

Sustainable Investing: Expert Support

FBC Sustainable Investment Fund Oversight Review (SIFOR)

'Greenwashing' has become a household phrase with regulatory fines and media attention increasing worldwide. A number of firms have found themselves falling foul of new and longstanding rules relating to the management and marketing of sustainable investment funds.

In the UK, the FCA's Sustainability Disclosure Requirements, or SDR, consultation was released at the end of 2022 and sets out both specific requirements when it comes to fund labels and disclosures, as well as general anti-greenwashing powers.

There is significant scrutiny of the fund board's role in overseeing these funds, placing an onus on fund board directors to ensure these funds deliver to investors 'what they say on the tin'.

Based on our own extensive, cross-border research¹ and in discussion with our corporate members, FBC has developed a new service for 2023 – the FBC Sustainable Investment Fund Oversight Review (SIFOR). SIFOR supports fund boards in understanding their role and obligations and assesses whether they are operating effectively in overseeing sustainable investment, in areas such as:

- **Delivery of the fund's commitments to its investors:** ensuring that funds have clearly articulated objectives, select appropriate investment managers to fulfil these objectives and effectively monitor whether these objectives are being met.
- **Compliance with laws and regulations:** monitoring that funds are developed and managed in line with relevant requirements, including those covering product design, product documentation, and mandatory reporting.
- **Risk management:** assurance that key risks are identified, monitored and managed within agreed board risk appetite limitations and consider the effectiveness of internal controls.
- **Board composition:** identifying whether the board members have appropriate skills, knowledge and experience to discharge their duties.

Sustainable Investment Fund Oversight Review (SIFOR) at a glance

A thorough review of the effectiveness of the fund board's oversight of sustainable investments:

- Executive interviews to assess current oversight arrangements.
- Desktop review of established processes.
- Bespoke report, and summary, including:
 - Findings of assessments.
 - Practical suggestions for improvement.
- Presentation and discussion of the findings with the fund board and executive forums.
- Expert support throughout the process.



¹ ['Sustainable Investment – navigating the challenges for fund governance'](#), First Sentier Investors MUFG Sustainable Investment Institute, in partnership with FBC

SIFOR – scope and assurance

The SIFOR service aims to address questions such as:

- How effective are current controls to oversee sustainable investment funds, including the role played by each of the ‘three lines of defence’ in providing assurance to the fund board?
- How involved is the fund board in oversight and what questions should they be asking to understand the scale of the risks arising?
- What kind of Management Information is the fund board receiving and is it useful to judge the effectiveness of controls to oversee sustainable investment funds?

The FBC SIFOR helps fund boards to meet the letter and spirit of regulation such as the FCA SDR, much of which builds on existing requirements for authorised fund managers.



SIFOR – process and reporting

This is a bespoke review and FBC’s Senior Advisers will work closely with your firm to determine the scope of the review, identify and agree the key stakeholders and interviewees, and ensure that the SIFOR provides practical and actionable assessment and advice in relation to the needs of each specific fund board.

From there, the SIFOR process involves three key stages:

- Reviewing the current sustainable investment fund oversight arrangements at a fund board level, including:
 - o Desktop review of fund board packs (including relevant Management Information) and minutes, as well as relevant sub-committee materials (e.g. investment committee / risk committee).
 - o Interviews with the fund board members and a number of relevant executives who attend or support the board in their oversight of sustainable investment funds.
- Producing and socialising draft findings for discussion.
- Formal presentation of findings and a summary of recommendations to the fund board and any other relevant governance forums.

The SIFOR typically takes six to eight weeks end-to-end, with the timing varying depending on the complexity of the business and the timeliness of receiving information to input to our review.

FBC’s Sustainable Investment Oversight work

FBC is exclusively focused on fund governance and has extensive understanding of the intricacies and nuances of fund governance and its role within the wider governance structure of investment management firms. We actively support fund boards in delivering greater value, improved transparency and better governance for their investors.

Sustainable Investment and oversight of Environmental, Social and Governance (ESG) features of funds is one of our key pillars of expertise. Through internal expertise, industry advisers and key relationships with regulators, we have our finger on the pulse and use our unique proprietary insight for fund boards, and the senior executives who work closely with them, to navigate this rapidly changing landscape.

For more information on FBC’s Sustainable Investment Fund Oversight Review (SIFOR), please get in touch with our expert Senior Adviser, Brandon Horwitz, at bhorwitz@fundboards.org.

For general information on FBC’s responsible investment or general fund governance work, go to fundboards.org.