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Question 14: 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?

Question 15: 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.
About Brunel Pension Partnership Limited (Brunel)

Brunel Pension Partnership is one of eight UK Local Government Pension Scheme pools, bringing together £35 billion of investments of ten funds.

Brunel is a designated investment manager for the pooled LGPS' funds in the southwest of England. Our 10 clients are our shareholders, and our scope is limited to providing investment solutions in the listed and private market space for our clients to manage the long-term pension liabilities of their members. We are captured in our capacity as investment manager (portfolio management) in the ESG sourcebook, however, given our relationship with our clients we have a unique position in the market to ‘traditional’ asset managers.

We are therefore framing our response with reference to the unique relationship with our clients, in which we build products and reporting together, of which incorporating climate and sustainability risks and opportunities are central to our strategies. We do however have a view to the wider financial services industry.

Executive Summary

Brunel is highly supportive of the FCA’s discussion paper. We are particularly encouraged by the broad level of considerations the FCA are bringing to this discussion, and we welcome industry-wide dialogue on sustainability matters.

In summary of our response, we would recommend in many areas, where the FCA have asked for feedback on whether regulatory expectations/guidance is required, softer non-handbook guidance is likely to be most appropriate.

Where we believe that more prescriptive regulations could be beneficial, would concern particular areas of sustainability, for example human capital management, including diversity and inclusion, alongside climate change. We would also be supportive of enhanced expectations concerning SMF responsibilities.

We also highlight in particular our concerns around linking remuneration to sustainability objectives. We believe that a key risk for consumers and markets is competency greenwashing. Remuneration which is designed to tenuously link to metrics where data is particularly weak, or where individuals have limited influence could have unintended consequences. Furthermore, targets and KPIs may need to change, and should be allowed to be flexible to adapt and change where necessary. Setting remuneration to such KPIs may encourage behaviour which benefits individuals, rather than best reflecting and tracing often complex goals of the product, for example stewardship objectives.

We reiterate our support for continued conversations and dialogue between the FCA and the financial services industry, and the need for ambitious and succinct goals for the industry to support the UK achieving net-zero by 2050.
Please find below for our detailed responses to the questions we have chosen to respond to. If you have any questions please contact Katherine Farrell, Head of Operational Risk and Compliance or Faith Ward, Chief Responsible Investment Officer.
Question 1: 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

Brunel believes that climate change and sustainability are systemically important factors for all financial services companies, both in terms of their own operations and products, and in their role in supporting the UK’s goals of net-zero by 2050.

We therefore agree that all financial services firms should consider sustainability in their business objectives and strategies, and that the FCA should support, and in some circumstances mandate financial services firms to effectively manage risk and operate sustainably, contributing to an innovative, sustainable, and stable financial services sector and markets.

We also believe that firms who commit to embedding sustainability-related factors into the products in which they promote, sell, and manage for clients and customers should be held to account to deliver these as advertised. Their objectives and strategies, where necessary should embed sustainability at least where necessary to ensure this delivery.

The FCA’s TCFD and proposed SDR requirements will require robust regulatory guidance to ensure that firms are able and compelled where necessary to report and monitor commitments, though the level of regulatory prescription should be carefully considered.

Brunel in particular support the implementation of transition plan disclosures once the TPT’s final guidance is released.

We advise however that the FCA exercise caution and consideration in setting requirements and expectations for firms’ strategies and objectives and advise against prescriptive requirements as we believe firms, based in-part on market preferences are best placed to set these.

We also raise the importance of understanding and embedding the nuance in any guidance or expectations between how a financial services company integrates sustainability into the strategy of its own operations and the strategies it deploys for its products. Financial services companies are broad, and the relationship between these two will vary between a market maker, credit insurer and an asset manager. Furthermore, we reiterate that sustainability is a complex and broad term, and as such any guidance or standards should reflect nuances and not be used as a broad-brush catch-all term.

We believe it is important to recognise that financial services firms need to be able to operate to meet clients and consumer requirements and preferences; asset managers for example are in a position to be able to help clients steer capital to meet sustainable objectives. However, client and consumer outcomes should ultimately be the driver of a product-focused objective and strategy.

We see the FCA’s most useful role for firms setting strategies and business objectives providing guidance and best practice support, rather than adding handbook rules. Where prescription may be more necessary, this should be very carefully considered and only implemented in particular areas of sustainability, for example diversity and inclusion and human capital, i.e modern slavery.
As discussed, where a manager has advertised or committed to an objective or strategy via product or entity level disclosures and information, the FCA should implement a regulatory framework to ensure firms are appropriately placed to assess progress against and fulfil these objectives.

**Question 2: 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**

As the famous quote from writer Peter Drucker states - “Culture eats strategy for breakfast”, which aims to emphasise that no matter how good a strategy may be, the culture of an organisation will make the most difference and therefore of critical importance. Brunel agrees with the principle of the importance of culture, and the tone that middle and senior management set in promoting behaviour which can help deliver positive sustainable change and as such embeds questions to explore this as part of procurement exercises for both asset managers and other service providers.

As per our answer to question 1, we believe that soft guidance and best practice support will be highly important levers in promoting culture and behaviours within the financial services sector which will embed positive sustainable change.

We would however exercise caution in setting prescriptive regulatory expectations, i.e handbook regulations. We believe that firms will be best placed to assess their business models and governance structures to implement cultural changes where they see the highest value.

Moreover, we reiterate the message of our previous responses, that the sequencing and interaction between the various regimes is carefully considered. It is important that a coherent regime is created to avoid unnecessary complication, and inefficient duplication and burden for firms, as well as sequenced logically with developments across the value-chain.

We believe this is in-keeping with the FCA’s wider programme for streamlining and developing the regime for asset management regulation.

**Question 3: 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 scope of such expectations?**

As discussed in our response to question 1, we believe that all financial services firms should consider the sustainability of their businesses and products. Board members must therefore be adequately equipped to dispense their duties to this end.
It needs to be acknowledged that there is currently a significant knowledge gap, and the entire financial services sector is likely to need upscaling in skills and competency, in part because sustainability is a constantly and rapidly evolving area.

All firms should be ensuring sustainability factors are embedded as part of their BAU processes for nominating and monitoring of their board members, which already carry regulatory expectations via SMCR.

Firms which explicitly state in their product propositions material sustainable characteristics, or which have an inherently increased need for sustainability considerations to be embedded in their products, for example insurance firms, should ensure their boards receive sufficient oversight and insight into these factors to make material decisions. This necessary process will be more effective and faster, the more academic or professionally- based subject matter experts are integrated into firm’s governance and management structures.

Any regulatory expectations and guidance however must also be flexible enough to acknowledge that board members are unlikely to become ‘experts’ in all facets of sustainability. Certain components, such as diversity and inclusion, human capital management and climate may have greater need for understanding depending on the responsibilities.

As will be raised, it is crucially important that the FCA are aware of the risks associated with ‘competency greenwashing’ and use regulatory powers where necessary to minimise potential harm to markets and customers/clients.

A competitive advantage in the market that firms may seek to achieve via communications outside of product-specific marketing of their sustainability ‘credentials’ of their staff and operations may cause undue harm if not properly regulated.

**Question 4: 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?**

There are various methods a firm can deploy to embed sustainability related considerations across a firm’s operations. ‘Functional champions’, alongside committee structures may be effective measures, alongside educational/working forums. Accessible and effectively leveraged MI and oversight, where data is available may also be a method firms deploy.

Brunel operates via selecting asset managers across the listed and private market universe to manage our clients’ assets. Embedded in the way we analyse our managers are cultural indicators and explicit operational and cultural ways an asset manager manages systemic risks, including but not limited to, climate, cyber security, modern human slavery, diversity social inequality. We have seen that many adopt diversity and board representation committees for example. Such examples could be used as soft guidance and recommendations for firms and to promote instances of best practice.
Brunel also specifically raise the arguments of Professor Dr. Kim Schumacher in this particular area.¹ A current challenge across the financial services industry is the speed in which sustainability related risks and opportunities required to be factored into strategies, operations, products and services, and the time it takes to carefully consider regulatory frameworks and to upskill companies to adequately understand and manage such risks and opportunities, and develop into products and services.

Dr Schumacher argues that a pivotal change for financial services firms would be the onboarding of individuals with genuine subject matter expertise, for example with a life-sciences academic background and integrate them closely into the decision-making processes for product/service creation.

Whatever methodologies a firm decides to use, especially regarding governance and role/department creation will only be as effective as the subject matter expertise it has to garner sufficient insight and decision-useful information.

Failing to do so while increasingly ‘sustainable’ products and services are sold exposes the financial services sector and markets to risks of competency greenwashing.

**Question 5: 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?**

Brunel has introduced a range of climate risk indicators into its risk reporting across the organisation, but specifically in its executive committee risk reporting process. Sustainability, stewardship and climate KPIs also form part of our organisational balanced scorecard. Brunel would be happy to share specific examples of management information for senior managers with FCA, should that be of assistance.

**Question 6: 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.**

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Brunel would be supportive of the setting regulatory expectations for SMFs. Brunel have already added to our SMF 1,3 and 9 staff a requirement to support the delivery of our net-zero targets.

Although such requirements must be proportionate to the role and carefully considered, we believe such expectations are aligned to, and a way to reinforce the governance principles of TCFD.

This point in particular speaks to the ways in which firms can embed responsibility to executive members of staff to adhere to broad commitments they make in any regulatory or non-regulatory disclosures.

Brunel also raise the idea of creating an SMF relating to sustainability. If an enhanced SMCR firm, or a solvency II /Basel firm has a sustainability committee at an executive level, it may be prudent to ensure the chair of such committee is adequately positioned/educated and experienced to perform such a function.

**Question 7: 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?**

Brunel believe that any firm which sells or promotes products/services with sustainability characteristics or makes sustainability claims must have the appropriate product governance and processes to ensure fair and accurate disclosures alongside management across product lifecycles.

Brunel would argue that this should be captured by any adherence to regulations concerning product governance and should be standard practice to ensure effective product delivery across the lifecycle.

Consistent with our response to ideas around regulatory expectations of firm strategies and objectives, we would invite soft guidance on how this can be enhanced for sustainability, but would advise against prescriptive requirements where necessary, as any regime should be coherent and flexible to different business models and product structures/features.

**Question 8: 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.
Brunel are supportive of linking incentives/ performance fees of funds to sustainability outcomes where they are explicitly part of the fund product offering e.g. impact funds where the manager can affect change directly and metrics to measure are more attributable.

Whilst we like the idea in principle, currently there a lot of hurdles that mean it could be counterproductive and we are not convinced that linking remuneration to sustainability-related objectives will have the effect which the FCA are intending.

We believe this would be particularly true of directly linking variable pay to sustainability metrics, given the availability and quality of data. We are also concerned that may put people off taking on the difficult issues and companies where most effort is needed but may yield lower rewards in the short-term.

We also raise the risks linking sustainability objectives to remuneration may raise. Given the risk of greenwashing across the industry, tenuous links between metrics/KPIs to remuneration may lead to unintended consequences, for example riskier decision making and static product KPIs which may need to change as the field and product evolves.

b. whether firms should break down their sustainability-related commitments into different factors, allocating specific weightings to each.

Brunel do believe that a broad relationship between performance and sustainability objectives and targets may prove useful, and this would require a ‘balanced scorecard’, which pulls from a number of potential performance indicators.

How this would work in practice would depend on the product/service and the individual’s roles and responsibilities.

With regard to specific weightings, we do not believe that linking remuneration directly to specific sustainability-related metrics is particularly useful and productive at this time.

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.

Brunel would argue that linking remuneration of senior/executive management does not have a good track record. As highlighted in sub-section a, the connection between sustainability objectives and pay can be complex and tenuous, this becomes more acute the less control an individual has on the design and delivery of a product or service.
We believe that senior leadership/board level remuneration in particular would not be feasible or useful and may expose the sector to higher levels of competency and general greenwashing.

e. remuneration adjustments where sustainability-related targets (at either the firm level or individual level) have not been met. Please explain your views.

Adjusting remuneration to sustainability-related targets may be one of the ways in which the risks addressed in the previous sub-sections crystallise.

Given the difficulty of quantifying sustainability factors of product/service and therefore employee performance, actively adjusting remuneration to such calculations may prove highly difficult and counterproductive.

We are also concerned that may put people off taking on the difficult issues and companies where most effort is needed but may yield lower rewards in the short-term.

Product/service KPIs must be variable and subject to change and furthermore are likely to not be directly controllable by a single member of staff, limiting the ability to create a fair- and proportionate metric-linked remuneration structure.

Question 9: Should we consider additional regulatory expectations or guidance in any of the areas considered in Q8? Please explain your views

In light of the risks and concerns expressed in our response to question 8, Brunel would encourage any additions/changes to the regulatory framework around remuneration to be highly sensitive to factors such as over-encouraging risk, greenwashing and general availability of data, alongside the dynamic and changing nature of sustainability.

Any firm onboarding sustainability-linked remuneration structures should be encouraged and guided to embed these practical considerations.

Question 10: 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.

Brunel would be supportive and encourage the onboarding of the FRC Stewardship to mandatory handbook rules. However, we believe this must be introduced in a staggered and considered way.
Any regulatory measures concerning the governance and resourcing of stewardship should be carefully considered and would need to be proportionate to the level of stewardship advertised or required in order to deliver on the product/service objectives.

Brunel would support guidance for firms for managing conflicts of interests relating to stewardship of assets, as set out in principle 3 of the FRC Stewardship Code. We also raise the concern of market abuse risk of inter-manager/owner/issuer collaboration on addressing systemic industry risks.

**Question 11:** 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.

A requirement to be a signatory of the FRC Stewardship Code (comply or explain basis with high bar for the latter), as that has embedded expectations of signatories making positive contributions to addressing market-wide and systemic risks to promote a well-functioning financial system.

We would also commend the publication by Asset Owner Alliance - [The Future of Investor Engagement: A Call for Systematic Stewardship to Address Systemic Climate Risk](https://www.assetowneralliance.org/), which provides insights into the question posed.

We would also support of a review of fiduciary duty, as proposed for consideration in the Government’s Green Finance Strategy. We would propose that the review consider how [making positive contributions to addressing market-wide and systemic risks to promote a well-functioning financial system](https://www.assetowneralliance.org/) can be accommodated within the application and execution of fiduciary duty in the context of the those regulated by the FCA.

**Question 12:** 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?

Brunel would argue that the entire financial services sector has important knowledge gaps in all sustainability-related issues. ‘Sustainability’ factors often highly complex, and technical expertise and experience are vital in producing and understanding the real-world impact.

As referenced in our response to question 4, there is a tension between the speed in which financial services sector, including regulators need to onboard sustainability into product/service manufacturing and monitoring, alongside operating, governance and oversight models, and the time and careful consideration needed to be able to integrate sustainability effectively.
The harm that so called 'competency greenwashing' can cause to markets and clients/consumers is high. The risk knowledge gaps, and more importantly misleading communications regarding the competency of financial services firms and product/service propositions will vary depending on the nature of the firm and product.

A misunderstanding of the level of competence which is required in the delivery of products and services which are or claim to be innovative in its sustainability characteristics could have large financial impacts, both from mismanagement of funds and confidence in markets.

We therefore reiterate our position set out in question 4, regarding the necessity for scientific and experienced individuals and teams to be embedded, where possible in the decision making of product/service creation and operations.

We also raise the necessity for the building and upskilling of a base-level of knowledge and expertise of all staff who are captured under the code of conduct rules.

The ability for firms to adapt to these recommendations will of course vary depending on size, proposition, and complexity.

**Question 13: Do you think there is a need for additional training and competence expectations within our existing rules or guidance? If so, in which specific areas do you consider further rules and/or guidance are required? Please explain your views.**

Brunel recognises that there is an urgent, systemic need for an upskilling of financial services professionals in sustainability matters.

We wish to highlight the importance of understanding that embedding sustainability considerations into products and services is an artform, not an exact science. As such, it is particularly difficult to distil this expertise into qualifications, as expertise often comes particularly with academic backgrounds and experience.

We believe that qualifications, such as CFA ESG qualifications could be an important baseline, however these are not competencies in their own right. We would invite the FCA to consider deeper research in this area, to understand what skillsets would be relevant to particular roles, especially for firms who manufacture, promote, and sell sustainable products and services.

Brunel therefore advises that any regulatory framework promotes a baseline knowledge across the financial services sector but is also agile to different requirements across firms depending on their service/product propositions and recognises that mandatory qualifications would not likely satisfy competency requirements in many circumstances.

Brunel would be particularly interested in engaging in a following-up conversation about this part of the consultation in particular.
Question 14: 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?

Please see our response to question 13

Question 15: 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.

This is something that has been observed and occurs frequently. We would welcome further discussion directly with the FCA on this issue.

We believe there is value in clarifying this question. How ‘ESG professionals’ (sic) are defined can vary. For example, an individual simply with ‘responsible’ or ‘ESG’ in their title, or who oversee ‘sustainable’ products or services could be considered an ‘ESG professional’. So too could an individual with strong relevant academic background and years of experience in managing and understanding sustainability issues.

It is the former of which we have considerable concerns and believe to be the source of the issue.

With regard to people working specifically in responsible investment and sustainability roles, there is often unrealistic expectations (and promotion by their organisations) of the breadth of specific knowledge. The concept of being a responsible investment or sustainability expert could easily be an oxymoron. In that the expertise of these professionals comes skills to analyse old problems with a new lens or brand-new problems using past experiences.

As per our response to question 4, we raise the work of Professor Dr Kim Schumacher. Specifically, we highlight the dangers of ‘competency greenwashing’ with the creation of sustainability-related job roles, titles and governance structures without appropriate knowledge, expertise, and experience to properly understand and implement the wide and complex lens of sustainability.