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Sustainability Disclosure Requirements: detailed UK proposals have arrived

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Following on from DP21/4 which was published in November 2021, on 25 October 2022 the FCA published its consultation (CP22/20) on the Sustainability Disclosure Requirements and investment labels for the UK market. These significant proposals aim to provide greater clarity and harmonisation on the rules for products which are marketed as sustainable in the UK. There will be sustainable investment labels and extensive disclosure requirements, as well as naming and marketing rules, requirements for distributors and a general anti-greenwashing rule.

These are well thought through, significant rules around what will be permitted to use sustainable investment labels in the UK and the relevant disclosure obligations that will accompany such labels. **There is no obligation or requirement to use the labels but, if you don't, there will be naming and marketing restrictions that will apply which will limit how you can describe your product with respect to sustainability factors.**

Each of these requirements is looked at in more detail below as well as commentary around what this means in practice. Importantly these proposals do not currently apply to overseas funds marketed into the UK but the FCA goes to great lengths to highlight that it will consult shortly on extending the regime to this population of products. Non-UK fund managers should expect the UK to take the same approach to extra-territoriality of these requirements as is currently the case under the EU SFDR.

Clearly the FCA has sought to make this regime as simple as possible but even the length of this summary briefing is indicative as to what complexities and work will be required by certain firms in order to comply with these requirements. There are also areas where the EU and UK regime will rub up against each other and there may end up being duplication and/or repetition. Firms – even those who are not yet in scope - should get their arms around the proposals now so that they can influence the final rules which are due to be published in **H1 2023**.

BACKGROUND

Why do we need sustainability disclosure requirements?

The FCA is concerned that firms are making exaggerated, misleading or unsubstantiated sustainability-related claims about their products which will in turn lead to an erosion of the public's trust in sustainable products. It previously proposed a labelling regime with (five) specific buckets for different types of sustainable fund.

UK SDRs Vs EU SFDRs

The proposed UK SDR labels are not a hierarchy – no label is meant to be 'better' (or 'greener') than others; each is designed to deliver a different profile of assets and consumer preferences, in direct comparison with EU SFDR regime.

Importantly, an EU SFDR Article 8 fund is unlikely to meet the requirements for a sustainable label under the UK regime with what the FCA term "an upgrade" required to achieve a UK SDR label or foregoing the UK sustainability label and complying with the UK restrictions on naming and marketing. This will be a difficult balancing act for firms.

Key actions

Firms should be considering the following:

1. Am I / my products in scope?

2. How do I determine what label applies to my product?

3. What do I have to do if my product has a sustainable investment label? What disclosures do I need to make?

4. How do I get relevant information to make those disclosures?

5. What strategic or governance changes do I need to make if I want to qualify for a particular label?

SCOPE AND APPLICATION DATES

Type of firm	Requirement	Detail	Applies from	Impact RAG
Fund Managers & Distributors of funds	Sustainable investment labels	To help consumers navigate the investment product landscape and enhance consumer trust and will include the following categories of labels: a. sustainable focus; b. sustainable improvers; c. sustainable impact	Not before 30 June 2024	
Fund Managers & Distributors of funds marketed to retail investors	Consumer facing disclosures	To help consumers understand the key sustainability related features of a product	Not before 30 June 2024 with ongoing performance information not before 30 June 2025	
Fund Managers & Distributors of funds	Detailed disclosures	Targeted at a wider audience (e.g. institutional investors and consumers seeking more information) and will cover: a. pre-contractual disclosures; b. ongoing sustainability related performance information; and c. a sustainability entity report (entity level disclosures)	Not before 30 June 2024	
Fund Managers & Distributors of funds	Naming and marketing rules	Restricting the use of certain sustainability related terms in product names and marketing materials unless the product uses a sustainable investment label	Not before 30 June 2024	
Distributors	Requirements for distributors	Distributors must ensure that product level information (including labels) is made available to consumers	Not before 30 June 2024	
All regulated firms	A general anti-greenwashing rule	Reiterates existing rules to clarify that sustainability related claims must be clear, fair and not misleading	Publication of PS in H1 2023 (provisionally 30 June 2023)	

CLASSIFICATION AND LABELLING

The FCA wants to ensure that consumers can distinguish between products on the basis of their sustainability characteristics, themes and outcomes as well as distinguishing between different types of sustainable investment product. Further to feedback on the DP21/4 proposals, the FCA wants to introduce a classification and labelling regime to help consumers (i.e. retail investors) to navigate the market. Where firms offer in scope investment products they will be able to use the sustainable investment labels if they choose to and if they meet the proposed qualifying criteria. Where they choose to do so, there will be accompanying disclosure requirements. Where a firm chooses not to use a label or does not qualify to do so, they will need to ensure that the name of the product and the product features are in line with naming and marketing rules.

These labels largely track those categories proposed in the DP21/4 under sustainable investments although these have been reduced to three. The FCA has removed the concepts of 'Responsible' and 'Not Promoted as Sustainable' from its proposals. Therefore a fund without a sustainability objective but which uses strategies such as ESG integration would not qualify under any of the proposed investment labels. Nor would negative screening or exclusionary strategies qualify.

The FCA considers that one of the key attributes of a sustainable investment product is an explicit environmental and/or social objective ("sustainability objective") that sits alongside the product's financial objective and is expressed and measured in specific and measurable terms.

Three labels

The FCA is therefore proposing the following three labels:

a) **Sustainable Focus** – products which invest **predominantly in assets** which can be deemed to be sustainable;

b) **Sustainable Improvers** – products which aim to improve the sustainability of their portfolio over time; and

c) **Sustainable Impact** – products which seek to achieve impact through the provision of finance, typically to underserved markets.

These are **mutually exclusive** and will have a simpler description on consumer facing documents. The below gives some background and key features of each of these. The FCA has importantly provided a framework for determining how products fall within each of these labels which is described in further detail below.

	Label	Description	Consumer facing description	Features			Thresholds
				Sustainability objective	**Primary channel for sustainability objective**	**Secondary channel for sustainability outcomes**	
A	**Sustainable focus**	These are products with an objective to main a high standard of sustainability in the profile of assets by investing to (i) meet a credible standard of environmental and/or social sustainability; or (ii) align with a specified environmental and/or social sustainability theme.	Invests mainly in assets that are sustainable for people and / or planet	Alongside its financial risk/return objective, a sustainable focus product will have an objective to 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	This category of product would pursue its sustainability goals primarily via the market led channel of influencing asset prices and thereby reducing the relative cost of capital of sustainable economic activities/projects	Products will also typically pursue continuous improvements in the sustainability performance of assets through investor stewardship activities.	At least 70% of a sustainable focus product's assets must meet a credible standard of environmental and/or social sustainability theme; this could be achieved through UK Green Taxonomy alignment
B	**Sustainable improvers**	These are products with an objective to deliver measurable improvements in the sustainability profile of assets over time. These products are invested in assets that, while not currently environmentally or socially sustainable, are selected for their potential to become more environmentally and/or socially sustainable over time, including in response to the stewardship influence of the firm.	Invests in assets that may not be sustainable now, with an aim to improve their sustainability for people and/or planet over time	Alongside its financial risk/return objective, a sustainable improvers product will have an objective to deliver measurable improvements in the sustainability profile of its assets over time, including through investor stewardship.	This type of product would pursue its sustainability goals via the 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.	Portfolio construction and asset selection in sustainable improvers would be geared towards identifying those 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.	None although clear measurable targets will be required.
C	**Sustainable impact**	These are products with an explicit objective to achieve a positive, measurable contribution to sustainable outcomes. These are invested in assets that provide solutions to environmental or social problems, often in underserved markets or to address observed market failures.	Invests in solutions to problems affecting people or the planet to achieve real world impact.	Alongside its financial risk/return objective, a sustainable impact product will have an objective to achieve a pre-defined, positive and measurable environmental and/or social impact.	This type of product would pursue its sustainability goals by 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.	Driving continuous improvements in the sustainability performance of assets through investor stewardship activities would be a secondary channel.	None

Classification criteria

The FCA has determined that for a product to qualify under one of these three sustainable investments label it must meet the following:

a. five overarching principles, referred to as "general criteria" covering:

i. sustainability objective;

ii. investment policy and strategy;

iii. KPIs;

iv. resources and governance;

v. investor stewardship;

b. a number of key cross cutting considerations (including what firms must do and what firms must disclose);

c. certain category specific key considerations relevant to a particular label.

	Principle	Description	Cross cutting considerations	Label specific criteria		
				Sustainable focus	**Sustainable improvers**	**Sustainable Impact**
1	**Sustainability Objective**	A sustainable investment product must have an explicit environmental and/or social sustainability objective	1. A firm must determine the product's sustainability objective in clear, specific and measurable terms as part of its investment objectives. 2. A firm must ensure the product's sustainability objective has a plausible, purposeful, and credible link to an environmental and/or social outcome. 3. A firm must have adequate processes in place to • monitor the product's performance against its sustainability objective; and • provide ongoing performance reporting to investors (ie clients and consumers)	The sustainability objective must align with requirements in the 'investment policy and strategy' section below ie to invest predominantly (at least 70%) in assets that meet a credible standard* for environmental and/or social sustainability; or that align with a specified environmental and/or social sustainability theme. *A credible standard is one that is robust, independently assessed, evidence-based and transparent.	The sustainability objective must align with requirements in the 'investment policy and strategy' section below ie to invest in assets that have the potential to become more environmentally and/or socially sustainable over time, including in response to active investor stewardship.	The sustainability objective must be to achieve a predefined, positive, measurable real-world environmental and/or social outcome.
2	**Investment policy and strategy**	A firm's investment policy and strategy for the sustainable investment product must be aligned with its sustainability objective	1. A firm must develop and implement an investment policy and strategy aligned with the product's sustainability objective. 2. A firm must ensure that the product is invested in accordance with its investment policy and strategy on an ongoing basis. 3. A firm must determine its investible universe and the asset-level selection criteria it applies to meet a target environmental and/or social sustainability profile of assets, in specific and measurable terms, including • how the firm assesses the product's assets against the criteria • how the criteria relate to the target environmental and/or social profile of assets • how the target environmental and/or social profile of assets aligns with the product's sustainability objective • the conditions under which an asset ceases to meet its specified criteria for asset selection 4. In the case of an index-tracking product, a firm must satisfy itself that the index provider's methodology for index-	The firm must ensure that at least 70% of the product's assets either meet a credible standard of environmental and/ or social sustainability; or align with a specified environmental and/or social sustainability theme. If reasons for beyond the firms' control, the assets cease to meet the requirements above, the firm must take action to restore compliance as soon as reasonably practicable, having regard to the interests of the firm's investors (ie clients and consumers).	The firm must ensure that the product is invested in assets that have the potential to become more environmentally and/or socially sustainable over time, including in response to active investor stewardship.	The firm must specify: • a theory of change, in line with the product's sustainability objective, emphasising how its investment process aims to contribute to addressing either environmental and/or social problems • a robust method to measure and demonstrate that its investment activities have had a positive environmental and/or social sustainability impact • its escalation plan should the real-world outcome no longer plausibly be achievable, including potential divestment of assets

			construction aligns with the product's sustainability objective and its target environmental and/or social sustainability profile. The firm must retain the responsibility for ensuring that the index methodology reflects the product's sustainability objective and complies with all relevant requirements to use a label on an ongoing basis. 5. A firm must have appropriately designed policies and procedures in place to determine, measure, monitor, evaluate and report to investors (ie clients and consumers) on the environmental and/or social sustainability profile of assets on an ongoing basis. 6. A firm must identify any investment made by a product that a reasonable investor (ie client or consumer) might consider to be in conflict with the sustainability objective, and the investment policy and strategy of the product.			
3	**Key Performance Indicators**	A firm must specify credible, rigorous and evidence based KPIs that measure a sustainable investment product's ongoing performance towards achieving its sustainability objective	A firm must have in place KPIs that are relevant to and aligned with the product's sustainability objective. A firm must monitor the product's performance against its sustainability objective on an ongoing basis, with reference to its specified KPIs.	In specifying KPIs to assess performance of the product, a firm must ensure that those KPIs include metrics that demonstrate the ongoing alignment of the product's assets with a target environmental and/ or social sustainability profile, and the product's ongoing adherence to asset-level sustainability features in accordance with its investment policy and strategy.	In specifying KPIs to assess performance of the product, a firm must ensure that those KPIs include metrics that demonstrate: • a clear and measurable target for improvements in the sustainability profile of the assets in which the product invests • the long-term sustainability profile of a product's assets, as projected over a period of more than one year • the extent to which improvements in the sustainability of a product's assets have been achieved over time, including through investor stewardship • how the firm's stewardship strategy has been applied to support improvements in the environmental and/or social sustainability of assets, in accordance with the sustainability objective • the stewardship activities undertaken in relation to improving the sustainability profile of the product's assets in accordance with its sustainability objective; the outcomes achieved (including any improvements in the sustainability profile of the product's assets over time); and matters escalated (in accordance with the expectations under Principle 5, Stewardship, below) • how the product's assets meet the asset-level selection criteria • the changes (if any) in the sustainability profile of the product's assets over time, distinguishing between any improvement or deterioration in the sustainability profile of individual assets and changes arising from asset rotation	In specifying KPIs to assess performance of the product, a firm must apply enhanced impact measurement and reporting based on industry best practices.
4	**Resources and governance**	A firm must apply and maintain appropriate resources, governance and organisational arrangements commensurate with the delivery of the sustainable investment	A firm must apply and maintain the following resources as appropriate for supporting and achieving the product's sustainability objective and the delivery of its investment policy and strategy: • investment professionals with appropriate skills and experience • technological inputs and research • data and analytical tools			

		product's sustainability objective	• where appropriate, oversight by any governing body in relation to the product; and • other resources as appropriate A firm must carry out due diligence on any data, research and analytical resources it relies upon (including when third-party ESG data service providers are used), ensuring that any gaps and shortcomings identified are documented and appropriately mitigated. A firm must maintain the arrangements and resources it has in place to oversee the sustainability research, data and analytical tools that it uses and ensure that these remain fit for purpose in supporting the product's sustainability objective on an ongoing basis. A firm must maintain governance and organisational arrangements that appropriately support and incentivise the high-quality delivery of its investment policy and strategy in line with the product's sustainability objective.			
5	**Stewardship**	A firm must maintain its active investor stewardship strategy and resources (at firm level of product level) in a manner consistent with the sustainable investment product's sustainability objective				

Miscellaneous issues arising under categorisation

Portfolio management: With respect to portfolio management arrangements, 90% of the total value of the products in which it invests must meet the qualifying the qualifying criteria for the same label in order for it to use the label. Once met, the firm must then make the disclosures for each of the underlying products available to the consumer.

Securities lending: "We do not consider securities lending as being incompatible with ESG as securities lending arrangements can be tailored to meet the ESG objectives of the lending and borrowing parties."

Short selling: "We do not propose specific parameters for the use of short selling in the context of sustainable investment labels. However we propose guidance to clarify that, where relevant to its investment policy and strategy a firm must explain how short selling aligns with or contributes to the sustainable investment product's stated sustainability objective".

Derivatives: "we are proposing implementing guidance to increase transparency on the use of derivatives in sustainable investment products."

Using labels

Firms that meet the above criteria for investment products will be able to use the relevant graphics showing the relevant sustainability label and provide details where disclosure materials about the product can be found. Good record keeping is required around the use of the label. Any change to the use of a label will constitute at least a significant change

DISCLOSURES

Once a product's label has been determined, certain prescribed disclosures are required. The FCA makes it clear that the proposals in this CP are the start and more specificity will be added over time. The FCA has done considerable testing and included an occasional paper to support the proposals in CP22/20. The regulator largely followed the structure of the proposals set out in DP21/4 albeit with some changes. It also highlighted that the Treasury's expected review of retail investor disclosures is likely to have an impact on the form of sustainability disclosures in time. Following on from the FCA's work, the table below sets out a summary of the key disclosures and the main locations in which those disclosures should be made.

Key: O = all in scope firms will need to make the disclosures, subject to certain exemptions

X = disclosure only applies in respect of products that have a sustainable investment label

	Product-level			**Entity-level**
	Detailed		**Summary**	**Detailed**
Disclosure type	**Pre-contractual (Part A)**	**Sustainability product report (Part B)**	**Consumer-facing**	**Sustainability entity report**
Sustainability objective	X	X	O	
Progress towards objective		X	O	
Investment policy and strategy	X		O	
Stewardship (approach)	X		O	
Stewardship (KPIs), where applicable		X		
Unexpected investments (ie those a consumer may not typically associate with the sustainability objective)	X		O	
Ongoing reporting on sustainability metrics/KPIs		X	O	
Resourcing/governance relating to delivery of sustainability objective				X
Governance, Strategy, Risk Management, Metrics & Targets				O

a. Consumer facing disclosures

These are a subset of more detailed product level information providing the most salient sustainability related information to consumers in an accessible way. These need to be made available in a prominent place on the relevant digital medium for the firm (e.g. website or app) and no more than 'one mouse click away' from where the label is presented. It should be a new standalone document alongside other key investor information (e.g. PRIIPs KID). Importantly these disclosures do not need to be set out in the KID.

All in scope firms need to produce a consumer facing document for in scope products. This includes products which are not engaged in any sustainability related strategies and whose disclosures will be more limited, marked with no sustainable label and n/a, as appropriate.

The FCA wants to balance prescription and flexibility so has proposed some specific rules around the format and content, but not a template. Instead it hopes that there is a market led template developed. The disclosure should be made available when the label obligation enters into force and should be reviewed and updated annually thereafter. The disclosure should also be reviewed following any change to the product.

The content of the consumer facing disclosure must include:

1.	Basic information	Firm's name Product name ISIN/unique identifier Date
2.	Product label	If relevant
3.	Sustainability goal	The product's sustainability objective and impact on the financial return
4.	Sustainability approach	Key elements of the product's investment strategy to pursue the objective which should include key sustainability characteristics of assets which the product will and will not invest in and the firm's approach to stewardship
5.	Unexpected investments	A summary of the types of holdings that the firm would expect consumers of the product would find 'surprising' (e.g. inconsistent with sustainability objective), consumer testing may be key to understanding what consumers might find surprising
6.	Sustainability metrics	Relevant metrics / KPIs linked to achieving the sustainability objective and any other metric that would help consumers to further understand the approach that the firm has taken.
7.	Signposting to other disclosures	Cross refer/hyperlink to further information in the detailed product level disclosures (pre-contractual and ongoing performance), entity-level disclosures and relevant documents that set out non sustainability related information for the product

b. detailed product level disclosures

These are additional information in relation to the product e.g. on data, methodologies, limitations. Such disclosures should be made in pre-contractual disclosures (e.g. prospectus) and in the sustainability product report.

i. Pre-contractual disclosures – sustainability product report – Part A

All products using sustainable investment label must make pre-contractual disclosures.

Where a product does not qualify for a label but does adopt sustainability related features that are integral to their investment policy and strategy, these should be disclosed in the pre-contractual documents. Firms providing their own portfolio management services will not be required to produce their own pre-contractual disclosures.

Where a product does not use a sustainable investment label, nor has sustainability related features, no pre-contractual disclosures are required.

The following sets out the content required for this disclosure, some of which should be contained in the prospectus as well as on a website.

1.	Principle 1 – sustainability objective	1. A firm must disclose the product's sustainability objective in specific and measurable terms as part of its investment objectives, including those with respect to achieving a financial return on that product. 2. A firm must disclose details of the extent to which the sustainability objective has, or may have, impacted the financial return of the product. 3. A firm must disclose details of the plausible, purposeful, and credible link between the product's sustainability objective's and environmental and/or social outcomes.
2.	Principle 2 – investment policy and strategy	1. A firm must disclose details of the product's investment policy and strategy and the way these align with the product's sustainability objective. 2. A firm must describe the product's investible universe and the asset-level selection criteria it applies to meet a target environmental and/or social sustainability profile of assets, in specific and measurable terms, including: • how the firm assesses the assets in which the product invests against the criteria • how the selection criteria relates to the target environmental and/or social profile of the product's assets • how the target environmental and/or social profile of the product's assets align with the product's sustainability objective; and • the conditions under which an asset in which the product has invested in may cease to meet its specified criteria for asset selection 3. A firm must provide details of its policies and procedures to determine, measure, monitor, evaluate and report to investors (ie clients and consumers) on the environmental and/or social sustainability profile of the product's assets over time.

		4. A firm must provide details of its target asset composition in respect of the product, including: • the different asset classes in which it will invest, its use of derivatives, its long-term and short-term exposures • the processes by which it complies with the requirement to have appropriately designed policies and procedures in place to determine, measure, monitor, evaluate, and report to investors (ie clients and consumers) on an ongoing basis; and a description of the environmental and social sustainability characteristics of assets (or asset types) in which the product will and will not invest 5. A firm must disclose any investments made by the product that a reasonable investor (ie client and consumer) might consider to be in conflict with the sustainability objective, investment policy and strategy of the product. 6. Where the product is an index-tracking product, a firm must describe how the index provider's methodology for index-construction aligns with the product's sustainability objective and its target environmental and/or social sustainability profile. This disclosure should be made in a specific section of the fund prospectus.
3.	Principle 5 – stewardship	A firm must set out details, in a clear and accessible way, of its (firm-level and/ or product-level) stewardship strategy and resources, including: a. details as to any differences or conflicts between its firm-level and product-level stewardship strategy, in relation to the product, including any specific targets or constraints applied at the product-level (eg product specific engagement or voting strategy) b. details as to its commitment to the UK Stewardship Code 2020, published by the FRC c. the specific methods it uses to influence sustainability outcomes across the product's assets d. how it applies its strategy and resources in a manner consistent with the product's sustainability objective
4.	Category specific disclosures:	Key elements of the product's investment strategy to pursue the objective which should include key sustainability characteristics of assets which the product will and will not invest in and the firm's approach to stewardship
a.	Sustainable focus	--
b.	Sustainable improvers	The firm must describe how it assesses potentially investible assets to determine the extent to which improvements in sustainability can be achieved over time, including through investor stewardship.
c.	Sustainable impact	The firm must include the following information: • its theory of change, with clear examples that emphasise how its investment process aims to contribute to addressing environmental and/or social problems, in line with its sustainability objective

		• a robust method to measure and demonstrate that its investment activities have had a positive environmental and/or social sustainability impact • its escalation plan should the real-world outcome no longer plausibly be achievable, including potential divestment of assets • in relation to specifying its asset-level selection criteria, how it assesses potentially investible assets to determine: • whether those assets align with the product's theory of change, while also avoiding unintended negative consequences; and • the extent to which a positive, measurable, environmental and/or social outcome can be achieved

Importantly the do no significant harm concept in the EU's SFDR has not been carried across as it was deemed too restrictive.

Again such disclosures should be made available when the rules come into force

ii. Periodic disclosures – sustainability product report – Part B

Initially, a sustainability product report will only be required for products which qualify for a sustainable investment label and will set out ongoing performance and progress towards the stated product objective. These reports should be published on a prominent place on the website for the business of the firm and can include cross-references to a third party's sustainability product report.

1.	Principle 2 – investment policy and strategy	A firm must provide details as to how the product invests in accordance with its investment policy and strategy on an ongoing basis.
2.	Principle 3 – KPIs	A firm must disclose details of the product's performance against the specified KPIs.
3.	Principle 5 – Stewardship	Where stewardship plays a significant role in the product's investment policy and strategy a firm must disclose: • its specified (credible, rigorous and evidence-based) KPIs related to stewardship, including engagement and voting activity relevant to the delivery of the product (in line with its sustainability objective) • outcomes of its stewardship activities, with reference to the product's sustainability objective; these disclosures can be made in existing stewardship-related reporting (eg reporting as a signatory of the UK Stewardship Code 2020) and cross-referenced in its sustainability product report
4.	Category specific features	
a.	Sustainable focus	The firm must disclose the KPIs specified in accordance with the requirements for this category. In relation to its stewardship strategy, the firm must disclose how that strategy has been applied to achieve continuous improvement in environmental and/or social sustainability of the product's assets; and the outcomes achieved.
b.	Sustainable improvers	The firm must disclose details of the KPIs specified in accordance with the requirements for this category.

c.	Sustainable impact	The firm must disclose the KPIs specified in accordance with the requirements for this category, also including: • its analysis as to how its actions have contributed to the impact achieved; or • an explanation as to why its actions have not done so the firm must also disclose details as to how its rights and influence (including through direct control as relevant) have been applied to pursue the pre-defined, positive, measurable realworld outcome specified in the product's sustainability objective, in line with its theory of change for the product. • in relation to specifying its asset-level selection criteria, how it assesses potentially investible assets to determine: • whether those assets align with the product's theory of change, while also avoiding unintended negative consequences; and • the extent to which a positive, measurable, environmental and/or social outcome can be achieved
5.	Additional requirements	Any other metrics that a client or consumer might find useful in understanding the firm's approach to meeting the sustainability objective, or deciding whether to invest in a particular sustainability product eg common metrics within a certain sector. The firm should also explain the methodology used, and present KPIs relating to the sustainability objective at least as prominently as any other metrics. • contextual information alongside KPIs/metrics disclosed including how KPIs/ metrics should be interpreted, their limitations, and use of proxies/assumptions, to enable clients and consumers to interpret the data effectively and in a way that is not misleading • historical annual calculations on KPIs/metrics after the first year of reporting, to enable clients and consumers to compare sustainability performance year-on-year in a way that is easy to understand and not misleading • any disclosures where the firm's approach to a sustainability product materially deviates from the firm's overarching approach disclosed in the firm's sustainability entity report – in doing so the firm may cross-refer to disclosures in each report • date of the report

The FCA acknowledges that there are challenges with data availability. Firms must use the most up to date information available within their reporting period. Importantly firms should not disclose metrics where data gaps or methodological challenges are so severe that they cannot be addressed using proxy data. It is likely that there will be cross over between these disclosures and UK Green Taxonomy disclosures when they come into force.

c. detailed entity level disclosures

These disclosures will set out information on how the firm offering these products is managing sustainability risks and opportunities, building from the FCA's TCFD aligned climate relate disclosure requirements to cover sustainability matters more broadly. All in scope asset managers will be caught although there will be a phased implementation depending on AUM.

Like TCFD reports, these disclosures should be on a prominent page of the firm's main website. The FCA intends to build on the TCFD requirements extending disclosure requirements under the four pillars of governance, strategy, risk management and metrics/targets. It is acknowledged that this provides discretion and divergence and firms may need additional specificity on what to disclose in relation.

1.	Core requirements	Core entity-level disclosure requirements based on the TCFD's four recommendations: • the governance around sustainability-related risks and opportunities • the actual and potential impacts of sustainability-related risks and opportunities on their businesses, strategy and financial planning, where such information is material • how the firm identifies, assesses and manages sustainability-related risks • the metrics and targets used to assess and manage relevant sustainability-related risks, where such information is material
2.	Suggested	Firms should consider disclosing the sustainability-related topics that they have prioritised in their governance, strategy and risk management, and the rationale for doing so and the FCA has provided guidance to that effect. . Disclosures should be made under the four pillars in respect of both the firm's operations and how it manages assets on behalf of clients and consumers. For the latter, firms may refer to the TCFD's supplemental guidance for asset managers to help determine the types of disclosures to make. The guidance covers disclosures under the strategy, risk management and metrics and targets pillars.
3.	For firms with products with sustainable labels: Principle 4 - governance and resources	1. A firm must describe the arrangements and resources it has in place to oversee the sustainability research, data and analytical tools that it uses in supporting the product's sustainability objective. 2. A firm must describe the resources, governance and organisational arrangements that appropriately support and incentivise the high-quality delivery of its documented investment policy and strategy in line with the sustainable investment product's sustainability objective.

NEW FCA ANTI-GREENWASHING RULE

The FCA is introducing a new general anti-greenwashing rule reiterating requirements for all regulated firms that sustainability related claims must be clear, fair and not misleading. **The new rule requires all firms to ensure that the naming and marketing of all financial products and services is clear, fair and not misleading, consistent with the sustainability profile of the product or service i.e. proportionate and not exaggerated.**

The rule will sit in the ESG Sourcebook. This rule will apply to all regulated financial services firms, including those firms who are responsible for approving financial promotions of unauthorised firms.

The new rule will allow the FCA to challenge firms that it considers to be potentially greenwashing their products or services and take enforcement action against them as appropriate (arguably such powers already existed under the fair, clear and not misleading rule, however this expressly calls them out in relation to sustainability claims).

The new rule will come into effect immediately on publishing the FCA's Policy Statement (due in H1 2023). This means that firms will need to be ready when this comes in. In light of the HSBC ASA ruling, firms would do well to take action now, upskill their marketing teams and ensure that greenwashing risks are well understood by the board.

NEW PRODUCT AND NAMING RULE

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 using sustainability related terms including, ESG, sustainability, responsible, green, SDG, Paris aligned, etc.

Sustainable Focus and Sustainable Improver products are also banned from using the term impact in their product name and marketing.

This restriction is limited to in scope products although future expansion to products offered to institutional investors was not ruled out.

DISTRIBUTORS

The FCA is proposing that where in-scope products are offered to retail investors and have a sustainable investment label, distributors must display the label prominently on a relevant digital medium (eg product webpage, page on a mobile application or other medium) and provide access to the accompanying consumer-facing disclosures. The distributor must not use a sustainable investment label for a product other than the label that has been assigned by the firm. In addition, distributors must keep the relevant digital medium and marketing communications updated with any changes a firm makes to the label and disclosures.

For products that do not use a label, the distributor will nevertheless be required to provide retail investors with access to the consumer-facing disclosure.

NEXT STEPS

A policy statement will be published in H1 2023. From this date the new anti-greenwashing rule will start to apply. For all other proposals, the date of application will be set out in the PS but will be 30 June 2024 or after. Nevertheless there is also a consultation to follow on how the proposals will apply to overseas funds marketing into the UK.