



FCA consults on SDR and investment labels to combat greenwashing

February 2023

On 25 October 2022, the Financial Conduct Authority ('FCA') issued a Consultation Paper aimed at fighting greenwashing on investment products. The consultation, running from 25 October 2022 to 23 January 2023, builds on an earlier Discussion Paper (DP21/4) on Sustainability Disclosure Requirements ('SDR').

Summary of propositions

The FCA setup several key propositions, listed below:

Sustainable investment labels	Consumer-facing	Detailed disclosures <ul style="list-style-type: none"> ▪ Pre-contractual disclosures ▪ Ongoing sustainability-related performance information ▪ Sustainability entity report
Naming and marketing rules	Requirements for distributors	
General 'anti-greenwashing' rule		

Who is in scope?

- "In-scope firms": firms carrying out portfolio management, UK UCITS management companies, full-scope UK AIFMs and small authorised UK AIFMs.
- "In-scope products": comprise authorised funds, unauthorised AIFs (including investment trusts), and certain portfolio management services.

It is important to note that Assets Under Management (AUM) thresholds to determine to which extent the proposed rules apply are based on "in-scope business" as defined under ESG 1.2.1R.

Sustainable Investment labels

Unlike the SFDR, the SDR will be a labelling regime with three main labels:

Sustainable focus - key features

- Sustainability objective: invest in assets that meet a credible standard of environmental and/or social sustainability, or that align with a specified environmental and/or social sustainability theme.
- Primary channel for sustainability outcomes: market-led channel of influencing asset prices, and thereby reducing the relative cost of capital of sustainable economic activities/projects.
- Secondary channel for sustainability outcomes: continuous improvements in the sustainability performance of assets through investor stewardship activities.

Sustainable improvers - key features

- Sustainability objective: deliver measurable improvements in the sustainability profile of its assets over time, including through investor stewardship.
- Primary channel for sustainability outcomes: channel of investor stewardship. The product's stewardship approach would be directed towards encouraging and accelerating improvements in the environmental or social sustainability profile of its assets, including through participation in system-wide initiatives, with flow-on positive implications for environmental and/or social sustainability.
- Secondary channel for sustainability outcomes: identifying assets that are best-placed to improve their sustainability profile over time. So, a secondary channel would be the market-led channel of influencing asset prices and the relative cost of capital of more sustainable economic activities/ projects.

Sustainable impact - key features

- Sustainability objective: achieve a pre-defined, positive and measurable environmental and/or social impact.
- Primary channel for sustainability outcomes: directing typically new capital to projects and activities that offer solutions to environmental or social problems, often in underserved markets or to address observed market failures. Products would be expected to have a stated theory of change, and to pursue a highly selective asset selection strategy aligned with that theory of change.
- Secondary channel for sustainability outcomes: Driving continuous improvements in the sustainability performance of assets through investor stewardship activities.

Criteria for sustainable investment label

In order to obtain a sustainable label, the FCA has put in five key conditions:

1 - Sustainability Objective	2 - Investment Policy and Strategy	3 - KPIs	4 - Resources and Governance	5 - Stewardship
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More detail on those five principles can be found in Annex I.

Naming and marketing rules

The FCA is proposing to prohibit firms providing in-scope products to retail investors that do not qualify for and use one of the sustainable labels from the below terms including (but not limited to) in their product names and marketing:

- 'ESG'
- 'climate'
- 'impact'
- 'sustainable' or 'sustainability'
- 'responsible'
- 'green'
- 'SDG' (sustainable development goals)
- 'Paris-aligned'
- 'net zero'

In addition to this, 'Sustainable Focus' or 'Sustainable Improvers' products would be prohibited from using the term 'impact' in the naming and marketing of these products.

Products offered to **institutional investors** are **not in scope** of these requirements.

Disclosures

Under the proposed rules, the FCA set out different categories of disclosures:

1. Product vs entity level; and
2. Detailed vs summarised levels of information.

Disclosure type	Product level			Entity level
	Detailed		Summary	Detailed
	Pre-contractual ('Part A')	Sustainability product report ('Part B')	Consumer facing	Sustainability entity report
Sustainability objective	Products with sustainable investment label	Products with sustainable investment label	All in-scope firms	
Progress towards objective		Products with sustainable investment label	All in-scope firms	
Investment policy and strategy	Products with sustainable investment label		All in-scope firms	
Stewardship (approach)	Products with sustainable investment label		All in-scope firms	
Stewardship (KPIs), where applicable		Products with sustainable investment label		
Unexpected investments¹	Products with sustainable investment label		All in-scope firms	
Ongoing reporting on sustainability metrics/KPIs		Products with sustainable investment label	All in-scope firms	
Resourcing/governance relating to delivery of sustainability objective				Products with sustainable investment label
Governance, Strategy, Risk Management, Metrics & Targets				All in-scope firms

¹ i.e. those a consumer may not typically associate with the sustainability objective

Summary of implementation timelines

Regime	Firm	Product	Main location	Timelines ²
Sustainable investment labels	In scope firms	<ul style="list-style-type: none"> Authorized funds (excluding feeder funds and funds in the process of winding up or termination) Unauthorized AIFs, including investment trusts 	Relevant digital medium at which the product is offered	30 June 2024
		<ul style="list-style-type: none"> Portfolio management services if >90% of the value of all constituent products invested in qualify for the same label. 		30 December 2024
Consumer-facing disclosures	<ul style="list-style-type: none"> In-scope firms marketing in-scope products to retail investors, regardless of whether they qualify for and choose to use a label Excluding firms providing portfolio management services 	<ul style="list-style-type: none"> All in-scope products except portfolio management services 	Relevant digital medium at which the product is offered	30 June 2024
		<ul style="list-style-type: none"> Firms providing portfolio management services not be required to produce consumer-facing disclosures, but will need to provide an index of the underlying in-scope products, linking to their label and consumer-facing disclosure. 		30 June 2024

² Timelines are provisional and conditional on the date of the Policy Statement, which is assumed to be 30 June 2023.

Regime	Firm	Product	Main location	Timelines ³
Pre-contractual disclosures	<ul style="list-style-type: none"> ▪ All in-scope firms using a sustainable investment label ▪ Firms not using a label but where sustainability-related features are integral to the investment policy and strategy ▪ Excluding firms providing portfolio management services 	<ul style="list-style-type: none"> ▪ All in-scope products, excluding portfolio management services ▪ Firms providing portfolio management services not be required to produce pre-contractual disclosures, but will need to provide access to the pre-contractual disclosures for the underlying in-scope products. 	<ul style="list-style-type: none"> ▪ Fund prospectus ▪ Prior information document as required under FUND 3.2 ▪ Part A of sustainability product report (incl. where firm only required to provide the contents of this report on-demand) 	30 June 2024

³ Timelines are provisional and conditional on the date of the Policy Statement, which is assumed to be 30 June 2023.

Regime	Firm	Product	Main location	Timelines ⁴
Ongoing sustainability related performance information	<ul style="list-style-type: none"> All in-scope firms using a sustainable investment label Except firms providing portfolio management services and UK AIFMs managing unauthorised AIFs not listed on a recognised exchange 	<ul style="list-style-type: none"> All in-scope products, excluding portfolio management services and unauthorised AIFs not listed on a recognised exchange Firms providing portfolio management services will not be required to produce Part B of the sustainability product report but will instead be required to provide access to the relevant reports for the underlying in-scope products 	Part B of sustainability product report	30 June 2025
	<ul style="list-style-type: none"> Firms providing portfolio management services UK AIFMs managing unauthorised AIFs not listed on a recognised exchange using a label 	<ul style="list-style-type: none"> Firms providing portfolio management services or are AIFMs managing unauthorised AIFs not listed on a recognised exchange will be required to provide information equivalent to the content of a Part A (pre-contractual disclosures) as applicable and Part B sustainability product report to clients on demand, where those clients require the information to meet their own legal obligations 	'On-demand' regime	1 July 2025

⁴ Timelines are provisional and conditional on the date of the Policy Statement, which is assumed to be 30 June 2023.

Regime	Firm	Product	Main location	Timelines ⁵
Entity-level disclosures	All in-scope firms with over £5Bn AUM (on a 3-year rolling average)	Overall assets managed in relation to in-scope business	Sustainability entity report	<ul style="list-style-type: none"> ▪ Firms > £50Bn AUM: 30 June 2025 ▪ Firms < £50 Bn but with £5Bn AUM: 30 June 2026
Anti-greenwashing rule	All regulated firms	<ul style="list-style-type: none"> ▪ All firms' products and services 	All marketing and communications	30 June 2023
Naming and marketing rules	All in-scope firms marketing in-scope products to retail investors, that do not use a label	<ul style="list-style-type: none"> ▪ All in-scope products 	All in-scope product names, marketing and communications	30 June 2024
		<ul style="list-style-type: none"> ▪ Firms providing portfolio management arrangements will be exempt from the naming and marketing rules when 90% or more of the value of constituent products qualify for any label 		30 December 2024
Distributors	Firms that are distributors of in-scope products to retail investors (including platforms and advisers)	<ul style="list-style-type: none"> ▪ All in-scope products distributed to retail investors 	Relevant digital medium at which the product is offered	30 June 2024

⁵ Timelines are provisional and conditional on the date of the Policy Statement, which is assumed to be 30 June 2023.

Distribution rules

Where in-scope products are **offered to retail investors** and have a **sustainable investment label**, distributors must:

1. display the label prominently on a relevant digital medium;
2. provide access to the accompanying consumer-facing disclosures;
3. not use a sustainable investment label for a product other than the label that has been assigned by the firm; and
4. keep the relevant digital medium and marketing communications updated with any changes a firm makes to the label and disclosures.

For products that not using a label, distributors will be required to provide retail investors with access to the consumer-facing disclosure.

Overseas products

The FCA has noted the need to protect retail investors, including by extending proposals on overseas products. To that effect, the regulator will conduct a separate consultation of expanding their rules to such overseas products.

In the meantime, should an overseas product be a recognised scheme (e.g., ETFs) and use a prohibited sustainability term, distributors will be required to place a notice on that product to alert investors that **“this product is based overseas and is not subject to FCA sustainable investment labelling and disclosure requirements”**. The FCA also added that the notice must both be prominent place on the relevant digital medium, and be accompanied by a hyperlink to the FCA webpage which will set out what the labelling and disclosure requirements are for retail investors that wish to know more.

Crossover with the SFDR and SEC ESG Rules

	SFDR (EU)	SEC ESG (US)	SDR (UK)
Classification and labelling system	<p>Article 6- funds that do not integrate sustainability into the investment process</p> <p>Article 8 -funds that promote, among other characteristics, environmental or social characteristics, or a combination of those characteristics</p> <p>Article 9- funds that have sustainable investment as their objective</p>	<p>Integration – integrate ESG factors alongside non-ESG factors in investment</p> <p>ESG-Focused – ESG factors are a significant or main consideration</p> <p>Impact – a subset of ESG-Focused Funds that seek to achieve a particular ESG impact</p>	<ul style="list-style-type: none"> ▪ No sustainable label ▪ Sustainable focus ▪ Sustainable improvers ▪ Sustainable impact
Entity-level disclosure	Principal adverse impacts	Principal adverse impacts	Principal adverse impacts not required
Product Level disclosure	<p>Disclosure regime only</p> <p>Disclosure Documents: pre-contractual, website disclosures and periodic disclosures</p> <p>Format of disclosure: Use of templates</p>	<p>Labelling regime</p> <p>Disclosure Documents: pre-contractual, website disclosures and periodic disclosures.</p> <p>Format of disclosure: Use of tables</p>	<p>Labelling regime</p> <p>Disclosure Documents: pre-contractual, website disclosures and periodic disclosures.</p> <p>Format of disclosure: No mandate template or table</p>

Next steps

The FCA Proposal aims to help the UK become a trusted centre for sustainable investment and place the UK at the forefront of sustainable investment internationally. The FCA next step is to publish the rules in a policy statement by June 2023, with the anti-greenwashing rule becoming effective immediately upon publication. The FCA estimates that 450 UK based funds could be impacted by aspects of these proposals. Although some requirements would be implemented on a phased basis, others are more immediate. The ESG agenda is pushed hard by the regulator, as recently [illustrated](#) by the announcement of a group to develop a Code of Conduct for ESG data and ratings providers. The FCA intends to produce further consultation papers in due course and also to explain the regime to overseas and pension products (chapter 8 of CP22/20).



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