

# ESG and the Role of Compliance

November 2022



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**November 2022**

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## Foreword

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AFME in collaboration with EY is pleased to publish 'ESG and the Role of Compliance', a discussion paper which comes at a critical time for our members.

ESG is now firmly established as a key regulatory priority for firms and one which exists within a rapidly evolving legal and regulatory landscape in both the EU and UK – and globally. We identify how those in a compliance function can contribute to the overall implementation of their firm's ESG business strategy.

Based on findings from interviews and questionnaires we consider how compliance can identify a clear scope for their firm's ESG activities by defining their own ESG risk management framework in relation to products and services and by providing strategic advisory support to the business. Activities may include advising the board and management on their firm's implementation strategy through to identifying and mitigating the key risks associated with ESG - typically categorised as regulatory, conduct and reputational.

The paper also considers the benefits of developing an approach that determines additional data requirements in order to create better management information (MI) that can enable more effective oversight and challenge of ESG-related compliance risks.

We have structured the paper in four key areas, providing practical suggestions for i) defining the role of compliance in ESG ii) how to address immediate priority risks iii) what longer term infrastructure changes may be required and iv) the key considerations for compliance moving forward.

AFME would like to thank EY for their efforts in compiling this report, as well as members from AFME's Compliance Committee and all of whom made contributions that were integral to the development of this publication.

This joins a series of papers produced by AFME and EY including [Anti-Money Laundering Transaction Monitoring in the Markets Sector](#), [Governance of Market Abuse Surveillance Controls](#), [The Future of the Compliance Control Environment](#) and [The Scope and Evolution of Compliance](#).

This discussion paper also follows on from our 'Governance, conduct and compliance in the transition to sustainable finance' roadmap published in September 2020.



**James Kemp**  
**Managing Director**  
GFMA and AFME

**“We identify how those in a compliance function can contribute to the overall implementation of their firm's ESG business strategy”**





## Executive summary

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This report sets out observations on how compliance functions can support their firms in robustly and transparently managing the regulatory risks associated with Environmental, Societal and Governance (ESG).

In a compliance context, ESG is a broad term used to describe laws, rules, regulations and expectations regarding how environmental and social factors impact a firm and the broader impact of the firm on the environment and society, including obligations on a firm related to the offering of ESG-related products and services, how a firm manages its exposure to ESG risks, and ESG-related disclosure.

ESG compliance is a complex and changing area: most regulatory expectations are yet to be clearly established as defined rules and regulations, and regions are running at different speeds in terms of regulatory maturity. Global themes are nonetheless emerging around the importance of integrating ESG into enterprise risk management, particularly ensuring that firms manage climate-related financial risks and risks associated with ESG products and services (including 'greenwashing') and the importance of non-financial disclosure.

### How this report should be used

This report has been prepared to be practical, to support the thinking and enable discussions within firms on shaping the role of compliance and ESG. The observations and considerations in this report have been prepared through a questionnaire and interview-based format; therefore, the report should not be treated as an audit report. When considering ESG risks and the observations in the report, firms should do so within the context of the firm's risk taxonomy and control frameworks, in this context it is important to note that responsibilities for managing ESG risks may vary depending on the firm. AFME members or other firms are not obliged to implement the considerations within this report.

### Structure of this report

This report has been prepared in partnership with AFME and its members, who participated in an industry survey covering seven themes around the topic of how compliance functions address ESG, including strategy, organisation and coverage, compliance risk management framework, systems and capabilities, regulatory environment, data and key performance/key risk indicators. The report is structured into four sections:

1. Defining the role of compliance in ESG
2. How firms are addressing the immediate priority risks
3. The longer-term infrastructure changes which will be required
4. Key considerations for compliance moving forward

### High-level findings

From our discussions with members, compliance functions have a significant role to play in managing ESG-related regulatory risks within firms and ensuring that the challenges of identifying, managing and mitigating compliance risk in this emerging area are met. In the absence of a single universal definition of ESG risks, firms are developing their own definitions to which they will anchor their frameworks and operating models. Once a common firm definition is in place, Compliance may choose to focus on the following:

1. Defining, embedding and communicating a clear scope of activity between Compliance, the business and other control functions. Compliance may also bring together various stakeholders and play a 'choreographing' or 'sign-posting' role across the Second Line of Defence (2LOD), given the level of compliance risk in this area.
2. Enhancing the compliance risk management framework and updating related compliance plans to reflect the changing risk profile of ESG-related compliance risks.
3. Evaluating the target state for ESG-related compliance activities (e.g., regulatory development, advisory, monitoring and testing) and identifying enhanced 'ways of working' to support the firm as it embeds ESG into its key frameworks and decision-making processes.



## Executive summary

- Supporting the board and senior management across all levels of the firm in managing and mitigating the compliance risks and outcomes from the implementation of the firm's ESG strategy and partnering with enterprise-level teams to ensure that there is a framework in place with defined roles and responsibilities to define, monitor and report ESG commitments and obligations.

### Focussing on the immediate priority risks

Firms have been building a tactical response to the ESG compliance challenges, with an immediate focus on identifying and mitigating the risk of greenwashing and enhancing product/transaction frameworks. The compliance function will increasingly need to pivot from what can be seen as a 'firefighting mode' to a strategic approach, adapting its framework to manage ESG-related compliance risks. Whilst specific greenwashing rules and standards are not yet in place, regulators are taking steps to clarify firm obligations in applying existing standards and principles to sustainability related products and services (i.e., fair, clear not misleading, sustainability claims are proportionate and not exaggerated). In addition to this, regulators will still expect firms to have established their risk appetite on ESG-related risk and adjust how they manage their business accordingly (e.g., governance, third-party oversight, monitoring and testing). Specifically, firms are focusing on the following:

- Greenwashing:** Compliance is currently focused on advising the business on the risk of misrepresenting a product, transaction or service as 'green' or 'sustainable' when the underlying features and structure do not reflect the label. However, other sources of greenwashing must be recognised at both firm/enterprise and client levels. Compliance should work with other 2LOD functions to determine coverage of broader potential sources of greenwashing.
- Product/transaction management framework:** Firms are not only evaluating the design of products and transactions but are also increasingly looking to ensure an awareness of the risks and potential control failure points that can result in greenwashing across the transaction lifecycle. Compliance should ensure that First Line of Defence (1LOD) functions have the appropriate controls in place at the point of sale and that these are balanced by post-sale outcome testing to mitigate the tail risks associated with ESG-related products and services.

### Longer-term focus

In the medium to longer term, we note that Compliance is focusing on the following:

- Compliance risk management framework:** Managing ESG-related compliance risks will require Compliance to undertake a range of activities to uplift the compliance risk management framework:
  - due to the transversal nature of ESG, the scope of ESG related compliance risks is updated, including risk thresholds and tolerances to effectively measure and monitor the changing ESG-related compliance risk profile
  - Compliance have the capabilities to execute the expanding scope of compliance risk assessments to take into account ESG driven laws, rules and regulations
  - Compliance activities and processes are adapted and enhanced to meet additional expectations around ESG-related compliance risks
  - updated roles and responsibilities to manage the risk and risk governance processes for oversight within Compliance and coordination with the 1LOD and other 2LOD functions impacted by ESG-related Compliance risks.
- Compliance organisational structure:** Compliance functions should consider evaluating whether ESG has a material impact on compliance risks and ensure the compliance structure is fit for purpose to oversee and manage the changing risk profile. Some compliance functions have recognised this need and are putting in place mechanisms for increased coordination across compliance:
  - ESG compliance programmes (similar to data privacy and conduct risk programmes); with a 'Head of ESG Compliance' to ensure there is dedicated focus and Compliance stewardship of ESG. This role is global for many firms, although the disparate nature of ESG regional regulation has caused some firms to address this at regional and jurisdiction levels.
  - ESG compliance community, which sits over the top of existing organisational structures, with sponsorship from designated compliance function executive.



- **Metrics and data:** The complexity of ESG is also reflected in the type of metrics required to monitor for ESG-related risks, with Compliance challenging the 1LOD on the design and management of metrics and where to source the required data to enable monitoring activities to take place. Thus far, firms have had to rely upon existing metrics. However, there is an expectation to understand and source a new set of metrics better suited to measuring the nature of ESG-related compliance risks. The use of ESG-related data, especially those sourced by external third party providers are likely to result in increased regulatory, conduct and reputational risk which will more than likely require Compliance to provide increased advisory support to 1LOD and functions relying on these data sources.

Compliance functions play an important part in regulatory change management. ESG may also cause compliance functions to consider whether they have a broader role in aligning regulatory expectations to the firm's governance, control and oversight functions. Compliance should consider evaluating if an incremental uplift is required to its framework and function and design a roadmap to implement the required changes for the Compliance framework and to support 1LOD regulatory controls in this area. Compliance will need the mandate, resources and tools to successfully deliver large-scale ESG-related change programmes within Compliance, and to advise on broader ESG related compliance risks impacting the 1LOD and other 2LOD functions to enable the right outcomes are delivered for impacted stakeholder groups.

**“Compliance functions play an important part in regulatory change management”**



### Defining the role of Compliance in ESG

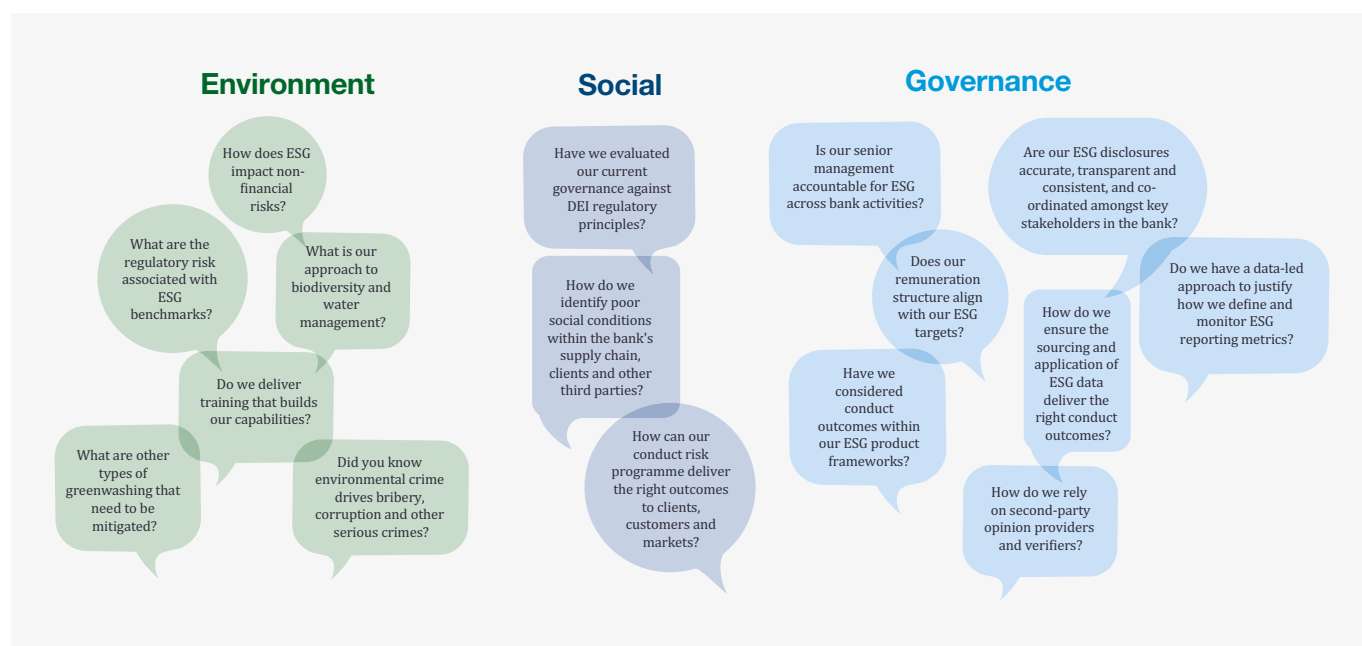
There is unanimous recognition by members and regulators alike that ESG is a 'broad church' of themes, risks and issues that have a significant amount of interdependency. Given the strategic nature of ESG, the level of focus by the board, as well as the need for detailed, technical expertise to work through (e.g., the specific disclosure requirements for climate), it may be challenging for compliance functions to define their role in the overall ESG agenda and within the 2LOD framework.

Compliance needs support to determine its role around ESG; a firm-specific definition of ESG is required, as well as clarity on the perimeter of ESG as a risk type. This will also involve identifying who is responsible for which element of ESG across the business and control functions, including the various stages of the product/transaction and client lifecycle. This should enable firms to establish a comprehensive risk and control strategy, thus enabling the compliance function to determine the impact of any gaps in the compliance risk management lifecycle and to consider any additional steps that require embedding into the compliance framework.

In defining ESG at the firm-specific level, we noted the following from members:

- ESG refers to three specific risk areas used to define, measure and report firms' approaches to operating sustainably and ethically. Some firms define ESG as one common risk type; others have elected to form a specific definition for the 'E', 'S' and 'G'. In addition, firms need to consider the transversal nature of ESG, its impact on existing risk taxonomy categories and to embed and operationalise within the existing risk management framework.
- Many firms rely upon various international frameworks, standards and regulations to define ESG factors, whilst others use their own definitions. Firms should consider the lack of alignment and consistency in the definitions/commentary between international regulators. In particular, the UK and EU regulators have expressed concerns over ESG benchmarks and are looking to bring this activity inside the regulatory perimeter. Regulators will expect appropriate controls over firms' use of third parties.
- Given the breadth of ESG, the term can be used by different stakeholders interchangeably with other terms, including but not limited to 'green', 'sustainable', 'socially aligned' and 'environmental'. This can add to the challenge of arriving at a common, firm-wide definition and perimeter, to which Compliance can then provide a regulatory risk overlay.

Further, as firms grapple with the broad nature of ESG-related risks, some of the following key questions are emerging across the market, which they should consider when looking to draw out the perimeter of ESG from other risk types:





Given these questions, there are specific steps that firms could consider taking to embed the role of Compliance within ESG, which are:

1. Setting out a clear scope for Compliance within ESG, anchored in the compliance risk management framework
2. Identifying how compliance risks (e.g., regulatory, conduct and reputational) are impacted by ESG
3. Embedding the management of ESG-related compliance risks into existing Compliance activities.
4. Moving from managing risk and compliance at the product/transaction level to engaging at the board and enterprise level and challenging the control framework in place to enable firms to meet their ESG commitments.

The remainder of this section seeks to explore each of these, in turn, to ensure Compliance teams are clear on their future role within the overall ESG agenda. Section 3 explores what Compliance teams are doing now and additional considerations to get there.

### Setting out a clear scope for Compliance within ESG

Given its broad nature, firms need to adopt an approach to bring together the broad range of risk management activities, frameworks and stakeholders across the firm that all contribute to the ESG strategy and ambition.

To date, regulators and other bodies have focused on disclosures and stress testing, with mis-selling and greenwashing now at the forefront of regulatory thinking. This focus has been mirrored by the compliance function, where Compliance's scope has been anchored around advising the 1LOD on both the ESG-related compliance risks of greenwashing (including the roles and responsibilities in the risk ownership) and products and transactions labelled as ESG/sustainable. In future, the focus for Compliance will need to turn towards building sustainable, regulatory and oversight monitoring frameworks for ESG and advising the business on the controls to support commitments made at the board level and the outcomes for customers and markets.

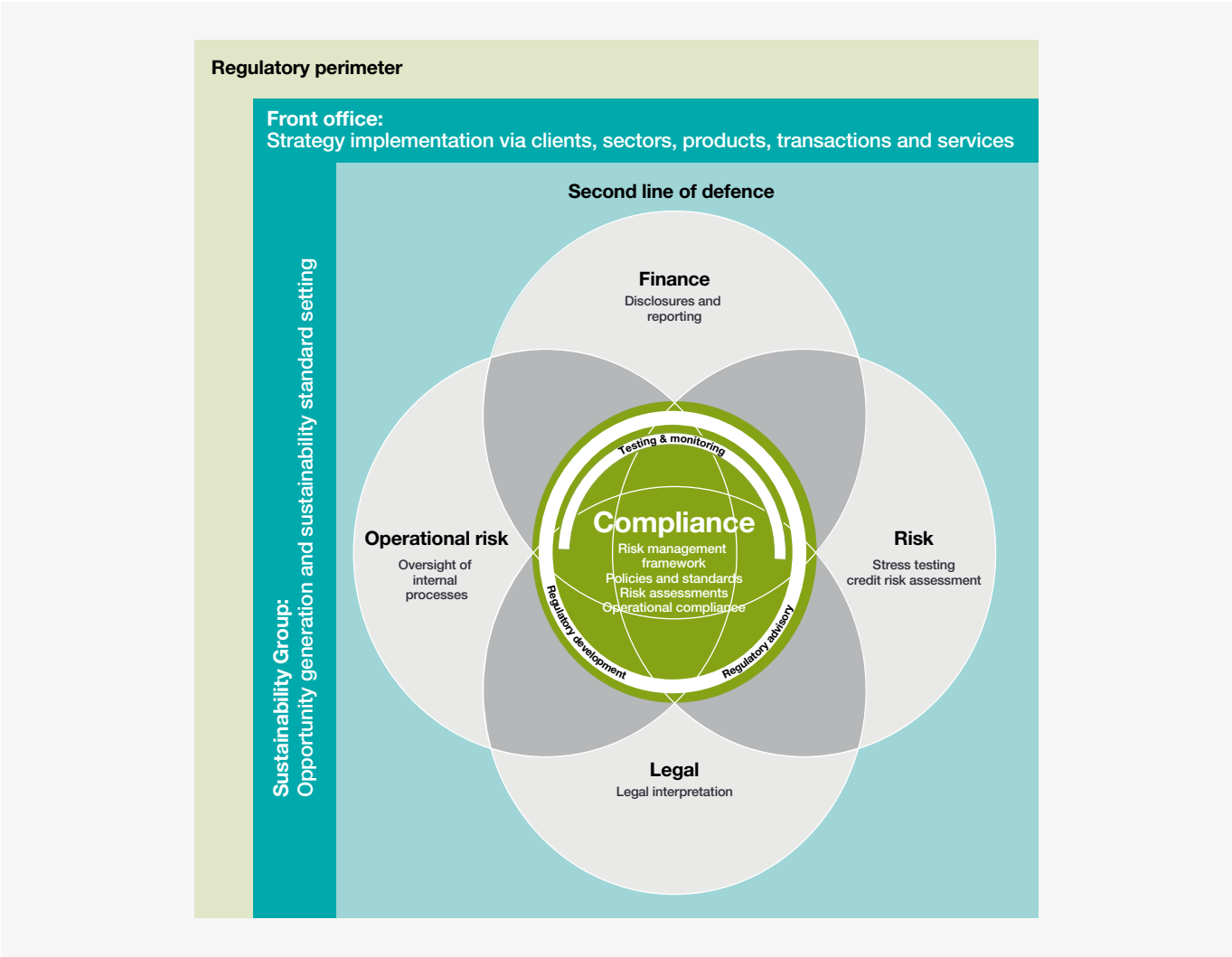
We note from members that there is increasing delineation between the scope of Compliance as it relates to ESG versus other 2LOD functions. There's an increasingly clear understanding of the activities and risks for which Compliance is responsible and those for which other control functions are (e.g., those overseen by 2LOD Finance/Risk/Legal). As this delineation emerges, two key points have been noted with members:

- Perhaps unsurprisingly, Compliance's core scope generally focuses on managing the impact of the volume of emerging regulations for ESG globally and providing support and oversight to the business in their implementation. Additional 'core' compliance activities include Compliance monitoring and oversight of key ESG-related compliance risks, ownership and/or oversight of policies and standards, and ongoing compliance risk assessments and thematic reviews.
- Importantly, as part of the compliance function's core scope, there is an increasing expectation that Compliance will perform a role in 'signposting' to other second-line areas where regulatory oversight of ESG-related compliance risks is required. Given the diverse nature of the risks (i.e., covering financial and non-financial risks) and the complexity of 2LOD activity this generates (e.g., regulatory disclosures, outcomes testing, legal interpretation, embedding across the risk management framework), there is widespread recognition that Compliance is well placed to 'lead the debate' on what other 2LOD functions should be doing — more so than any other 2LOD function.



Defining the role of Compliance in ESG

As such, we set out below an initial view of the potential boundaries between each 2LOD function for which, whilst clear delineation and accountability exist between and within each function, Compliance is increasingly choreographing the overall 2LOD model.



There may be other ESG-related activities outside the regulatory perimeter, including but not limited to environmental and social policies and restrictions that a firm sets and applies at a customer and transactional level. These are typically owned and managed by a designated sustainability group or environmental and social risk functions within firms. There are examples of compliance functions working in partnership with these groups to ensure a shared understanding of the management of ESG-related risks. Furthermore, we note that regulators do not have clearly defined expectations for respective ESG roles and responsibilities within a firm, unlike more traditional risk types. However, it is clear that regulators will expect roles and responsibilities to have been clearly defined going forward.



### Compliance risks related to ESG typically fall into three core risk types of regulatory, conduct and reputational risk

Within business as usual (BAU), it is common practice for Compliance to oversee, steward and advise on regulatory and conduct risks. This often includes end-to-end oversight of how these risks are managed, including regular review and assessment of the business in how they manage and mitigate these risks to ensure that all relevant risks have been identified and appropriate controls have been designed and are operating effectively.

In our discussions with members, we noted that it is common practice for the business to tag their ESG-related risks as reputational, regulatory and conduct (which naturally 'lend themselves' to having greater proximity to Compliance's sphere of influence), sitting within the following definitions:

- **Regulatory risk:** The risk of breaching Financial Services rules and regulations (including but not limited to breach of regulatory duty to clients or counterparties, and market conduct)
- **Conduct risk:** The actions (or inaction) of the firm and its employees that can impact the conduct outcomes to clients, customers and the broader market
- **Reputational risk:** The misalignment of corporate actions with the external sentiment of, for instance, customers or the public. There is a reputational risk with managing regulatory risk that extends from conduct risk expectations and the breadth of regulatory requirements. Outside of regulatory and conduct risk management, reputational risk can also arise from non-governmental organisations (NGOs), activist shareholder groups and public perception if firms are seen to be bad ESG actors.

On conduct risk specifically, there is recognition that in the absence of prescriptive ESG regulatory obligations managing non-financial risks, conduct risk management frameworks could play their part in identifying and managing the conduct outcomes that will arise from the implementation of firms' ESG strategies.

In addition, we do see outcomes-based regulators (such as the UK's Financial Conduct Authority) driving firms to identify the conduct outcomes they want to achieve as a firm for their clients, customers and the broader market and to ensure there is an appropriate framework in place to enable firms to achieve those outcomes. The management of ESG-related compliance risks is no different. Clarifying the expected customer, client and market conduct outcomes is also helpful in allowing Compliance to oversee ESG-related risks.

Overall, given the current limited number of specific new laws, rules and regulations, especially within the markets' business governing products, transactions and services labelled as ESG or Sustainable, the conduct risk management framework is seen as a key element of the risk management infrastructure. It should and can be leveraged in overseeing ESG-related compliance risks.



## Defining the role of Compliance in ESG

To support the link between ESG and conduct risks, some exemplary conduct outcomes set against typical ESG risk scenarios are set out below:

ESG lens	Example scenarios	Example conduct outcomes
<b>Bank/firm/enterprise</b>	Group position vs business position (i.e., business contributing to climate change)	Financing activities has a direct and negative (either financial or non-financial) impact on a variety of stakeholders (clients, customers and border society).
<b>Client/counterparties</b>	Handling of client relationships (new or existing) that do not align with the firm's ESG strategy, including the transition path to net zero commitment	Existing corporates can be denied essential financing services, which has an impact on the wider society.
		Clients are not given sufficient time and information to remediate their operations to align with the firm's net zero strategy.
		Clients have a negative impact on the firm's net zero commitments.
	Application of additional terms and conditions to clients to bring them in line with the firm's ESG strategy	Additional terms and conditions on clients are designed to be asymmetrical to the benefit of the firm.
		The firm does not enforce additional terms and conditions on a client, resulting in misalignment with the firm's ESG strategy.
	Client outreach to obtain regulatory mandated information	Clients receive multiple communication requests from different teams/desks/business units from the same firm, which result in unclear communication.
<b>Products, transactions, services</b>	Credit risk assessments factor in client's exposure to ESG risk	Application of ESG criteria on the client's credit risk assessment results in the pricing of products/transactions/services that could be deemed as unfair to the detriment of the client/customer.
	Allocation of carbon allowances to clients/ counterparties	Decisions to allocate carbon allowances to certain clients/ counterparties could result in an advantageous outcome for one client/counterparty at the expense of another client/ counterparty.
	Design of new products, transactions and services labelled/promoted as ESG/sustainable	Application of ESG criteria on the client's credit risk assessment results in the pricing of products/transactions/services that could be deemed as unfair to the detriment of the client/customer.
	Withdrawal of products and services	Clients do not understand why a product/service has been withdrawn.
		Appropriate action has not been taken to identify and provide redress to clients if a case of greenwashing has resulted in client detriment.



## Embedding ESG-related oversight into compliance activities

Whilst firms continue to provide clarity around the scope of their roles as they relate to ESG, we noted from members that ‘traditional’ compliance activities and processes are being adapted and evolved to meet the additional expectations around ESG-related compliance risks. This is both logical and to be expected, given the regulatory demand that ESG should be applied to the existing risk and compliance infrastructure and processes.

To bring this to life, we have applied the traditional compliance activities that were set out in a previous AFME paper (*“The Scope and Evolution of Compliance”*).<sup>1</sup> We’ve set out a range of examples as to how traditional compliance activities are being applied in the context of ESG, as follows:

Current roles for compliance functions	Examples of execution around the ESG agenda
<b>Regulatory developments</b> Horizon scanning, interpreting changes and advising business	<ul style="list-style-type: none"> <li>Regulatory development processes have been updated to focus on capturing ESG-specific regulation (new/existing), with an increasing focus on the global alignment of emerging regulations.</li> <li>ESG-related regulatory developments are communicated to impacted stakeholder groups, either as part of informal/formal working groups/change management programmes or as part of the existing regulatory change management process.</li> <li>Some compliance functions have expanded the scope of their regulatory development process and function to include voluntary industry standards, guidance and codes; given the propensity of ESG-related regulatory expectations to be issued as guidance rather than formal regulations/legislation.</li> </ul>
<b>Risk assessments</b> Assessment of conduct and regulatory risks, and design of control framework	<ul style="list-style-type: none"> <li>Risk identification: Existing compliance risk taxonomies are being leveraged to identify which compliance risks are impacted by ESG business activities/related products, services and transactions. We note from discussions with members that a current key area of focus is on sustainable finance product/transaction service offerings.</li> <li>Risk assessment: Existing compliance risk assessment processes are being leveraged to conduct compliance risk assessments to identify high ‘ESG-risk’ business and functional activities impacted by Laws, Rules and Regulations that require heightened compliance monitoring as part of the annual compliance planning process.</li> <li>Example approaches include identifying ESG scenarios/activities that are bolted onto existing risk assessments, leveraging existing risk assessments but providing management with reporting on the scale of ESG risk exposure.</li> <li>We also note that MiFID II requirements necessitate firms to incorporate suitability factors (i.e., ESG risks) within their risk management framework, which is typically led by compliance as a key area of activity.</li> </ul>
<b>Compliance policies and standards</b> Design and communication of standards and provision of training	<ul style="list-style-type: none"> <li>Identification and enhancement of compliance policies and standards that are impacted by ESG activities (e.g., conflicts of interest, market abuse). We also note that MiFID II requirements necessitate firms to incorporate suitability factors into key policies including (but not limited to) organisational requirements, product governance, conflicts of interest and investment suitability.</li> </ul>
<b>Advisory oversight</b> Oversight, support, and challenge to the business on transactions, business changes and initiatives	<ul style="list-style-type: none"> <li>Advisory-aligned compliance officers provide advisory support to the business/sustainability office teams on the regulatory, conduct and reputational risks associated with sustainable finance products/transactions and service offerings.</li> <li>Compliance has also been active in training the front office on ESG-related risks and the responsibilities of business/function staff. For example, we have noted several examples where Compliance teamed up with Legal to deliver training around greenwashing and 1LOD/2LOD’s respective obligations.</li> </ul>
<b>Monitoring and testing</b> Periodic risk-based monitoring of compliance with policies and procedures	<ul style="list-style-type: none"> <li>Given the heightened risk around sustainable/ESG labelled products/transactions/services, several compliance functions are conducting agile testing of key controls within high-risk businesses/desks, with a view to including testing of ESG-related risks as part of the complete suite of compliance testing within the annual compliance plan going forward.</li> </ul>

<sup>1</sup> AFME, *The Scope and Evolution of Compliance*, October 2018, p. 9





## Defining the role of Compliance in ESG

We observe from discussions with members that, given the unique nature of ESG, there is an opportunity for the compliance function to use ESG as a catalyst to establish new 'ways of working' and to challenge the traditional compliance mindset. Examples include:

- **Compliance is challenged by the volume and complexity of interpreting emerging ESG-related regulations for the business and establishing where global commonality exists in the swathe of emerging regulation.** Regarding ESG, an increasingly sought-after attribute for Compliance is taking a 'helicopter' view across all emerging regulations globally to draw out commonality whilst retaining local specifics. Members have noted similarities in the approach to data privacy (i.e., no global common definition of personally identifiable information) and conduct risk programmes (i.e., conduct risk is a transversal risk type).
- **Compliance as the strategic independent advisor to the business,** with a broad outlook around the compliance risk associated with ESG, which can then be applied to all strategic change initiatives within firms. This could include setting out regulatory expectations when it comes to advising on matters outside of the regulatory perimeter (e.g., industry frameworks that provide guidance on Key Performance Indicators (KPIs), Sustainability Performance Targets (SPTs), Use of Proceeds and Second Party Opinion (SPO) providers associated with sustainable finance products/transactions).
- **Increased and proactive business/product advisory services,** including advising senior management on the reputational and conduct risks associated with the mix of business, the 'quality' of clients and when the business should consider stepping back from products/services that are potentially viable from a commercial perspective, albeit not through an ESG compliance lens. Compliance should consider if existing escalation channels are sufficient in scope to capture these additional ESG business considerations.
- **Creating new information flows and escalation channels** into and out of new sustainability teams/chief sustainability officers responsible for spearheading the firm's sustainability agenda.
- **Compliance having an increasing focus on the application of data as a means to enhance Compliance capabilities** and awareness of the risks associated with the application of ESG-related data by the 1LOD and 2LOD functions, accuracy and completeness of data, including some firms who are introducing data scientists to work on ESG initiatives. Traditionally, financial disclosures and related controls around the completeness and accuracy of those disclosures have been outside the remit of Compliance. In contrast, we now see this as a potentially new set of skills that may be required.
- **Enhanced Compliance training,** in partnership with other 2LOD functions (e.g., Legal) focusing on ESG-related compliance risks (e.g., ESG-related guardrails for product marketing) for key stakeholder groups (including compliance officers). The business is increasingly coming to Compliance to request specific training packages and sessions for them to manage the flow of business accordingly.



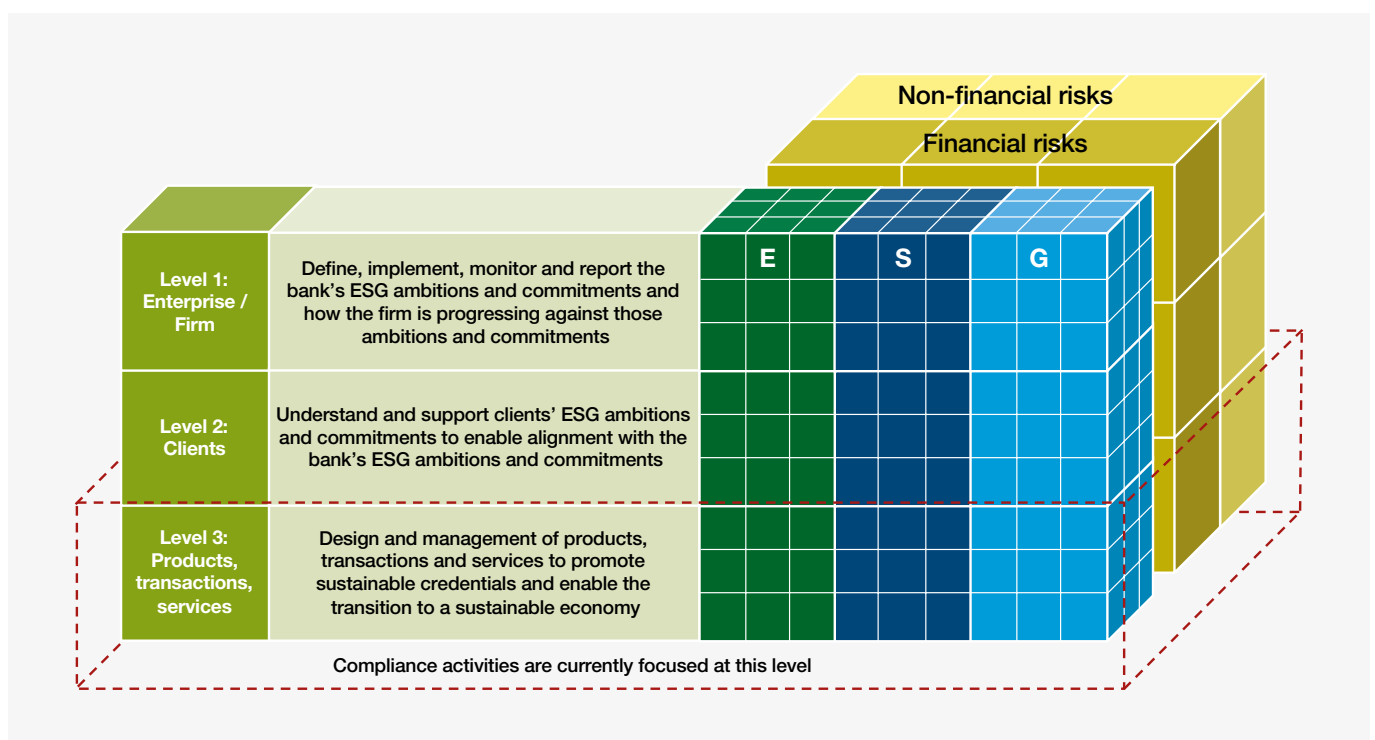
### Compliance as the proactive, strategic advisor to the business

From discussions with member firms, there is also an acceptance that ESG challenges the ‘conventional’ compliance mindset. Rather than managing risk and compliance at the product/transaction level, the compliance function is moving into a more strategic role in engaging a broader set of stakeholders to ensure the 1LOD has the appropriate controls in place to enable ESG commitments to be met. This could also include advising the 1LOD on the evolving regulatory environment (regulatory and potentially public perception from a reputational perspective) and the subsequent boundaries the business can operate in to capture the opportunities available as the global economy transitions towards a sustainable economy.

Given the unique nature of ESG, we note that compliance functions are enhancing existing monitoring activities at a more detailed product, transaction and service level (i.e., Level 3), with considerations being made over the 2LOD coverage model over Level 2 and 1 activities. This is set out in the image below, with the different risk levels explained as follows:

- **Level 1** focuses on the firm-wide ESG strategy activities
- **Level 2** supports the alignment of clients and sectors with the firm’s ESG strategy
- **Level 3** covers activities that enable the implementation of the ESG strategy through products, transactions and services provided to clients

Given the broad range of factors that constitute ESG, firms need to adopt an approach to connect various stakeholders, functions and data points seamlessly and comprehensively. There are similarities with conduct risk and data privacy programmes where an effective risk management strategy has been to ‘join the dots’ across the firm; and which firms can now draw on as established practice for ‘cross-cutting’ risks. This enables Compliance to learn how to adopt a more strategic approach to its core activities.



## Defining the role of Compliance in ESG

We, therefore, note that the current area of focus for Compliance is in advising the 1LOD in identifying and managing risks associated with products, transactions and services labelled as ESG/sustainable. However, the compliance function intends to move into the more strategic levels (1 and 2), which also allows compliance functions to consider specific ESG-related compliance risks when operating at Levels 1 and 2 (i.e., when operating at the enterprise/firm level, it becomes easier for Compliance to monitor across reputational, conduct and regulatory risk). This is explained further in the table below:

Compliance focus	There are key risks from ESG activities ...			... that will change the risk profile of the below non-financial risk categories		
				Reputational risk	Conduct	Regulatory
Potential additional area of focus	Level 1	Bank/firm/enterprise	Failure to meet firms published ambitions and commitments	Incorrect/misleading external disclosures (either intentional or unintentional) could have a reputational impact on the firm.	Conduct risk that can impact outcomes will arise from the design and implementation of a firm's ESG strategy.	Global regulators will expect firms to mitigate the risks associated with implementing their ESC strategies through existing governance, risk and control frameworks (with examples noted above). If the global economy is not on track to meet the 2015 Paris Agreement, this will likely prompt governments and global regulators to consider taking legal and regulatory actions to progress on key environmental factors that impact the global economy.
	Level 2	Clients/counter-parties	Lack of screening at onboarding and throughout the client relationship to identify factors that have a negative impact on the firms ESG strategy	Emerging compliance practice includes challenging qualitative information in disclosures. However, this is typically done on a best-efforts basis.	Firms will need to make decisions within the next five years on how to handle customers who do not align with the firm's ESG strategy, especially those clients that have a negative impact on the bank's sustainability commitments, including net zero.	
			Failure to enforce conditions onto a client on which a sustainable finance product/transaction/ solution was sold	There will continue to be activist shareholder action resulting from ongoing relationships with clients/ customers in sectors that are deemed as high risk from an environmental and social consideration.	Firms should take steps to identify scenarios that can impact outcomes across the client management lifecycle and put mitigating plans in place to manage their clients throughout the process.	
Current area of focus	Level 3	Products/ transactions/ services	Failure to design products/ services in line with sustainable expectations	Compliance has a second-line role to challenge the 1LOD to mitigate the reputational, conduct and regulatory risks that can result from the design and sale of sustainable finance products, transaction and service offerings. This is typically executed by Compliance as part of representation in product/transaction/deal review forums and outputs from those forums embedded into existing BAU Compliance activities (i.e. advisory, monitoring and testing, surveillance).		
			Failure to ensure that stated claims remain truthful over time and/or take action to adjust stated claims			



## Greenwashing and Transactional risk

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Firms have established a tactical response to the ESG compliance challenges, with many member firms focusing on the primary risks raised by regulators and through their own analysis. The regulatory focus has expanded beyond disclosures and stress testing to greenwashing, which has led firms to evaluate their frameworks for assessing the integrity of ESG products and transactions to demonstrably achieve their 'green' objectives and to ensure alignment with customer objectives.

However, whilst many firms have developed a tactical response to the growing and diverse number of ESG products, transactions and services, there is now a need to establish their strategic approach to consider how the key elements of the compliance framework can be enhanced to meet the greater demands placed upon Compliance by ESG-related risks. These include the compliance risk management framework, the organisational structure of the compliance function, the role that Compliance should play in supporting the wider 2LOD oversight framework and the metrics and data required to support the compliance function to discharge their oversight responsibilities.

Many firms will rightly wish to leverage existing structures and frameworks. To address the specific nature of ESG-related risks and provide transparency over the outcomes, they will also need to decide how best to enhance those current processes to provide an 'ESG-ready' approach. Doing so will enable compliance functions to qualify their mandate and then quantify their resourcing and technology needs.

### Greenwashing

The most immediate threat to customer and market outcomes for ESG is the potential for customers or investors to be led to believe that a product or transaction has an environmental impact or credentials that subsequently prove incorrect. This is an area where there are increasing and specific global regulatory requirements.

Global regulators are focusing on this area with increasing levels of guidance and regulation. In the EU, greenwashing is a priority for the European Securities Market Authority (ESMA) over the next two years; promoting transparency has been a central theme of its 2022 Sustainable Finance Roadmap. ESMA defines greenwashing as:

*"Market practices whereby the publicly disclosed sustainability profile of an issuer and the characteristics and/or objectives of a financial instrument or a financial product and the related processes do not properly reflect the underlying sustainability risks and impacts."*<sup>2</sup>

In the roadmap, ESMA sets out characteristics of greenwashing and recommends taking a broad approach to defining greenwashing. Compliance officers can leverage these characteristics from root cause to outcomes' interpretation when working with businesses and functions to identify scenarios and advise on controls required to mitigate greenwashing.

Greenwashing scenarios can occur across the transaction lifecycle with underlying indicators that may be new or unfamiliar. Consequently, firms need to identify who is responsible for the oversight of those activities, how the greenwashing scenarios are communicated with key stakeholders and how the three lines of defence model is applied with sufficiently detailed ESG market knowledge to manage those risks effectively.

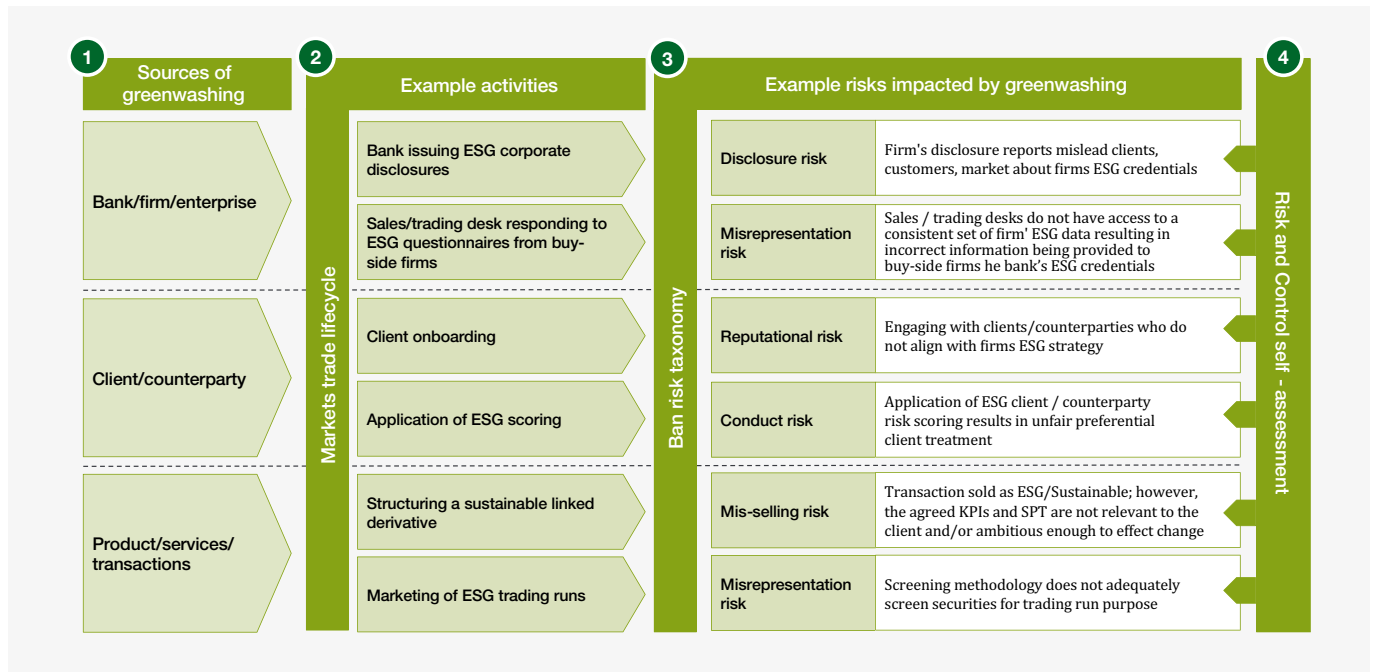
Compliance officers should work with businesses and functions to oversee and monitor the four-step approach to identifying and embedding greenwashing into risk management frameworks.



## Greenwashing and Transactional risk

Four-step approach to identifying and embedding greenwashing into risk management frameworks			
1	2	3	4
Define the scope and identify sources of greenwashing	Identify impacted business activities	Identify impacted risk categories	Undertake risk and control self assessment
<p>Define the scope and identify the potential sources of greenwashing across three lenses:</p> <ol style="list-style-type: none"> <li>1. Bank/firm/enterprise</li> <li>2. Clients/counterparties</li> <li>3. Products/transactions/ services</li> </ol>	<p>Leveraging lifecycles (Bank: entity-level disclosures; Client: lifecycle from onboarding/offboarding; product/transaction/ services lifecycle), identify the activities impacted by the potential sources of greenwashing</p>	<p>Leveraging the firm's existing risk taxonomy, identify existing risks that can be impacted and any new additional risks that may need to be incorporated into the risk taxonomy</p>	<p>Leverage the firm's existing risk and control self-assessment process, evaluate the control environment and agree on actions if the risk/control environment is outside of risk appetite</p>

An example has been outlined below of how various sources of greenwashing can impact existing business activities and the risk taxonomy:





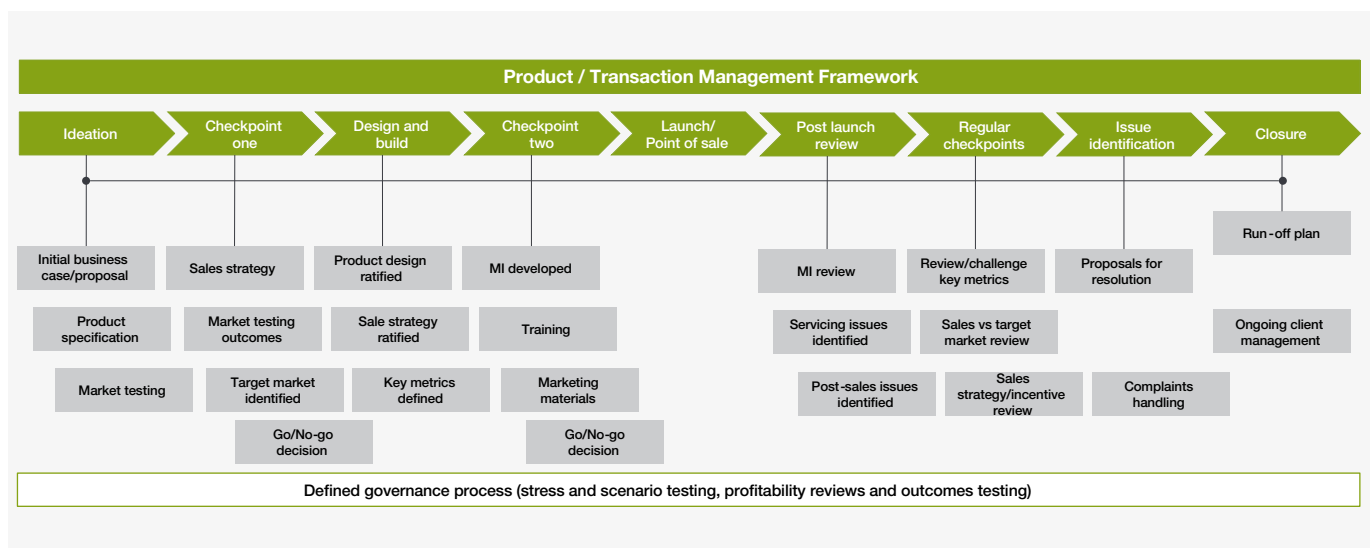
## Product/transaction management framework

Firms are enhancing ESG-specific oversight for new products and at a transactional level for those trades identified as ESG (although not all ESG-impacted trades or products may yet be recognised as such). In doing so, firms are evaluating the design of products or transactions and, increasingly, looking to ensure awareness of the risks and potential control failure points that can result in greenwashing across the transaction lifecycle.

This is supported by regulation where, for example, sustainability changes to MiFID II require manufacturers and distributors of financial products to understand the sustainability-related objectives of their target market and ensure there is alignment with the sustainability-related factors within the product, which should be supported by ongoing periodic post-sale reviews. Firms will also need to identify additional risks and controls required for non-advised transactions between professionals and eligible counterparties.

The 1LOD is typically designing and operating these controls with reporting into 1LOD oversight forums. However, this is one of many examples where the need for regulatory and conduct interpretation and independent oversight by Compliance will be a key element in achieving the right outcome.

The controls and process flow that comprise a firm's product/transaction management framework is set out below. Compliance's value to the 1LOD is setting out regulatory guidance and expectations as part of pre-sales and post-sales activities and controls. Sustainable finance products will have an increased tail risk associated with exposure to environmental-related factors, which will require firms to enhance monitoring capabilities to monitor outcomes on an ongoing basis.



Firms are undertaking steps to enhance existing controls to ensure they mitigate the risk of greenwashing. The more successful approaches have been anchored in a common definition of greenwashing, the sources of greenwashing are known, and potential control failure points are known and mitigated. Some firms have supported their approaches by establishing playbooks with various business scenarios supplemented by regulatory, reputational and conduct considerations.



## Greenwashing and Transactional risk

The key challenges and mitigant actions across the product/transaction management framework are set out below:



\*KPI: Key performance indicators; SPTs: Sustainable Finance Performance Targets; SPOs: Second Party Opinion providers



### Establishing the compliance framework for ESG

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One of the main questions for firms is how to define the role of the compliance function in the overall ESG control and oversight framework. If that role is to be one where Compliance actively advises on executing the ESG strategy in meeting stakeholder expectations, then it requires the tools, skills and resources to be set up for success.

There is no doubt that the nature of the risks and the level of expectations by customers, clients and regulators alike will require a significant uplift to the existing control framework. Many firms will leverage their current control environment as far as possible, and it is in the nexus that the challenge exists.

The experience of member firms is that additional skills, tools, data and accompanying resources are required for Compliance to allow the firm to meet stakeholder expectations. However, Compliance has not been mandated to onboard these skills and tools. To quantify that need, we must consider each element of a future framework to determine where leveraging any existing capabilities will need to be supplemented.

#### Compliance risk management framework

The starting point for all firms is to leverage their existing Compliance risk management framework and not to create a distinct framework, which is typically the case for other risk categories (e.g., conduct risk, data privacy). However, there is no 'right' approach to positioning ESG-related compliance risks within the compliance risk management framework. Firms are adopting approaches based on their organisational circumstances or where there is a need to have appropriate focus and attention on material ESG-related compliance risks. Firms should consider the pros and cons of each option and ensure roles and responsibilities across the 1LOD and 2LOD as part of implementation activities.

Many firms are adopting a transversal risk approach whereby ESG is embedded into existing risk categories (e.g., considering client ESG factors embedded into the credit risk assessment process). The more successful approach has been an 'enhanced transversal approach', whereby the existing framework is modified to incorporate an ESG-specific lens. This will require firms to think about an approach and plan to embed it into the existing risk management framework, including but not limited to risk appetite statements (including thresholds and tolerances), policies, risk and control assessments, reporting and governance.

#### Compliance organisational structure

Compliance functions are considering if they need to evaluate their structure in response to the regulatory risk associated with ESG. How Compliance structures itself is very much driven by the individual characteristics of the firm and how the ESG operating model has been defined, including but not limited to role and responsibilities, ESG related risk owners and boundary risks where there is an overlap across risk owners.

From the participants surveyed, there are three key questions compliance officers are asking that inform the approach to be taken:

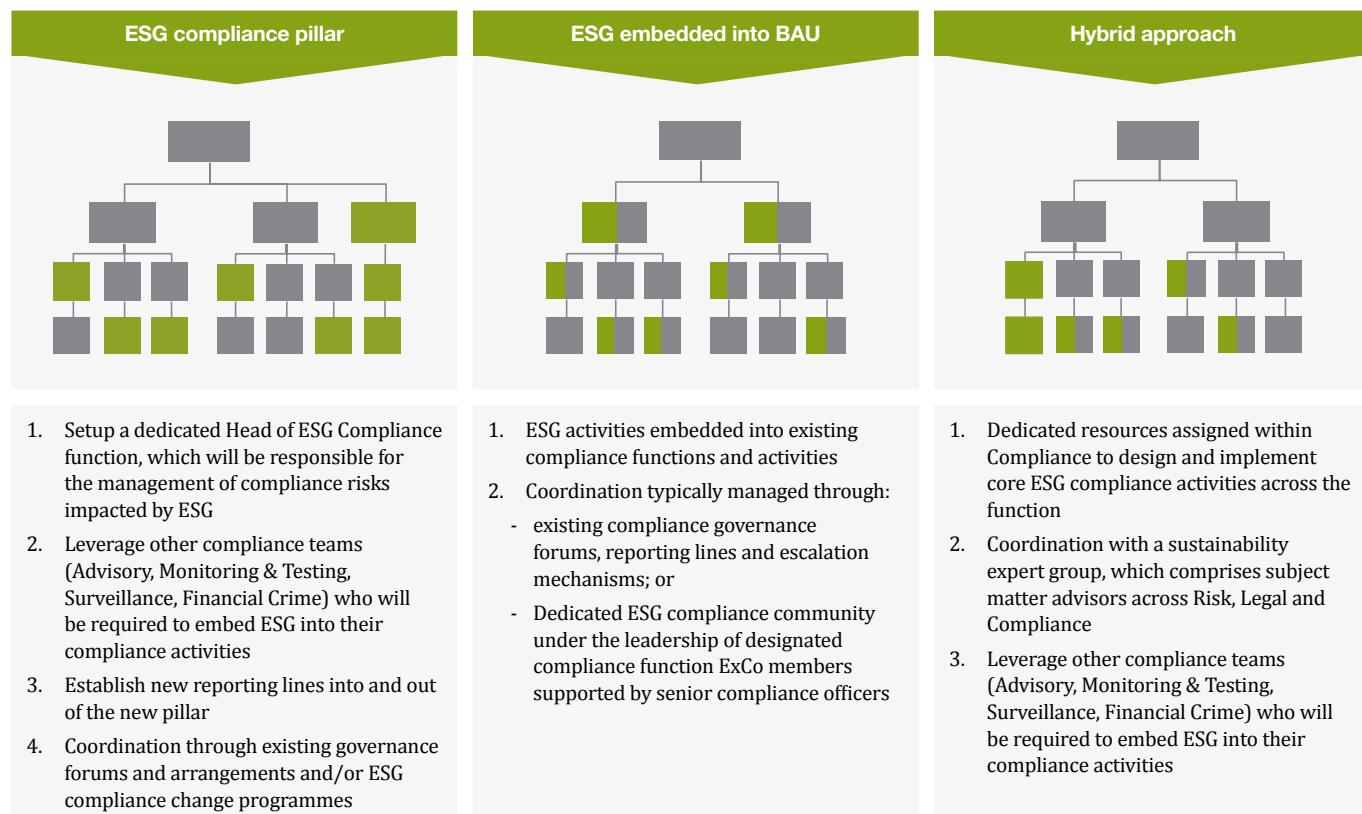
- How do businesses and functions define the ESG strategy and implement it into their activities including risk and control frameworks?
- How are the second-line functions being coordinated to address the regulatory and conduct expectations and reputational risk in the oversight and challenge over activities impacted by ESG?
- How is the material risk generated from implementing the ESG strategy being overseen by Compliance to drive the ESG compliance risk management programme (e.g., Head of ESG Compliance)?

Given the global nature of financial services firms, an added dimension of complexity is a firm's footprint across the various levels (global, regional, jurisdiction and business lines). Compliance should take steps to understand the ESG activities and implications across these various levels and how the compliance coverage model is consistently applied across all levels of the firm.



## Establishing the compliance framework for ESG

Some of the compliance function organisational options being considered by member firms are outlined below:



## Metrics and data

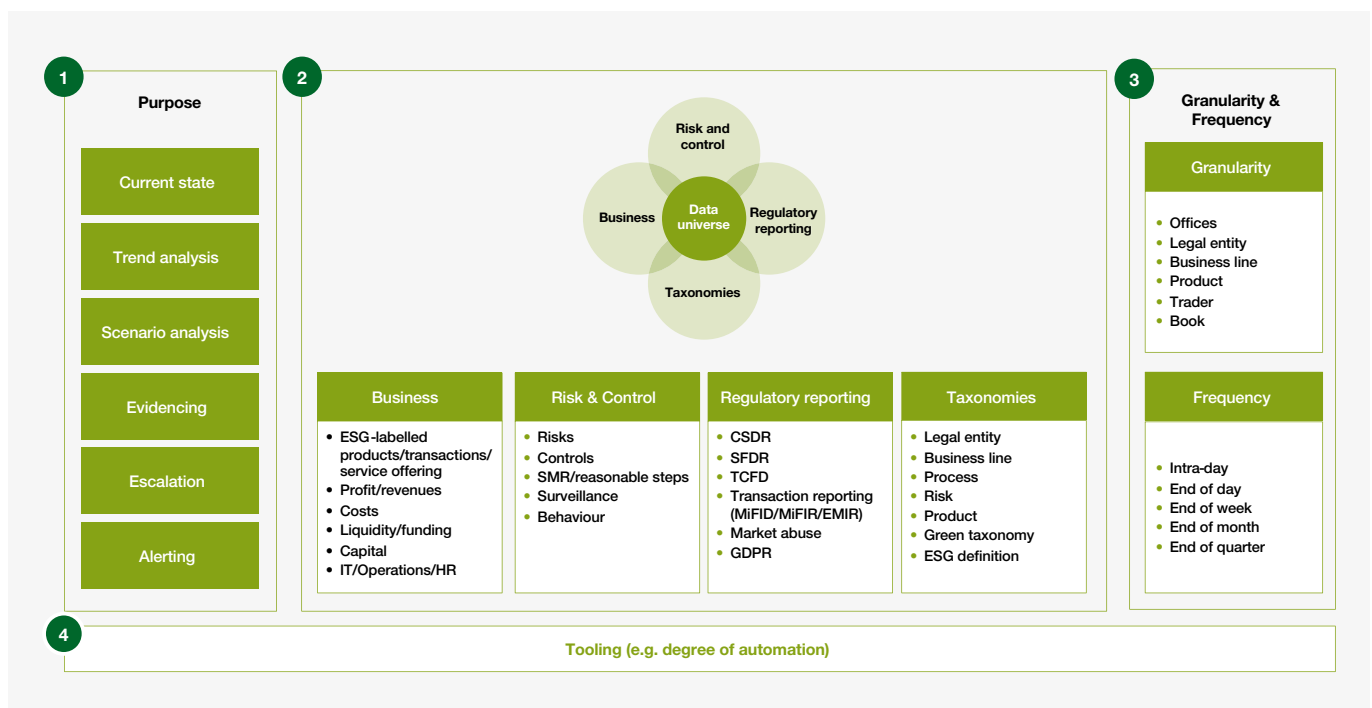
A significant challenge for firms is the need to identify and source management information (MI) to enable effective oversight and challenge of ESG-related compliance risks. Firms are initially leveraging MI within the business to manage ESG-related risks. Examples that members have referenced include:

- Noting revenue and profit margins associated with ESG-labelled transactions sold by a particular business that identify above or below-average outliers. These may be an indicator for high-risk businesses that require additional compliance activities.
- Monitoring the number of complaints that arise from the sale/marketing of ESG products/transactions.

There will typically be a population of MI which can be leveraged and repurposed. However, 1LOD and 2LOD should consider undertaking an evaluation to identify gaps, which will be driven by the firm's definition of ESG, the firm's ESG strategy and the implementation activities to embed ESG into the firm.

Firms typically consider the below four dimensions when building MI:

1. The purpose of the MI based on the nature of the ESG-related risks
2. The data universe from which data can be sourced to build the required MI
3. The required granularity and frequency of the MI
4. The tooling required to represent the MI and the degree of automation to extract the required data and produce reporting



When building MI, firms should initially focus on defining the purpose of the MI and the data universe (business, risk and control, regulatory reporting and taxonomies) from which the MI can be sourced.





## Establishing the compliance framework for ESG

### Purpose

Based on industry practices, firms typically break down MI into six purpose categories:

Management information purpose	Current state	MI that reflects the current state of ESG-related risks across the firm: <ul style="list-style-type: none"><li>Regulatory risk (e.g. volumes of laws, rules and regulations, level of traceability of obligations to controls)</li><li>Reputational risk (e.g. enterprise view of high-risk clients, sectors, deals)</li><li>Conduct risk (e.g. outcomes from monitoring of post-sales control activities)</li></ul>
	Trend analysis	Trending analysis that enables the identification of increasing/decreasing trends across MI
	What-if analysis	Ability to perform historical analysis based on simple analytics (e.g. current period and trend on prior periods)
	Evidencing	Ability for senior management to evidence reasonable steps have been taken to complete their roles and responsibilities
	Escalation	Escalation mechanisms to track issues and escalations and update metrics thresholds to generate exception-based reporting
	Alerting	MI that has breached predefined thresholds

### Data Universe

When sourcing the required data to build MI, firms should consider the impact ESG will have on the existing data universe and identify where to source the required data.

Data universe	Business	Financial data (revenue, margin, profit, commission) related to sustainable finance offering. The financial impact associated with ESG that most firms are currently undertaking as required by various dear-CEO letters, policy statements and regulatory guidance.
	Risk and Control	The inherent and residual risks associated with the risk and control framework, with an ESG lens. Informed by the impact on both financial and non-financial risks.
	Regulatory reporting	Regulatory reporting obligations and requirements to enable transparency of key ESG metrics and performances on an ongoing basis.
	Taxonomy	The additional taxonomies required will include the firm's definition of ESG and green taxonomy requirements as defined by regulation.



Compliance functions evaluate the type of indicators and metrics required, and they typically fall into two buckets:

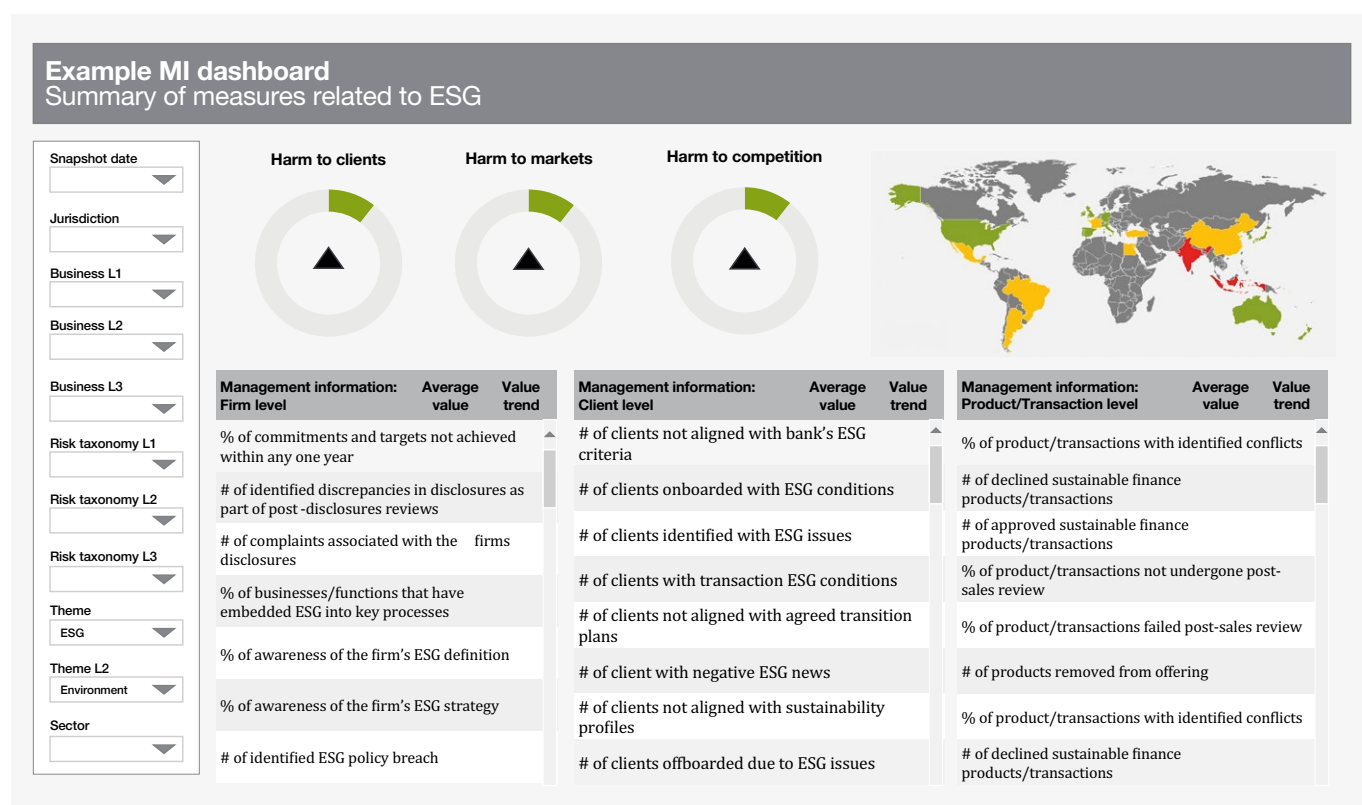
Operational (i.e., measuring the progress of ESG implementation into Compliance)

- Number of businesses and desks where risks impacted by ESG have been identified and embedded within the risk taxonomy
- Number of compliance staff who have completed required ESG training courses
- Residual risks from ESG-driven business activities to inform where best to focus compliance activities

Risk management metrics (i.e., qualitative metrics to establish whether the firm is operating within the appropriate risk appetite for ESG-related compliance risks)

Below are some metrics which stakeholders can use across the lines of defence to inform levels of risk within the firm. The metrics a firm chooses to use will depend on the key functionality/purpose of the metrics and the available data universe, especially the risk and control framework.

There is recognition amongst members that the design and ownership of metrics is a 1LOD responsibility (except for any metrics required for the compliance risk management framework). However, as part of Compliance's strategic advisory role, consideration could be given to challenging the business on the appropriateness of ESG-related metrics.



## Establishing the compliance framework for ESG

### Other sources/use of ESG data

Compliance should be aware of where the business and functions are applying ESG- related data and provide advisory on the regulatory, reputational and conduct risks that can arise from the use of this type of data:

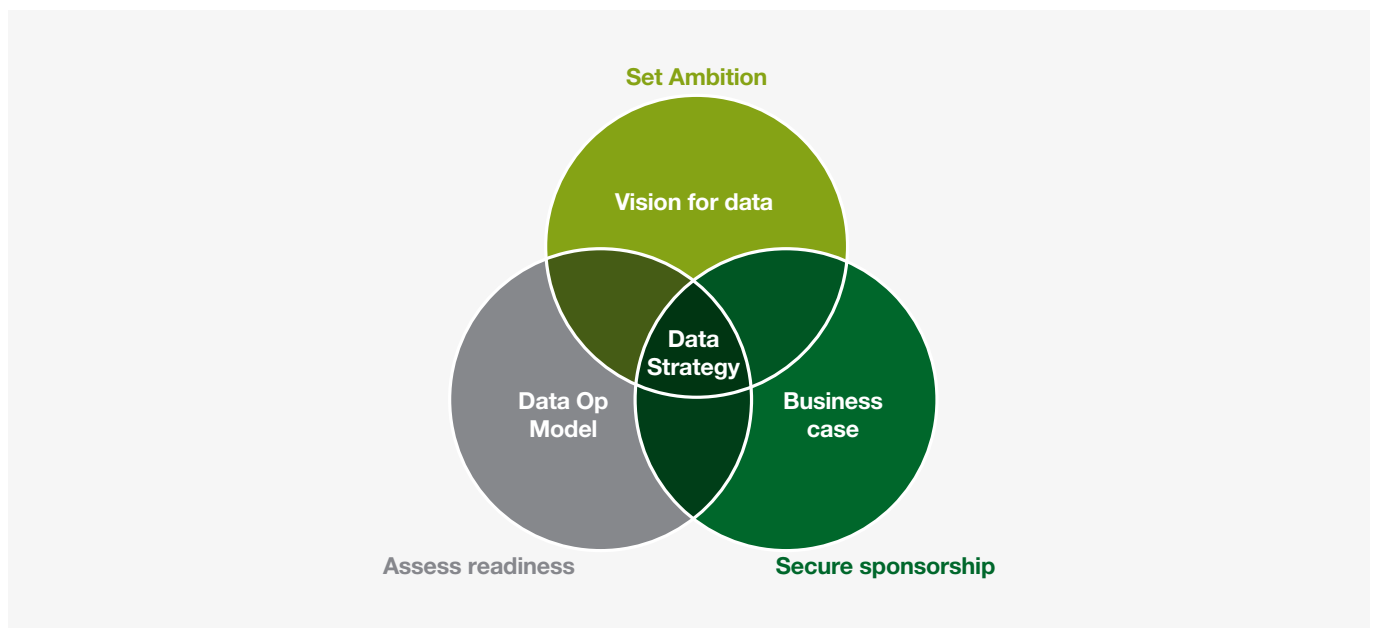
- **Level 1 - Bank/firm/enterprise:** From a climate risk perspective identifying the current state of carbon emissions, the required transition pathways to achieve net zero and the ongoing monitoring of carbon emissions to achieve net zero targets
- **Level 2 — client:** Applying an ESG scorecard to new/existing clients, which is used to determine the types of products/ services offered to the client, along with potential pricing frameworks
- **Level 3 — product/transactions:** Applying ESG factors/features to a product/transaction that requires data sourcing to monitor that the terms and conditions of the product/transaction are being met.

Some compliance functions are applying key principles from international frameworks, including BCBS 239.<sup>3</sup> These not only help shape the data requirements within compliance but also challenge key stakeholders in the business/functions on their approach to data risk and management, especially where they pertain to regulatory and compliance risks.

Other compliance functions are considering defining a data strategy for compliance that sets out the ambitions for using data within the compliance function and expected benefits. When considering a data strategy, Compliance should consider three key elements:

1. Agreeing on the vision for data to articulate the value that data initiatives will bring to the scope and execution of compliance activities
2. Defining a business case with high-level benefits enables the validation of the vision with senior stakeholders
3. Assessing and defining the data capabilities required to deliver the vision provides critical input to a delivery roadmap

Some members have noted that deploying a data-led approach, which includes data analytics capabilities within the compliance function, has not only enhanced their capabilities but enabled an acceleration in the design and approach to integrating ESG into the compliance risk management framework.



<sup>3</sup> Basel Committee on Banking Supervision, Principles for effective risk data aggregation and risk reporting, January 2013



Data strategy	Vision for data	<p>Focuses on activities to answer the 'why' of a data strategy, including:</p> <ul style="list-style-type: none"> <li>• Senior stakeholder workshop to prioritise balance between data asset and liability strategies</li> <li>• Define data risk appetite across dimensions of control, usage and opportunities</li> <li>• Consideration of industry trends, e.g., how can data help increase automation or how can data be used to improve business outcomes?</li> </ul>
	Business case	<p>A high-level business case and benefit model to secure sustained commitment and sponsorship, including:</p> <ul style="list-style-type: none"> <li>• Identification of key stakeholders</li> <li>• High-level understanding of current spend on managing data across compliance</li> <li>• Alignment of specific benefits to strategic drivers, e.g., growth in ESG compliance activities and the need to control compliance costs</li> <li>• Capture of existing data initiatives/use cases</li> <li>• Understanding the impact of regulatory, compliance and control requirements</li> </ul>
	Data operating model	<p>Assessment of required data operating model and the potential culture shift required, including:</p> <ul style="list-style-type: none"> <li>• Data governance</li> <li>• Data quality and control</li> <li>• Information architecture</li> <li>• Technology architecture</li> <li>• Skills, organisational design and culture</li> </ul>



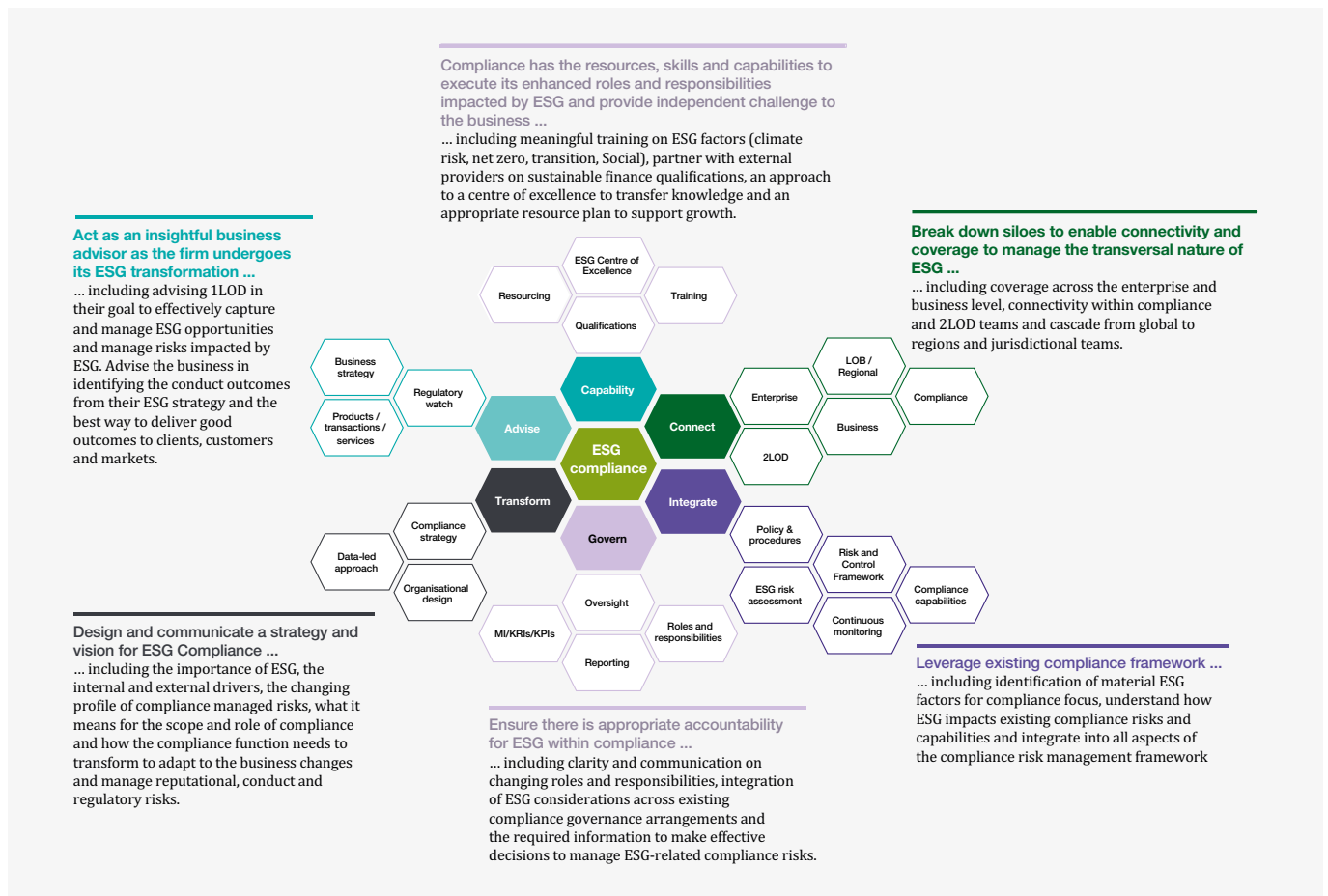
## Establishing the compliance framework for ESG

### Some compliance functions have bespoke ESG programmes

Compliance functions are at various stages of establishing programmes to manage the implementation of ESG within Compliance. The current area of focus within compliance ESG programmes is very much driven by the ESG-related compliance risks associated with the firms product / transaction / service offering labelled as ESG / sustainable and the need to address environmental factors to support firms' net zero ambitions and targets. How Compliance approaches the integration of ESG into the function should be proportionate to the size and scale of the firm.

Some firms have defined the outcomes they are looking to achieve from their implementation programmes, which helps to frame the initiative and provide clarity on the expected outputs, typically focusing on:

- Building internal skills and capabilities
- Connecting with key stakeholders across the organisation and within Compliance
- Enhancing the existing control framework with an ESG lens





## Considerations for the compliance function

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This paper has highlighted areas where senior management are evaluating the compliance function's structure, mandate and objectives in relation to ESG. Below we have set out a series of considerations for compliance officers to support the development of their approach to ESG.

### Defining the role of Compliance

- Define a clear scope for Compliance within ESG, anchored within the compliance risk management framework
- Establish the specific ESG-related compliance risks for which Compliance is responsible, driven by laws, rules and regulations
- Embed the management of ESG-related compliance risks into existing compliance activities
- Be a proactive, strategic advisor to the business, engaging at the board and enterprise level to ensure the business has a risk and control framework to ensure its ESG commitments are reasonable and can be met

### Setting out a clear scope for Compliance within ESG

- Identify where priority ESG factors impact activities across the firm (enterprise, firm, client/counterparty, products/transactions, services)
- Overlay the current scope and roles and responsibilities of Compliance across impacted firm activities to identify any gaps in compliance coverage
- Work with 1LOD and other 2LOD teams to clarify roles and responsibilities and identify 2LOD coverage gaps for regulatory and conduct risks

### Compliance as the proactive, strategic advisor to the business

- Advise the business to identify senior management accountability for defining and implementing the ESG strategy at an enterprise and business level
- Provide guidance to the business on the regulatory, conduct and reputational expectations and risks associated with the implementation of the ESG strategy, along with the type of controls required to support the business in meeting any expectations and commitments
- Enhance the Compliance advisory and monitoring capabilities that respond to the business and enterprise-wide ESG strategy and product/service roll-out

### Core risk coverage across regulatory, conduct and reputational risks

- Enhance the regulatory horizon scanning process for ESG supported by robust regulatory mapping and traceability methodology
- Guide the business on potential scenarios that may present a risk to conduct outcomes for customers and establish criteria that can be applied to mitigate these risk factors
- Establish permanent and, ideally, dedicated ESG conduct risk working groups to ensure there is appropriate identification and management of reputational outcomes



## Considerations for the compliance function

### Embedding ESG-related oversight into compliance activities

- Evaluate the Compliance organisation structure to assess whether the current framework can effectively support an ESG coverage model
- Determine whether there is an adequate aggregate second-line coverage model (in partnership with other second-line teams) of ESG implementation activities both at an enterprise and business/functional level
- Identify cross-2LOD working forums with defined roles between risk functions (e.g., Risk, Finance, Legal, Compliance) at a global, regional and jurisdictional level to ensure there is a joined-up approach to manage regulatory and conduct risks

### Compliance risk management framework

- Enhance the communication process with 1LOD to ensure clarity over current and evolving regulatory expectations and good market practice
- Evaluate the regulatory change management process with an ESG lens; ensure roles and responsibilities are clearly defined and communicated with sufficient resources
- Ensure there is Compliance representation with appropriate authority and mandate in ESG product and oversight forums and change management programmes

### Compliance organisational structure

- Undertake an ESG skills assessment to determine its requirements in meeting its agreed objectives and establish an action plan to address those gaps
- In addressing the skills required, Compliance could consider whether it can practically leverage group-wide ESG SMEs to augment its capabilities
- Evaluate which ESG surveillance scenarios will require enhanced capabilities based on risk profile (e.g., probability and impact) and perform a gap analysis of existing risk indicators

### Metrics and data

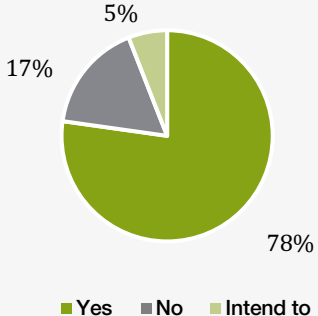
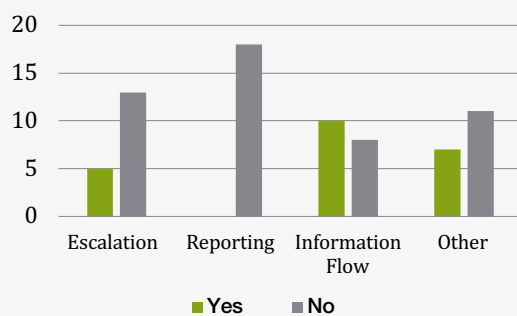
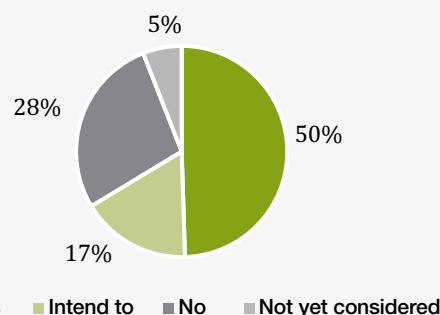
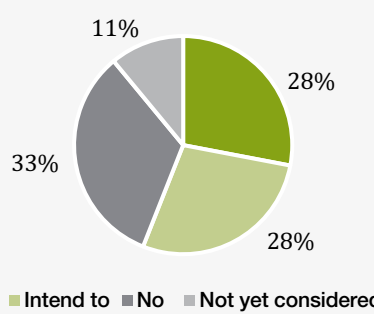
- Determine the additional data required to support changes in the compliance operating model and the compliance risk management framework to support the management and oversight of ESG related compliance, including but not limited to and how data will be sourced based on the KPIs and KRIs required to evaluate compliance risk
- Those data requirements will need to align with the conduct outcomes identified to create MI that can effectively support an ESG conduct risk dashboard
- Provide the 1LOD and functions with advisory support on the regulatory, conduct, reputational risks and the appropriate controls associated with the use of ESG-related data, including those sourced by third parties.



## Appendix A: Questionnaire response

To enable the publication of this paper, AFME surveyed 18 AFME members. The survey was structured around seven themes covering how compliance functions address ESG, including strategy, organisation and coverage, compliance risk management framework, systems and capabilities, regulatory environment, data and key performance / key risk indicators.

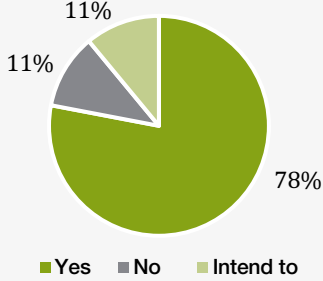
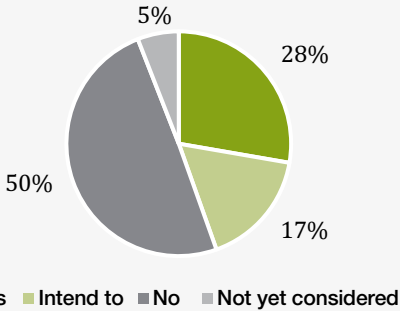
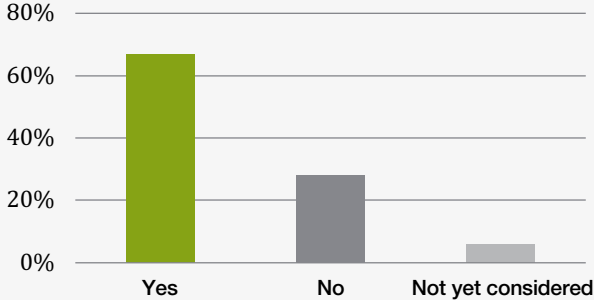
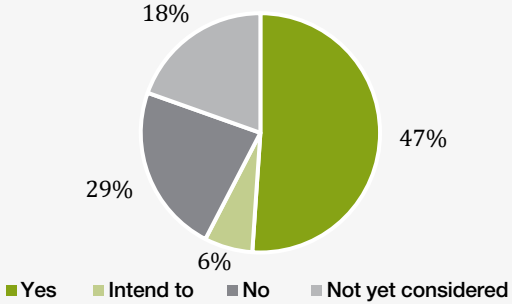
### Strategy: inputting into the firm's ESG strategy

Question	Response															
1. Do you have a Chief Sustainability Officer (or other named role) who is responsible for defining and setting your organisation's ESG strategy at a company-wide level?	 <table><tr><th>Response</th><th>Percentage</th></tr><tr><td>Yes</td><td>78%</td></tr><tr><td>No</td><td>17%</td></tr><tr><td>Intend to</td><td>5%</td></tr></table>	Response	Percentage	Yes	78%	No	17%	Intend to	5%							
Response	Percentage															
Yes	78%															
No	17%															
Intend to	5%															
2. Does the compliance function have an escalation, reporting or information flow line into the Chief Sustainability Officer?	 <table><tr><th>Category</th><th>Yes</th><th>No</th></tr><tr><td>Escalation</td><td>5</td><td>13</td></tr><tr><td>Reporting</td><td>0</td><td>18</td></tr><tr><td>Information Flow</td><td>10</td><td>8</td></tr><tr><td>Other</td><td>7</td><td>11</td></tr></table>	Category	Yes	No	Escalation	5	13	Reporting	0	18	Information Flow	10	8	Other	7	11
Category	Yes	No														
Escalation	5	13														
Reporting	0	18														
Information Flow	10	8														
Other	7	11														
3. Does your compliance function provide input for defining and setting your organisation's ESG strategy?	 <table><tr><th>Response</th><th>Percentage</th></tr><tr><td>Yes</td><td>50%</td></tr><tr><td>No</td><td>28%</td></tr><tr><td>Intend to</td><td>17%</td></tr><tr><td>Not yet considered</td><td>5%</td></tr></table>	Response	Percentage	Yes	50%	No	28%	Intend to	17%	Not yet considered	5%					
Response	Percentage															
Yes	50%															
No	28%															
Intend to	17%															
Not yet considered	5%															
4. If Compliance inputs into the setting of the firm strategy – does the compliance function co-ordinate/lead any check and challenge by the 2LOD?	 <table><tr><th>Response</th><th>Percentage</th></tr><tr><td>Yes</td><td>28%</td></tr><tr><td>No</td><td>33%</td></tr><tr><td>Intend to</td><td>28%</td></tr><tr><td>Not yet considered</td><td>11%</td></tr></table>	Response	Percentage	Yes	28%	No	33%	Intend to	28%	Not yet considered	11%					
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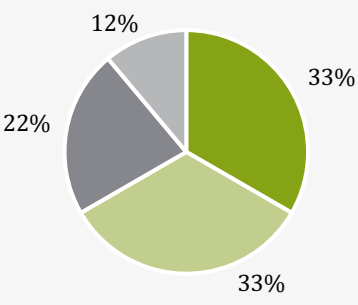
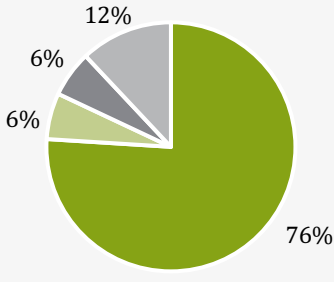
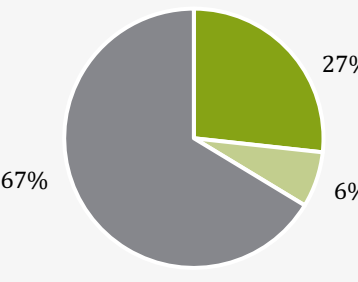
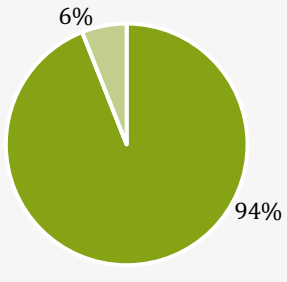
## Appendix A: Questionnaire response

### Strategy: Compliance connectivity to other 2LOD functions

Question	Response										
5. Is your compliance function involved in the implementation of your organisation's ESG strategy at a business/functional level?	 <p>■ Yes ■ No ■ Intend to</p> <table border="1"> <thead> <tr> <th>Response</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Yes</td> <td>78%</td> </tr> <tr> <td>No</td> <td>11%</td> </tr> <tr> <td>Intend to</td> <td>11%</td> </tr> </tbody> </table>	Response	Percentage	Yes	78%	No	11%	Intend to	11%		
Response	Percentage										
Yes	78%										
No	11%										
Intend to	11%										
6. If Compliance helps to implement the firm's ESG strategy – does Compliance co-ordinate or lead the 2LOD's oversight of implementation?	 <p>■ Yes ■ Intend to ■ No ■ Not yet considered</p> <table border="1"> <thead> <tr> <th>Response</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Yes</td> <td>28%</td> </tr> <tr> <td>No</td> <td>50%</td> </tr> <tr> <td>Intend to</td> <td>17%</td> </tr> <tr> <td>Not yet considered</td> <td>5%</td> </tr> </tbody> </table>	Response	Percentage	Yes	28%	No	50%	Intend to	17%	Not yet considered	5%
Response	Percentage										
Yes	28%										
No	50%										
Intend to	17%										
Not yet considered	5%										
7. Is there effective connectivity between Compliance teams (enterprise/group level vs business/functional) and other 2LOD teams when communicating risks and considerations associated with your organisation's ESG strategy?	 <p>Yes No Not yet considered</p> <table border="1"> <thead> <tr> <th>Response</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Yes</td> <td>68%</td> </tr> <tr> <td>No</td> <td>28%</td> </tr> <tr> <td>Not yet considered</td> <td>4%</td> </tr> </tbody> </table>	Response	Percentage	Yes	68%	No	28%	Not yet considered	4%		
Response	Percentage										
Yes	68%										
No	28%										
Not yet considered	4%										
8. Does your compliance function lead/co-ordinate the 2LOD's oversight of industry guidance and standards adopted by the business?	 <p>■ Yes ■ Intend to ■ No ■ Not yet considered</p> <table border="1"> <thead> <tr> <th>Response</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Yes</td> <td>47%</td> </tr> <tr> <td>No</td> <td>29%</td> </tr> <tr> <td>Not yet considered</td> <td>18%</td> </tr> <tr> <td>Intend to</td> <td>6%</td> </tr> </tbody> </table>	Response	Percentage	Yes	47%	No	29%	Not yet considered	18%	Intend to	6%
Response	Percentage										
Yes	47%										
No	29%										
Not yet considered	18%										
Intend to	6%										



## Strategy: Compliance monitoring and oversight role

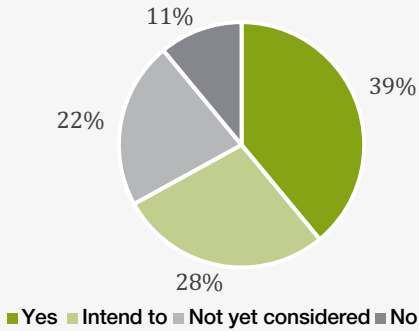
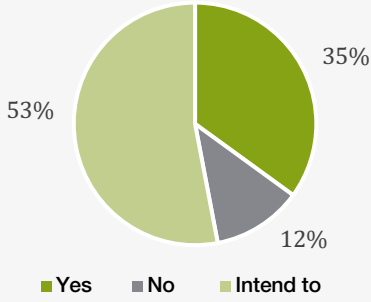
Question	Response
9. Does your compliance function perform monitoring and oversight of business activities to progress your organisation's ESG strategy, including against any external commitments made or stated targets?	 <p>33% 33% 22% 12%</p> <p>■ Yes ■ Intend to ■ No ■ Not yet considered</p>
10. Do you expect your compliance function to grow its monitoring and oversight role over business activities to progress your organisation's ESG strategy and ensure the strategy reflects changing regulatory expectations?	 <p>76% 12% 6% 6%</p> <p>■ Yes ■ Intend to ■ No ■ Not yet considered</p>
11. Has your compliance function defined a strategy for itself regarding how it plans to address the impact ESG will have on Compliance activities?	 <p>27% 6% 67%</p> <p>■ Yes ■ No ■ Intend to</p>
12. Does your compliance function have a role to play in business adoption of industry guidance and standards as they develop (ICMA, LMA, ISDA, EU Green bonds)?	 <p>94% 6%</p> <p>■ Yes ■ Intend to</p>



## Organisation and coverage: compliance within the wider business

Question	Response																					
13. Which ESG business operating model best describes the model your organisation has adopted?	<table border="1"><thead><tr><th>Model</th><th>Percentage</th></tr></thead><tbody><tr><td>Centralised</td><td>11%</td></tr><tr><td>Cross-Functional</td><td>78%</td></tr><tr><td>Business Unit-Decentralised</td><td>11%</td></tr><tr><td>Not yet been defined</td><td>11%</td></tr></tbody></table>	Model	Percentage	Centralised	11%	Cross-Functional	78%	Business Unit-Decentralised	11%	Not yet been defined	11%											
Model	Percentage																					
Centralised	11%																					
Cross-Functional	78%																					
Business Unit-Decentralised	11%																					
Not yet been defined	11%																					
14. Is your compliance function represented in your organisation's ESG programme?	<table border="1"><thead><tr><th>Response</th><th>Percentage</th></tr></thead><tbody><tr><td>Yes</td><td>60%</td></tr><tr><td>Intend to</td><td>28%</td></tr><tr><td>No</td><td>6%</td></tr><tr><td>Not yet considered</td><td>6%</td></tr></tbody></table>	Response	Percentage	Yes	60%	Intend to	28%	No	6%	Not yet considered	6%											
Response	Percentage																					
Yes	60%																					
Intend to	28%																					
No	6%																					
Not yet considered	6%																					
15. Which operational support functions is your compliance function engaging with on ESG?	<table border="1"><thead><tr><th>Function</th><th>Yes</th><th>No</th></tr></thead><tbody><tr><td>Finance</td><td>12</td><td>6</td></tr><tr><td>Technology</td><td>5</td><td>13</td></tr><tr><td>Tax</td><td>1</td><td>17</td></tr><tr><td>HR</td><td>6</td><td>12</td></tr><tr><td>Other</td><td>11</td><td>7</td></tr></tbody></table>	Function	Yes	No	Finance	12	6	Technology	5	13	Tax	1	17	HR	6	12	Other	11	7			
Function	Yes	No																				
Finance	12	6																				
Technology	5	13																				
Tax	1	17																				
HR	6	12																				
Other	11	7																				
16. Which other second-line functions are your compliance function engaging with? Select all that apply.	<table border="1"><thead><tr><th>Function</th><th>Yes</th><th>No</th></tr></thead><tbody><tr><td>Risk</td><td>18</td><td>18</td></tr><tr><td>ESG specialists</td><td>17</td><td>17</td></tr><tr><td>Legal</td><td>17</td><td>17</td></tr><tr><td>Product Governance</td><td>15</td><td>15</td></tr><tr><td>Client onboarding/KYC</td><td>5</td><td>5</td></tr><tr><td>Other</td><td>3</td><td>3</td></tr></tbody></table>	Function	Yes	No	Risk	18	18	ESG specialists	17	17	Legal	17	17	Product Governance	15	15	Client onboarding/KYC	5	5	Other	3	3
Function	Yes	No																				
Risk	18	18																				
ESG specialists	17	17																				
Legal	17	17																				
Product Governance	15	15																				
Client onboarding/KYC	5	5																				
Other	3	3																				

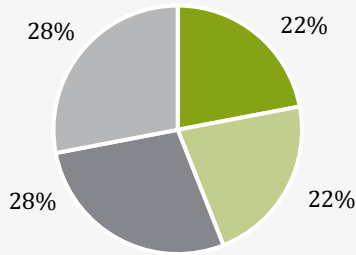
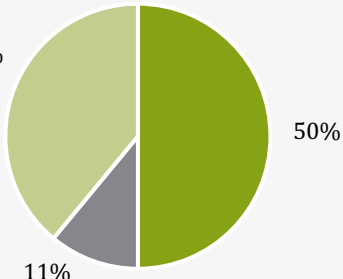

## Organisation and coverage: Compliance ESG coverage

Question	Response
17. Is your compliance function intending to make changes to its operating model and coverage/engagement across the 2LoD to reflect the ESG business operating model your organisation has adopted to action ESG strategy within the business?	 <p>39% 28% 22% 11%</p> <p>■ Yes ■ Intend to ■ Not yet considered ■ No</p>
18. Has Compliance set up its own dedicated ESG programme?	 <p>35% 53% 12%</p> <p>■ Yes ■ No ■ Intend to</p>



## Appendix A: Questionnaire response

### Compliance risk management framework: initial view of ESG as a risk type

Question	Response
19. Is your compliance function planning on establishing an ESG compliance risk management framework?	 <p>22% 28% 28% 22%</p> <p>■ Yes ■ Intend to ■ No ■ Not yet considered</p>
20. Has your organisation treated ESG as an embedded risk within your risk taxonomy, a principal risk or a combination of both?	 <p>50% 39% 11%</p> <p>■ Embedded ■ Principle ■ Combination</p>
21. Rank the following ESG focus areas according to what you are most focused on from 1–11, with 1 being the highest priority and 11 being the lowest priority.	 <p>Product Greenwashing 2</p> <p>Product Governance 3</p> <p>Regulatory Horizon Scanning 3</p> <p>Reputational Risk 5</p> <p>Corporate Disclosure 5</p> <p>Diverging standards 5</p> <p>Climate Risk Governance 7</p> <p>Data Quality/Availability 8</p> <p>Climate Scenario Analysis 8</p> <p>Modern slavery risk management 11</p>



## Compliance risk management framework: amendments to existing processes

Question	Response															
22. Has your compliance function taken steps to enhance its compliance risk assessment process?	<table><thead><tr><th>Step</th><th>Yes</th><th>No</th></tr></thead><tbody><tr><td>Staff Training</td><td>12</td><td>6</td></tr><tr><td>Increased Capacity</td><td>8</td><td>10</td></tr><tr><td>Dedicated CRA</td><td>3</td><td>15</td></tr><tr><td>Methodology Changes</td><td>7</td><td>11</td></tr></tbody></table>	Step	Yes	No	Staff Training	12	6	Increased Capacity	8	10	Dedicated CRA	3	15	Methodology Changes	7	11
Step	Yes	No														
Staff Training	12	6														
Increased Capacity	8	10														
Dedicated CRA	3	15														
Methodology Changes	7	11														
23. Have you considered ESG within your compliance monitoring and testing plans?	<table><thead><tr><th>Response</th><th>Percentage</th></tr></thead><tbody><tr><td>Yes</td><td>50%</td></tr><tr><td>Intend to</td><td>28%</td></tr><tr><td>No</td><td>6%</td></tr><tr><td>Not yet considered</td><td>16%</td></tr></tbody></table>	Response	Percentage	Yes	50%	Intend to	28%	No	6%	Not yet considered	16%					
Response	Percentage															
Yes	50%															
Intend to	28%															
No	6%															
Not yet considered	16%															
24. Do you have an ESG compliance risk appetite statement?	<table><thead><tr><th>Response</th><th>Percentage</th></tr></thead><tbody><tr><td>Yes</td><td>5%</td></tr><tr><td>Intend to</td><td>11%</td></tr><tr><td>No</td><td>56%</td></tr><tr><td>Not yet considered</td><td>28%</td></tr></tbody></table>	Response	Percentage	Yes	5%	Intend to	11%	No	56%	Not yet considered	28%					
Response	Percentage															
Yes	5%															
Intend to	11%															
No	56%															
Not yet considered	28%															
25. Will you update your surveillance processes specifically to address ESG-related risks?	<table><thead><tr><th>Response</th><th>Percentage</th></tr></thead><tbody><tr><td>Yes</td><td>17%</td></tr><tr><td>Intend to</td><td>50%</td></tr><tr><td>Not yet considered</td><td>33%</td></tr></tbody></table>	Response	Percentage	Yes	17%	Intend to	50%	Not yet considered	33%							
Response	Percentage															
Yes	17%															
Intend to	50%															
Not yet considered	33%															



## Appendix A: Questionnaire response

### Compliance risk management framework: product greenwashing

Question	Response										
26. Is your compliance function taking actions to address product greenwashing risk? If so, what actions are you taking?	<p>All respondents stated yes or intend to. Of the 89% of members who responded yes:</p> <table border="1"> <thead> <tr> <th>Action taken</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>Product Governance</td> <td>16</td> </tr> <tr> <td>Regulatory Analysis</td> <td>15</td> </tr> <tr> <td>Marketing Reviews</td> <td>12</td> </tr> <tr> <td>Training for FO</td> <td>10</td> </tr> </tbody> </table>	Action taken	Count	Product Governance	16	Regulatory Analysis	15	Marketing Reviews	12	Training for FO	10
Action taken	Count										
Product Governance	16										
Regulatory Analysis	15										
Marketing Reviews	12										
Training for FO	10										
27. Has your organisation implemented any policy changes in response to regulatory guidance and enforcements on greenwashing?	<table border="1"> <thead> <tr> <th>Response</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Yes</td> <td>50%</td> </tr> <tr> <td>Intend to</td> <td>44%</td> </tr> <tr> <td>No</td> <td>6%</td> </tr> </tbody> </table>	Response	Percentage	Yes	50%	Intend to	44%	No	6%		
Response	Percentage										
Yes	50%										
Intend to	44%										
No	6%										
28. Has your compliance function introduced a controls assessment for product greenwashing risk?	<table border="1"> <thead> <tr> <th>Response</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Yes</td> <td>17%</td> </tr> <tr> <td>Intend to</td> <td>44%</td> </tr> <tr> <td>No</td> <td>22%</td> </tr> <tr> <td>Not yet considered</td> <td>17%</td> </tr> </tbody> </table>	Response	Percentage	Yes	17%	Intend to	44%	No	22%	Not yet considered	17%
Response	Percentage										
Yes	17%										
Intend to	44%										
No	22%										
Not yet considered	17%										
29. Do you believe your compliance function will have a growing role in mitigating greenwashing risks?	<table border="1"> <thead> <tr> <th>Response</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Yes</td> <td>67%</td> </tr> <tr> <td>Intend to</td> <td>11%</td> </tr> <tr> <td>No</td> <td>11%</td> </tr> <tr> <td>Not yet considered</td> <td>11%</td> </tr> </tbody> </table>	Response	Percentage	Yes	67%	Intend to	11%	No	11%	Not yet considered	11%
Response	Percentage										
Yes	67%										
Intend to	11%										
No	11%										
Not yet considered	11%										



## Tools and capabilities: upskilling staff

Question	Response																
<p>30. What specific knowledge do you believe compliance officers need to provide effective oversight and challenge of business/function activities impacted by ESG?</p> <p>Responses ranked from 1-8, with 1 being the greatest priority</p>	<table border="1"> <thead> <tr> <th>Knowledge Area</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>Regulatory requirements</td> <td>1</td> </tr> <tr> <td>Regulatory expectations</td> <td>3</td> </tr> <tr> <td>Identifying greenwashing scenarios</td> <td>3</td> </tr> <tr> <td>Ability to check and challenge ESG transactions</td> <td>4</td> </tr> <tr> <td>Broad understanding of ESG issues and impacts</td> <td>4</td> </tr> <tr> <td>Technology and Data requirements</td> <td>6</td> </tr> <tr> <td>Transition pathways</td> <td>7</td> </tr> </tbody> </table>	Knowledge Area	Count	Regulatory requirements	1	Regulatory expectations	3	Identifying greenwashing scenarios	3	Ability to check and challenge ESG transactions	4	Broad understanding of ESG issues and impacts	4	Technology and Data requirements	6	Transition pathways	7
Knowledge Area	Count																
Regulatory requirements	1																
Regulatory expectations	3																
Identifying greenwashing scenarios	3																
Ability to check and challenge ESG transactions	4																
Broad understanding of ESG issues and impacts	4																
Technology and Data requirements	6																
Transition pathways	7																
<p>31. As a high-level estimate, how do you see the FTEs and budget resources allocated across your compliance function? For each of the Compliance teams, please estimate a percentage adding up to 100 on the allocation of FTE/spend.</p>	<table border="1"> <thead> <tr> <th>Compliance Team</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Advisory</td> <td>35</td> </tr> <tr> <td>Enterprise</td> <td>24</td> </tr> <tr> <td>Core Compliance</td> <td>17</td> </tr> <tr> <td>Monitoring and...</td> <td>16</td> </tr> <tr> <td>Surveillance</td> <td>9</td> </tr> <tr> <td>Control Room</td> <td>5</td> </tr> </tbody> </table>	Compliance Team	Percentage	Advisory	35	Enterprise	24	Core Compliance	17	Monitoring and...	16	Surveillance	9	Control Room	5		
Compliance Team	Percentage																
Advisory	35																
Enterprise	24																
Core Compliance	17																
Monitoring and...	16																
Surveillance	9																
Control Room	5																
<p>32. Do you plan to train your Compliance staff on ESG? If so, to what level of depth?</p>	<p>All respondents stated yes, intend to, not yet considered. Of the 78% of members who responded yes:</p> <table border="1"> <thead> <tr> <th>Level of depth</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>Specific to role and coverage</td> <td>12</td> </tr> <tr> <td>Specific to compliance function</td> <td>12</td> </tr> <tr> <td>General ESG training</td> <td>10</td> </tr> </tbody> </table> <p>■ Level of depth</p>	Level of depth	Count	Specific to role and coverage	12	Specific to compliance function	12	General ESG training	10								
Level of depth	Count																
Specific to role and coverage	12																
Specific to compliance function	12																
General ESG training	10																



## Appendix A: Questionnaire response

### Tools and capabilities: upskilling staff and regulatory horizon scanning

Question	Response																					
33. Are there any specific ESG themes and issues you are training your Compliance staff on in particular?	<table><thead><tr><th>Theme</th><th>Yes</th><th>No</th></tr></thead><tbody><tr><td>Greenwashing</td><td>14</td><td>4</td></tr><tr><td>Availability of Data</td><td>4</td><td>14</td></tr><tr><td>Product Governance</td><td>10</td><td>8</td></tr><tr><td>Corporate Disclosures</td><td>6</td><td>12</td></tr><tr><td>Climate Risk Governance</td><td>8</td><td>10</td></tr><tr><td>Other</td><td>7</td><td>12</td></tr></tbody></table>	Theme	Yes	No	Greenwashing	14	4	Availability of Data	4	14	Product Governance	10	8	Corporate Disclosures	6	12	Climate Risk Governance	8	10	Other	7	12
Theme	Yes	No																				
Greenwashing	14	4																				
Availability of Data	4	14																				
Product Governance	10	8																				
Corporate Disclosures	6	12																				
Climate Risk Governance	8	10																				
Other	7	12																				
34. Has your compliance function been engaged by the business/ functions/central ESG programme during the development or enhancements of systems?	<table><thead><tr><th>Response</th><th>Percentage</th></tr></thead><tbody><tr><td>Yes</td><td>50%</td></tr><tr><td>Intend to</td><td>22%</td></tr><tr><td>No</td><td>17%</td></tr><tr><td>Not yet considered</td><td>11%</td></tr></tbody></table>	Response	Percentage	Yes	50%	Intend to	22%	No	17%	Not yet considered	11%											
Response	Percentage																					
Yes	50%																					
Intend to	22%																					
No	17%																					
Not yet considered	11%																					
35. Are you planning to fund industry qualifications?	<table><thead><tr><th>Response</th><th>Percentage</th></tr></thead><tbody><tr><td>Yes</td><td>19%</td></tr><tr><td>Intend to</td><td>19%</td></tr><tr><td>No</td><td>6%</td></tr><tr><td>Not yet considered</td><td>56%</td></tr></tbody></table>	Response	Percentage	Yes	19%	Intend to	19%	No	6%	Not yet considered	56%											
Response	Percentage																					
Yes	19%																					
Intend to	19%																					
No	6%																					
Not yet considered	56%																					
36. Have you amended your existing regulatory horizon scanning processes to take account of ESG regulatory change?	<table><thead><tr><th>Response</th><th>Percentage</th></tr></thead><tbody><tr><td>Yes</td><td>67%</td></tr><tr><td>No</td><td>33%</td></tr></tbody></table>	Response	Percentage	Yes	67%	No	33%															
Response	Percentage																					
Yes	67%																					
No	33%																					



## ESG data

Question	Response						
37. Does your compliance function produce ESG data to manage ESG-related risk?	<p>A bar chart with a vertical axis from 0% to 100% in 10% increments. The 'Yes' bar is green and reaches 12%. The 'No' bar is grey and reaches 88%.</p> <table border="1"> <thead> <tr> <th>Response</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Yes</td> <td>12%</td> </tr> <tr> <td>No</td> <td>88%</td> </tr> </tbody> </table>	Response	Percentage	Yes	12%	No	88%
Response	Percentage						
Yes	12%						
No	88%						
38. Does your compliance function challenge/monitor how ESG data is sourced and used across the organisation?	<p>A bar chart with a vertical axis from 0% to 70% in 10% increments. The 'Yes' bar is green and reaches 39%. The 'No' bar is grey and reaches 61%.</p> <table border="1"> <thead> <tr> <th>Response</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Yes</td> <td>39%</td> </tr> <tr> <td>No</td> <td>61%</td> </tr> </tbody> </table>	Response	Percentage	Yes	39%	No	61%
Response	Percentage						
Yes	39%						
No	61%						
39. Does the compliance function have a role in ESG data governance?	<p>A bar chart with a vertical axis from 0% to 70% in 10% increments. The 'Yes' bar is green and reaches 39%. The 'No' bar is grey and reaches 61%.</p> <table border="1"> <thead> <tr> <th>Response</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Yes</td> <td>39%</td> </tr> <tr> <td>No</td> <td>61%</td> </tr> </tbody> </table>	Response	Percentage	Yes	39%	No	61%
Response	Percentage						
Yes	39%						
No	61%						



ESG Metrics

Question	Response																								
40. Does your compliance function have a role in the creation of ESG KPIs/KRIs?	<p>A bar chart with a vertical axis from 0% to 80% in 10% increments. The horizontal axis has two categories: 'Yes' and 'No'. The 'Yes' bar is blue and reaches 24%. The 'No' bar is grey and reaches 76%.</p> <table><tr><th>Response</th><th>Percentage</th></tr><tr><td>Yes</td><td>24%</td></tr><tr><td>No</td><td>76%</td></tr></table>	Response	Percentage	Yes	24%	No	76%																		
Response	Percentage																								
Yes	24%																								
No	76%																								
41. Which of the following KPI/KRI ESG metrics are being used by the organisation?	<p>A grouped bar chart with a vertical axis from 0 to 20 in increments of 5. The horizontal axis lists seven categories: Transactions, Credit risk management, KYC, Third-party management, Complaints, New Activities, and Other. For each category, there are two bars: a blue bar for 'Yes' and a grey bar for 'No'. The data values are: Transactions (Yes: 8, No: 9), Credit risk management (Yes: 7, No: 10), KYC (Yes: 7, No: 10), Third-party management (Yes: 5, No: 12), Complaints (Yes: 5, No: 12), New Activities (Yes: 4, No: 14), and Other (Yes: 2, No: 15). A legend at the bottom indicates blue for 'Yes' and grey for 'No'.</p> <table><tr><th>Metric</th><th>Yes</th><th>No</th></tr><tr><td>Transactions</td><td>8</td><td>9</td></tr><tr><td>Credit risk management</td><td>7</td><td>10</td></tr><tr><td>KYC</td><td>7</td><td>10</td></tr><tr><td>Third-party management</td><td>5</td><td>12</td></tr><tr><td>Complaints</td><td>5</td><td>12</td></tr><tr><td>New Activities</td><td>4</td><td>14</td></tr><tr><td>Other</td><td>2</td><td>15</td></tr></table>	Metric	Yes	No	Transactions	8	9	Credit risk management	7	10	KYC	7	10	Third-party management	5	12	Complaints	5	12	New Activities	4	14	Other	2	15
Metric	Yes	No																							
Transactions	8	9																							
Credit risk management	7	10																							
KYC	7	10																							
Third-party management	5	12																							
Complaints	5	12																							
New Activities	4	14																							
Other	2	15																							
42. Have you considered implementing ESG KPIs/KRIs as part of your compliance function's monitoring and testing plans?	<p>A bar chart with a vertical axis from 0% to 70% in 10% increments. The horizontal axis has two categories: 'Yes' and 'No'. The 'Yes' bar is blue and reaches 35%. The 'No' bar is grey and reaches 65%.</p> <table><tr><th>Response</th><th>Percentage</th></tr><tr><td>Yes</td><td>35%</td></tr><tr><td>No</td><td>65%</td></tr></table>	Response	Percentage	Yes	35%	No	65%																		
Response	Percentage																								
Yes	35%																								
No	65%																								





## Acknowledgements

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We are grateful to AFME Compliance Committee members and their colleagues who contributed their time and thoughts in producing this report. The Committee comprises EMEA heads of compliance from AFME members. Our European Compliance work programme focuses on influencing the European regulatory environment to foster a culture of integrity and effective conduct regulation.

The data in this report comes from a survey and interviews with 18 of those Members, representing a variety of geographical locations and business models.

[www.afme.eu/Divisions-and-committees/Compliance](http://www.afme.eu/Divisions-and-committees/Compliance)



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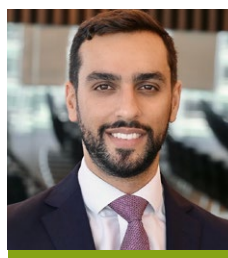
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## / About AFME

The Association for Financial Markets in Europe (AFME) is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues.

We represent the leading global and European banks and other significant capital market players.

We advocate for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society.

We aim to act as a bridge between market participants and policy makers across Europe, drawing on our strong and long-standing relationships, our technical knowledge and fact-based work.

### Focus

on a wide range of market, business and prudential issues

### Expertise

deep policy and technical skills

### Strong relationships

with European and global policymakers

### Breadth

broad global and European membership

### Pan-European

organisation and perspective

### Global reach

via the Global Financial Markets Association (GFMA)



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