, it is important to deliver training on how to assess a net zero transition plan, how to calculate financed emissions, and also how to have effective climate conversations with corporate customers. • To provide sustainable financing solutions, it is important to deliver training that ensures staff know the product characteristics (e.g. Green & Sustainability-Linked Loans) and how to guard against greenwashing risk in specific transactions. • The main harms of getting this wrong would be damage to the integrity of sustainable finance markets and also poor customer outcomes. Sustainable finance is a rapidly growing area that is becoming mainstream and all market participants must ensure it remains credible, with transactions driving real world change and supporting genuine and ambitious sustainability performance targets.
Q13: Do you think there is a need for additional training and competence expectations within our existing rules or guidance? If so, in which specific	• Currently regulatory expectations around training and competence on ESG are broadly undefined. There are extensive resources relating to the E aspect, with firms

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areas do you consider further rules and/or guidance are required? Please explain your views.	setting specific KPIs and dedicating significant resources to this area. However, training programmes are less developed in the areas of S and G, where firms are beginning to develop training expectations. It is also important to increasingly focus on this area. • We do not consider it necessary to set new rules relating to ESG training as firms should have flexibility to set training requirements that reflect a firm's strategy and requirements. However, further guidance around how firms should approach the various aspects of E, S and G with regards to training would be welcome.
Q14: Which aspects of the training and capability-building initiatives discussed above, or any others, would be particularly useful to consider (for example in identifying which skills and/or training is needed) and how best should we engage with them?	
Q15: Have you seen misrepresentation of ESG credentials among ESG professionals and, if so, what are the potential harms? Have you seen any consistent training metrics that can help compare firms' knowledge/capabilities? Please describe.	-

(End)