

THE
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SUSTAINABLE DISCLOSURE REQUIREMENTS (SDR)

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START →

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What? UK FCA Policy Statement PS 23/16 on Sustainability Disclosure Requirements and investment labels

When? Published 28 November 2023

Three key takeaways

- Landmark in UK ESG regulation
- Lots of work for UK asset managers (and opportunities)
- Scope narrower than expected



OVERVIEW

Scope

All FCA-authorized firms are in scope of the anti-greenwashing rule.

The rest of the regime applies to asset managers and also distributors.

The final package includes:



An anti-greenwashing rule for all FCA authorised firms to reinforce that sustainability-related claims must be fair, clear and not misleading. We are also consulting on supporting guidance



Four labels to help consumers navigate the investment product landscape and enhance consumer trust



Naming and marketing rules for investment products, to ensure the use of sustainability-related terms is accurate



Consumer-facing information to provide consumers with better, more accessible information to help them understand the key sustainability features of a product



Detailed information in pre-contractual, ongoing product-level, and entity-level disclosures, targeted at institutional investors and consumers seeking more information



Requirements for distributors to ensure that product-level information (including the labels) is made available to consumers



Anti-Greenwashing rule

- **Who?** Any FCA authorised firm who communicates with any client in relation to any product or service and communicates / approves a financial promotion
- **What?** Any reference to environmental or social characteristics of product/service in communication or financial promotion must be:
 - Consistent with the E or S characteristic of product/service
 - Fair, clear and not misleading
- **When?** 31 May 2024
- FCA consulting on guidance **GC23/3**

Sustainability references should be:



Correct and **capable** of being substantiated



Clear and presented in a way that can be understood



Complete – they should not omit or hide important information and should consider the full life cycle of the product or service



Fair and meaningful in relation to any **comparisons** to other products or services

Product labels

Labels are used for investment products which:

- Have a specific sustainability objective as part of their investment objectives; and
- Meet high standards and robust criteria to deliver the sustainability objective

Firms can choose to use a label, and will assess whether their products meet the criteria



Labels – general criteria

Key general qualifying criteria

Sustainability objective	Sustainability objective as part of the investment objectives
Investment policy and strategy	At least 70% of the products' assets invested in accordance with the objective, with reference to a robust evidence-based standard of sustainability Nothing can conflict with the objective
KPIs	KPIs to measure progress against the sustainability objective
Resources and governance	Appropriate arrangements to support delivery of the sustainability objective
Stewardship	Identify/disclose the stewardship strategy needed to support delivery of the sustainability objective



Naming and marketing rules

Naming

- The product's name must accurately reflect its sustainability characteristics
- The term 'sustainable', 'sustainability' and 'impact' are only for labelled products
- Sustainability characteristics should be material to the product (e.g. at least 70% having sustainability characteristics – like the labels)
- Cannot use 'sustainable' or 'impact' in name

Marketing

- Must meet the anti-greenwashing rule
- Produce the same types of disclosures for labelled products so consumers have consistent information
- Publish a statement in a prominent place explaining why the product doesn't have a label

Note the exceptions: when using terms in other contexts e.g. 'financial impact' and when making short, factual, non-promotional statements e.g. 'Firm X products its sustainability product reports annually'.

DISCLOSURE REQUIREMENTS

Four key areas covered by SDRs

Consumer-facing disclosures

- ✓ Clear, concise (2 pages max)
- ✓ Website disclosure
- ✓ Including sustainability objective, investment policy, metrics
- ✓ Reviewed and updated annually

Detailed product-level disclosures

- ✓ Precontractual disclosures in fund prospectuses
- ✓ Detailed disclosure on objective, policy, metrics, stewardship, escalation, and category specific information

Entity-level disclosures

- ✓ Disclosures on firm-level governance, risk management, strategy and metrics & targets
- ✓ Phased approach (like TCFD)
 - ✓ >£50bn AuM first
 - ✓ Then >£5bn deferred by one year

Ongoing product reporting

- ✓ Annual disclosure in product report
- ✓ Or on-demand for unauthorised, unlisted AIFs
- ✓ Disclosure on progress and KPIs/metric performance

Consumer-facing disclosures in more detail

Disclosures must be **clear, concise, easily read and understood** by retail clients;

- No more than **2 pages of A4** if printed;
- Displayed in a **prominent place on a relevant digital medium** (*with copies kept for a minimum of 5 years and made available to consumers or FCA on request*);
- Disclosures must be **kept up to date** in accordance with the label or sustainability-related terms used, reviewed at least every 12 months, and updated every 12 months with progress towards the sustainability objective,

.....Must be a **'standalone'** document.....



Firms must produce a short, standalone consumer-facing disclosure for labelled products or unlabelled products using sustainability-related terms.

We have not prescribed the format, but have set parameters.

The disclosure must include:

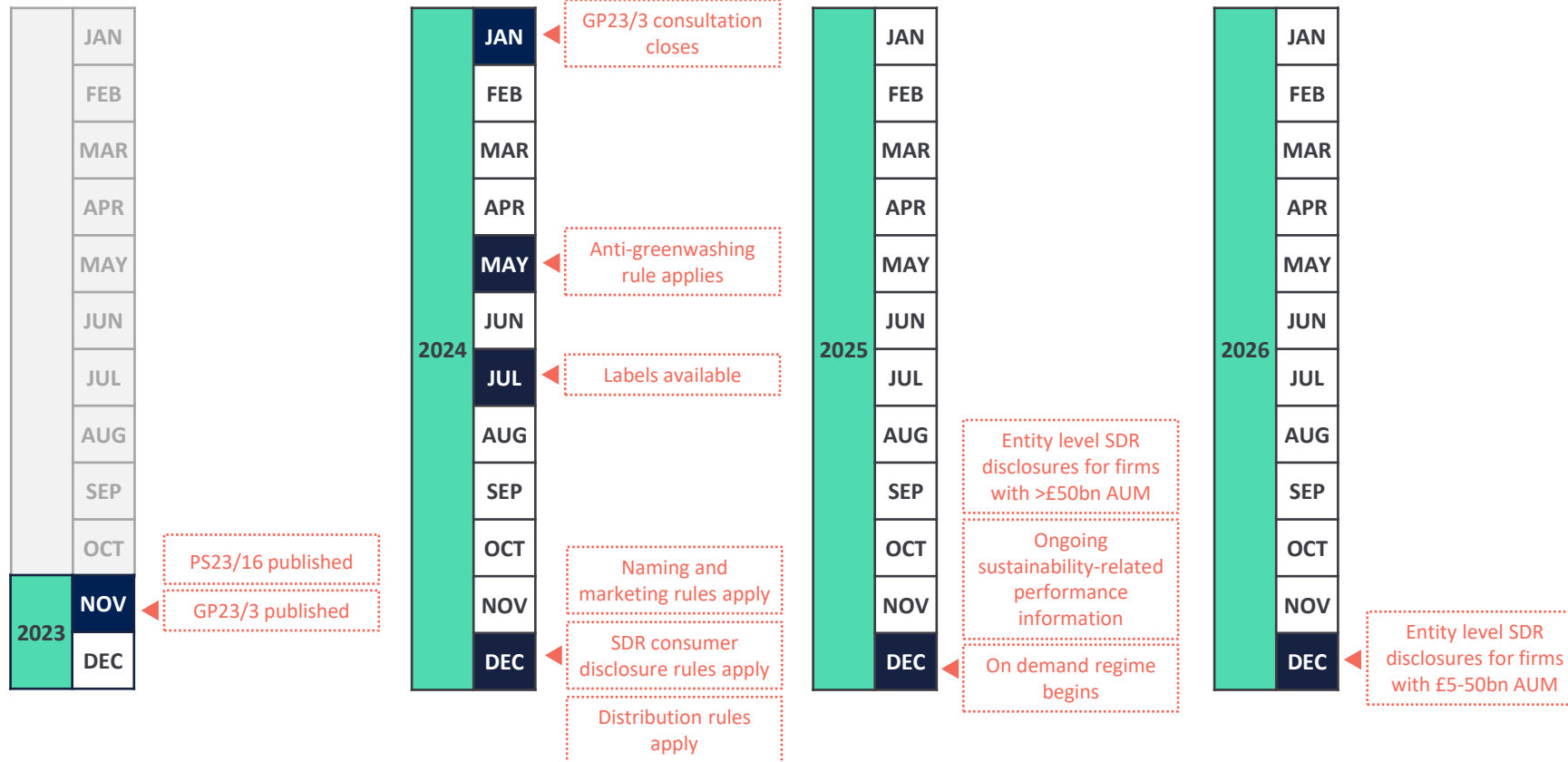
- Label or a statement
- Sustainability objective (where relevant)
- Investment policy and strategy
- Relevant sustainability metrics
- Details of where consumers can access other relevant information



DISTRIBUTOR RULES

- Distributors must communicate the labels and provide access to consumer-facing disclosures to retail investors
- Labels and disclosures must be kept up to date with changes that the firm makes
- Distributors must include a notice on overseas products to clarify that they are not subject to the UK regime
- Labels/disclosures or notice will be on the relevant digital medium for the products or communicated via the distributor's usual channel of communication

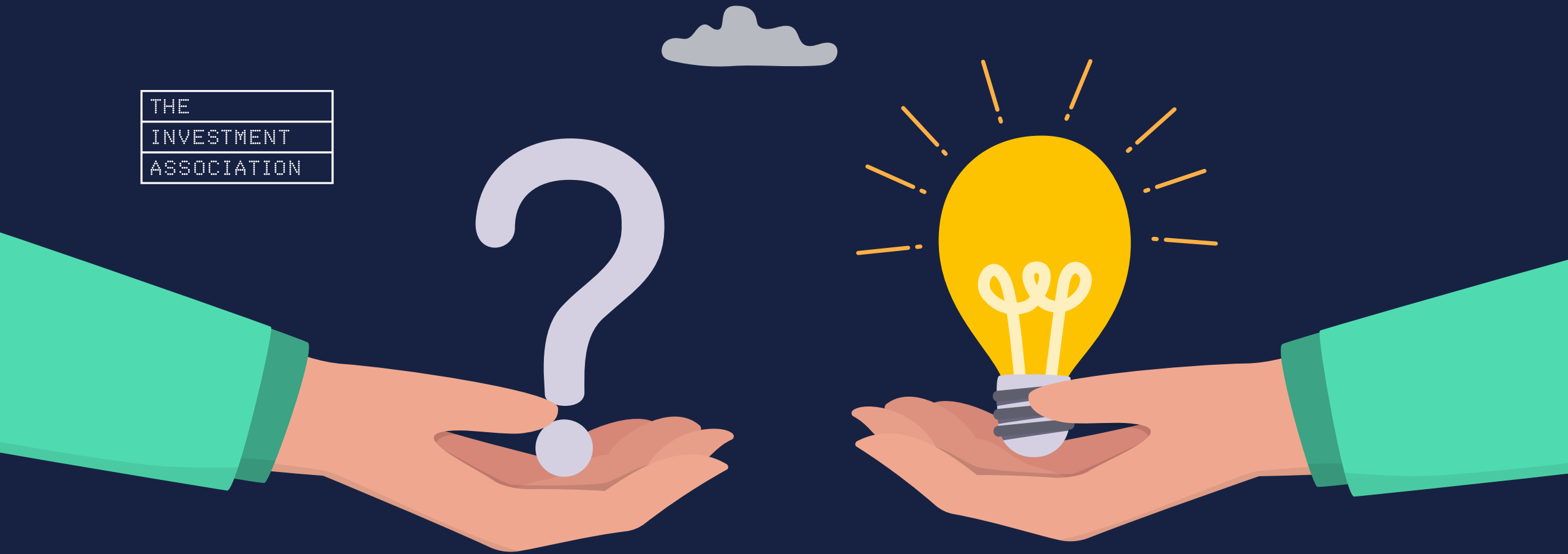
OVERALL SDR TIMELINE



IA 2024 SDR WORK PLAN

- IA **SDR Implementation Forum** – a discussion forum where members can discuss, on a regular basis, SDR implementation topics with peers and guest speakers
 - IA, in partnership with Eversheds Sutherland, **developing industry guidance** to help members implement the final rules
 - We have set up a forum with other trade bodies to ensure a coordinated approach, main immediate focus will be on developing guidance on consumer facing disclosure
 - Further **consumer testing** on the sustainable fund labels to help members communicate effectively with retail investors
 - Updates to **FinDatEx European ESG Template (EET)** as a result of SDR
 - IA response to FCA consultation on **Guidance on the anti-greenwashing rule** (GC23/3)
 - IA updated **training offering** to members on sustainability related topics, including on SDR
 - Ongoing **IA-FCA engagement**
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Q&A



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THANK YOU

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