



Treasury Committee

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Thank you for submitting written evidence to our decarbonisation and green finance inquiry.

Last week, we held an oral evidence session entitled '*green finance: unlocking private capital for net-zero*'. During the session, we discussed a range of issues of relevance to the FCA, including the 'Red Lines' voting initiative (hereafter referred to as 'Red Lines').

I understand that the Association of Member Nominated Trustees ("AMNT") submitted a complaint to the FCA dated 22nd May 2019 about the alleged failure of the fund management industry to allow pension scheme trustees to operate a stewardship policy governing the environmental, social and governance ("ESG") of the companies in which they invest via fund managers, particularly in pooled funds. The AMNT believe that this issue amounts to a market failure and have requested an FCA investigation. Expert witnesses at our evidence session concurred that this issue amounts to a market failure and recommended regulatory intervention. In light of this, I would be grateful if you could provide me with your views on the following:


1. What action has the FCA taken so far on 'Red Lines', following receipt of the AMNT's complaint dated 22nd May 2019? Please outline any initial findings.
2. Does the FCA intend to investigate the alleged failure of the fund management industry to allow pension scheme trustees to operate a stewardship policy governing the environmental, social and governance ("ESG") of the companies in which they invest via fund managers, particularly in pooled funds? Please provide details.
3. The AMNT's Red Lines review¹ states "Given the regulatory pressure asset owners face with regard to the development of stewardship policies, AMNT was disappointed with the opposition received by the fund management sector to accept client voting policies in split voting arrangements". Would it concern you if the actions of FCA regulated entities were hampering financial institutions from meeting their regulatory requirements?
4. Has the Red Lines issue arisen as a topic of concern in your dialogue with the Pensions Regulator, the Financial Reporting Council, and/or any other regulatory body with an interest in effective stewardship? If so, please outline the nature of any dialogue.

¹ <https://amnt.org/wp-content/uploads/2019/05/AMNT-final-review-for-FCA-22-May-2019.pdf>

5. Does the FCA believe that the market dynamics outlined in the AMNT's review for the FCA dated 22nd May, are compatible with firms meeting their regulatory duties under the FCA's *proposals to promote shareholder engagement: feedback to CP19/7 and final rules*²

6. Do you think it is possible for pension schemes to develop robust ESG policies and take savers' views into account, if fund managers choose not to act on the stewardship policies of their clients?

I intend to place this letter, and any response in the public domain. Please provide comments by 5th November 2019.



Catherine McKinnell MP
Interim Chair of the Treasury Committee

² <https://www.fca.org.uk/publication/policy/ps19-13.pdf>