



10 May 2023

FIA EPTA response to the Financial Conduct Authority Discussion Paper on Finance for positive sustainable change: governance, incentives and competence in regulated firms (DP23/1)

Introduction:

The FIA European Principal Traders Association ([FIA EPTA](#)) welcome the opportunity to respond to the Financial Conduct Authority (FCA) [Discussion Paper](#) (DP) on Finance for positive sustainable change: governance, incentives and competence in regulated firms (DP23/1).

FIA EPTA represents 24 independent European Principal Trading Firms (PTFs) which deal on own account, using their own money for their own risk, to provide liquidity and immediate risk transfer in exchange-traded and centrally-cleared markets for a wide range of financial instruments, including shares, options, futures, bonds and ETFs. FIA EPTA's members are based in the Czech Republic, Germany, Ireland, The Netherlands, and the UK (~70% of our members have been licensed by the FCA).

Our members are independent market makers and providers of liquidity and risk transfer on trading venues and to end-investors across Europe. Market making and liquidity provision (also referred to as principal trading or dealing on own account) is a distinct activity that is undertaken by non-systemic investment firms rather than banks, in a highly dispersed and varied ecosystem of independent Principal Trading Firms. These firms operate in an innovative and competitive fashion leading to a vibrant, dynamic and diverse ecosystem which massively reduces interconnectedness and increases substitutability. This fundamentally reduces systemic risk whilst improving market quality and lowering costs for retail and institutional investors alike.

FIA EPTA is committed to supporting policymakers and regulators in ensuring the success of the sustainable finance project at all levels of the capital market ecosystem. We would welcome the opportunity to provide further background to the FCA on the issues raised in our response.

1. *Should all financial services firms be expected to embed sustainability-related considerations in their business objectives and strategies and what should be the scope of such expectations?*

FIA EPTA members believe that all parts of Financial Services should contribute to the transition towards sustainable capital markets. Because of the wide variety of financial services firms and their different objectives within the trading infrastructure; FIA EPTA members believe that not a one-off approach is feasible to be workable for all. FIA EPTA members believe that client-facing firms should be transparent about their sustainable investments and objectives. In addition, FIA EPTA members are strong supporters of the FCA and HM Treasury announcements on the future regulatory regime for ESG ratings. We believe this is needed to create more trust and transparency in the ESG markets.

FIA EPTA members believe that for now a ‘comply or explain’ based approach would best serve firms and the transition. The actions taken by firms should be transparent and meaningful and not just be a tick-of-the-box exercise. This also means that not all firms can yet contribute on the same level as others since the transition has only just started and need to be further developed. For the development of the transition of the capital markets, much capital needs to shift towards Sustainable projects and products. In addition, liquidity is needed to make sure the markets are attractive and well functioning. FIA EPTA members are an important source of liquidity and many members¹ support ESG projects and products.

FIA EPTA members supply their liquidity in markets that need it, many of those markets are traditional markets that are still needed by citizens and society. As recently seen in the oil and gas market around the Russian invasion and war in Ukraine, FIA EPTA members help markets by being there also in (extremely) volatile times, making sure the markets keep operating when many firms leave the market. A smooth transition will be hard to create and other crises in the markets will occur; that is why it is important to have enough liquidity in traditional and upcoming ESG markets and having regulation that would temper that would be a constraint on the market. That is why, FIA EPTA members believe that a ‘comply or explain’ based approach would work best as it allows the wide range of financial services firms to explain their actions. FIA EPTA members believe the focus should first be on the data, making sure sustainable investments are trustworthy, meaningful and truly sustainable.

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?*

FIA EPTA members would welcome additional guidance from the FCA on this. FIA EPTA members believe that firms have already included many different types of risks in their assessments. Sustainable-related risks will just be another type of risk that firms need to be aware of and include in their overarching risk assessments.

¹ FIA EPTA Member Survey on Sustainable Finance and ESG 2023: <https://wearemarketmakers.com/fia-epta-survey-half-of-european-market-makers-provide-liquidity-in-esg-products/>.

- 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?**

FIA EPTA members would welcome additional guidance from the FCA on this.

- 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?**

FIA EPTA members would welcome additional guidance from the FCA on this.

- 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?**

FIA EPTA members would welcome additional guidance from the FCA on this.

