Please note that BVCA responses to this survey are necessarily short due to restrictive word limits. We have communicated further detail on various areas to IOSCO separately.

IOSCO Survey Questions

A. General information

Question 1

Please describe in no more than 500 characters the nature of your company and the type of services or products you provide. (for associations: the sector you represent).

Description of the company:

We are the industry body and public policy advocate for the UK private equity and venture capital ("PE/VC") industry. With a membership of over 770 firms, we represent the vast majority of UK-based PE/VC firms, plus their investors and professional advisers. More detail is available in the Overview of the UK PE/VC Industry document we have sent IOSCO separately. We have responded from the point of view of UK private equity and venture capital fund managers and their investors as a whole.

B. Frameworks and regulatory guidance

Question 2

Please, indicate which **activities** (for instance, issuance, investment, selling, advisory, benchmarking) you carry out where ESG factors are taken into account?

Activities

- [ ] Issuance
- [x] Investment
- [x] Selling
- [ ] Advisory
- [ ] Benchmarking
- [x] Others

Investment:

Pre-acquisition due diligence helps PE/VC managers understand a target company's ESG performance and identify ESG risks/opportunities affecting its current and potential value. All ESG elements are covered during the investment processes, from screening through due diligence to investment decision.

Selling:

All ESG elements are important when PE/VC fund managers sell their funds' holdings in portfolio companies, as buyers typically expect detailed ESG analysis during due diligence. If managed well during holding, ESG focus usually creates value, crystallised on sale. The buyer's risk is also mitigated.

Others:
PE/VC fund managers invest in unlisted companies and gain substantial influence/control for 3-5+ years. This allows them to influence portfolio companies' ESG strategies and policies, establish governance arrangements, identify ESG impacts, establish KPIs and ESG performance monitoring arrangements.

Question 3

Please indicate whether you apply any **regulatory guidance, recommendation or standard** on ESG (domestic or international).

(●) Yes ( ) No

There is currently no unified ESG/sustainability/responsible investment regulation applicable to UK PE/VC. However, subject to any Brexit settlement, the industry will soon be subject to many elements of the EU sustainable finance package, and the FCA is considering new frameworks addressing climate change and green finance (please see our response to the FCA's discussion paper on this, which we have sent IOSCO separately).

Question 4

Please indicate which **methodology or criteria** you use to label any ESG activity. Please, indicate whether you disclose such methodologies and criteria or make them available to the public.

UK PE/VC uses both "ESG" and "Responsible Investment" as interchangeable labels. The key methodologies and criteria are the BVCA Responsible Investment Toolkit, the industry-wide ESG Disclosure Framework for Private Equity, the Invest Europe Professional Standards Handbook and ESG Due Diligence Guide, and the UN PRI Guide to Integrating ESG in Private Equity (these are public and we have provided links separately to IOSCO). UK PE/VC fund managers typically use these as a starting point and adapt them to their particular businesses. Some, typically larger, firms have developed their own methodologies based on the principles established by the above frameworks, and use that to differentiate themselves in the competition to attract capital. The industry has taken this principles-based rather than granular approach because of the broad variety of investments that PE/VC makes, with very different ESG issues being relevant to different sectors/investments. For example, an investment in a B2B telecoms business might present very different ESG considerations to an investment in a retail business. The principles-based approach allows ESG processes and reporting to be tailored to suit different scenarios. Note that a very strong focus on the governance element of ESG is inherent in private equity model of long-term (3-5 years) *ownership, which requires effective stewardship to create value in portfolio companies. PE/VC firms measure the success of this in part through achieving higher returns.*

Question 5

Please, indicate whether your company participates in any **international or domestic, private sector, public sector or public-private initiative relating to sustainable finance**.

- [x] Yes
- [ ] No

Our Responsible Investment Advisory Group (RIAG) is a forum for investors/fund managers to discuss ESG, develop thought leadership, spread best practice across our industry and provide specialist ESG input on legal/regulatory developments. It has produced training on ESG across the investment cycle and runs annual awards for top ESG practices. We also work with Invest Europe on ESG.

b. Describe the consequences or impact of your participation in those groups (for each item you check below).

- [x] Better knowledge and information-sharing
- [x] Implementation of international standards
- [x] Adherence to specific sustainability codes
- [x] Measures adopted internally as a result of your commitment to those groups, for instance, setting up a department on sustainable finance
- [x] Changes in internal policies
- [ ] Others

Better knowledge and information-sharing:
Our RIAG develops ESG best practice and shares knowledge with investors and fund managers through many channels. It provides content for many of our 100+ annual events. It has produced online training on how firms should consider ESG issues at the firm level, reporting and fundraising, due diligence and investment, holding period and exits. It also showcases and promotes ESG best practice via annual Responsible Investment Awards. Detail provided separately.

Implementation of international standards:
Our RIAG helps promote the implementation of the ESG Disclosure Framework for Private Equity, drafted by a group of 40 investors, 20 PE/VC associations (including the BVCA), and 10 leading fund managers. The BVCA membership consists of global and pan-European firms, so RIAG's promotion of the BVCA Responsible Investment Toolkit has an international angle. We also support Invest Europe's work in this area.

Adherence to specific sustainability codes:
See previous answer.

Measures adopted internally as a result of your commitment to those groups, for instance, setting up a department on sustainable finance:
We have not measured direct causal links between our RIAG's work and ESG measures that firms have adopted. However, firms are now universally aware of ESG issues, typically have ESG policies and increasingly commission specialist expertise. PE/VC firms, particularly smaller managers, will not usually have sustainability departments, due to a small talent pool, desire not to compartmentalise ESG outside investment process and limited resources.

Changes in internal policies
PE/VC firms will typically have an ESG policy as a minimum, not least because these are almost always required by investors, albeit with different levels of complexity and reporting. Increasingly, firms are then building on their policy and embedding ESG considerations holistically into their internal business and investment processes.

Question 6

a. Do you consider the **current legal framework** in your jurisdiction on ESG-financial-related issues is enough?

(•) Yes ( ) No

b. Do you consider more regulation is needed?

( ) Yes (•) No

Market demand, from both investors and customers of portfolio companies, has already caused ESG to be integrated into much of the industry without regulation, and we feel that the principles-based EU sustainable finance package respects this dynamism whilst promoting consistency and competition.

Do you consider more guidance is needed?

(•) Yes ( ) No

Firms need flexibility to integrate and report on ESG in a way that meets investors' requirements. However, multiple different ESG metrics are currently required by different investors, which hinders comparability and has significant cost implications for managers. Clearer regulatory guidance should aim to promote global consistency in particular around the scope of ESG disclosure requirements.

Question 7

Please, indicate whether you **report to any domestic authority** regarding sustainability issues.

(•) Yes ( ) No

There is no holistic ESG reporting requirement for PE/VC firms in the UK. However the Energy Savings Opportunities Scheme requires some companies and portfolios to conduct audits of the energy used by their buildings, industrial processes and transport to identify cost-effective energy saving measures that will reduce carbon emissions, and report to the UK Environment Agency.

Question 8

Please, indicate if you have any **legal incentive** to integrate sustainability issues in your operations, for instance, a legal incentive could be reduced taxes.

(•) Yes ( ) No

The UK Climate Change Levy creates financial incentives for UK companies to reduce emissions.

C. Sustainability reporting and disclosures. Legal requirements and voluntary disclosures.

Question 9

Mandatory reporting and disclosures in your jurisdiction. Please indicate if the securities regulator (or other authority in your jurisdiction) requires disclosure of integrated or sustainability reporting information.

(•) Yes ( ) No

The EU Sustainable Finance Package will require PE/VC firms to make a range of ESG disclosures publicly and to investors. The FCA is also considering new disclosure requirements for listed securities (which will affect some parts of PE/VC). We welcome these as a creating a consistent minimum standard, which some firms will exceed but which are not (subject to further RTS yet to be finalised) excessively prescriptive. See further detail on the impact of these rules provided to IOSCO separately.

Question 10

If you have identified requirements in response to the previous question, please check all that apply to those requirements.

Requirements

- [ ] Issuers rely only on materiality principles to determine the information to be disclosed
- [ ] There are concrete requirements for specific sustainability or non-financial disclosures

☐ There are requirements cross-referencing to third party frameworks (TCFD, SASB, etc.)

☐ There are requirements cross-referencing to third party frameworks on sustainable investments and green taxonomy

☑ Other(s)

IOSCO has informed us that it is already aware of the details of the EU Sustainable Finance Package, which we have not addressed here. We have provided further detail on our reaction to this package to IOSCO separately.

Question 11

If you identified requirements in response to question 9, please indicate if these refer to any of the following:

Requirements

☐ Initial offering and listing documents

☐ Ongoing or periodic reporting requirements

☐ Other securities regulatory filings

☐ Other corporate communications to shareholders

☐ Corporate websites

☑ Other(s)

IOSCO has informed us that it is already aware of the details of the EU Sustainable Finance Package, which we have not addressed here. We have provided further detail on our reaction to this package to IOSCO separately.

Question 12

Voluntary disclosures. Please indicate if, you are providing or plan to provide disclosure of sustainability related information on a voluntary basis even if the securities regulator does not require such disclosure.

Firms increasingly describe their ESG approach online due to market demand, or PRI or Invest Europe standards. Larger firms often publish detailed annual ESG reports. Managers are often contractually bound to report on ESG to investors under negotiated fund documentation (rather than legislation).

Question 13

Please explain the reasons why you are making such disclosure (e.g. investor demand, other legal or regulatory requirements, for inclusion in certain trading indices)?

Firms' perceive that ESG can improve returns (risk management and creating opportunities) and is an investor selling point. Investors increasingly demand ESG disclosures for reasons including consumer forces. Leadership often create an 'ESG culture'. Trend of greater consideration of stakeholders.

Question 14

Please explain, to your knowledge, the approach of the securities regulator in your jurisdiction related to sustainability related voluntary disclosures, if any.

The FCA is exploring requiring mandatory disclosures for managers of listed assets (less relevant to private equity) partly in response to the TCFD recommendations, and we expect will follow the EU's disclosure approach in the near-term.

D. General initiatives

Question 15

Please indicate if there are any **initiatives in your jurisdiction, aimed to promote sustainable capital markets and related initiatives**, for example:

a. Sustainability-themed products such as green or social bonds, ESG/sustainability indices, ESG/sustainability and/or responsible investment funds, ESG labels.

(•) Yes ( ) No

The UK has pioneered social impact bonds. There is a handful of EuSEF products in the UK (e.g. Big Issue Invest). HM Treasury is active on diversity, for example via its Women in Finance Charter (which the BVCA has signed). Several PE/VC firms have funds with renewable energy investment strategies. An increasing number of firms focus on positive impact investing. The FCA has noted and is considering the need for regulation of specifically green finance products. Some firms adopt UN PRI.

b. Promoting the incorporation and disclosure of ESG factors by listed companies.

( ) Yes (•) No

We have chosen not to comment on this because PE/VC firms are typically (although not exclusively) unlisted and mostly invest in unlisted companies.

Question 16

If **YES**, please describe the initiative(s) and provide information about the area of application of the initiative and who is leading the initiative(s).
Who is leading the initiative(s)?

- [ ] Government
- [ ] Securities regulator
- [ ] Auditors
- [ ] Stock exchange
- [ ] Industry
- [ ] Investors
- [ ] Other(s)

Description of the initiative(s)

Question 17

Please indicate if there, to your knowledge, is any collaboration between the public and private sector to promote sustainable initiatives (for instance, ESG financial instruments) in your jurisdiction. If so, please give a brief description.

(•) Yes ( ) No

The private sector is collaborating with the public sector in designing sustainable finance regulation by giving feedback on the EU and domestic consultations referred to above. See the FCA Discussion Paper on Climate Change and Green Finance, the FCA's Green Fintech Challenge and proposals for the Global Financial Innovation Network to act as a regulatory sandbox for green products.

Question 18

Please indicate whether there are, to your knowledge, any incentives structures (e.g. tax or other type of incentives) in your jurisdiction that focus on promoting sustainable/ESG financial instruments, including green financing, responsible investments, integration of ESG factors in investment and business strategies of listed companies, etc.

(•) Yes ( ) No

Please see our answer to question 8.

E. Impediments to the development of sustainable finance

Question 19

Do you believe there are any impediments to the development of sustainable finance in your jurisdiction?

(•) Yes ( ) No

Question 20

If **YES**, please, indicate which of the following items you perceive as being an impediment to the development of sustainable finance in your jurisdiction.

Main impediments

- [x] Nascent state of market development
- [ ] Lack of market infrastructure
- [ ] Lack of investor demand
- [ ] Lack of understanding/awareness on sustainable/green financing
- [ ] Lack of sustainable investment opportunities including bankable projects
- [ ] High implementation costs
- [ ] Short-termism in markets
- [x] Limited public sector support
- [x] Lack of reliable and comparable data
- [ ] Other(s)

Please briefly elaborate on your response above.

ESG is becoming a mainstream consideration for PE/VC in the UK. As it develops, evolving systems and processes should cause the burden of its relative novelty to fade.

Further public sector incentives, if well-designed, could feasibly make a powerful contribution to the development of sustainable finance.

Holistic ESG performance is inherently challenging to quantify/provide meaningful, comparable data for. This is partly why firms need the flexibility to design approaches for different portfolio/investment strategies and different investors (which negotiate different ESG terms at closing).

F. Your securities markets: ESG financial instruments and market practices

Question 21

To your knowledge, what are the most commonly used **ESG financial instruments** in your market (e.g. green bonds, social-impact bonds, renewable energy investments, sustainability and/or responsible investment funds, ESG related indices, emission allowances, low carbon investment funds, etc.) and any trends detected:

Private equity and venture capital funds typically (although not exclusively) do not issue or trade securities on organised securities markets as part of their core business, so we have not completed this section. Please also see our response to question 15a.

a. Have any of those sustainable instruments been issued in your jurisdiction?

Yes No

b. To your knowledge, what are the objectives for issuing or marketing these instruments?

Objectives of these instruments

c. Please include information on the platform(s) where these instruments are traded (e.g. stock exchange, other trading platforms etc.)

Platforms

Question 22

Who labels these instruments as "ESG"? Do you follow any methodology or criteria to identify the instruments as related to environmental, social or governance matters? Are those methodologies or criteria publicly disclosed? If so, please indicate which one you use.

Who labels these instruments?

Do you follow any methodology?

Are these methodologies or criteria disclosed?

Question 23

Please describe the market practices on using ESG-financial instruments (e.g. voluntary standards, creation of specialized/independent sustainable committees, etc.).

Market practices

Question 24

Please indicate the initiatives taken by the stock exchange(s) in your jurisdiction to support sustainable instruments, if any. Please, indicate if those instruments have elements of environmental, social or governance nature.

Stock exchange initiatives

Question 25

Please indicate whether there are any service provider (e.g. credit rating agencies, external auditors or other information services providers) in your jurisdiction that, to your knowledge, has developed ratings or assessment methodologies on instruments and practices relating to sustainable/ESG factors. Indicate the type of factor (environmental, social or governance-related).

Credit rating agencies

External auditors

Other information services providers

Question 26

Please provide comments relating to availability and access to ESG related data and information to policy makers, regulators, market practitioners and investors. Do you collect such data regularly? For which purposes?

G. Role of securities regulator

Question 27

Please indicate what should be, in your opinion, the role of the securities regulator in your jurisdiction with regard to sustainable finance?

Role of securities regulator

- [ ] Promote re-orientation of capital towards investments that contributes to sustainability objectives
- [ ] Promote Corporate Social Responsibility among financial companies
- [x] Facilitate sustainable investment by promoting transparency
- [x] Facilitate sustainable investments by preventing misselling of financial products claiming to pursue sustainable objectives (greenwashing)
- [x] Regard environment and climate or other ESG risks as potential financial risks that need to be managed and disclosed
- [ ] Other(s)

We consider that the role of the regulator should be to facilitate and promote sustainable finance (whilst protecting any consumers) rather than prescribing detailed regulation on how *sustainable finance should operate in the professional/institutional investor space occupied by private equity and venture capital.*

Question 28

In relation to the role of the securities regulator described in the previous question and in light of cross-border considerations, do you believe that international supervisory and regulatory coordination is needed?

◉ Yes ○ No

We support the work of international bodies such as the FSB, OECD and IOSCO in providing forums that can work towards a degree of global coordination and minimum standards, to the extent these are underpinned by a principles-based approach that eschews granular and prescriptive rules. We feel that a too-granular approach has the potential to undermine the efforts of firms that have taken the lead on sustainability in response to market demand, and could damage the effectiveness of regulation in this area by causing it to be seen as a mere 'box-ticking' exercise. However, it is also important that other international initiatives do not diverge significantly from the EU-level approach and lead to various and cumbersome, costly requirements for global firms. These can harm competition by raising barriers to entry, and would carry cost implications for investors, ultimately harming ultimate beneficiaries like pension fund participants.

H. International standards or third-party frameworks

Question 29

Please indicate if your company has adopted, endorsed or referred to international standards or third-party frameworks such as:

- Sustainability-related reporting frameworks
- International taxonomy standards, such as green bonds
- ESG Benchmarks

◉ Yes ○ No

Question 30

If **YES**, please indicate which international standards or third-party frameworks your company has adopted, endorsed or referred to (select all applicable options).

International standards or frameworks

☐ ICMA Green Bond Principles

- [ ] ICMA Social Bond Principles
- [ ] ICMA Sustainability Bond Guidelines
- [ ] ASEAN Green Bond Standards
- [ ] ASEAN Social Bond Standards
- [ ] ASEAN Sustainability Bond Standards
- [ ] Climate Bonds Initiative (CBI) Standards
- [x] UN Principles for Responsible Investment (PRI)
- [ ] OECD Guidelines for Multinational Enterprises
- [ ] ESG-related standards by the International Organization for Standardization
- [ ] Global Reporting Initiative (GRI) Standards
- [x] CDP (formerly the Carbon Disclosure Project)
- [ ] Climate Disclosure Standards Board (CDSB) Framework
- [ ] The International Integrated Reporting Framework
- [ ] Sustainability Accounting Standards Board (SASB) Framework
- [ ] Task Force on Climate-related Financial Disclosures (TCFD) Recommendations
- [ ] World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines)
- [ ] Other(s)

Question 31

If **NO** to question 29, please identify the primary reasons for not formally adopting, endorse or referring to international or third-party standards.
Reasons

Question 32

Have you observed specific cross-border challenges related to ESG disclosures or sustainability reporting in your jurisdiction?

○ Yes ◉ No

Question 33

If **YES**, please identify and describe those cross-border challenges.
Cross-border challenges

Question 34

If **YES**, please identify possible domestic, regional, international or third-party initiatives that could help address those challenges. Please explain how any initiatives you identify might address the challenges described above.

Possible cross-border initiatives

Question 35

Do you think that ESG-related international standards would best be developed by market stakeholders based on a dynamic process, or should there be a more coordinated approach by securities regulators going forward in the development of such standards? Please elaborate on the pros and cons of your choice of answer, and if applicable, explain how a more coordinated approach can be achieved.

Regulation should be market-led and not hinder sophisticated ESG practices that have developed. Regulation can encourage this trend by focusing on minimum standards for transparency and disclosure rather than operational or overly granular rules. This facilitates competition on ESG issues. In particular, regulators should recognise the powerful market forces driving ESG performance of portfolio companies from two sides: companies' customers and consumers, who increasingly make sustainability-based choices; and investors, who increasingly focus on ESG. Regulation should not impede this dynamic.

I. Next steps

Question 36

What do you think the next steps for the IOSCO Sustainable Finance Network (SFN) should be?

We support IOSCO's decision to map global ESG initiatives. We believe publication of some output from this survey could be a valuable contribution to global understanding and promotion of sustainability issues (but we understand IOSCO's possible constraints). In any case, the themes and information IOSCO gathers have potential to drive forward the development of ESG practices globally. We feel the ultimate aim should be to promote consistency in disclosure rules across jurisdictions to allow investors to base global investment decisions on sustainability issues, should they choose or need to.

J. Confidential answers

Question 37

Please indicate whether you wish your responses, in part or in full, remain confidential and not referred in the IOSCO Sustainable Finance Network (SFN) report. Please, indicate the numbers of those questions whose answers you wish to keep confidential.

We are happy for our responses to be referred to in the report.