FINANCIAL CONDUCT AUTHORITY

Consultation Paper

CP24/8**

Extending the Sustainability Disclosure Requirements (SDR) regime to Portfolio Management

April 2024

How to respond

We are asking for comments on this Consultation Paper (CP) by **14 June 2024**.

You can send them to us using the form on our website.

Or in writing to:

ESG Policy Team
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Email:
cp24-8@fca.org.uk

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Disclaimer

When we make rules, we are required to publish:-

- a list of the names of respondents who made representations where those respondents consented to the publication of their names,
- an account of the representations we receive, and
- an account of how we have responded to the representations.

In your response, please indicate:

- if you consent to the publication of your name. If you are replying from an organisation, we will assume that the respondent is the organisation and will publish that name, unless you indicate that you are responding in an individual capacity (in which case, we will publish your name),
- if you wish your response to be treated as confidential. We will have regard to this indication, but may not be able to maintain confidentiality where we are subject to a legal duty to publish or disclose the information in question.

We may be required to publish or disclose information, including confidential information, such as your name and the contents of your response if required to do so by law, for example under the Freedom of Information Act 2000, or in the discharge or our functions. Please note that we will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Irrespective of whether you indicate that your response should be treated as confidential, we are obliged to publish an account of all the representations we receive when we make the rules.

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Contents

Chapter 1

Summary

Why we are consulting

1.1 This Consultation Paper (CP) contains our proposals to extend the Sustainability Disclosure Requirements (SDR) and investment labels regime to portfolio management services. It follows our Consultation Paper (CP22/20) and corresponding Policy Statement (PS23/16) on SDR and investment labels, which introduced a package of measures for fund managers.

1.2 The package of measures we published aimed to inform and protect consumers, improve trust in the market for sustainable investments, and underpin the UK's position as a competitive centre for sustainable investments.

1.3 The package included an anti-greenwashing rule for all FCA-authorised firms and, for asset management firms, 4 voluntary investment labels, new rules for firms marketing investment funds based on their sustainability characteristics, and associated disclosure requirements.

1.4 We are proposing to extend these measures to portfolio management services. We consulted on including portfolio management in our earlier consultation, CP22/20. We received detailed, supportive feedback from the consultation and our recent engagement, which has helped us refine our proposals for this sector.

Who this applies to

1.5 This consultation will be of interest to firms providing portfolio management services. In this paper, portfolio management is defined as a service provided to a client which comprises either:

- managing investments; or
- private equity or other private market activities consisting of either advising on investments or managing investments on a recurring or ongoing basis in connection with an arrangement, the predominant purpose of which is investment in unlisted securities.

1.6 We propose to extend the SDR and investment labels regime to all forms of portfolio management services, including where the portfolio management offering (the agreements or arrangements) are model portfolios, customised portfolios and/or bespoke portfolio management services (tailored to the clients' needs and preferences). How we apply them depends on the nature of the business model. As the SDR and labelling regime has been developed primarily for retail investors, also referred to in this paper as 'consumers', the proposals to extend the regime are primarily aimed at wealth management services for individuals and model portfolios for retail investors.

1.7 Firms offering portfolio management services to professional clients (or institutional investors), who we refer to in this paper as 'clients', can also opt in to the labelling regime. We refer to 'clients' more broadly in the instrument in Appendix 1 to cover both retail and professional clients.

1.8 We provide more detail on our proposed scope in Chapter 3.

1.9 The CP may also interest other regulated firms including platform providers, financial advisers and fund managers.

We also welcome feedback from all stakeholders, including:

- industry groups and trade bodies
- consumer groups, consumer advocates and consumers
- domestic and international policymakers and other regulatory bodies
- industry experts and commentators
- academics and think tanks
- stakeholder advocacy groups

What we want to change

1.10 We want to help consumers to navigate the sustainable investment market by extending the SDR and labelling package to portfolio management services. This would mean applying the labelling regime, naming and marketing rules, and disclosure requirements to portfolio managers. This package of measures should help to ensure that portfolio management offerings that claim to be sustainable investments meet high standards and enhance trust in the market.

Outcome we are seeking

1.11 Our proposals are intended to enhance our strategic objective to ensure relevant markets function well, as well as the FCA's operational objectives as set out in Chapter 2.

1.12 The causal chain in Annex 2 sets out our interventions and the changes firms will make to comply with our proposals, which we expect will lead to our intended outcomes. As a result of our regime, actions that firms will take include ensuring their sustainability claims are proportionate, providing further accessible information to consumers and labelling their products in line with the criteria. This should lead to the following outcomes:

- Minimised greenwashing and consumers protected from the associated harms;
- Increased provision of standardised sustainability information along the investment chain; and
- Consumers using labels and disclosures to more effectively navigate the market and make informed decisions

1.13 This should lead to our intended primary outcomes of increasing consumer trust and promoting market integrity, as well as our secondary outcomes of increased provision of sustainable investment products and increased capital flows into sustainable activities.

Measuring success

1.14 We propose to measure the success of our proposals by:

- Carrying out our usual supervision processes. This may include challenging inappropriate use of labels, monitoring uptake of labels and acting on intelligence that indicates that firms may be in breach of SDR requirements.
- Assessing the usefulness of labels and disclosures to consumers. For example, through our Financial Lives Survey, other sources of consumer research and engagement with consumer representative groups such as the Financial Services Consumer Panel, FCA Consumer Network, Good with Money, and Which?.
- Monitoring for signs of greenwashing. For example, complaints we may receive and broader supervisory intelligence.
- Carrying out a post-implementation review of the SDR and labelling regime after 3 years.

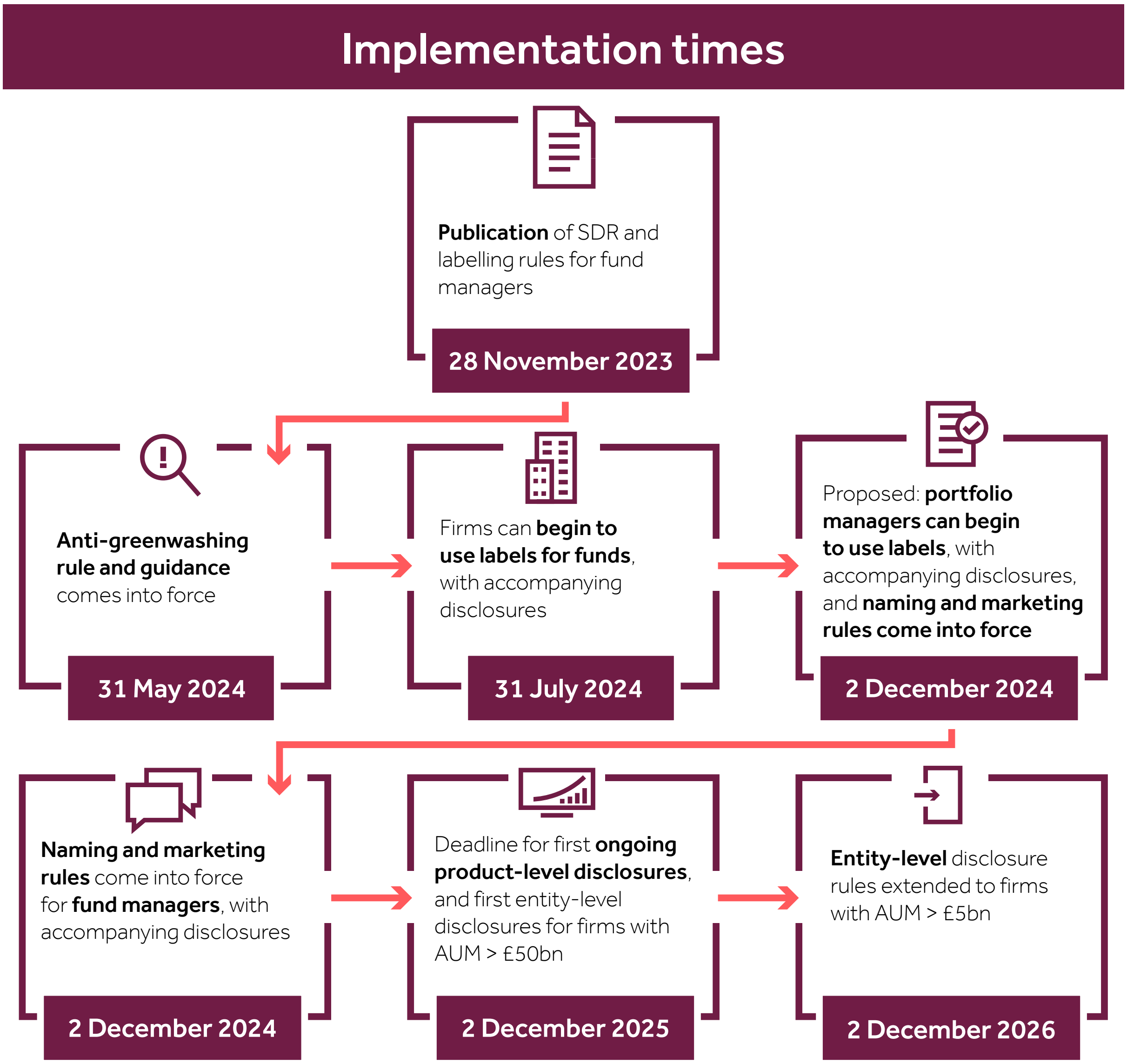
Next steps

1.15 This consultation closes on **14 June 2024**. Please respond using the online form or by writing or emailing us.

1.16 We will consider all feedback and plan to publish our final rules in the second half of 2024.

1.17 We propose that the labelling and naming and marketing requirements, and the associated consumer-facing and pre-contractual disclosures, come into force on 2 December 2024. Firms will need to start producing ongoing product-level disclosures from one year later. Firms with assets under management (AUM) greater than £50 billion will need to produce entity-level disclosures by 2 December 2025. Firms with AUM greater than £5 billion will need to start producing entity-level disclosures by 2 December 2026. Apart from the start date for labelling and the associated disclosures, these dates are consistent with the measures for fund managers.

1.18 We show the timeline for the final SDR and labelling regime for funds and the proposed timeline for portfolio management services below.



Structure of the paper

- **Chapter 2** gives the wider context of our proposals, which we consulted on in CP22/20, and how our proposals are aligned with the Consumer Duty.
- **Chapter 3** sets out a summary of our proposed rules for portfolio management services and the feedback we received to our earlier consultation, CP22/20.
- **Annex 1** provides a list of questions in the paper.
- **Annex 2** sets out our cost-benefit analysis.

Chapter 2

The wider context

The market for sustainable investment products

2.1 Our Financial Lives Survey 2022 found that over 80% of consumers want their investment to do some good as well as provide a financial return. However, the sustainable investment market is difficult for many consumers to navigate. Firms often use sustainability-related terms interchangeably to describe their products and strategies, which may be confusing to consumers.

2.2 Additionally, in CP22/20 and PS23/16 we outlined growing concerns that firms may be making misleading sustainability-related claims about their investment products and services.

2.3 Greenwashing increasingly damages consumer trust in the market for sustainable investment products and causes potential harm, such as consumers buying unsuitable products. We published a Dear Chair letter in 2021 to set out our expectations of firms.

2.4 Stakeholders, including industry, have said that the market needs guardrails as it develops. So, in CP22/20, we consulted on proposals to tackle the harms identified above by introducing sustainable investment labels, naming and marketing and disclosure requirements for both asset managers and portfolio managers.

2.5 We received feedback that our proposed approach to the labelling part of the regime would not be suitable for portfolio managers. We proposed that they could only use labels if 90% or more of the value of the portfolio invested in other labelled funds. However, stakeholders fed back that most portfolios are diversified and would be unlikely to invest only in UK funds with labels. Many stakeholders asked us to take a similar approach to funds whereby the manager could assess all assets in the portfolio against the criteria for labelling. So, we decided to consult on proposals that follow a similar approach to the final rules for fund managers.

2.6 We have set out the proposals in CP22/20 alongside our proposals in this consultation below, and we set out the feedback to CP22/20 and rationale for our new proposals in Chapter 3.

Proposal	CP22/20	CP24/8
Labels	Portfolio management offerings can only use a label if 90% or more of the value of all constituent products in which they invest qualify for the same label.	Portfolio management offerings can use a label if at least 70% of the gross value of the assets within the portfolio are invested in accordance with the sustainability objective, and the other qualifying criteria are met.
Naming and marketing rules	Firms that are providing portfolio management services to retail investors will be exempt from the naming and marketing rules when 90% or more of the value of constituent products qualify for any label.	Portfolio management offerings to retail investors are subject to the naming and marketing rules.
Consumer-facing disclosures	Firms providing portfolio management services will not be required to produce consumer-facing disclosures but will instead be required to provide an index of the underlying in-scope products, linking to their label and consumer-facing disclosure, as applicable.	Firms providing portfolio management services will be required to produce consumer-facing disclosures if using a label or sustainability-related terms without a label, publishing them on their websites, or relevant digital medium, or providing them to their clients.

Proposal	CP22/20	CP24/8
Product-level disclosures	Firms providing portfolio management services will not be required to produce pre-contractual disclosures but will instead be required to provide access to the pre-contractual disclosures for the underlying in-scope products (or under the 'on demand' regime below). Firms that are providing portfolio management services 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.	Firms providing portfolio management services will be required to produce pre-contractual disclosures and ongoing product-level disclosures if using a label or sustainability-related terms without a label, publishing them on their websites, or relevant digital medium, or providing them to their clients.
Entity-level disclosures	Firms with over £5 billion in AUM providing portfolio management services are required to produce entity-level disclosures in relation to the overall assets managed in relation to sustainability in-scope business.	Remains the same.
Distributor rules	Distributors of portfolio management offerings will need to provide labels and consumer-facing disclosures to retail investors.	Remains the same.

2.7 Our new proposals have been informed by:

- considering and analysing the 240 responses to CP22/20
- engagement with domestic and international stakeholders such as regulators, the Government, portfolio managers and their representatives, feedback from the Treasury Sub-Committee, consumer groups and others
- engaging with the Disclosures and Labels Advisory Group, our expert advisory group made up of financial market stakeholders and subject matter experts.

2.8 We have also engaged with the Statutory Panels throughout the process of developing our wider SDR regime, and will keep them updated on a regular basis.

Wider context of this consultation paper

2.9 In its Roadmap to Sustainable Investing published in October 2021, the Government set out its long-term strategy to ensure investors and consumers can access the information they need to make informed capital allocation decisions, in line with their sustainability preferences or goals.

2.10 Central to this is the Government's plan for an economy-wide SDR regime, which the Government elaborated on in its 2023 Green Finance Strategy. The economy-wide SDR regime aims to build on leading global practice and standards, including building from the climate-related disclosures aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. It aims to introduce a framework to facilitate and streamline the flow of robust and useful information between corporates, consumers, investors and capital markets.

2.11 Our SDR and labelling rules are a key component of that regime, alongside the Government's work to assess the standards developed by the International Sustainability Standards Board (ISSB) for their suitability for adoption in the UK, transition plan disclosures, developing a UK Green Taxonomy and consideration of nature-related disclosures.

2.12 Our SDR and labelling regime was developed alongside our ongoing review of retail investment disclosure, to ensure our disclosure requirements are cohesive and enable consumers to access the key information they need to make informed decisions.

2.13 We have received consistent feedback on the importance of ensuring compatibility with other regimes, most notably the Sustainable Finance Disclosure Regulation (SFDR) in the European Union (EU) which also applies to portfolio managers. We included a mapping of the key disclosure items under the SFDR disclosure requirements in Annex 3 of PS23/16 and consider them to be compatible with our labelling and disclosure requirements.

2.14 We note the European Commission's ongoing review of the SFDR, and its consultation published in September 2023. Among the Commission's consultation proposals is consideration of a labelling regime to help consumers navigate the market. As our regime is among the first to introduce sustainable investment labels, we will continue to engage with the EU authorities on this important issue. We are also engaged with developments in other jurisdictions, and will continue to encourage interoperability and compatibility as they consider their sustainability regimes.

2.15 Overseas funds remain out of scope of the SDR and labelling regime. His Majesty's Treasury (HMT) have announced their intention to consult on extending the regime to overseas recognised funds. We continue to engage with HMT to understand the options but any extension to overseas funds is a matter for HMT.

How it links to our objectives

2.16 The proposals we are consulting on are compatible with our strategic objective of ensuring that markets function well, and should help to further each of our operational objectives, set by Parliament.

2.17 The measures should increase transparency in the portfolio management market, contributing to our objective of enhancing market integrity. Clear and accessible information and labels should help consumers to better navigate the market and understand their investments, enhancing consumer protection. Additionally, introducing a clear framework for firms to assess the sustainability credentials of their products consistently, and be more transparent about those credentials, should help facilitate better competition between firms in the interests of consumers.

2.18 The Financial Services and Markets Act (FSMA) 2023 gives the FCA a secondary objective to facilitate the international competitiveness of the UK economy (including, in particular, the financial services sector), and its medium to long-term growth, subject to aligning with relevant international standards. These proposed rules are consistent with, and advance, our secondary international competitiveness and growth objective by ensuring that the UK market for sustainable investment products is transparent and efficient, leading to improved competition and integrity in the sustainable investment market.

2.19 The measures should enable investors to have improved confidence in identifying sustainable investment products and making better informed purchases, with a consistent approach for portfolio management and funds. Better industry standards should help improve integrity and help to build on the UK's existing reputation and leading international position in the sustainable finance market. Attracting sustainable investments helps to support a thriving economy.

2.20 In developing these measures, we have considered all the regulatory principles in FSMA including that, where relevant to the exercise of our functions, we contribute towards achieving the UK's net zero emissions target. We have also considered the Chancellor's latest remit letter where we were asked to have regard to the Government's ambitions for the provision of sustainable finance and its net zero emissions target. Our proposals are intended to help consumers better understand which firms and investment products are aligned with the transition to a more sustainable economy.

The Consumer Duty

2.21 Our proposals are consistent with the Consumer Duty (the Duty). Where firms are subject to both the SDR and labelling regime and the Duty, we want firms to consider the proposals in this consultation alongside their obligations under the Duty, to help them deliver good outcomes for retail customers. This means firms should:

- act in good faith to deliver sustainability-related products and services, taking into account the reasonable expectations of retail customers;

- avoid causing foreseeable harm, including harm caused through greenwashing and buying unsuitable products; and
- enable and support retail customers to pursue their financial objectives, including where customers have sustainability-related needs and preferences as part of their investment objectives.

Wider effects of this consultation

2.22 The SDR and labelling regime is designed to help the UK's asset management sector continue to thrive and consolidate the reputation of the UK as a leading international hub for sustainable finance, attracting those looking for sustainability-oriented investment opportunities. Introducing better industry standards should improve integrity and help to build on the UK's existing reputation.

2.23 By building consumers' confidence, we expect the market for genuinely sustainable investment products to grow. If we did nothing, consumers' trust in this market would likely continue to be eroded and there is a risk to the industry that investment would flow to other markets with more robust standards.

Equality and diversity considerations

2.24 We have considered the equality and diversity issues that may arise from the proposals in this consultation.

Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other anti-discrimination legislation applies). We will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules.

Chapter 3

Summary of our proposed rules

3.1 This chapter summarises our proposed SDR and labelling rules for portfolio managers. It includes a summary of the key points of feedback on our proposed rules for portfolio managers as set out in CP22/20. It builds upon PS23/16 on SDR and investment labels, which introduced a package of measures for fund managers.

Scope

Proposed rules

3.2 We are proposing to extend the SDR and labelling regime to portfolio management services provided to clients on a discretionary (and/or advisory in relation to private markets) basis, including where the portfolio management offerings are model portfolios, customised portfolios and/or bespoke portfolio management services.

3.3 We are proposing to use the same definition of portfolio management as introduced for our TCFD-aligned disclosure rules. This captures portfolio management services broadly, rather than only those driven by client mandates. This also includes services in relation to private equity or other private market activities consisting of either advising on investments or managing investments on a recurring or ongoing basis. We welcome any particular views on this approach.

3.4 As the regime is focused on delivering outcomes for retail investors, the proposals are primarily aimed at wealth management services for individuals and model portfolios for retail investors. Firms offering portfolio management services to professional clients can opt into the labelling regime but will not be subject to the naming and marketing requirements and associated disclosures.

3.5 The proposed scope does not include services where the clients are based overseas (ie, those that either normally reside outside of the UK or have their registered office (or head office) outside of the UK). It also does not include portfolio management provided to a client that is a fund, or an Alternative Investment Fund Manager or management company for or on behalf of a fund (ie, where the portfolio manager acts as a delegate).

3.6 The rules apply to firms that provide portfolio management carried out from an establishment maintained by the portfolio manager in the UK. We welcome views on this approach as we recognise some portfolio management activities may take place in branches based overseas.

3.7 We consider it important that portfolio managers are held to the same high standards as fund managers when making sustainability claims. The regime would be applied as follows for the different types of clients that a portfolio manager may have:

Client	Labels	Naming and marketing rules	Disclosure requirements
Retail	Can be used*	Apply	Apply where firms are using labels or sustainability-related terms. Firms must produce consumer-facing, pre-contractual and detailed product-level disclosures and either publish them or provide them to their clients. Entity-level disclosure rules also apply.
Professional	Can be used*	Do not apply	Apply where firms are using labels. Firms must produce pre-contractual and detailed product-level disclosures and either publish them or provide them to their clients. Entity-level disclosure rules also apply.

*if criteria and associated disclosure requirements are met

3.8 For retail investors, we consider it important that each component of the regime applies (ie, that firms can choose to use labels, and firms are subject to the naming and marketing and disclosure rules). We recognise that in some cases portfolio managers do not make disclosures publicly available. We propose that the portfolio manager must still prepare the disclosures and provide them to their clients so that all retail investors have a baseline of consistent information.

3.9 We are proposing that firms can choose to use labels for professional clients and must produce and either publish or provide the associated detailed disclosures to those clients. However, we welcome views on this approach (see labelling section below). We are not proposing that portfolio managers offering services to professional clients be subject to the specific naming and marketing requirements, as we do not consider this to be proportionate at this stage (although the anti-greenwashing rule will still apply).

How this responds to feedback received

3.10 The proposals in this paper reflect feedback to our earlier consultation, which was aimed at UK 'firms which provide clients with portfolio management'. We also engaged with stakeholders and received mixed feedback, with some asking that the regime be restricted to portfolio management products ie, model portfolios, rather than bespoke portfolio management services. Others recommended that the regime be extended to all portfolio management products and services, creating a level playing field and rigorous set of standards for them all.

3.11 We recognise that some funds that are already in scope of the regime are structured similarly to model portfolios. We are therefore proposing to include those portfolios in scope of the regime to promote a level playing field.

3.12 We are also proposing to include portfolio management offerings for professional clients in scope of the labelling part of the regime, so that portfolio managers are held to the same high standards when offering sustainable investments to both retail and professional clients. However, if the portfolio manager wanted to use a label, our rules would require the portfolio manager to take responsibility for ensuring the labelling criteria are met on an ongoing basis, including where the client has a prominent role in investment decisions. Given the nature of those client relationships, we welcome views on whether there is appetite for portfolio managers to use labels for professional clients, and any other challenges that may arise. For the same reasons, we also welcome views on whether there is appetite for portfolio managers to use labels when offering bespoke portfolio management services.

Question 1: **Do you agree with the proposed scope of our regime? If not, what alternative scope would you prefer and why?**

Timelines

Proposed rules

3.13 We propose that the labelling regime and naming and marketing rules, as well as the associated disclosures, come into force for portfolio managers by 2 December 2024.

3.14 We propose to align the remaining implementation dates with those for funds: ongoing product-level disclosures and entity-level disclosures for the largest firms from 2 December 2025, and entity-level disclosures for smaller firms with over £5 billion in AUM one year later.

How this responds to feedback received

3.15 We originally proposed to give portfolio managers 18 months from the date of publishing our final SDR and labelling rules to implement the rules. This means portfolio managers would have had 6 months longer than fund managers to implement the rules as they would have only been able to use labels if they were investing in other labelled funds. Since we published the final SDR and labelling rules for UK funds, stakeholders we have engaged with have indicated that portfolio managers want us to move quickly to introduce the new rules given some portfolios are structured similarly to funds.

3.16 We therefore propose the timelines set out above to give portfolio managers sufficient implementation time while recognising the need to move quickly to create a level playing field with funds.

Question 2: **Do you agree with the proposed implementation timeline? If not, what alternative timeline would you prefer and why?**

Investment labels

Proposed rules

3.17 We are proposing to apply a broadly similar approach to labelling for portfolio managers as introduced for fund managers, to have a consistent approach and create a level playing field. This includes the introduction of a fourth label in response to comments about the mutual exclusivity of labels. Firms can choose to use labels for portfolio management offerings where the objective is seeking to achieve positive sustainability outcomes, provided that the qualifying criteria for labels are met.

3.18 The graphic below sets out the investment labels we are proposing that portfolio managers can use. The 4 labels are Sustainability Focus, Sustainability Improvers, Sustainability Impact, and Sustainability Mixed Goals. They are not designed to be in a hierarchy. They aim to help consumers to differentiate between different sustainability objectives and different investment approaches to achieve those objectives.

Sustainability Impact™

Sustainability Mixed Goals™

Sustainability Focus™

Sustainability Improvers™

3.19 To use a label, portfolio management offerings must meet the general and specific criteria relating to that label on an ongoing basis, and prepare the associated disclosures. The labelling criteria applies to the agreement or arrangement under which a firm provides portfolio management to a client. So, at least 70% of the overall arrangement would need to be invested in accordance with the sustainability objective, and other qualifying criteria would need to be met, for it to be considered for a label. Where clients want more than 30% of their arrangement to pursue only financial objectives, the portfolio manager would not be able to use a label, but may be subject to our naming and marketing rules.

3.20 In response to stakeholder feedback that portfolio managers should be able to assess their portfolios against the labelling criteria, we propose that the portfolio manager is responsible for ensuring that the general and specific criteria are met. This includes where the management of any assets within the portfolio is carried out by a third party.

3.21 Whether a portfolio management offering invests in funds or directly in securities, those funds and securities will be treated as 'assets'. While overseas funds remain out of scope of the regime and a label cannot be applied to an overseas fund, a portfolio management offering that is in scope of the regime may invest in assets that are either UK and/or overseas funds. The portfolio manager is responsible for assessing those assets and ensuring the labelling criteria are met if it wants to use a label for the portfolio.

3.22 Portfolio managers must also meet the associated firm-level requirements and we propose to apply broadly the same rules as we introduced for fund managers. This includes requirements around use of the graphic for each label, record-keeping requirements, notifying the manager's clients and notifying us of their use of a label through the online notification and application form that we are developing. We will publish details about the form in due course.

3.23 The table below provides a summary of the labelling criteria and considerations for portfolio managers.

Table 1 – application of labelling criteria to portfolio managers

	Requirements	Application to portfolio managers
Product requirements		
Sustainability objective	The portfolio must have an explicit sustainability objective as part of its investment objectives that aligns with one of the specific sustainability labels and that is clear, specific, and measurable.	The portfolio manager is responsible for setting the sustainability objective for its portfolio. We have not been prescriptive about whether there are multiple objectives, or parts to the objective, provided that the objectives are clear and specific ie, they build a clear picture of what the portfolio is aiming to achieve.

	Requirements	Application to portfolio managers
Investment policy and strategy	The portfolio must have at least 70% of the gross value of its assets invested in line with the sustainability objective. Those assets must be selected with reference to a robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability, as applicable for each of the labels, and any other assets must not conflict with the sustainability objective. There are limited exceptions to the 70% threshold (where products are designed to build their initial portfolio over time, such as an LTAF, and where a firm is carrying out its escalation plan or taking actions to meet the criteria on an ongoing basis). When selecting assets, firms should use a robust, evidence-based standard of sustainability. Firms should select assets using a methodology or approach that is applied in a systematic way, and that can be used to determine both the environmental and/or social sustainability characteristics of the product's assets and the ability of those assets to contribute to positive environmental or social outcomes. The methodology or approach may be based on, or determined by, an authoritative body (eg, a government or regulator), industry practice (eg, a third-party data or analytics service provider) or a proprietary methodology (developed in-house by the firm).	The portfolio manager must ensure that 70% of the gross value of the portfolio is invested in accordance with the sustainability objective. We are proposing to set the threshold at 70% for consistency with the criteria for funds, and based on feedback that 70% would be more feasible for portfolio management offerings. This is the only threshold that we have prescribed within the criteria. Where a portfolio management offering invests in other funds, including those that have sustainable investment labels, the portfolio manager will need to treat those funds as 'assets' and follow the rest of the criteria accordingly. The portfolio's assets must be selected with reference to a robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability. The portfolio manager will need to determine what that standard is (eg, general environmental and/or social criteria such as the minimum threshold for the percentage of revenue associated with sustainability matters; a taxonomy-based standard; or emissions profiles) and at which level it applies eg, it could apply at the level of the fund or the assets within a fund. While some funds in the portfolio may have sustainable investment labels, some may not (eg, those that are domiciled overseas). So, while the information associated with a labelled fund could support its assessment, the portfolio manager is responsible for ensuring all assets (eg, the funds) within its portfolio are in accordance with the criteria. While investing in funds that already have labels will demonstrate that the fund has a sustainability goal and is meeting high standards to deliver on that goal, a label is not an absolute measure of sustainability.

	Requirements	Application to portfolio managers
KPIs (Key Performance Indicators)	The portfolio must have KPIs that demonstrate progress towards achieving the sustainability objective. Those KPIs may measure either the performance of the portfolio as a whole and/or individual assets.	Portfolio managers are responsible for selecting KPIs at the level most appropriate for the portfolio – see KPIs under the firm requirements section below.
Firm requirements		
Negative outcomes	The portfolio manager must determine (and disclose) whether any material negative environmental and/or social outcomes may arise in pursuing the sustainability objective.	The portfolio manager may, for example, identify negative outcomes that may arise in pursuing the sustainability objective as part of its risk management and due diligence processes when selecting the portfolio's assets
Investment policy and strategy	The portfolio manager must determine the portfolio's investment policy for achieving the sustainability objective, and investment strategy for what the product invests in, including, where appropriate, the timescales by which the product is expected to be fully invested in assets.	The portfolio manager should develop an investment policy and strategy that provides sufficient information to enable clients and consumers to understand how the portfolio is invested.
Independent assessment	The portfolio manager must obtain or undertake an independent assessment of the robust, evidence-based standard of sustainability to confirm that it is appropriate for selecting the product's assets. The assessment can be obtained from a third party or undertaken by the firm, provided that it is independent from the investment process, and in either case, that the individuals responsible for carrying out the assessment are appropriately skilled. The portfolio manager will need to disclose the basis on which the standard is considered appropriate and the function or third party (not naming individuals) that carried out the assessment.	No specific considerations

	Requirements	Application to portfolio managers
Assets that do not pursue the objective	The portfolio manager must identify (and disclose) assets that the portfolio invests in for reasons other than to pursue the sustainability objective, such as cash and derivatives used for liquidity and risk management purposes. The portfolio must not invest in any assets that conflict with its sustainability objective.	No specific considerations
KPIs	The portfolio manager must identify (and disclose) the KPIs that it will use to measure progress of the portfolio towards meeting its sustainability objective.	We have not been prescriptive as to the level at which KPIs are set ie, aggregated at portfolio level, or at the level of assets within the portfolio. Portfolio managers should consider the appropriate level to demonstrate progress towards the sustainability objective.
Escalation plan	The portfolio manager must have an escalation plan setting out the actions it will take if the assets do not demonstrate sufficient performance against the sustainability objective or KPIs. The plan should set out the anticipated timescales for addressing any matters that may result in insufficient performance against the sustainability objective.	We have not been prescriptive as to what an escalation plan might entail. For example, a portfolio manager's escalation plan may include engagement with fund managers, collective engagement etc.
Resources and governance	The portfolio manager must have appropriate resources, governance, and organisational arrangements, commensurate with the delivery of the sustainability objective. This includes ensuring there is adequate knowledge and understanding of the product's assets and that there is a high standard of diligence in the selection of any data or other information used (including when third-party ESG data or ratings providers are used) to inform investment decisions for the product.	The portfolio manager remains responsible for meeting these requirements for the portfolio. This includes where management of some assets within the portfolio is carried out by a third party.

	Requirements	Application to portfolio managers
Stewardship	The portfolio manager must identify the investor stewardship strategy needed to deliver the sustainability objective. This includes the expected activities and outcomes, and ensuring the strategy and appropriate resources are applied.	We acknowledge that stewardship may take place in different forms. Under our rules, the portfolio manager must identify (and disclose) the strategy that is appropriate for its portfolio. This may, for example, include engagement with managers of funds included in the portfolio.
Meeting the requirements on an ongoing basis		
Ongoing requirements and review	The portfolio manager must ensure the criteria are met on an ongoing basis and may need to take actions if needed to ensure they are being met. The portfolio manager will need to consider whether the use of a label remains appropriate while those actions are being taken, and we would ordinarily only expect minimal deviations from the 70% threshold. Portfolio managers will also need to carry out a review of their use of a label at least every 12 months. If compliance can't be restored in a reasonable period of time and the label is no longer appropriate, the portfolio manager will need to revise or cease to use the label and comply with the relevant notification requirements to clients and to the FCA.	The portfolio manager remains responsible for ensuring the criteria for the portfolio are met on an ongoing basis and may need to consider what actions to take under its escalation plan if assets no longer meet the criteria. We recognise that the threshold may not be at 70% at all times, for example, if there are changes to the assets in the portfolio. In these cases we are proposing the same approach as for UK funds, with limited exceptions to the threshold.
Use of data	The portfolio manager must take reasonable steps to ensure that any data used to meet the labelling requirements is accurate and complete (including through use of proxies and assumptions where appropriate).	No specific considerations

3.24 The attributes for each of the labels are set out below:

Label	Attributes
Sustainability Focus	• The sustainability objective must be consistent with an aim to invest in assets that are environmentally and/or socially sustainable, determined using a robust, evidence-based standard that is an absolute measure of sustainability.
Sustainability Improvers	• The sustainability objective must be consistent with an aim to invest in assets that have the potential to improve environmental and/or social sustainability over time – determined by their potential to meet a robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability. • Firms will need to identify the period of time by which the product and/or its assets are expected to meet the standard, including short and medium-term targets. They must also obtain robust evidence to satisfy themselves that the assets have the potential to meet the standard. • Firms' investor stewardship strategy supports delivery of the objective and helps to accelerate improvements in sustainability over time.
Sustainability Impact	• The sustainability objective must be consistent with an aim to achieve a pre-defined, positive, measurable impact in relation to an environmental and/or social outcome. • Firms must specify a theory of change setting out how they expect their investment activities and the product's assets to achieve a positive impact. • Firms must specify a robust method for measuring and demonstrating the positive impact of both the assets the product invests in and the firms' investment activities.
Sustainability Mixed Goals	This is for products with a sustainability objective to invest at least 70% in line with a combination of the sustainability objectives for the other labels. Requirements for each of the other labels in which the product invests must be met.

Box 1 – example of product profile

ABC Global Sustainable Markets Portfolio. The portfolio aims to provide capital growth through investment in a diversified range of funds in global markets that focus on renewable energy production, storage and related activities or invest in companies that have credibly committed to decarbonisation by 2050. The funds are a mix of those that are already meeting robust, evidence-based standards of sustainability relating to renewable energy and those that have the potential to meet robust evidence-based standards relating to emissions profiles over time. Some of the funds are domiciled in the UK and some are based overseas. Some of the funds have sustainable investment labels and some do not. Nevertheless, the portfolio manager determines that at least 70% of the value of the portfolio's assets are invested in accordance with the sustainability objective of the portfolio, and that the other qualifying criteria are met.

How we responded to feedback received

3.25 In our earlier consultation, we proposed that labels can be used for products marketed to retail investors and those marketed to professional clients, if the firm chooses to do so and meets our qualifying criteria. If not, firms marketing to retail investors must meet our naming and marketing rules.

3.26 We proposed 3 voluntary investment labels that could only be used by portfolio managers if 90% or more of the value of all constituent products in which a portfolio invests qualified for the same label.

3.27 Respondents to the earlier consultation were supportive of a labelling regime for portfolio management offerings. However, given the mutual exclusivity of the labels, many respondents did not think that multi-asset products, like portfolios, invested in assets that have a combination of attributes of the 3 proposed labels could qualify for a label under the proposals.

3.28 We addressed feedback on the labels as part of the package of measures we introduced in PS23/16 (Chapters 5 and 6). We are proposing to apply the same labelling regime to portfolio managers so that there is a consistent approach and a level playing field. This includes the introduction of a fourth label in response to comments about the mutual exclusivity of labels.

3.29 Respondents also said that the 90% threshold to use a label was too high. This is because portfolios are typically diversified, and it is unlikely that 90% of the value of the portfolio would be invested in labelled funds (as they may also invest in overseas funds and directly in securities). Several stakeholders suggested a 70% threshold would be more appropriate for diversification and risk management purposes.

3.30 As we propose to apply the same labelling regime as introduced for funds to portfolio management offerings, we are therefore proposing that at least 70% of the gross value of the portfolio is invested in accordance with the sustainability objective.

3.31 Many respondents said that portfolio managers should be able to self-assess their portfolios against the criteria for labels to determine whether they could qualify for a label. This would allow them to include a diverse set of assets in their portfolio, as opposed to only labelled funds.

3.32 We propose that portfolio managers are responsible for ensuring the qualifying criteria are met if they choose to use a label for the portfolio. This applies to both portfolio managers offering model portfolios and bespoke portfolio management services. The portfolio may include assets that are UK and/or overseas funds, that are labelled and non-labelled, or other securities held directly. This also means that portfolio managers would need to make the associated disclosures, which we set out later in the chapter.

3.33 Some stakeholders asked how to treat a portfolio investing in a labelled fund that in turn only invests 70% of its assets in accordance with its sustainability objective. Where a portfolio is invested in a labelled fund, that fund should nevertheless be treated as an asset and selected with reference to a robust, evidence-based standard that is an absolute measure of sustainability. While it is for the portfolio manager to determine what that standard is (eg, general sustainability criteria, taxonomy-based, emissions profiles etc) and how the assets (eg, the funds) are selected with reference to it, a label is not an absolute measure of sustainability.

Question 3: Do you agree with our approach to labelling portfolios, including the threshold and assessment requirements? If not, what alternatives do you suggest and why?

Naming and marketing

Proposed rules

3.34 We are proposing that these rules apply only to portfolio management offerings that are marketed to retail investors. Sustainability-related terms can be used in names and marketing if:

- The portfolio uses a label – provided that, where the 'sustainability focus', 'sustainability improvers' or 'sustainability mixed goals' labels are used, the word 'impact' is not used in the name of the offering, or
- It does not use a label but complies with the naming and marketing rules, as set out below.

3.35 Portfolio managers must comply with the following naming rules:

- The portfolio management offering must have sustainability characteristics and its name must accurately reflect those characteristics, but the terms 'sustainable', 'sustainability', 'impact' and any variation of those terms must not be used.
- Firms must produce the same types of disclosures as required for labelled products.

- Firms must also produce a statement to clarify that the offering does not have a label and the reason why, and either publish this information (on the relevant digital medium) or provide it to the retail investor.

3.36 Portfolio managers must comply with the following marketing rules:

- Firms must ensure that financial promotions relating to an offering are consistent with its label and associated disclosures, where relevant.
- Firms that are not using a label for a portfolio management offering but are using sustainability-related terms in financial promotions relating to them must produce the same types of disclosures and statement as those required under the naming rules.

3.37 Where a portfolio does not use label but in invests in some funds that have labels, the portfolio manager can explain in its marketing that some of the funds within the portfolio are labelled. However, the marketing and anti-greenwashing rules must be met, and the portfolio manager must not imply that the whole portfolio is 'sustainable'.

How we responded to feedback received

3.38 In our earlier consultation, we proposed to restrict firms providing in-scope products to retail investors that do not qualify for, or use, an investment label from using sustainability-related terms in their products' names and marketing. We also proposed that 'Sustainable Focus' and 'Sustainable Improvers' products would be prohibited from using the term 'Impact' in their names and marketing.

3.39 We proposed that firms providing portfolio management services would be exempt from the naming and marketing rules if 90% or more of the value of constituent products in the portfolio qualify for any label.

3.40 Stakeholders were generally concerned that our proposals for the use of sustainability-related terms were too restrictive. They asked for rules that enable firms to communicate important and factual information about products, so that consumers can continue to navigate to those products.

3.41 As with labels, stakeholders were concerned that the 90% threshold was not feasible for portfolios, as they tended to be more diversified and less geared towards one sustainability strategy or objective.

3.42 The proposed naming and marketing rules in this CP are consistent with those in that apply to fund managers. We set out our response in PS23/16, including that we recognised the strength of the consultation feedback and that we finalised the rules accordingly.

3.43 We propose to apply the same conditions to portfolio managers marketing to retail investors, so that there is consistency across products marketed to those investors.

Question 4: **Do you agree with our approach to naming and marketing? If not, what alternative approach would you suggest and why?**

Disclosure requirements

Consumer-facing disclosures

Proposed rules

3.44 We propose that portfolio managers must produce consumer-facing disclosures summarising the key sustainability characteristics for both labelled portfolio management offerings and those that use sustainability-related terms in their names and marketing.

3.45 We propose that the disclosure must be provided in a new, standalone document, alongside other documents that provide key investor information. As with the approach for UK funds, we are not proposing a specific template for the information but, to promote consistency, we have set out the categories of disclosures that firms would be required to make. The disclosure must not exceed 2 pages (if printed) and must include the following:

- either the sustainability objective and label, or the statement to clarify that the portfolio management offering does not have a label
- the investment policy and strategy (including what the portfolio will and will not invest in)
- relevant KPIs and/or metrics
- details of where a consumer can access other relevant sustainability and non-sustainability-related information
- for the 'Sustainability Mixed Goals' label only, the proportion of assets invested in line with each of the other relevant labels

3.46 Disclosures must be reviewed and updated annually as appropriate. Disclosures for products with labels must, at a minimum, be updated to reflect progress towards achieving the sustainability objective.

3.47 We propose that the consumer-facing disclosures must be made available in a prominent place on the relevant digital medium (for example, the main product webpage or page on a mobile application). However, as we recognise that not all portfolio managers make information related to portfolio management offerings publicly available, where this is the case, we propose that the portfolio manager must provide the information required under these disclosures to their retail investors.

3.48 Where firms are publishing the disclosure, we propose that the same rules for the publication of disclosures for funds apply. This includes that the disclosures are no more than 'one mouse click away' from where the label is presented. For example, this could be a hyperlink next to or underneath the label. In publishing the consumer-facing disclosure, it must be easy for consumers to identify the portfolio management offering it relates to as well as the label, where relevant, and access links to other relevant product-level disclosures. Firms must also keep a copy of each published version for a minimum of 5 years and provide it to retail investors, or to us, on request.

Detailed product-level disclosures

3.49 All portfolio management offerings using a label or using sustainability-related terms in their naming and/or marketing without a label must include sustainability information in:

- pre-contractual disclosures by 2 December 2024 for products using the terms without a label, and
- ongoing product-level disclosures annually

3.50 For portfolio management offerings using a label, the information that must be disclosed is broadly associated with the qualifying criteria for the labels, and is the same information required under our rules for UK funds. This includes disclosing how the portfolio manager determines the assets the portfolio invests in, and the robust, evidence-based standard of sustainability that it uses.

3.51 For portfolio management offerings that are not using a label, the pre-contractual and ongoing product-level disclosures must, at a minimum, include information relating to the investment policy and strategy and any relevant metrics.

3.52 For the 'Sustainability Mixed Goals' label, the disclosures must include the proportion of assets invested in line with each of the relevant labels, and the information required for those labels.

3.53 Disclosures must either be made publicly available in a prominent place on the relevant digital medium at which the product is offered (eg, webpage or page on mobile application). As with the consumer-facing disclosures above, where portfolio managers do not make information on their offerings publicly available, they must provide the information required in these disclosures to their clients.

3.54 As we are proposing that portfolio managers provide information to their clients if not publishing the information, we are not proposing to include them in the on-demand regime, whereby clients can request the information if needed to meet their legal obligations.

Entity-level disclosures

3.55 Consistent with the TCFD's (and ISSB's) 4 pillars, all firms with over £5 billion in AUM are required to annually disclose:

- their 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
- how the firm identifies, assesses and manages sustainability-related risks
- the metrics and targets used to assess and manage relevant sustainability-related risks

3.56 Where firms use labels or sustainability-related terms in the names and marketing of their portfolio management offerings, they must also include details on their resources, governance and organisational arrangements for them.

3.57 Firms can cross-refer to disclosures made in a group, parent-level or other relevant report, provided the information is clearly signposted and other cross-referencing requirements are met.

How we responded to feedback received

3.58 We consulted on a tiered approach to disclosures including:

- Consumer-facing disclosures
- Pre-contractual disclosures
- Ongoing product-level disclosures
- Entity-level disclosures

3.59 **Consumer-facing disclosures.** We proposed that portfolio managers would not be required to produce their own consumer-facing disclosures. Instead, they would need to provide an index of the underlying funds in which their portfolios invested, including the label and a hyperlink to the individual funds' consumer-facing disclosure, as applicable.

3.60 We received some feedback on the role of portfolio managers in producing disclosures associated with the labelling regime. Stakeholders acknowledged that if portfolio manager is responsible for assessing the portfolio against the criteria for labels, they should also produce the associated disclosures.

3.61 However, we received feedback that for some portfolio managers eg, those that provide bespoke portfolio management services to clients and do not make the arrangements public, it would not be appropriate for them to publish disclosures.

3.62 We are proposing that portfolio managers produce their own consumer-facing disclosures for retail investors, because our updated proposals for labelling, require them to assess the portfolio against the qualifying criteria themselves. We are also proposing that they produce their own disclosures when using sustainability-related terms in their product names and marketing.

3.63 **Detailed product-level disclosures.** We proposed that firms providing portfolio management services would not be required to produce their own pre-contractual disclosures or a sustainability product report. However, they would need to provide retail investors with easy access (for example by hyperlinking) to the relevant disclosures (Part A of the sustainability product report, where applicable, and Part B).

3.64 Where public disclosures are not appropriate due to the nature of the client relationship, for example, firms providing bespoke portfolio management services to individuals or professional clients, we proposed that firms would be subject to the on-demand regime. We proposed that firms would have to provide clients with access to Part A and Part B of the reports, as applicable, for each of the underlying products in which it invests, if an eligible client (a client that needed the information for their legal or regulatory reporting obligations) requested it.

3.65 Most stakeholders broadly agreed with the content of the pre-contractual and ongoing product-level disclosures. As with the consumer-facing disclosures, some firms commented that they should not be required to publicly disclose information about bespoke portfolios.

3.66 We are now proposing that firms must make their disclosures publicly available in accordance with the timelines set out in our rules or, where firms do not make their offerings publicly available, firms must provide the information to their clients. As portfolio managers are either required to publish the information or provide it to clients directly, they are therefore not subject to the on-demand regime.

3.67 **Entity-level disclosures.** In our earlier consultation, we proposed that all firms with AUM above £5 billion (regardless of whether they use a label or sustainability-related terms) must produce disclosures annually on how they are managing sustainability risks and opportunities in a 'sustainability entity report'. We proposed that these disclosures would build on the TCFD structure, requiring disclosures on governance, strategy, risk management, and metrics and targets.

3.68 Most stakeholders generally agreed with our proposals for entity-level disclosures. We did not receive comments on entity-level disclosures specifically for portfolio managers. Many comments highlighted the importance of ensuring that our requirements align with existing reporting requirements (for example, our TCFD-aligned disclosure rules for asset managers, and SFDR) and requested that firms disclose their impacts on the environment and society.

3.69 We addressed this feedback in our final rules for UK funds. We propose to apply the same requirements for portfolio managers, as outlined in Chapter 8 of PS23/16.

Question 5: Do you agree with our proposed approach to disclosures, including the tiered structure? If not, what alternative do you suggest and why?

Rules for distributors

Proposed rules

3.70 We are proposing to keep the requirements for distributors the same as under the final rules for UK funds with regards to communicating the labels and consumer-facing disclosures. We propose that distributors (eg, financial advisers, platforms, etc) must communicate the labels used for portfolio management offerings and provide access to the associated consumer-facing disclosures to retail investors, either on a relevant digital medium for the product or using the channel they would ordinarily use to communicate information.

3.71 Distributors must keep the labels and consumer-facing disclosures up to date with any changes that the portfolio management firm makes to a label or the disclosures.

Question 6: Do you agree with our proposals for distributors? If not, what alternatives do you suggest and why?

How we responded to feedback received

3.72 In our earlier consultation, we proposed that distributors (including financial advisers and platforms) must ensure the labels and consumer-facing disclosures are made available to retail investors. We also proposed that distributors must place a prominent notice on overseas funds, alerting retail investors that the funds are based overseas and not subject to the UK labelling and disclosure requirements.

3.73 Most stakeholders broadly agreed with our proposals for distributors in relation to funds. Some asked us to clarify the role of advisors in the regime. We received feedback asking us to clarify the interactions and division of responsibilities between distributors and other firms such as portfolio managers, as well as how to treat adviser-arrangers or advisers that build portfolio selections.

3.74 We recognise that some firms providing portfolio management also carry out activities within scope of the definition of a 'distributor'. We have clarified the types of portfolio management activity that we intend to capture under labelling, naming and marketing and disclosure rules in the 'scope' section of this chapter. Where a firm is carrying out 'sustainability in-scope business' ie, providing 'portfolio management in relation to a sustainability product' as defined in our Handbook Glossary, they fall under our labelling, naming and marketing and disclosure rules. Where the same firm is acting as a 'distributor', as defined in the Glossary, the distributor rules apply. The table at ESG 1.2.4G(2) (see ESG Sourcebook and Appendix 1) indicates which rules apply to firms in their capacity as 'distributors' and which apply to firms providing 'portfolio management'.

3.75 We have established an industry-led working group for financial advisers to support industry in advising consumers on products making claims about sustainability. This helps to build on existing capabilities in sustainable finance, including how the SDR and labels support their role. The consumer facing-disclosures should also help advisers to better understand the sustainability characteristics of investment products.

Cost benefit analysis

3.76 Annex 2 below sets out the Cost Benefit Analysis of these proposals.

Question 7: **Do you have any comments on our cost benefit analysis? If not, we welcome feedback in relation to the one-off and ongoing costs you expect to incur and the potential benefits you envisage.**

Other minor amendments

3.77 We are also proposing to make the following minor amendments and corrections:

- A definition for 'ESG' has been added, referring to the Environmental, Social and Governance Sourcebook.

- The reference to 'client' in paragraph (2) of the definition of 'portfolio management' has been italicised and the word 'including' has been amended to 'which comprises either'.
- PRIN 2A.3.12AG has been amended to update the provision with a reference to a firm providing portfolio management.
- ESG 1.1.3BG has been amended, removing the reference to 'guidance'.
- ESG 2.3.5R(1) regarding the 'on-demand' regime for climate-related disclosures has been amended to both simplify and clarify the obligations on the firm.
- ESG 3.1.5R has been amended to clarify the meaning of 'assets' (taking account of the proposals for portfolio management).
- ESG 4.1.5R(3) and ESG 4.1.13R(2) have been amended to reflect that firms may not be making information publicly available.
- ESG 4.1.13R(1) has been amended to clarify the requirement that firms must give written notice to clients who have invested in the 'sustainability product'.
- ESG 4.1.19R(2)(a) has been amended to remove 'or' at the end of that paragraph and replace it with 'and'.
- ESG 4.2.23G has been amended to correct the cross reference to ESG 4.2.4R(2)(a)
- ESG 4.3.1R(1)(b) has been amended to remove the italicisation of the word 'communication'.
- ESG 4.3.10G has been amended to clarify that the guidance refers to communicating sustainability-related terms in both product names and financial promotions, as well as correcting the italicisation of 'relevant digital medium'.
- ESG 5.3.1R has been amended to remove the words 'and publish' to better reflect the requirements of ESG 5.1.1R.
- ESG 5.5.13R has been amended to both simplify and clarify the requirements on a firm with respect to the 'on-demand' regime.
- Other minor typographical and/or other corrections have been inserted where appropriate.

Annex 1

Questions in this paper

Question 1: Do you agree with the proposed scope of our regime? If not, what alternative scope would you prefer and why?

Question 2: Do you agree with the proposed implementation timeline? If not, what alternative timeline would you prefer and why?

Question 3: Do you agree with our approach to labelling portfolios, including the threshold and assessment requirements? If not, what alternatives do you suggest and why?

Question 4: Do you agree with our approach to naming and marketing? If not, what alternative approach would you suggest and why?

Question 5: Do you agree with our proposed approach to disclosures, including the tiered structure? If not, what alternative do you suggest and why?

Question 6: Do you agree with our proposals for distributors? If not, what alternatives do you suggest and why?

Question 7: Do you agree with the proposed cost-benefit analysis set out in Annex 2. If not, we welcome feedback in relation to the one-off and ongoing costs you expect to incur and the potential benefits you envisage.

Annex 2
Cost benefit analysis

Introduction

1. The Financial Services and Markets Act (2000) requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

2. This analysis presents estimates of the significant impacts of our proposals. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide a qualitative explanation of their impacts. Our proposals are based on weighing up all the impacts we expect and reaching a judgement about the appropriate level of regulatory intervention.

3. The CBA has the following structure:

- Description of the Portfolio Management Sector
- Problem and rationale for intervention
- Our proposed intervention
- Alternative options
- Baseline
- Key assumptions and uncertainties
- Affected groups
- Summary of impacts
- Benefits
- Costs
- Wider economic impacts
- Monitoring and Evaluation

4. We published the final rules (PS23/16) for the SDR and labelling regime for asset managers and distributors of retail investment products in November 2023. We consulted on including portfolio management in our Sustainability Disclosure Requirements and investment labels regime ('SDR and labelling regime') in CP22/20. However, stakeholder feedback explained that a slightly amended regime would be required as most portfolios are diversified and unlikely to invest only in UK funds with labels. Therefore, we are consulting on a revised set of proposals for portfolio management services.

5. This CP focuses on the portfolio management sector, as defined for the purposes of the ESG Sourcebook in the FCA Glossary. Our proposals apply to firms that have a core activity of discretionary investment management, advisory investment management, or a combination of the two. This will include wealth managers, private banks and asset managers, which we refer to collectively as 'firms' in this CBA.

Description of the Portfolio Management Sector

Description of the market for portfolio management services

6. Firms' typical investment management offer is to actively manage their institutional clients' ('clients') or retail consumers' ('consumers') wealth within individual investment portfolios. These portfolios are typically a diversified group of assets designed to achieve an expected return and meet the risk tolerance of their clients or consumers, and typically involving customer engagement through a relationship or investment manager.

7. Based on internal analysis, we estimate there are around 400 firms providing portfolio management services in the UK. These firms serve approximately 2.4 million consumers and clients, and manage approximately £1.4 trillion assets on their behalf (The Global City).

Business models

8. Firms employ a range of business models to suit different consumers' and clients' needs and preferences, with the price of services increasing with the level of personalisation of the service. KPMG's Future of wealth management report segments business models into three distinct groups. Firstly, the traditional wealth management offering to high-net-worth consumers or clients who value strong relationships and bespoke advice. These firms also often offer more holistic financial planning, including tax, estate and retirement planning. Secondly, some firms serve the ultra-high net worth segment focusing on leveraging their global capabilities and expertise across asset classes to provide highly personalised advisory services. Finally, some firms serve the mass affluent market through lower cost portfolio management services including digital-based models with limited human interaction.

9. Our understanding of the portfolio management services market, based on feedback from CP22/20 and our engagement with firms, is that there are two broad portfolio management approaches: a 'model' portfolio (off the shelf), in which all customers invest in the same holdings but weightings can be customised to meet client's and consumer's needs; or a 'bespoke' approach in which portfolios are tailored to consumer's and client's needs. Some firms offer a mix of both types of services. We estimate that roughly three quarters of customers are using model portfolio services and the remaining quarter are using bespoke portfolio services.

10. We understand that these firms tend to earn their revenues from investment management fees which typically include custody fees. These fees are based on a fixed proportion of assets under management and trading commissions. The main costs to firms to provide portfolio management services are staff costs as most of them need both front- and back-office employees. As costs are mostly fixed, profits tend to be driven by market performance, net inflows from clients and consumers and front-office productivity.

Market structure and competition

11. The global market for portfolio management services is competitive and fragmented, with a range of providers in the market, including wealth managers, private banks and asset managers operating different business models and offering different types of services (TechSci Research, KPMG Future of wealth management). Competition in the market is driven by the pursuit of market share, consumer and client assets, and differentiation through innovative and high-quality service offerings.

12. Although firms will tend to compete with other portfolio management services, firms with digital-based models may compete with collective investment schemes due to their similar target market segment and product offering.

13. Based on our understanding of the market and findings from the Asset Management Market Study, we consider that clients and consumers choose investment management services based on past performance, reputation and charges. In particular for portfolio management services, we also consider that personalisation of service, relevant and timely communications, access to other services and being able to access their investments online, may also inform decision-making. These features can form part of the core offering of portfolio management services.

Market trends

14. Similar to other financial services sectors, there has been increase in consolidation, and disruption from fintech firms offering access to robo-advisers through digital-based business models, price-comparison tools and more investment-related data. More broadly, there is increasing digitisation of portfolio management services to drive efficiencies and offer clients and consumers more personalised and data-driven insights (TechSci Research).

15. As well as delivering a good financial return on investment, over 80% of consumers want their investment to do good as found by our Financial Lives 2022 Survey. Increasing demand has resulted in significant growth in the market for investment products delivering ESG benefits in recent years, as shown for example by Aramonte and Zabai (2021). Focusing on the UK retail market specifically, the UK Investment Association estimated that in 2022 there were £91 billion in funds under management in responsible investment funds. This demand has created new commercial opportunities for firms to incorporate sustainability into products and differentiate their offerings to attract investment. As a result, many firms offer clients and consumers portfolio management services that integrate some sustainability considerations. Examples may include model portfolios that integrate sustainability through screening assets based on their sustainability credentials, or offering to integrate sustainability considerations as part of a bespoke portfolio management service.

Problem and rationale for intervention

16. In this section we discuss the harms that our proposals are seeking to address and the underlying drivers (or market failures) of these harms.

Harms

17. Our consumer research showed that due to insufficient, or a lack of, consumer-facing information on the sustainable characteristics of investment products, it can be difficult for consumers to navigate the market and identify products and services that meet their needs and preferences. This can create confusion which can reduce trust and confidence in the sustainable investment market, potentially leading to sustainability fund outflows and undermining firms' broader sustainability credentials. These concerns are supported and reinforced by feedback we received to CP22/20, as well as engagement with firms.

18. There is also a risk of greenwashing by firms as a result of increased demand for sustainable investment products. As firms increasingly make sustainability-related claims about their products and services, there are some concerns that some of these may be exaggerated, misleading, and unsubstantiated claims that ultimately do not stand up to scrutiny. Greenwashing poses a risk to the integrity of the sustainable investment market and can further reduce consumer trust, engagement and confidence in the sustainable investment market.

19. Insufficient information on the sustainability characteristics of products and being misled due to greenwashing could result in clients and consumers choosing less suitable investment products and/or misallocating their investments, relative to their needs and preferences. This could be the case when investors determine their investment decisions in part by their preferences for sustainability, as described in the theoretical framework presented by Pedersen, Fitzgibbons and Pomoski (2021), or to manage sustainability-related risks and opportunities in their investment portfolios.

Drivers of harms

20. These harms may arise due to information asymmetries between firms and their clients and consumers, whereby clients and consumers have less information on the sustainability characteristics of their investment products than they need to inform their investment decisions.

21. These information asymmetries can result from firms not disclosing sufficient information for clients and consumers to understand how sustainability has been integrated into investment products. Additionally, lack of standardised information on sustainability objectives and strategies makes it difficult for clients and consumers to determine what each product is seeking to achieve, and which strategies are being pursued. Firms also frequently use certain terms interchangeably to describe their products/services and strategies – for example 'ESG', 'responsible' and 'sustainable' – making it difficult to understand or compare similar products.

22. Asymmetric information can also occur due to potential misaligned incentives between portfolio managers and their customers ('principal-agent problem'). Due to increased

demand, portfolios with higher sustainability credentials can attract greater flows, accumulate more assets, and generate higher fee revenues for firms (Liang, Sun and Teo, 2022). Firms may seek to attract clients and consumers through overstating the sustainability credentials of their portfolios ('greenwashing'). As the interests of firms and their customers are misaligned, greenwashing can be symptomatic of agency problems.

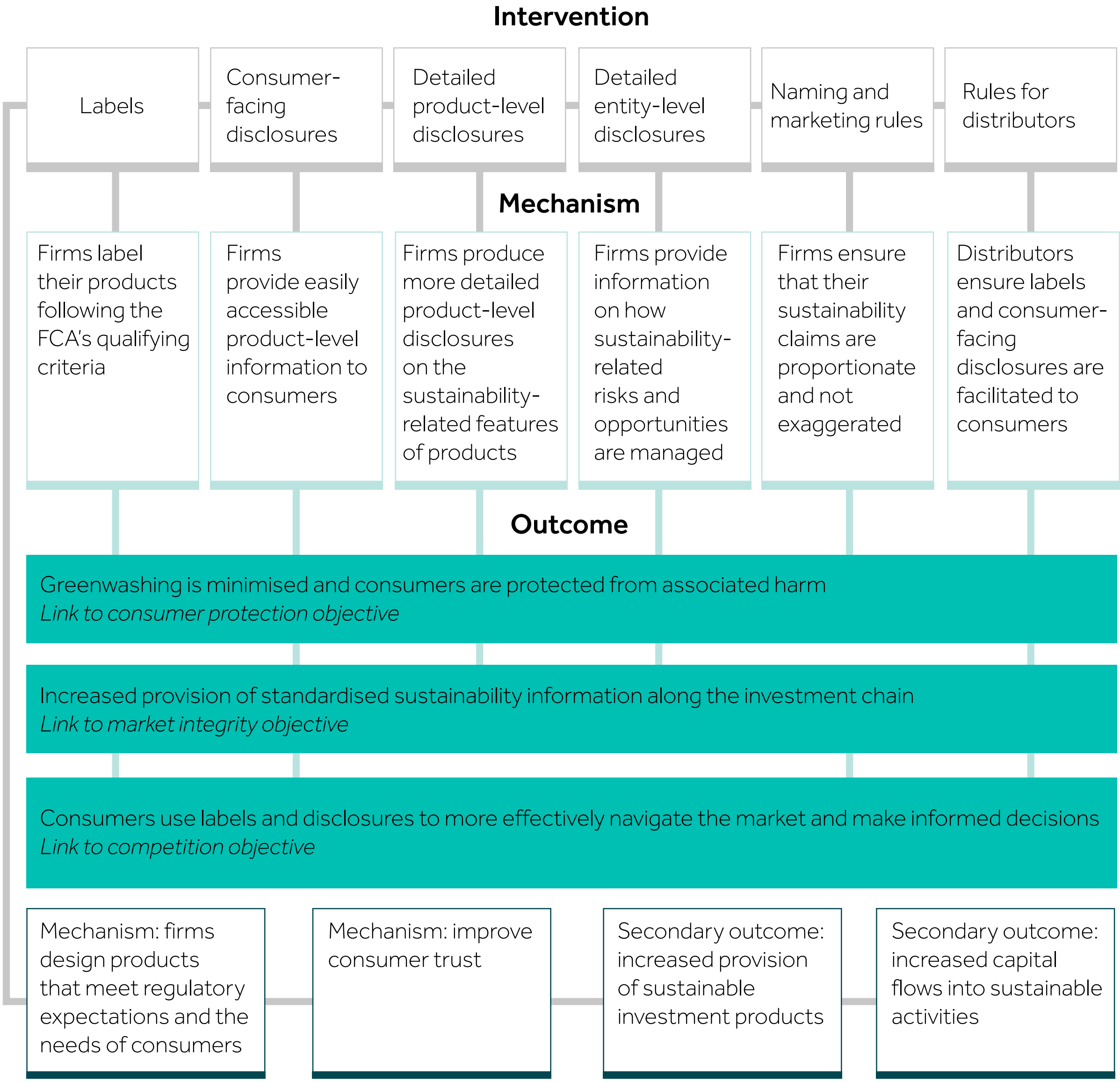
Our proposed intervention

23. We propose that firms providing portfolio management services are subject to a similar SDR and investment labels regime as asset managers. These proposals are summarised in Table 1 below, and a comparison of these proposals against those in CP22/20 can be found in Chapter 2 of the CP.

Table 1: Summary of proposals

Proposal	Description
Labels	Portfolio management offerings can use a label if the qualifying criteria are met
Naming and marketing rules	Portfolio management offerings for retail investors are subject to the naming and marketing rules.
Consumer-facing disclosures	Firms providing portfolio management services will be required to produce consumer-facing disclosures if using a label or sustainability-related terms without a label, publishing them on their websites, or relevant digital medium, or providing them to their clients.
Product-level disclosures	Firms providing portfolio management services will be required to produce pre-contractual disclosures and ongoing product-level disclosures if using a label or sustainability-related terms without a label, publishing them on their websites, or relevant digital medium, or providing them to their clients.
Entity-level disclosures	Firms with over £5 billion in AUM providing portfolio management services are required to produce entity-level disclosures in relation to the overall assets managed in relation to sustainability in-scope business.
Distributor rules	Distributors of portfolio management offerings will need to provide labels and consumer-facing disclosures to retail investors.

24. The causal chain below sets out the proposed requirements, the actions firms will need to take, and how these will support our target outcomes. Our proposals are designed to address the information asymmetries discussed above and improve market functioning through improving the flow of, and providing a framework for, greater standardisation of sustainability information for investment products. Facilitating the flow of information along the investment chain and increasing transparency in the market should promote market integrity and confidence, protect consumers and promote competition, aligned with our statutory objectives.



Alternative options

25. We could also consider proceeding with the proposals we previously consulted on in CP22/20, which required at least 90% of the value of the of products within a portfolio to be using labels for a portfolio to use a label. This set a high standard for portfolios marketed as sustainable or integrating sustainability, which aligned with our objective for this regime. However, we received feedback that the 90% threshold would not be suitable in practice for portfolios as they are diversified and were unlikely to invest only in products in scope of the SDR and labelling regime. For example, they may invest in overseas funds or directly invest in equities and bonds. Therefore, having a 90% threshold would mean label uptake for portfolios would likely be very low and therefore consumers would receive less standardised information to help them better navigate the sustainability market. The majority of stakeholders suggested we should lower the minimum threshold to 70% and to allow portfolio managers to assess all the assets

within their portfolio against the criteria for labels. The 70% threshold is aligned with the final rules for the wider SDR and labelling regime.

26. Another alternative would be to 'do nothing' and exclude portfolio management services from the SDR and labelling regime. However, this may lead to an uneven playing field as fund managers would have to comply with these rules but portfolio managers would not. While some portfolio managers may voluntarily produce disclosures, they would not be able to use labels. This could also cause confusion for consumers as some funds are structured quite similarly to portfolios, and so consumers may not understand why they only see labels and disclosures for some products but not others. This confusion could negatively impact the competitiveness of the portfolio management sector relative to funds.

Baseline

27. We assess impacts relative to the baseline of existing rules and guidance that will apply to firms in our 10-year appraisal period. The SDR and labelling regime will apply to UK asset managers and distributors of investment products to UK retail investors, with some rules applying from 31 July 2024. The implementation date for each measure can be viewed on page 12 of PS23/16. Additionally, all authorised firms, including the portfolio management sector, will be subject to the anti-greenwashing rule from 31 May 2024.

28. Without the interventions proposed in this CP, firms providing portfolio management services cannot use sustainable investment labels for their portfolios and we assume they do not voluntarily produce the consumer-facing, detailed product and entity-level disclosures that are required under the wider SDR regime. There may be less incentive for firms to voluntarily produce disclosures without being able to benefit from the credibility of using a label. We note that certain firms will already produce some disclosures (Taskforce on Climate-related Financial Disclosures), which our entity-level disclosures build upon.

Key uncertainties and assumptions

29. Our analysis is subject to several key uncertainties and assumptions.

30. **The size of the sustainable investment market may change over time affecting the scale of total benefits and costs.** The number of firms that currently have a portfolio marketed as sustainable (eg, model portfolio) or allow clients or consumers to integrate sustainability (eg, as part of a bespoke service offering) will change over time. This is as a result of evolving demand for sustainable investment products as well as changes firms will make to meet the new requirements. We estimate benefits and costs based on the current estimated number of firms with a sustainability offering but we would expect benefits and costs to scale accordingly with the size of the market.

31. **The overall benefits and costs will partly depend on label uptake by firms.** Of the firms that currently have portfolios marketed as sustainable or can integrate sustainability, at this stage we cannot be certain on how many will choose to use the sustainable investment labels or continue to use sustainability-related terms. Where portfolios do not use labels but continue to use sustainability-related terms, they will need to produce the required disclosures. Therefore, we expect improved quality and standardised information for consumers across all portfolios marketed as sustainable or those with the option to integrate sustainability.

32. **We assume the market for portfolio management services will continue to operate as described in our 'Description of the portfolio management sector'.** We consider our proposals will not fundamentally change the key characteristics of the market and market participants, for example, firm's business models. We note that by promoting trust in and supporting the growth of the sustainable investment market, we can indirectly increase demand for and supply of sustainable investment products, and thus affect firm's business models. However, offering investment products that meet preferences for integrating sustainability is already current practice.

33. We make some assumptions in relation to estimating compliance costs:

- The incremental costs of meeting our proposed requirements were calculated using our Standardised Cost Model (SCM). The assumptions we used for the model reflect both the feedback we received from several firms which responded to our request for information for the CBA for CP22/20, feedback to CP22/20 and other internal FCA data.
- We recognise that there are a number of different approaches that firms may wish to take to comply with our proposed rules. For instance, depending on their existing resources and capabilities, some firms may rely on hiring new staff or reallocating existing staff and resources, while others may seek third party advice eg, external consultants. The resourcing costs are captured in our estimates as training, project and governance change, and IT change costs.
- Where firms are disclosing metrics/KPIs to demonstrate performance against a stated sustainability objective, or provide consumers with additional information on their approach, we expect the firm to have access to the relevant data – or to use proxies or assumptions, provided that the methodologies and limitations are explained. Some firms may use third party data sources and incur costs in doing so. We do not, however, consider these to be considerable incremental costs resulting from our proposals. We expect firms to already have sight of how a product that is named or marketed using sustainability-related terms is performing against those claims.

34. We also assume firms will comply in full with our proposals once implemented, we also assess impacts over a 10-year appraisal period and discount benefits and costs at the standard government Green Book rate of 3.5%.

Affected groups

35. Our proposals will affect firms providing portfolio management services and the approximately 2.4 million clients and consumers using these services in the UK.

36. Based on analysis of our internal data, we estimate there are around 400 firms providing portfolio management services that could be affected by our proposals (population A), including wealth managers, private banks and asset managers. We split this population into three subpopulations (A1-A3) as our proposals apply based on their product offerings and firm's responses to our proposals (eg, whether they adopt labels). Firms within population A with AUM of £5 billion will also be required to produce entity-level disclosures.

37. For each subpopulation, we estimate the size of firms to estimate compliance costs in using our SCM. We assume that most firms would either be medium or large as per classifications in our SCM. Based on supervisory analysis of the structure of the market, we estimate that 12% of firms would be large and 88% of firms would be medium. We discuss how these classifications relate to assumptions underpinning our costs in the section on 'Costs to firms'.

38. We describe our approach to estimating the total size of each subpopulation and the size of firms within the subpopulation below.

Subpopulations A1 and A2

39. Subpopulations A1 and A2 comprise of firms that currently offer portfolio management services that are marketed as sustainable or can integrate sustainability into their products. We estimate the size of this population using data collected by supervision from wealth managers in December 2023 and regulatory data, and through desk-based research of firms. Although this data is over one year old, we are currently processing data from a more recent survey and based on initial analysis the total population size has not changed significantly.

40. We take different approaches to estimating the number of firms that are likely to have a sustainability offering, based on the services and size of the firms:

- **Wealth managers providing bespoke portfolio management services only.** We estimate 80% of this population offer the option to integrate sustainability into portfolios based on conducting desk-based research into a sample of 13 (10%) of these firms.
- **Wealth managers providing model portfolio services (and bespoke services).** We assume all firms that offer at least the median number of model portfolios offered by firms across the sector would offer a model portfolio integrating sustainability. For those with less than the median, we estimate a third would have a model portfolio integrating sustainability based on conducting desk-based research on a stratified sample of 25% (27 firms) of these firms.
- **Private banks and asset managers offering portfolio management services.** Based on their size, we assume all private banks and asset managers offer clients and consumers the option to integrate sustainability into portfolios.

41. The total estimated number of firms that have a sustainability offering comprise subpopulations A1 and A2. These populations will likely either adopt sustainable investment labels (A1) or continue to use sustainability-related terms and produce relevant disclosures (A2). We do not have data specific to the portfolio management sector to inform our assessment of the proportion of firms that are likely to adopt labels (A1) or continue to use sustainability-related terms and make required disclosures without labels (A2). However, as many portfolios are structured similarly to funds, we assume that label uptake is likely to be similar to funds, at approximately 45%. This is based on desk-based research of funds using Morningstar data, described in more detail on pages 81-82 of PS23/16. We assume the remaining 55% continue to use sustainability-related terms and produce required disclosures.

42. We estimate that the distribution of large (12%) and medium (88%) firms in subpopulation A1 is the same as the distribution for the entire population of firms.

Subpopulation A3

43. Subpopulation A3 is comprised of the firms that do not currently have a sustainability offering, estimated by subtracting subpopulation A1 and A2 from the total population of firms (A). Similar to our approach to subpopulations A1 and A2, we estimate that the distribution of large (12%) and medium firms (88%) is the same as the distribution for the entire population of firms.

Firms in subpopulation A1-A3 with AUM of £5bn or more

44. We estimate the costs that would be incurred to firms with AUM of £5 billion (bn) or more within population A to produce entity-level disclosures. We estimate the number of firms with £5bn or more AUM (on a 3-year rolling average) using our regulatory data on AUM (MIF003 reporting) at the last reporting date as of October 2023. Where there are gaps in the data, we supplement with other regulatory data.

45. We estimate that all large firms (49) have £5bn or more AUM and the remaining firms estimated to have £5bn or more AUM are medium firms (12).

46. Table 2 summarises the subpopulations, proposals affecting them, and the estimated subpopulation by size classification.

Table 2: Estimated population affected by our proposals, by size

Population impacted	Population reference	Policy	Estimated population, by size
Firms using labels	A1	• Investment labels • Detailed product-level disclosures • Consumer-facing product-level disclosures	L: 16 M: 112 Total: 128

Population impacted	Population reference	Policy	Estimated population, by size
Firms using sustainability-related terms and no labels	A2	• Naming and marketing rules • Detailed product-level disclosures • Consumer-facing product-level disclosures	L: 19 M: 138 Total: 157
Firms not using sustainability-related terms or labels	A3	• Naming and marketing rules	L: 14 M: 100 Total: 114
Total	A	–	L: 49 M: 350 Total: 399
Of which have AUM of £5bn or more	–	• Entity-level disclosures	L: 49 M: 12 Total: 61

Tables notes: 1. We refer to medium and large firms in this table as M and L, respectively.

Summary of Impacts

47. We summarise the potential impacts that we expect to arise from our proposals in Table 3, which are described in more detail in preceding sections.

Table 3: Summary of impacts

Description of impact	One-off (£)	Ongoing (£)
Benefits		
• Welfare improvements to consumers and clients resulting from an improved ability to better navigate the market and make more informed choices, as a result of increased and more standardised sustainability information on investment products. (indirect) • Improved trust and confidence in the sustainable investment market, resulting in increased participation in the market and improved liquidity. (indirect) • Improved integrity of the sustainable investment market due to improved industry standards. (indirect) • Improved market functioning resulting from better informed capital allocation and asset pricing. (indirect)	Unquantified	

Description of impact	One-off (£)	Ongoing (£)
Costs		
Costs to operationalise requirements of the regime including familiarisation, training, IT and governance and change activities. The estimated total one-off cost to all firms providing portfolio management services is £92.3m and the annual ongoing cost is £52.7m. The estimated ongoing annual costs of compliance are equivalent to an estimated 0.04% of revenues from investment management fees, assuming fee revenues are around 1% and total AUM in the portfolio management sector are £1.4 trillion as above. The average estimated ongoing compliance cost to a firm that has portfolio management services that are marketed as sustainable or integrate sustainability depends on whether they decide to adopt labels (approximately £200k per firm) or produce only disclosures for these products (approximately £100k per firm). Firms that do not offer these products are estimated to incur compliance costs of approximately £20k on average to comply with naming and marketing rules. (direct)	£92.3m (PV[1])	£452.9m (10-year PV[1])
Wider economic impacts		
Competitiveness and growth of UK economy • Better industry standards should help build upon the reputation of the UK sustainable finance market, maintaining its leading international position. (indirect) • Improving the trust and confidence in, and integrity of, the UK sustainable finance market may increase the size and liquidity of the UK market – thereby lowering costs and increasing productivity. (indirect)	Unquantified	
Positive ESG externalities Supporting the growth of the sustainable investment market can contribute to facilitating the reorientation of financing needed to drive the transition to a more sustainable future, including net zero GHG emissions.[2] (indirect)	Unquantified	

Tables note: 1. Figures are discounted at the standard government Green Book rate of 3.5%. 2. Positive ESG externalities may accrue beyond our 10-year appraisal period.

48. Although it is not reasonably practical to quantify the benefits, to get perspective on the possibility of benefits outweighing costs, we can consider the size of the AUM in the sector and the significance and trajectory of the sustainable finance market. There are approximately £1.4 trillion assets under management by the portfolio management sector (The Global City), and approximately £91 billion in funds under management in responsible investment funds more broadly (Investment Association). The sustainable finance market will continue to be an important source of capital for the transition towards a more sustainable future. Over time, managing sustainability-related risks in investment portfolios may become increasingly important and preferences for sustainable investing may also grow to align with this, as the urgency of tackling climate change increases. In this context, given the current size and potential continued growth of the sustainable investment market, it could be possible that the expected benefits to consumers and improved market functioning resulting from our proposals could exceed the compliance costs over the medium to long-term. As explained in Chapter 3 and described in 'Monitoring and evaluation' below, we will be assessing and monitoring the expected outcomes and unintended consequences of the regime, and we will carry out a post-implementation review in 3 years.

Benefits

49. Many of the benefits from our proposals are likely to be indirect, accruing from better market functioning over the medium to long term. The scale of benefits and costs will depend on a number of variables relating to firm, client and consumer responses to our interventions which are difficult to measure ex-ante. As a result, we do not consider that it is reasonably practical to quantify the benefits of our proposals at this stage, prior to introduction of our proposals. Instead, we describe these benefits qualitatively, drawing on evidence to support the key mechanisms and provide a sense of scale. We will measure the benefits and success of our intervention ex-post as set out in our 'monitoring and evaluation' section, including a more detailed assessment as part of our post-implementation review.

Welfare improvements to consumers and clients from improved ability to make more informed choices and navigate the sustainable investment market

50. Together, the labelling, disclosure, naming and marketing rules will restrict the use of sustainability-related terms in product names and marketing, unless labels are used and/or disclosures are made. This should result in naming, marketing and disclosures that better reflect the sustainability-related features of the investment product and reduce the risk of clients and consumers being misinformed about these characteristics, including through greenwashing. The use of labels and disclosures should increase the provision of standardised sustainability-related information.

51. Improved and standardised sustainability-information should help improve clients' and consumers' comprehension of the sustainability features of investment products. As a result, our proposals should enable consumers and clients to make more informed choices about which investment products and services meet their preferences and needs, resulting in better product matching. In addition, the entity-level disclosures should provide greater transparency about how firms are managing sustainability-related risks and opportunities in their investment decisions and are likely to help both clients and consumers take those factors into account when granting investment mandates and selecting products. There may be improvements in welfare to clients and consumers through improved satisfaction due to clients and consumers placing value on knowing their investments have the sustainability features they say they do or, from better product matching or improved allocation of their investments.

52. The scale of benefits accrued will depend on several factors:

- **Consumer financial literacy and capability.** If consumers lack these capabilities, there is a risk that improved information does not translate to improved comprehension. As consumers using traditional portfolio management services may be paying more to outsource the management of their investments, we consider typical consumers are likely to be more financially literate than the average retail investor, particularly as investments are typically relatively large. However, new business models that are technology-based (such as mobile apps) are targeting a wider range of consumers through product offerings similar to collective investment schemes. This consumer-base may be less informed.
- **Consumer preferences for sustainability characteristics** relative to other factors (eg, price, returns, risk tolerance) when choosing portfolio management services. Sustainability characteristics will be one of many factors that inform preferences and decision-making.
- **Consumer inability to process and act on improved information due to behavioural biases and frictions**, despite alternative products being available that better meet their needs and preferences. Behavioural biases such as decision-making shortcuts or susceptibility to framing can impede consumers' ability to process information or make reasonable choices aligned with their needs and preferences. Other frictions in place, such as switching costs, can reduce the likelihood that consumers adjust their investments based on improved comprehension of important sustainability information.

53. To ensure information is accessible to consumers, our proposals have been informed by behavioural and consumer research. We carried out behavioural research with 15,000 participants to assess how well product classification, labelling and disclosures may help consumers navigate the market. Overall, the sustainability factsheets, which were informed by the research, improved consumer comprehension of important sustainability information. We note that this research was carried out in relation to funds but we expect similar outcomes for portfolios, particularly as the products can often be structured in similar ways (namely, as funds of funds). Based on this research, we anticipate that our proposals will be accessible and that it can help reduce the impact of some behavioural biases and frictions through improved clarity and standardisation.

54. Further, given the significant growth of the sustainable finance market over the recent decades, as shown for example by Aramonte and Zabai (2021), we assume that there are (and may increasingly be), preferences and demand for improved sustainability information (however, we note some other reports of recently declining inflows into the sustainable funds). This is supported by some firms that agree that interest in sustainable investment strategies is likely to build over long term (Investment Management in the UK, 2023). Overall, we would therefore expect the scale of benefits from increased and improved sustainability information to consumers and clients to be significant.

Improved trust in and integrity of the sustainable investment market

55. Our labelling regime requires firms to use clear and objective criteria to determine whether a product qualifies for a sustainable investment label. This should help firms to take a consistent approach to categorising their products and reduce scope for greenwashing. Better industry standards should improve integrity and help to build on the UK's existing reputation and leading international position in the sustainable finance market.

56. The regime should also give consumers better confidence that a sustainability-labelled product is meeting certain criteria and enable consumers and other stakeholders (for example NGOs) to hold firms to account for their sustainability-related claims. Further, the product and entity-level disclosure requirements are designed to provide greater consistency in the information disclosed to clients and consumers. Building trust and confidence in the UK sustainable finance market should promote the growth of the market through encouraging greater participation in the market.

Better informed capital allocation and asset pricing

57. Both the labelling regime and disclosures framework should promote a more structured approach to the consideration of sustainability-related features of investment products, and how sustainability-related risks and opportunities are managed at entity level. It should also help support a coordinated flow of information along the investment chain, which should enable better assessment of sustainability-related risks and opportunities across the market. Better transparency should therefore help markets price assets more accurately and allocate capital more effectively, enabling the process envisaged in the theoretical models of Pedersen, Fitzgibbons, and Pomorski (2021), by which asset prices incorporate investors' tastes for green assets. More informed pricing of sustainable assets and allocation of capital should support a smoother transition to a lower-carbon, more sustainable economy, with less exposure to abrupt market corrections.

Costs

Costs to firms

58. Firms will incur costs to comply with our proposals and we estimate these using our SCM. These estimates are the same as in PS23/16 as we expect the costs to be similar for the portfolio management sector as the rules are broadly the same and their business models can be similar. The assumptions used to calibrate the SCM reflect the feedback we received from several firms which responded to our request for information to inform our CBA in CP22/20 and other internal FCA data. A full description of the expected costs is set out in the CBA in CP22/20.

59. Similar to the CBAs in CP22/20 and PS23/16, we estimate costs at the firm level despite the main proposals applying at the portfolio level (eg, label and product level disclosures). Through this, we assume that there are economies of scale for implementing portfolio-level changes at the firm level. We consider this is reasonable based on firms operationalising their approach to complying with our proposals across multiple portfolios at once. Alternatively, estimating costs on a per firm basis may be suitable as many firms may only offer one or two model portfolios that integrate sustainability.

60. Table 4 sets out a summary of the estimated total compliance costs to firms.

61. To get perspective on the size of the costs, we can compare them to the estimated revenues from investment management fees on current AUM in the portfolio management sector. The estimated ongoing annual costs of compliance are equivalent to an estimated 0.4% of revenues from investment management fees, assuming fee revenues are around 1% and total AUM are £1.4 trillion as above.

Table 4: Summary of estimated compliance costs to firms

Population	One-off costs		Ongoing (annual)	
	PV cost to industry in year one[2]	Average cost per firm	Annual cost to industry[1]	Average cost per firm
A1: Firms using a label	£54.1m	£0.4m	£31.4m	£0.2m
A2: Firms using sustainability-related terms	£34.1m	£0.2m	£19.3m	£0.1m
A3: Firms not using sustainability-related terms or labels	£2.2m	£0.02m	£1.0m	£0.01m
Additional costs for firms with AUM of £5bn or more in scope of entity level disclosures	£2.0m	£0.03m	£1.1m	£0.02m
Total costs	£92.3m	–	£52.7m	–

Table notes: 1. As entity-level disclosures are only required from December 2025 onwards (year 2), we discount this one-off cost at the standard government Green Book rate of 3.5%. 2. Figures may not sum to totals exactly due to rounding.

62. Table 5 sets out the estimated average one-off and ongoing costs of our proposals, including a brief description of the costs and key assumptions underpinning the calculations.

Table 5: Estimated average one-off and ongoing costs from our proposals, by cost type and population

Cost type	Population subpopulation	Assumptions	Average cost per firm
Familiarisation and gap analysis	A1: Firms using a label	Based on our SCM, we assume 20/5 (L/M) compliance/regulatory analysis staff review the policy documentation to familiarise themselves with the rules and 4/2 legal/regulatory analysis staff review the legal text.	L: £15,000 M: £4,000
	A2: Firms using sustainability-related terms		
	A3: Other firms amending naming and marketing		

Cost type	Population subpopulation	Assumptions	Average cost per firm
Training	A1: Firms using a label	We assume around 4 hours of bespoke training is required, with 2 hours of familiarisation time required after a training course. We estimate that L/M firms will need to provide bespoke training to 10 and 5 staff members, respectively.	L: £9,000 M: £4,000
	A2: Firms using sustainability-related terms		
	A3: Other firms amending naming and marketing		
Change and governance	A1: Firms using a label	Firms will need to operationalise our requirements into actions and ensure there is appropriate governance to ensure compliance. The cost of this will likely depend on the complexity of the requirements. For example, firms using labels will need to review whether and how the criteria are met in respect of each product that uses a label. If firms are determining a suitable criterion for their portfolios themselves then costs may be higher. We estimate the project-length for each population using our SCM to be: • A1: 1,080/560 (L/M) person-days • A2: 560/280 (L/M) person-days • A3 and additional project for firms with AUM of £5bn or more: 45/14 (L/M) person-days We also estimate costs of board and executive committee approvals for all populations.	L: £445,000 M: £217,000
	A2: Firms using sustainability-related terms		L: £224,000 M: £109,000
	A3: Other firms amending naming and marketing		L: £21,000 M: £7,000
	Additional costs for A1-A3 firms with AUM of £5bn or more in scope of entity level disclosures		L: £21,000 M: £7,000

Cost type	Population subpopulation	Assumptions	Average cost per firm
IT changes	A1: Firms using a label	Portfolio managers using labels will likely incur costs to update their IT systems to implement detailed and consumer-facing and product-level disclosures. We expect this to be a moderate sized IT change. Based on our SCM, we estimate that these changes will require 1,092 and 312 person-days for large and medium firms, respectively.	L: £459,000 M: £126,000
	A2: Firms using sustainability-related terms	Portfolio managers using sustainability-related terms will likely need to update their IT systems to make consumer-facing and product-level disclosures Based on our SCM, we estimate that these changes will require 546/156 (L/M) person-days.	L: £230,000 M: £63,000
	Additional costs for A1-A3 firms with AUM of £5bn or more in scope of entity level disclosures	Some portfolio managers will likely need to make further updates to their IT systems to make entity-level disclosures. Based on our SCM, we estimate that large-sized managers will spend 46 person-days on this project and medium-sized managers will spend 8 person-days on this project.	L: £19,000 M: 3,000
Ongoing (annual) costs			
A1: Firms using a label		Firms will likely incur ongoing costs to ensure continued compliance with our requirements (eg, updating disclosures). We expect these costs to be most significant for firms using labels. We estimate that these ongoing costs will be equivalent to: • A1: 1,080/560 (L/M) person-days • A2: 560/280 (L/M) person-days. • A3 and additional project for firms with AUM of £5bn or more: 45/14 (L/M) person-days	L: £445,000 M: £217,000
A2: Firms using sustainability-related terms			L: £224,000 M: £109,000
A3: Other firms amending naming and marketing			L: £21,000 M: £7,000
Additional costs for firms with AUM of £5bn or more in scope of entity level disclosures			

Costs to clients and consumers

63. Firms may pass on the costs of our proposals to clients and consumers. The extent to which firms may pass any additional costs on to consumers will depend on a number of factors, including supply and demand elasticities. Additionally, firms have existing requirements in place for their assessment of value, to ensure they are delivering value to consumers as well as meeting the requirements of the Consumer Duty.

64. Our FLS 2022 survey finds that 75% of UK adults with retail investments or a pension as at May 2022, say that if a fund was overstating its sustainability credentials, they would no longer invest in it. We note that some consumers' revealed preferences may be different from their stated preferences (the 'say do gap'). Despite this, based on this figure, we could expect some clients and consumers to make changes to their investments if new information revealed that a portfolio was overstating its sustainability credentials. However, there are a wide range of factors that could contribute to a consumer's decision to switch, with sustainability outcomes being one of these factors. Clients and consumers may proceed to switch if the benefits from doing so outweigh the costs of taking these actions. Our proposals are designed to give consumers better information to support their investment decisions and does not require consumers to switch. Therefore, we do not include the monetary costs of clients' and consumers' switching in the CBA, as per the approach taken in previous CBAs on the wider SDR and labelling regime.

Costs to FCA

65. As described on page 89 of PS23/16, we do not anticipate a significant increase in costs for the FCA. The regime will build on our existing supervisory approach and we expect there to be minimal trade-offs. We will incur IT project costs in developing and maintaining the notification form on our online notification and applications system, including processing the associated data. Overall, we expect the additional supervisory and IT costs from extending the regime to portfolio managers to be minimal.

Wider economic impacts, including on secondary objective

66. Extending the SDR and labelling regime to the portfolio management sector could further promote the international competitiveness and growth of the UK economy and generate positive externalities for wider society through supporting the transition to a sustainable future.

67. We expect the wider economic impacts to be largely similar to those described in CP22/20 and PS23/16. As the AUM in the portfolio management sector comprises approximately 13% of the £11 trillion AUM in the UK's asset management industry, the incremental impact of these proposals is likely to be smaller relative to the wider SDR and labelling regime.

Positive impacts on international competitiveness and economic growth

68. We consider extending SDR to portfolio managers is likely to further promote the international competitiveness of the UK economy, in particular the UK financial services sector, and medium to long-term growth of the UK economy, through several mechanisms.

69. It should enable clients and consumers to have better confidence in identifying sustainable investment products and making informed purchases. This should boost trust and confidence in the UK sustainable finance market which, in turn, could increase sustainable investments. Better industry standards should help build upon the reputation of the UK sustainable finance market, maintaining its leading international position.

70. Improving the integrity of the UK sustainable finance market should also encourage more firms to develop and market sustainable investment products which, in turn, may increase the size and liquidity of the UK market – thereby lowering costs and increasing productivity. Attracting sustainable investments and ensuring that they support a thriving sustainable economy is also a key element of promoting innovation, which is a key driver of long-term productivity growth and international competitiveness of the UK economy.

Positive ESG externalities

71. We consider these proposals are likely to generate positive externalities to wider society through supporting the growth of the sustainable investment market, which can contribute to a more orderly transition to a more sustainable future. These positive externalities are likely to accrue over a longer time horizon than our 10-year appraisal period.

72. Based on existing literature[1], we consider there are three main mechanisms by which an investor may contribute to positive outcomes for the environment/society:

- Active investor stewardship and engagement to influence the environmental or social performance of assets.
- Influencing asset prices and the cost of capital through screening in assets that have strong sustainability credentials. As described by Pastor, Stambaugh and Taylor (2020), if a sufficient weight of sustainability-focussed investors restricted their investments to assets that met certain sustainability characteristics, these assets would be rewarded by a lower relative cost of capital. That in turn would again increase the flow of capital to sustainable investments, creating a reinforcing feedback loop as described on page 46 of our Climate Change Adaption Report.
- Allocating capital to underserved markets or addressing market failures through investing in accordance with a stated theory of change, directing capital to projects and activities that offer solutions to environmental or social projects.

1 Fama and French (2005), 'Disagreement, Tastes, and Asset Prices'; Brest and Born (2013), 'Unpacking the Impact in Impact Investing'; and industry initiatives, including for example the Investor Contribution Strategies developed by the Impact Management Project.

73. The positive impact of disclosures on the environment/society through these mechanisms are somewhat evidenced by an academic study of EU's SFDR that found that sustainability disclosures on investment funds led to decarbonisation of investment portfolios, suggested to be driven by funds' investment decisions as well as changes in firm-level emissions. When looking at the impact of mandated climate disclosures in companies more broadly, we also find evidence[2] to suggest that mandated climate disclosures have reduced carbon emissions and intensity in companies that have been subject to these requirements relative to those that have not. These authors report the order of magnitude to be around 10-15% of emissions. However, there is evidence that some of these effects are transitory rather than persistent (Downar et al, 2021) and firms may transfer emissions between activities (Yang et al., 2022).

74. In addition to these mechanisms, through the labelling and disclosure rules clients and consumers should be better able to hold firms to account for their sustainability-related claims. This should encourage them to label and disclose the sustainability-related features of investment products accurately, manage sustainability-related risks and opportunities effectively, and direct capital towards projects and activities that better support the transition to a more sustainable future.

75. We note that research on the impacts of sustainability disclosure-based interventions is still emerging, with many of the studies in this field being fairly recent, and so the scale of the impacts of such interventions is still being established.

Monitoring and evaluation

76. We will monitor the outcomes from this regime as part of our wider SDR and labelling monitoring plan described on page 17 of PS23/16. Table 6 summarises how we will monitor the expected outcomes from our proposals.

2 Jouvenot and Kreuger (2019), 'Mandatory corporate carbon disclosure: Evidence from a natural experiment'; Downar et al. (2021) 'The impact of carbon disclosure mandates on emissions and financial operating performance'.

Table 6: Summary of ongoing monitoring plan

Outcomes	Mechanism	How will we measure success?
• Greenwashing is minimised • Increased provision of standardised sustainability information • Consumers use labels and disclosures to more effectively navigate the market and make informed decisions	Firms label products in line with the regime	*High levels of compliance* We will carry out our usual supervision processes. This may include challenging inappropriate use of labels, monitoring uptake of labels and acting on intelligence that indicates that firms may be in breach of SDR requirements.
	Firms produce the relevant disclosures, including easily accessible product-level information to consumers Distributors ensure labels and consumer-facing disclosures are provided to consumers	*Consumers are better informed about sustainable investment products* We will assess the usefulness of labels and disclosures to consumers through our Financial Lives Survey, other sources of consumer research and engagement with consumer representative groups such as the Financial Services Consumer Panel, FCA Consumer Network, Good With Money and Which?.
	Firms ensure sustainability claims are proportionate	*Greenwashing is minimised* We will monitor for signs of greenwashing from a range of sources. This includes complaints to the Supervision Hub and broader supervisory intelligence.

77. We will also carry out a post-implementation review of the entire SDR and labelling rules after 3 years to assess if our intervention has met its intended outcomes, identify implementation issues and potential unintended consequences, and assess compliance with the rules.

Question 7: **Do you have any comments on our cost benefit analysis? If not, we welcome feedback in relation to the one off and ongoing costs you expect to incur and the potential benefits you envisage.**

Annex 3

Compatibility statement

Compliance with legal requirements

Compliance with legal requirements

1. This Annex records the FCA's compliance with several legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives; and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (s. 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s. 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.

5. This Annex includes our assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. Our proposals are intended to advance the FCA's strategic objective to make markets function well. Following the introduction of our requirements, the portfolio management market should become more transparent, more accessible to consumers and less at risk from harms such as greenwashing.

8. We consider our proposals advance our operational objective to protect consumers. In developing our proposals we have had regard to the differing degrees of risk involved in investments, differing degrees of consumer expertise, consumers' need for timely and accurate information, the general principle that consumers should take responsibility for their decisions, the general principle that those providing regulated financial services should be expected to provide consumers with a level of care that is appropriate and the different expectations that consumers may have about their investments.

9. We consider that the sustainable investment labels should help consumers more easily navigate the sustainable portfolio management market , understand the different approaches taken to sustainability by different firms and products, and find products meeting their sustainability preferences. Our consumer research shows that consumers find labels useful and help consumers understand the sustainability characteristics of funds. While the consumer research was carried out in relation to funds, we expect similar outcomes for portfolio management, particularly as products can be structured in similar ways.

10. The disclosure rules should increase transparency on sustainability-related matters in a timely manner and help to ensure that the information provided by firms is accurate, clear, fair and not misleading. This should enable consumers to better understand the sustainability characteristics of portfolio management services and better assess how well firms manage sustainability-related risks and opportunities. Consumers should therefore be better able to interrogate firms' offerings, enabling them to make more informed decisions. This should enable consumers to better protect themselves against unsuitable or mis-sold products and may in turn encourage firms to offer higher-quality portfolio management services that better meet consumer needs and preferences.

11. The naming and marketing rules prevent firms from exaggerating sustainability claims, which mitigate the risk of greenwashing and allow consumers to make informed choices without being misled.

12. These proposals also align with the Consumer Duty requirements for firms to act in good faith and for consumers to be provided with information that equips them to make effective, timely and properly informed decisions.

13. We also expect our proposals to advance our operational objective to enhance and promote market integrity. The labels should bring helpful structure to the complex market for portfolio management offerings that are marketed as sustainable or integrate sustainability considerations, In the sustainable investment market, complicated terminology is often used interchangeably and some consumers find it difficult to find products meeting their needs and preferences. Greater transparency is also likely to support the flow of information along the investment chain, and may also lead to better-informed asset pricing and capital allocation decisions.

14. In considering how our proposals may also deliver a market integrity benefit to the portfolio management market, we have had regard to the soundness, stability and resilience of financial markets, the orderly operation of financial markets, and transparency of the price formation process in those markets.

15. Further, we consider a strengthened regulatory framework for sustainable investment products may increase opportunities and competition in the market and help foster demand and supply of portfolio management offerings that better suit the needs and preferences of clients and consumers. For example, firms may offer new services that qualify for a sustainable investment label. With greater transparency on how asset managers are managing sustainability-related risks and opportunities in delivering their products and services, clients and consumers should also be better enabled to select suitable providers.

16. In considering how our proposals enhance competition in the interests of consumers, we have had regard to the needs of different consumers who use or may use those portfolio management services, the ease with which consumers who obtain those services can change the person from whom they obtain them, the ease with which new entrants can enter the market, and how far competition is encouraging innovation. Our proposals are consistent with, and advance, our secondary competitiveness and growth objective by ensuring that the UK market for sustainable investment products is transparent and efficient, leading to improved competition and integrity in the sustainable investment market.

17. In addition, we also consider our proposals to support the expectations in the Chancellor's latest remit letter to the FCA, that we have regard to the UK Government's target of net zero by 2050, in carrying out our duties and having regard to the regulatory principles. The Chancellor also asked us to have regard to the Government's energy security strategy. Our proposals are intended to help consumers better understand which firms and portfolio management services are aligned with the transition to a more sustainable economy. Further, our proposals should not disincentivise consumers from investing in energy companies. The 'Sustainability improvers' label reflects that consumers may wish to invest in energy companies that are transitioning to becoming more sustainable over time.

18. Further, in preparing the proposals set out in this consultation, the FCA has had regard to all the regulatory principles set out in s. 3B FSMA.

The need to use our resources in the most efficient and economic way

19. In building from existing requirements of the SDR and investment labels regime (as well as our Guiding Principles and TCFD requirements) we have been able to extend these measures in a complex area of policy in the most efficient manner. We also engaged extensively with stakeholders in developing our proposals to incorporate expertise and feedback throughout the process.

The principle that a burden or restriction should be proportionate to the benefits

20. The cost benefit analysis in Annex 2 sets out the costs and benefits for the proposals in this CP. While we recognise there will be a cost for firms in implementing these proposals, we consider that the benefits, such as minimising greenwashing and improving trust in the market, outweigh the costs.

The general principle that consumers should take responsibility for their decisions

21. Labels should enable consumers to better navigate the market for sustainable investment products, and disclosures should increase transparency of the sustainability-related features of products and on how firms are managing sustainability-related risks and opportunities. Together, these proposals should enable consumers to make better-informed decisions when selecting their products and providers.

The responsibilities of senior management

22. We consider that our proposals are likely to enhance the ability of portfolio managers of in-scope products to take responsibility for their decisions by providing a framework that will encourage them to think about the classification and features of sustainable portfolio management services, as well as the governance, risk management and strategy for managing investments in a systematic and considered way.

The desirability where appropriate of each regulator exercising its functions in a way that recognises differences in the nature of, and objectives of, businesses carried on by different persons [(including different kinds of person such as mutual societies and other kinds of business organisation)] subject to requirements imposed by or under this Act

23. In developing our proposals, we have considered the nature and objectives of businesses carried on by different persons within scope of our regime, as explained within our CBA. With regards to mutual societies, these are not in scope of our rules and we do not expect the proposals to have a significant impact.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

24. Our proposals require firms to make disclosures largely in the public domain, or in some cases provide information directly to their clients. We do not propose that this information be reported to the FCA. However, we do propose that firms notify us if they decide to use a sustainable investment label.

The principle that we should exercise of our functions as transparently as possible

25. In developing our proposals, we have acted as transparently as possible. We signalled our intention to introduce SDR and labels in the Government's Roadmap to Sustainable Investing in October 2021. We then published a Discussion Paper (DP21/4) in November seeking early views on a labelling and disclosure regime. We have since engaged with stakeholders via a Disclosures and Labels Advisory Group (comprised of industry experts and consumer representatives) as well as through our consultation in CP22/20, roundtables, panel discussions, webinars etc ahead of publishing the Policy Statement on the SDR and investment labels regime (PS23/16). We have carefully considered the feedback in relation to portfolio management and are consulting on these proposals, which take into account that feedback.

26. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA).

Equality and diversity

27. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.

28. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. We do not currently consider that these proposals adversely impact any of the groups with protected characteristics ie, age, disability, sex, marriage or civil partnership, pregnancy and maternity, race, religion and belief, sexual orientation and gender reassignment. We welcome your comments if you have any concerns.

Legislative and Regulatory Reform Act 2006 (LRRA)

29. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance. We consider that our proposals are consistent with LRRA principles – that regulatory activities should be carried out in a way which is transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed.

30. We have followed a consistent regulatory approach in developing our proposals. We have clearly set out our proposed rules in a transparent way. We consider our proposals to be proportionate. For example, our proposed product-level disclosure requirements balance the need to provide greater transparency on sustainability-related features of products with the costs for firms in producing those disclosures ie, there will be fewer

and less detailed disclosures for products that do not use a sustainable investment label. We are also proposing to phase in our requirements for firms to make entity-level disclosures, and exclude the very smallest firms from scope of those disclosures.

31. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance, particularly the requirement for regulatory activity to be proportionate and targeted.

Annex 4

List of non-confidential respondents

The summary of feedback in this paper on the application of SDR and labelling rules to portfolio management services is based on feedback to our earlier consultation on SDR and investment labels, CP22/20, and some further engagement with stakeholders. The list of non-confidential respondents to CP22/20 is set out in Annex 4 of PS23/16.

Annex 5

Abbreviations used in this paper

Abbreviation	Description
AUM	Assets under management
CBA	Cost benefit analysis
CP	Consultation Paper
DLAG	Disclosures and Labels Advisory Group
DP	Discussion Paper
ESG	Environmental, Social and Governance
EU	European Union
FCA	Financial Conduct Authority
FSMA	Financial Services and Markets Act
GHG	Greenhouse gas
HMT	His Majesty's Treasury
ISSB	International Sustainability Standards Board
IT	Information Technology
KPI	Key Performance Indicator
LRRA	Legislative and Regulatory Reform Act 2006
LTAF	Long Term Asset Fund
PS	Policy Statement
SCM	Standard Cost Model
SDR	Sustainability Disclosure Requirements
SFDR	Sustainable Finance Disclosure Regulation

Abbreviation	Description
TCFD	Task Force on Climate-Related Financial Disclosures
UK	United Kingdom

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Appendix 1

Draft Handbook text

SUSTAINABILITY LABELLING AND DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION (PORTFOLIO MANAGEMENT) INSTRUMENT 2024

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions in or under:

(1) the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(a) section 137A (The FCA's general rules);
(b) section 137R (Financial promotion rules);
(c) section 137T (General supplementary powers);
(d) section 139A (Power of the FCA to give guidance);
(e) section 247 (Trust scheme rules);
(f) section 248 (Scheme particulars rules);
(g) section 261I (Contractual scheme rules); and
(h) section 261J (Contractual scheme particulars rules);

(2) article 1(2) of the Financial Services and Markets Act 2000 (Claims Management Activity) Order 2018;

(3) regulation 6(1) of the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228); and

(4) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA's Handbook.

B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

D. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below.

(1)	(2)
Glossary of definitions	Annex A
Principles for Businesses (PRIN)	Annex B
Environmental, Social and Governance sourcebook (ESG)	Annex C

Notes

E. In the Annexes to this instrument, the notes (indicated by "Note:") are included for the convenience of readers, but do not form part of the legislative text.

Citation

F. This instrument may be cited as the Sustainability Labelling and Disclosure of Sustainability-Related Financial Information (Portfolio Management) Instrument 2024.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Insert the following definitions in the appropriate alphabetical position. The text is not underlined.

ESG	the Environmental, Social and Governance sourcebook.

Amend the following definitions as shown.

on-demand sustainability information	~~the information set out under *ESG* 5.5.13R(2) for a *person* who is entitled to such information under *ESG* 5.5.13R(1) in respect of assets under management in an *unauthorised AIF* in which the *person* is an investor, but only in respect of an *unauthorised AIF* which is a *UK AIF* managed by a *full-scope UK AIFM* or a *small authorised UK AIFM* and which is not listed on *a recognised investment exchange*~~ <u>has the meaning given in *ESG* 5.5.13R(1)</u>.
portfolio management	(1) <u>(except in *ESG*)</u> managing portfolios in accordance with mandates given by *clients* on a discretionary *client*-by-*client* basis where such portfolios include one or more *financial instruments*. [Note: article 4(1)(8)157 of *MiFID*] (2) (in *ESG*) a service provided to a *client* ~~including~~ <u>which comprises either</u>: (a) *managing investments*; or (b) private equity or other private market activities consisting of either *advising on investments* or *managing investments* on a recurring or ongoing basis in connection with an arrangement the predominant purpose of which is investment in unlisted *securities*.
public product-level sustainability report	a report comprising Part A (where applicable) and Part B, produced in accordance with *ESG* 5.5.1R to *ESG* 5.5.12R in respect of the following insofar as it is a *sustainability product*: (1) an *authorised fund*; ~~and~~ (2) an *unauthorised AIF* which is a *UK AIF* managed by a *full-scope UK AIFM* or a *small authorised UK AIFM* which is

listed on a *recognised investment exchange*; this includes an *investment trust*~~.~~; and

(3) an agreement or arrangement under which a *firm* provides *portfolio management* in relation to a *sustainability product*.

sustainability entity report

(in *ESG*) a public report regarding the overall assets managed by a *manager* or a *firm* providing *portfolio management* in relation to its *sustainability in-scope business*, produced in accordance with *ESG* 5.6.

sustainability in-scope business

the following activities, as set out in more detail in *ESG* 3.1.2R:

(1) *managing a UK UCITS*; ~~and~~

(2) *managing an AIF* which is a *UK AIF*~~.~~; and

(3) *portfolio management* in relation to a *sustainability product*.

sustainability product

any of the following:

(1) an *authorised fund*, including, where the *authorised fund* is an *umbrella scheme*, each *sub-fund* of the *umbrella*; ~~or~~

(2) an *unauthorised AIF* that is a managed by a *full-scope UK AIFM* or a *small authorised UK AIFM*, unless it is:

(a) a *non-UK AIF*;

(b) a closed-ended *AIF* that makes no additional investments after 22 July 2013 (see regulation 74(1) of the *AIFMD UK Regulation*);

(c) a *SEF*; or

(d) an *RVECA*~~.~~; or

(3) an agreement or arrangement under which a *firm* provides *portfolio management*, unless the *client* is:

(a) a *person* who is an individual normally resident outside the *United Kingdom*;

(b) a *person* which has its registered office (or, if it has no registered office, its head office) outside the *United Kingdom*; or

(c) a *fund*, or an *AIFM* or *management company* for or on behalf of a *fund*.

Annex B

Amendments to Principles for Businesses (PRIN)

In this Annex, underlining indicates new text.

2A	**The Consumer Duty**	
…		
2A.3	**Consumer Duty: retail customer outcome – products and services**	
…		
	Manufacturer: selecting distribution channels and providing information to distributors	
…		
2A.3.12A	G	A *manufacturer* that, for the purposes of *ESG*, is a *manager* or a *firm* providing *portfolio management* is reminded of its obligations under *ESG* 4.1.8R and *ESG* 5.2.9R in meeting its obligations under *PRIN* 2A.3.12R.
…		

Annex C

Amendments to the Environmental, Social and Governance sourcebook (ESG)

In this Annex, underlining indicates new text and striking through indicates deleted text.

1 Purpose and application

1.1 Purpose and application

Purpose

…

1.1.3A G *ESG* 3 applies to all *firms* and sets out the way in which the *rules* and *guidance* in *ESG* 4 and *ESG* 5 apply to different types of *firm*. Although most of the *rules* in *ESG* 4 and *ESG* 5 apply to *managers* and *firms* providing *portfolio management*, a number of *rules* apply to *distributors* and some also apply to *firms* more generally.

1.1.3B G *ESG* 4 sets out ‘anti-greenwashing’ *rules* ~~and *guidance*~~ which apply to a *firm*, regardless of whether or not it is undertaking *sustainability in-scope business*, with respect to references the *firm* makes about the *sustainability characteristics* of a product or service.

1.1.3C G *ESG* 4 also contains the *rules* and *guidance* which apply to ~~a *manager* that is~~ *managers* and *firms* providing *portfolio management* that are undertaking *sustainability in-scope business*, restricting the use of a *sustainability label* in relation to a *sustainability product* unless certain criteria are met and setting out naming and marketing conditions in relation to those products. In addition, *ESG* 4 contains *rules* and *guidance* which apply to *distributors* that *distribute sustainability products* and *recognised schemes*, including *ETFs* that are *recognised schemes*, to *retail clients*.

1.1.3D G *ESG* 5 contains the *rules* and *guidance* which apply to ~~a *manager*~~ *managers* and *firms* providing *portfolio management* that are undertaking *sustainability in-scope business* with respect to the *consumer-facing disclosure*, *pre-contractual disclosure*, *public product-level sustainability report* and (where applicable) *on-demand sustainability information* that the *manager* or *firm* providing *portfolio management* must produce in relation to a *sustainability product*, together with *rules* and *guidance* requiring a *manager* or a *firm* providing *portfolio management* to produce an entity-level report.

…

1.1.4A G The sustainability-related *rules* and *guidance* in *ESG* 4 and *ESG* 5 are also intended to help meet the information needs of market participants, including a *firm’s retail clients* and institutional *clients* in relation to the *sustainability characteristics* of a *sustainability product* and the sustainability-related risks and opportunities in relation to ~~a *manager’s*~~ the *sustainability in-scope business* of a *manager* or a *firm* providing *portfolio management*.

…

1.2 General application

…

1.2.4 G (1) The table at *ESG* 1.2.4G(2) provides a general overview as to how the *rules* in *ESG* 2, *ESG* 4 and *ESG* 5 apply to *firms*.

(2) This table belongs to *ESG* 1.2.4G(1).

Type of firm	Applicable provisions
…	
Asset managers	
…	
A firm that is a full-scope UK AIFM or a *small authorised UK AIFM* managing an *unauthorised AIF* not listed on *a recognised investment exchange*	*ESG* 2 (except for *ESG* 2.3.1R to *ESG* 2.3.4R relating to a *public TCFD product report*); *ESG* 4 (except for *ESG* 4.1.16R to *ESG* 4.1.19R relating to *distributors*) only in relation to *UK AIFs*; *ESG* 5 (except in relation to the preparation of Part B of a *public product-level sustainability report*) only in relation to *UK AIFs*.
A *firm* providing *portfolio management* in relation to a *sustainability product*	*ESG* 2 (except for *ESG* 2.3.1R to *ESG* 2.3.4R relating to a *public TCFD product report*); *ESG* 4 (except for *ESG* 4.1.16R to *ESG* 4.1.19R relating to *distributors*) only in relation to *UK AIFs*; *ESG* 5.
…	

…

2 Disclosure of climate related financial information

…

2.3 Product-level reporting

…

On-demand TCFD product reports and underlying data

2.3.5 R (1) A *firm* must comply with *ESG* 2.1.1R(2) with respect to a request from a *client* who requires *on-demand TCFD information* in order to satisfy climate-related financial disclosure obligations, whether under this chapter or as a result of other legal or regulatory requirements~~, is entitled to request such information from, and be provided with it by, the *firm* and to receive a response to that request in accordance with *ESG* 2.1.1R(2)~~.

…

…

3 Application of ESG 4 and ESG 5

3.1 Application of ESG 4 and ESG 5 to firms

…

Application of ESG 4 and ESG 5

3.1.2 R *ESG* 4 and *ESG* 5 apply as follows:

…

(4) This table belongs to *ESG* 3.1.2R(3).

Column 1: type of manager	**Column 2: sustainability in-scope business**
…	…

(5) Subject to *ESG* 3.1.3R, all the *rules* and *guidance* in *ESG* 4 and *ESG* 5 apply to a *firm* providing *portfolio management* from an establishment maintained by the *firm* in the *United Kingdom* in relation to a *sustainability product*.

Exemption from ESG 5.6 for managers and firms providing portfolio management of assets below threshold

3.1.3 R A *manager* or a *firm* which is providing *portfolio management* is exempt from the disclosure requirements under *ESG* 5.6 if and for as long as the assets under administration or management in relation to its *sustainability in-scope business* amount to less than £5bn calculated as a 3-year rolling average on an annual assessment.

…

Meaning of assets in ESG 4 and ESG 5

3.1.5 R In *ESG* 4 to *ESG* 5, unless the context otherwise requires, a reference to the term ‘assets’ means:

…

(2) in relation to a *sustainability product* other than an *authorised fund*, the *investments* that the *sustainability product* makes or that are held within the *sustainability product*.

4 Sustainability labelling, naming and marketing

4.1 Sustainability labels

4.1.1 R (1) Subject to *ESG* 4.1.1R(2) and *ESG* 4.1.1R(3), a *firm* must not make use of the following *sustainability labels*:

…

(2) A *manager* may, from 31 July 2024, make use of a *sustainability label* in *ESG* 4.1.1R(1) where the *manager* is undertaking *sustainability in-scope business* in relation to a *sustainability product*:

…

(b) that is a *feeder fund* if it satisfies the requirements in *ESG* 4.1.2R.

(3) A *firm* providing *portfolio management* may, from 2 December 2024, make use of a *sustainability label* in *ESG* 4.1.1R(1) where it is undertaking *sustainability in-scope business* in relation to a *sustainability product* and satisfies the requirements set out in *ESG* 4.2.

…

4.1.3 R As far as reasonably practicable, a *manager* or a *firm* providing *portfolio management* must, where it makes use of a *sustainability label*, use the relevant graphic prescribed by the *FCA*:

(1) when displaying that label in relation to a *sustainability product* on the *relevant digital medium* for the *manager's or the firm's* business ~~of the *manager*~~; and

…

…

4.1.5 R A *manager* or a *firm* providing *portfolio management* that uses a *sustainability label* must not:

…

(2) claim in a public statement or to a *client*, either expressly or by implication, that:

…

(b) the *manager's* or the *firm's* use of a *sustainability label* indicates that a *sustainability product* has been approved or endorsed by the *FCA*; or

(3) publish or otherwise communicate information in relation to the use of, or descriptors pertaining to, a *sustainability label* which contradicts the information that has been published by the *FCA*.

Record keeping

4.1.6 R A *manager* or a *firm* providing *portfolio management* that uses a *sustainability label* must:

…

Notifying the FCA

4.1.7 R A *manager* or a *firm* providing *portfolio management* that intends to use a *sustainability label* in relation to a particular *sustainability product*, or to revise or cease the use of that label, must notify the *FCA* that it is doing so using the *FCA's online notification and application system*, either before using, revising or ceasing the use of that label or as soon as reasonably practicable afterwards.

Publication of sustainability labels

4.1.8 R (1) Where a *manager* or a *firm* providing *portfolio management* uses a *sustainability label* in relation to a *sustainability product* and makes information about that product publicly available, it must publish on the *relevant digital medium* for the *manager's* or the *firm's* business ~~of the *manager*~~:

…

(2) ~~A~~ The *manager* or the *firm* must locate the information at *ESG* 4.1.8R(1) in a prominent place on the specific webpage or page on a mobile application or other digital medium at which the *sustainability product* is offered.

4.1.9 G In addition to the information required under *ESG* 4.1.8R, a *manager* or a *firm* providing *portfolio management* may choose to provide further information in relation to the *sustainability label* by including a hyperlink to the relevant webpage of the *FCA's* website on the *relevant digital medium* for the *manager's* or the *firm's* business ~~of the *manager*~~. The hyperlink should be located at a prominent place on the specific webpage or page on a mobile application or other digital medium at which the *sustainability product* is offered.

…

Reviewing sustainability labels

4.1.11 R A *manager* or a *firm* providing *portfolio management* that uses a *sustainability label* in relation to a *sustainability product* that is not a *feeder fund* must, in addition to the general ongoing requirements under *ESG* 4.2.20R, keep the use of that label under review by taking appropriate steps as follows:

(1) ~~A~~ The *manager* or the *firm* must review its use of a *sustainability label* prior to any proposed change to a *sustainability product* and if, as a result of those changes, the product will cease to meet the criteria for using that label under *ESG* 4.2, revise or cease the use of the label as appropriate as soon as reasonably practicable;

(2) Notwithstanding *ESG* 4.1.11R(1), ~~a~~ the *manager* or the *firm* must:

(a) review its use of a *sustainability label* at least every 12 *months* to determine whether the use of the label continues to be appropriate, including in circumstances where the *manager* or the *firm* has taken steps under *ESG* 4.2.22R; and

(b) where the *manager* or the *firm* determines that the continued use of the label is not appropriate, revise or cease the use of the label as appropriate as soon as reasonably practicable.

4.1.12 R A *manager* or a *firm* providing *portfolio management* must prepare and retain a record of the fact that it has undertaken a review under *ESG* 4.1.11R and the decision it has reached as a result of that review regarding whether the *sustainability label* it has used remains appropriate.

Notifying clients

4.1.13 R A *manager* or a *firm* providing *portfolio management* must, where it is required to either revise the *sustainability label* that it uses or cease to use that label under *ESG* 4.1.11R:

(1) give written notice to its *clients* who have invested in ~~that product~~ the *sustainability product* that the *sustainability label* has been revised or ceased and the reasons for that revision or cessation as soon as reasonably practicable;

(2) where it has published the use of the *sustainability label* under *ESG* 4.1.8R, publish the revised *sustainability label* (or the fact that the *manager* or the *firm* has ceased to use a label) and the reasons for the revision or cessation on the *relevant digital medium* for the *manager's* or the *firm's* business ~~of the *manager*~~ in a prominent place on the specific webpage or page on a mobile application or other digital medium at which the *sustainability product* is offered, as soon as reasonably practicable before that change takes effect; and

(3) ensure that a *consumer-facing disclosure*, *pre-contractual disclosure* and reports prepared by the *manager* or the *firm* under *ESG* 5.4 and *ESG* 5.5 are updated as soon as reasonably practicable, in accordance with the requirements under *ESG* 5.1.3R where relevant.

4.1.14 R If, in circumstances other than those set out in *ESG* 4.1.11R, a *manager* or a *firm* providing *portfolio management* is no longer able to meet the general or specific criteria for using a *sustainability label* and must revise or cease the use of the label, it must take the steps under *ESG* 4.1.13R.

…

Distributors

4.1.16 R Where a *distributor distributes* to *retail clients* a *sustainability product* which uses a *sustainability label*, the *distributor* must:

(1) communicate to those *retail clients* the same label that the *manager* or *firm* providing *portfolio management* ~~undertaking *sustainability in-scope business*~~ is using in relation to that product by either:

…

…

4.1.17 R Where a *manager* or a *firm* providing *portfolio management* does not use a *sustainability label* but uses one or more of the terms listed in *ESG* 4.3.2R(2) in accordance with *ESG* 4.3.2R(1) in the name or a *financial promotion* relating to a *sustainability product*, a *distributor* of that product must ensure that *retail clients* are provided with access to the *consumer-facing disclosure* which relates to that product.

…

4.1.19 R A *distributor* that *distributes recognised schemes*, including *ETFs* that are *recognised schemes*, to *retail clients* must:

…

(2) in relation to the *relevant digital medium* for the *distributor's* business ~~of the *distributor*~~:

(a) display the notice at *ESG* 4.1.19R(1) in a prominent place on the specific webpage or page on a mobile application or other digital medium at which the *recognised scheme* is offered; ~~or~~ and

(b) include a hyperlink to the relevant webpage of the *FCA* website which sets out for *retail clients* further information in relation to the sustainability labelling and disclosure requirements under *ESG* 4 and *ESG* 5; and

…

4.2 Criteria for applying sustainability labels

4.2.1 R A *manager* or a *firm* providing *portfolio management* must, in order to use a *sustainability label* in relation to a *sustainability product* under *ESG* 4.1.1R(2)(a), ensure that both the general and specific criteria which relate to that particular label have been met and continue to be met on an ongoing basis.

4.2.2 G *ESG* 4.2 sets out the relevant general and specific criteria and the ongoing responsibilities of a *manager* and a *firm* providing *portfolio management* with respect to meeting those criteria, and *ESG* 5 sets out the locations at which information associated with the criteria must be disclosed, either in a *consumer-facing disclosure*, a *pre-contractual disclosure*, Part B of a *public product-level sustainability report* or in a *sustainability entity report*.

4.2.3 G ~~A *manager* is~~ *Managers* and *firms* providing *portfolio management* are reminded of *ESG* 3.1.4R – namely, that where ~~it delegates its~~ they delegate activities to another *person* ~~it still remains~~ they remain responsible for ensuring compliance with *ESG* 4.2.

General criteria: general features of a sustainability product using a sustainability label

4.2.4 R A *sustainability product* using a *sustainability label* must:

…

(2) meet the following requirements:

(a) at least 70% of the gross value of the product's assets must be invested in accordance with its *sustainability objective*, except where:

…

(ii) the *manager* or *firm* providing *portfolio management* is taking steps under *ESG* 4.2.22R.

…

…

4.2.5 G A *manager* or a *firm* providing *portfolio management* may, in determining the *sustainability objective* of a *sustainability product*, refer to the standards produced by the Sustainability Accounting Standards Board in order to help determine the topics that a *retail client* would reasonably associate with *sustainability characteristics*.

…

General criteria: requirements for a manager and a *firm* providing *portfolio management* ~~requirements~~ in relation to the use of a sustainability label

4.2.9 R A *manager* or a *firm* providing *portfolio management* must, in addition to ensuring that a *sustainability product* meets the requirements set out in *ESG* 4.2.4R:

…

(3) obtain or undertake an assessment of the standard referred to under *ESG* 4.2.4R(2)(b) to confirm that it is appropriate for determining which assets the product invests in, ensuring that:

(a) the assessment, whether obtained from a third party or undertaken by the *manager* or the *firm*, is independent from the *manager's* or the *firm's* investment process; and

…

…

(5) identify the KPIs that the *manager* or the *firm* will use for the purposes of *ESG* 4.2.4R(3);

(6) have an escalation plan setting out the actions that the *manager* or the *firm* will take if any of the *sustainability product's* assets do not demonstrate sufficient performance against either the product's *sustainability objective* or the KPIs under *ESG* 4.2.4R(3);

(7) in relation to the *manager's* or the *firm's* governance and resources, ensure that:

…

…

4.2.10 G In meeting the requirements of *ESG* 4.2.9R(6), a *manager* or a *firm* providing *portfolio management* should, where possible, include in its escalation plan its anticipated timescales for addressing any matters that may result in insufficient performance by the *sustainability product's* assets against the product's *sustainability objective*.

…

Specific criteria

4.2.12 R A *manager* and a *firm* providing *portfolio management* must, in addition to the general criteria under *ESG* 4.2.4R to *ESG* 4.2.11R, ensure that a *sustainability label* is only used in relation to a *sustainability product* if the product meets the specific criteria applicable to that label.

Specific criteria: sustainability focus

4.2.13 R A *manager* and a *firm* providing *portfolio management* may only use the 'sustainability focus' label where the *sustainability product's sustainability objective* is consistent with the aim of investing in assets that are environmentally and/or socially sustainable, determined using the robust, evidence-based standard set out under *ESG* 4.2.4R(2)(b).

Specific criteria: sustainability improvers

4.2.14 R A *manager* and a *firm* providing *portfolio management* may only use the 'sustainability improvers' label where the *sustainability product's sustainability objective* is consistent with the aim of investing in assets that have the potential to improve environmental and/or social sustainability over time, determined by the potential of those assets to meet the robust, evidence-based standard set out under *ESG* 4.2.4R(2)(b).

4.2.15 R A *manager* and a *firm* providing *portfolio management* must, in relation to the use of the *sustainability label* 'sustainability improvers':

…

Specific criteria: sustainability impact

4.2.16 R A *manager* and a *firm* providing *portfolio management* may only use the 'sustainability impact' label where the *sustainability product's sustainability objective* is consistent with the aim of achieving a pre-defined, positive, measurable impact in relation to an environmental and/or social outcome.

4.2.17 R A *manager* and a *firm* providing *portfolio management* must, in relation to the use of the *sustainability label* 'sustainability impact':

(1) specify a *theory of change* in line with the product's *sustainability objective*, describing how the *manager* or the *firm* expects its investment activities and the product's assets to contribute to achieving a positive and measurable impact, in accordance with the

robust, evidence-based standard set out under *ESG* 4.2.4R(2)(b) where the *manager* or the *firm* considers it appropriate; and

(2) specify a robust method to measure and demonstrate that the *manager's* or the *firm's* investment activities and the product's assets are achieving a positive environmental and/or social impact.

Specific criteria: sustainability mixed goals

4.2.18 R A *manager* and a *firm* providing *portfolio management* may only use the 'sustainability mixed goals' label where the *sustainability product's sustainability objective* is to invest in accordance with 2 or more of the *sustainability objectives* in *ESG* 4.2.13R, *ESG* 4.2.14R and *ESG* 4.2.16R.

4.2.19 R A *manager* and a *firm* providing *portfolio management* must, in relation to the use of the *sustainability label* 'sustainability mixed goals':

…

~~Manager requirements~~ Requirements for a manager and a firm providing portfolio management on an ongoing basis

4.2.20 R A *manager* and a *firm* providing *portfolio management* must ensure that the general and specific criteria with respect to using a *sustainability label* are met on an ongoing basis, in particular:

(1) The *manager* or the *firm* must ensure that:

…

(d) the *manager* or the *firm* continues to maintain appropriate governance and resources in accordance with the requirements under *ESG* 4.2.9R(7); and

(e) the *manager* or the *firm* continues to maintain an appropriate investor stewardship strategy and apply that strategy and its resources in accordance with the requirements under *ESG* 4.2.9R(8); and

(2) The *manager* or the *firm* must:

…

…

4.2.22 R (1) A *manager* or a *firm* providing *portfolio management* must, when ensuring the matters set out in *ESG* 4.2.20R are met:

…

(2) A *manager* or a *firm* providing *portfolio management* that is undertaking the steps set out in *ESG* 4.2.22R(1) will be complying

with the general and specific criteria with respect to using a *sustainability label*.

4.2.23 G Where a *manager* or a *firm* providing *portfolio management* is taking action under *ESG* 4.2.22R(1)(b) with respect to restoring compliance with ~~*ESG* 4.2.3R(2)(a)~~ *ESG* 4.2.4R(2)(a), the *FCA* would ordinarily expect only minimal deviations from the requirements under ~~*ESG* 4.2.3R(2)(a)~~ *ESG* 4.2.4R(2)(a).

4.2.24 G In relation to *ESG* 4.2.22R(2), ~~a *manager* is~~ *managers* and *firms* providing *portfolio management* are reminded of ~~its obligation~~ their obligations under *ESG* 4.1.11R(2) to ensure that ~~it reviews its~~ they review their use of a *sustainability label* at least every 12 *months* to determine whether the label continues to be appropriate.

4.2.25 R A *manager* and a *firm* providing *portfolio management* must, where the steps taken under *ESG* 4.2.22R are not sufficient for ensuring ongoing compliance with the general and specific criteria:

…

4.2.26 R Where a *manager* or a *firm* providing *portfolio management* uses a *sustainability label* in relation to a *sustainability product*, it must take reasonable steps to ensure that the data it is relying upon in order to meet the requirements under *ESG* 4.2 is accurate and complete (including using proxies and assumptions where appropriate).

4.3 Naming and marketing

Anti-greenwashing

4.3.1 R (1) This *rule* applies to a *firm* (whether it is undertaking *sustainability in-scope business* or not) which:

…

(b) *communicates* a *financial promotion* to, or *approves* a *financial promotion* for ~~*communication*~~ communication to, a *person* in the *United Kingdom*.

…

Use of sustainability-related terms in relation to a sustainability product

4.3.2 R (1) A *manager* or a *firm* providing *portfolio management* that is undertaking *sustainability in-scope business* for *retail clients* in relation to a *sustainability product* must comply with the requirements in *ESG* 4.3.4R to *ESG* 4.3.8R where the *manager* or *firm* uses the terms in *ESG* 4.3.2R(2) in either the *sustainability product's* name or in a *financial promotion* in relation to the *sustainability characteristics* of that product.

…

(3) A *manager* or a *firm* providing *portfolio management* may use the terms in *ESG* 4.3.2R(2):

…

…

Use of sustainability-related terms in the name of a sustainability product

4.3.4 R (1) A *manager* or a *firm* providing *portfolio management* that uses a *sustainability label* in relation to a *sustainability product* (other than a *feeder fund*) may use the terms set out in *ESG* 4.3.2R(2) in the product's name provided that the *manager* or the *firm* complies with *ESG* 4.3.4R(2).

(2) Where a *manager* or a *firm* providing *portfolio management* is using a 'sustainability focus', 'sustainability improvers' or 'sustainability mixed goals' *sustainability label*, the *manager* or the *firm* must not use the word 'impact' in the product's name.

4.3.5 R A *manager* or a *firm* providing *portfolio management* that is undertaking *sustainability in-scope business* and does not use a *sustainability label* in relation to a *sustainability product* (other than a *feeder fund*) may use the terms set out in *ESG* 4.3.2R(2) in the product's name provided that the following conditions are met:

…

(2) The *manager* or the *firm* must produce:

…

(3) Either:

(a) ~~The~~ where the *sustainability in-scope business* is being carried on by a *manager*, the *manager* must publish the following information on the *relevant digital medium* for the *manager's* business ~~of the *manager*~~ in a prominent place on the specific webpage or page on a mobile application or other digital medium at which the *sustainability product* is offered:

~~(a)~~ (i) an explanation as to the purpose of a *sustainability label*, using either the standard text – 'Sustainable investment labels help investors find products that have a specific sustainability goal' – or alternative text which reflects the substance of the standard text;

~~(b)~~ (ii) a statement as to the fact that the product does not use a *sustainability label*, using the text: 'This product does not have a UK sustainable investment label'; and

~~(c)~~ (iii) a brief explanation as to why the product does not use a *sustainability label*~~.~~; or

(b) where the *sustainability in-scope business* is being carried on by a *firm* providing *portfolio management* in relation to a *sustainability product*, the *firm* must either:

(i) publish the information set out in *ESG* 4.3.5R(3)(a) in accordance with that *rule*; or

(ii) provide the information set out in *ESG* 4.3.5R(3)(a) to the *client*.

4.3.6 G In relation to *ESG* 4.3.5R:

…

(2) In relation to ~~*ESG* 4.3.5R(3)(a)~~ *ESG* 4.3.5R(3)(a)(i), a *manager* or a *firm* providing *portfolio management* may choose to provide further information regarding the *sustainability label* by including a hyperlink to the relevant webpage of the *FCA's* website on the *relevant digital medium* for ~~the business of the *manager*~~ the *manager's* or the *firm's* business. The hyperlink should be in a prominent place on the specific webpage or page on a mobile application or other digital medium at which the *sustainability product* is offered.

…

Use of sustainability-related terms in financial promotions relating to a sustainability product

4.3.8 R (1) This *rule* applies to a *manager* or a *firm* providing *portfolio management* which *communicates* a *financial promotion* to a *retail client* in the *United Kingdom*.

(2) ~~A~~ The *manager* or the *firm* must ensure that any *financial promotion* relating to a *sustainability product* is consistent with (if any) the *sustainability label*, *consumer-facing disclosure*, *pre-contractual disclosure* and Part B of a *public product-level sustainability report* relating to that product.

(3) Where a *manager* or a *firm* providing *portfolio management* is not using a *sustainability label* in relation to a *sustainability product* but *communicates* the terms in *ESG* 4.3.2R(2) in a *financial promotion* relating to that product, it must:

…

…

4.3.10 G Where a *manager* is not using a ~~relevant digital medium~~ *relevant digital medium* to *communicate* the terms in *ESG* 4.3.2R(2) in the name of a *sustainability product* or a *financial promotion*, the *manager* should take reasonable steps to ensure the content required in *ESG* 4.3.5R(2) and *ESG* 4.3.5R(3) is *communicated* to *retail clients* as appropriate.

5 Disclosure of sustainability-related information

5.1 Preparation of sustainability disclosures

5.1.1 R (1) A *manager* and a *firm* providing *portfolio management* must prepare the disclosures in *ESG* 5.1.1R(2) in accordance with this chapter where it:

…

…

Reviewing consumer-facing disclosures and pre-contractual disclosures

5.1.2 R (1) A *manager* and a *firm* providing *portfolio management* must ensure that the *consumer-facing disclosure* and the *pre-contractual disclosure* for the *sustainability product* remain consistent with the *sustainability label* or the terms set out in *ESG* 4.3.2R(2) that are used in accordance with *ESG* 4.3.2R(1) in relation to the product.

(2) A *manager* and a *firm* providing *portfolio management* must keep a *consumer-facing disclosure* and a *pre-contractual disclosure* under review, as follows:

(a) in relation to a *consumer-facing disclosure*, ~~a~~ the *manager* or the *firm* must, at least every 12 *months*, review the disclosure and provide any updates as appropriate to ensure it accurately reflects the *sustainability product* – in particular:

(i) the *manager* or the *firm* must, where it uses a *sustainability label*, at a minimum provide an update on the progress of the *sustainability product* in achieving its *sustainability objective*; and

(ii) in providing any updates, the *manager* or the *firm* must ensure that up-to-date metrics and information are used;

(b) in relation to a *consumer-facing disclosure* and a *pre-contractual disclosure*, ~~a~~ the *manager* or the *firm* must review the disclosure prior to any proposed change to a *sustainability product* and make any updates as appropriate to ensure that it continues to reflect the *sustainability product* accurately.

5.1.3 R (1) This *rule* applies where a *manager* or a *firm* providing *portfolio management* has revised a *consumer-facing disclosure* or a *pre-contractual disclosure* when either ceasing or revising the use of a *sustainability label* in relation to a *sustainability product*.

(2) ~~The~~ A *manager* must publish, as soon as reasonably practicable, the information specified in *ESG* 5.1.3R(3) on the *relevant digital medium* for the *manager's* business ~~of the *manager*~~, in a prominent place on the specific webpage or page on a mobile application or other digital medium at which the *sustainability product* is offered.

(3) The information which must be published in accordance with *ESG* 5.1.3R(2) is:

…

(c) in the case of a ~~*consumer facing disclosure*~~ *consumer-facing disclosure*, the date of the revised disclosure.

(4) A *firm* providing *portfolio management* in relation to a *sustainability product* must either:

(a) publish the information set out in *ESG* 5.1.3R(3) in accordance with *ESG* 5.1.3R(2); or

(b) provide the information set out in *ESG* 5.1.3R(3) to the *client*.

5.2 Consumer-facing disclosures

5.2.1 R A *manager* or a *firm* providing *portfolio management* that is required to prepare and publish a *consumer-facing disclosure* under *ESG* 5.1.1R must include in the *consumer-facing disclosure* for the relevant product:

…

5.2.2 R For the purposes of *ESG* 5.2.1R, a *manager* and a *firm* providing *portfolio management* must include the following information in the ~~*consumer facing disclosure*~~ *consumer-facing disclosure* which relates to a *sustainability product*:

(1) the *manager's* or the *firm's* name;

…

(5) the *sustainability product's sustainability objective*, clearly signposted as the 'sustainability goal' for that product, including a summary of:

(a) any material effect (including expected effect) on the financial risk and return of the product as a result of the investment strategy the *manager* or the *firm* has adopted to pursue the product's *sustainability objective*;

…

(6) the *sustainability label* which the *manager* or the *firm* is using in relation to that *sustainability product*, together with the relevant descriptor for that label, as follows:

…

(7) a summary of the *manager's* or the *firm's* investment policy and strategy in relation to the *sustainability product's sustainability characteristics* (including, where relevant, the *sustainability product's sustainability objective*) which uses plain English language to describe the policy and strategy effectively and accurately to *retail clients* and which:

(a) is clearly signposted as the *manager's* or the *firm's* 'sustainability approach';

…

(d) summarises the *manager's* or the *firm's* approach to investor stewardship in supporting the achievement of the *sustainability product's sustainability objective*;

(8) a summary of the relevant metrics in relation to that *sustainability product*, calculated using the most up-to-date data available as at the time of preparing the *consumer-facing disclosure*, which is clearly signposted as the *manager's* or the *firm's* 'sustainability metrics' and sets out:

(a) the product's progress towards achieving the product's *sustainability objective*, measured against the KPIs that the *manager* or the *firm* uses under *ESG* 4.2.4R(3);

…

(9) details (including, as appropriate, hyperlinks) as to where a *retail client* can easily access the following information:

…

(c) the *manager's* or the *firm's sustainability entity report*; and

…

(10) for a *manager* or a *firm* that uses the 'sustainability mixed goals' *sustainability label*, details as to the proportion of the *sustainability product's* assets which are invested in accordance with each of the 2 or more *sustainability objectives* referred to in *ESG* 4.2.18R.

5.2.3 G In relation to *ESG* 5.2.1R(2)(a), a *manager* or a *firm* providing *portfolio management* may choose to disclose any further information in *ESG* 5.2.2R that it considers appropriate to include in a *consumer-facing disclosure*.

5.2.4 R A *manager* and *a firm* providing *portfolio management* must ensure that the information at either *ESG* 5.2.1R(2)(b) or *ESG* 5.2.2R(5) (as applicable), together with the information at *ESG* 5.2.2R(6), is located in a prominent place at the front of the *consumer-facing disclosure*.

5.2.5 G Where applicable, a *manager* or a *firm* providing *portfolio management* may, for the purposes of *ESG* 5.2.2R(9)(d), choose to refer to documents such as the *key information document*, the *key investor information document* or the *NURS-KII document* in relation to the particular *sustainability product*.

5.2.6 R A *manager* and a *firm* providing *portfolio management* must ensure that a *consumer-facing disclosure* is clear, concise and can be easily read and understood by *retail clients* and that it does not exceed 2 pages of printed A4 paper in length.

5.2.7 G In relation to *ESG* 5.2.6R, ~~a *manager* is~~ *managers* and *firms* providing *portfolio management* are reminded of ~~its~~ their obligations under *PRIN* 2A.5.8R to *PRIN* 2A.5.12R in tailoring a *consumer disclosure* appropriately to the needs of ~~its~~ their *retail clients*.

5.2.8 R A *manager* or a *firm* providing *portfolio management* must ensure it keeps a copy of each version of its published *consumer-facing disclosure* for a minimum of 5 years and provides a copy to a *retail client* or the *FCA* on request.

Publication of a consumer-facing disclosure

5.2.9 R …

(2) A *manager* must ensure that, in publishing a *consumer-facing disclosure*, it is easy for *retail clients* (including *prospective retail clients*) and *distributors* to:

…

(c) access the information set out at *ESG* 5.2.2R(9).

(3) A *firm* providing *portfolio management* in relation to a *sustainability product* must either:

(a) publish a *consumer-facing disclosure* in accordance with *ESG* 5.2.9R(1) and (2); or

(b) provide that *consumer-facing disclosure* to the *client*.

5.2.10 G If a *manager* or a *firm* providing *portfolio management* chooses to use a hyperlink in order to comply with *ESG* 5.2.9R(2), it should ensure that the *consumer-facing disclosure* is available at no more than one mouse click away from the specific webpage at which the relevant *sustainability label* (if any) is located.

5.3 Pre-contractual disclosures

5.3.1 R A *manager* <u>or a *firm* providing *portfolio management*</u> that is required to prepare ~~and publish~~ a *pre-contractual disclosure* under *ESG* 5.1.1R must do so in a clear and accessible way and include that disclosure in either:

…

(2) where that product does not have *pre-contractual materials*, Part A of the ~~*public-product-level sustainability report*~~ <u>*public product-level sustainability report*</u> relating to that product, as set out under *ESG* 5.5.1R to *ESG* 5.5.4R.

5.3.2 R (1) A *manager* <u>or a *firm* providing *portfolio management*</u> must, where it uses a *sustainability label* in relation to a *sustainability product*, include in the *pre-contractual disclosure* for that product the information in *ESG* 5.3.3R and *ESG* 5.3.6R.

(2) A *manager* <u>or a *firm* providing *portfolio management*</u> must, where it does not use a *sustainability label* in relation to a *sustainability product*, but uses one or more of the terms in *ESG* 4.3.2R(2) in accordance with *ESG* 4.3.2R(1), include in the *pre-contractual disclosure* for that product:

…

5.3.3 R For the purposes of *ESG* 5.3.2R, a *manager* <u>and a *firm* providing *portfolio management*</u> must include the following information in the *pre-contractual disclosure* which relates to a *sustainability product*:

(1) the *sustainability label* that the *manager* <u>or the *firm*</u> is using in relation to the *sustainability product*;

(2) the *sustainability product's sustainability objective*, as part of its *investment* objectives, including details as to:

(a) any material effect (including expected effect), on the financial risk and return of the product as a result of the investment strategy the *manager* <u>or the *firm*</u> has adopted to pursue the product's *sustainability objective*;

…

(3) details of the *manager's* <u>or the *firm's*</u> investment policy and strategy – in particular:

(a) how the *manager* or the *firm* determines the assets the product invests in, including the criteria it applies in determining the *sustainability characteristics* of those assets;

(b) the standard which the *manager* or the *firm* relies upon under *ESG* 4.2.4R(2)(b), including:

…

(ii) the name of either the specific function within the *manager's* or the *firm's* business or the third party that carried out the assessment; and

…

…

(5) details of the *manager's* or the *firm's* policies and procedures to monitor the performance of the *sustainability product* in achieving its *sustainability objective*;

(6) details of the KPIs that the *manager* or the *firm* will use under *ESG* 4.2.4R(3) and/or other metrics a *retail client* may reasonably find useful in understanding the *manager's* or the *firm's* investment policy and strategy for the product;

(7) details of the *manager's* or the *firm's* investor stewardship strategy and resources in relation to supporting the achievement of the product's *sustainability objective*, including:

(a) where relevant, whether the *manager* or the *firm* is a signatory of the UK Stewardship Code 2020, published by the Financial Reporting Council; and

(b) how the *manager* or the *firm* will apply its strategy and resources in a manner consistent with achieving the *sustainability product's sustainability objective*; and

(8) details of the actions the *manager* or the *firm* will take in accordance with the requirements of *ESG* 4.2.9R(6).

5.3.4 G In relation to *ESG* 5.3.2R(2)(a), a *manager* or a *firm* providing *portfolio management* may choose to disclose any further information in *ESG* 5.3.3R that it considers appropriate to include in a *pre-contractual disclosure*.

5.3.5 G In relation to *ESG* 5.3.3R(3)(a), a *manager* or a *firm* providing *portfolio management* may consider disclosing the following information:

…

5.3.6 R In addition to the information set out in *ESG* 5.3.3R, a *manager* and a *firm* providing *portfolio management* must also include the following information in the *pre-contractual disclosure* for a *sustainability product*:

(1) where the *manager* or the *firm* uses the *sustainability label* 'sustainability improvers', it must include the following information:

…

(b) a summary of the types of evidence the *manager* or the *firm* has relied upon to satisfy itself that the assets in which the product invests have the potential to meet the robust, evidence-based standard set out under *ESG* 4.2.4R(2)(b);

(2) where the *manager* or the *firm* uses the *sustainability label* 'sustainability impact', it must include the following information:

(a) the *manager's* or the *firm's* *theory of change*, with clear examples that emphasise how the *manager* or the *firm* expects its investment activities and the product's assets to contribute to achieving a positive environmental and/or social impact; and

(b) a summary of the method used to measure and demonstrate that the *manager's* or the *firm's* *investment* activities and the *sustainability product's* assets are achieving a positive environmental and/or social impact; and

(3) where the *manager* or the *firm* uses the *sustainability label* 'sustainability mixed goals', it must include the following information:

…

5.3.7 R A *manager* and a *firm* providing *portfolio management* must, in order to meet the requirements of *ESG* 5.3.3R and *ESG* 5.3.6R, set out the required information so that it is clearly identifiable in the *pre-contractual materials* relating to the particular *sustainability product* (unless that information is otherwise being included in Part A of the relevant *public product-level sustainability report* for that *sustainability product* in accordance with *ESG* 5.5.1R to *ESG* 5.5.4R).

…

5.3.9 R A *manager* or a *firm* providing *portfolio management* must ensure that the information at either *ESG* 5.3.2R(2)(b) or *ESG* 5.3.3R(1) (as applicable), together with the information at *ESG* 5.3.3R(2), is located in a prominent place in the *pre-contractual disclosure* for the *sustainability product*.

5.4 Preparation of sustainability reports

5.4.1 R (1) A *manager* and a *firm* providing *portfolio management* must prepare the reports in *ESG* 5.4.1R(2) in accordance with this chapter where it:

…

…

5.4.2 R A *manager* and a *firm* providing *portfolio management* that is undertaking *sustainability in-scope business* in relation to a *sustainability product* must, subject to *ESG* 3.1.3R, prepare a *sustainability entity report*, regardless of whether it uses a *sustainability label* or one or more of the terms in *ESG* 4.3.2R(2) in accordance with *ESG* 4.3.2R(1) in relation to that product.

5.4.3 R A *manager* must meet the following requirements in relation to the timing and publication of Part B of a *public product-level sustainability report* and a *sustainability entity report*:

…

(4) A *manager* must take reasonable steps to publish Part B of a *public product-level sustainability report* and a *sustainability entity report* in a way that makes it easy for *clients* to locate and access, including, at a minimum, by making the most recent edition of those reports available in a prominent place on the main website for the business of the *manager*.

5.4.3A R A *firm* providing *portfolio management* in relation to a *sustainability product* must comply with the timing requirements set out in *ESG* 5.4.3R with respect to producing Part B of a *public product-level sustainability report* and a *sustainability entity report* but may either:

(a) publish those reports in accordance with *ESG* 5.4.3R; or

(b) provide those reports to the *client*.

5.4.4 R A *manager* or a *firm* providing *portfolio management* must, where it is required to prepare a *public TCFD product report*, include the contents of that report (or a hyperlink to it) in Part B of a *public product-level sustainability report*, making clear that the *public TCFD product report* forms part of the *manager's* or the *firm's* overall Part B of a *public product-level sustainability report* with respect to climate-related disclosures.

5.4.5 R A *manager* or a *firm* providing *portfolio management* must, where it is required to prepare a *TCFD entity report*, include the contents of that report (or a hyperlink to it) in its *sustainability entity report*, making clear that the *TCFD entity report* forms part of the *manager's* or the *firm's* overall *sustainability entity report* with respect to climate-related disclosures.

Data considerations when preparing sustainability reports

5.4.6 R A *manager* and a *firm* providing *portfolio management* must comply with *ESG* 5.4.7R to *ESG* 5.4.10R in relation to preparing Part B of a *public product-level sustainability report* or a *sustainability entity report*.

5.4.7 R In satisfying its reporting and disclosure obligations under *ESG* 5.4 and *ESG* 5.5, a *manager* or a *firm* providing *portfolio management* must, insofar as is reasonably practicable, use the most up to date information available.

5.4.8 R In preparing Part B of a *public product-level sustainability report*, a *manager* or a *firm* providing *portfolio management* must select, from within the 12-*month* reporting period, the most recent calculation date for which up-to-date information is available.

5.4.9 R A *manager* or a *firm* providing *portfolio management* must not disclose metrics where:

…

(2) these data gaps or methodological challenges cannot be addressed using proxy data or assumptions without the resulting disclosure, in the reasonable opinion of the *manager* or the *firm* providing *portfolio management*, being misleading.

5.4.10 R A *manager* or a *firm* providing *portfolio management* must ensure that Part B of a *public product-level sustainability report* and a *sustainability entity report* include an adequate explanation of:

…

(2) how the *manager* or the *firm* has addressed these gaps, for example, by using proxy data or assumptions and briefly setting out any methodologies used in doing so, providing relevant contextual information and explaining any limitations of the approach;

(3) any metrics that the *manager* or the *firm* has not been able to disclose, on the basis that *ESG* 5.4.9R applies; and

(4) in respect of *ESG* 5.4.10R(3):

(a) the gaps in underlying data or methodological challenges that have resulted in the *manager* or the *firm* being unable to make the relevant disclosure;

(b) why the *manager* or the *firm* has not been able to address those gaps or challenges using proxy data or assumptions; and

(c) what steps the *manager* or the *firm* will take to address those gaps or challenges in the future.

5.4.11 G In addition, a *manager* or a *firm* providing *portfolio management* may include in Part B of a *public product-level sustainability report* or its *sustainability entity report* an explanation of the proportion of assets in which each *sustainability product* invests for which data are verified, reported, estimated or unavailable.

Cross-referencing third-party sustainability-related disclosures

5.4.12 R *ESG* 5.4.13R to *ESG* 5.4.15R apply to a *manager* <u>and a *firm* providing *portfolio management*</u> in relation to preparing Part B of a *public product-level sustainability report* or a *sustainability entity report*.

5.4.13 R A *manager* <u>or a *firm* providing *portfolio management*</u> may include hyperlinks and cross-references to relevant sustainability-related disclosures contained in a third party's sustainability reporting where such information enables the *manager* <u>or the *firm*</u> to prepare Part B of a *public product-level sustainability report* or a *sustainability entity report*.

5.4.14 R The *manager* <u>or a *firm* providing *portfolio management*</u> must set out the rationale for relying on any third-party sustainability disclosures, and any deviations between the third party's approach and that of the *manager* <u>or the *firm*</u>.

5.4.15 R Where relevant, a *manager* <u>or a *firm* providing *portfolio management*</u> may also draw links and refer to Part B of its *public product-level sustainability report* from its *sustainability entity report* and vice versa.

5.5 Sustainability product-level reporting

Form and content of Part A of a public product-level sustainability report

5.5.1 R A *manager* <u>or a *firm* providing *portfolio management*</u> must prepare Part A of a *public product-level sustainability report* in circumstances where a *sustainability product* does not have *pre-contractual materials* that relate to it.

5.5.2 R A *manager* <u>or a *firm* providing *portfolio management*</u> must ensure that Part A of a *public product-level sustainability report*:

…

5.5.3 R <u>Either:</u>

<u>(1)</u> ~~A~~ <u>a</u> *manager* must publish Part A of a *public product-level sustainability report* on the *relevant digital medium* for the <u>*manager's*</u> business ~~of the *manager*~~ in a prominent place on the specific webpage or page on a mobile application or other digital medium at which the *sustainability product* is offered~~.~~<u>; or</u>

<u>(2)</u> <u>a *firm* providing *portfolio management* in relation to a *sustainability product* must either:</u>

(a) publish Part A of a *public product-level sustainability report* in accordance with *ESG* 5.5.3R(1); or

(b) provide Part A of a *public product-level sustainability report* to the *client*.

5.5.4 R A *manager* or a *firm* providing *portfolio management* must ensure that it keeps the information set out in Part A of a *public product-level sustainability report* under review in accordance with *ESG* 5.1.2R.

Form and content of Part B of a public product-level sustainability report

5.5.5 R (1) *ESG* 2.3.1R to *ESG* 2.3.4R apply for the purposes of a *manager* or a *firm* providing *portfolio management* preparing Part B of a *public product-level sustainability report*, where the reference to '*public TCFD product report*' is substituted with the reference to '*public product-level sustainability report*'.

(2) A *manager* or a *firm* providing *portfolio management* must:

(a) where a *manager* or a *firm* uses a *sustainability label* in relation to a *sustainability product*, include in Part B of its *public product-level sustainability report* the information set out under *ESG* 5.5.6R; or

(b) where a *manager* or a *firm* does not use a *sustainability label* in relation to a *sustainability product* but uses one or more of the terms in *ESG* 4.3.2R(2) in accordance with *ESG* 4.3.2R(1), include in Part B of its *public product-level sustainability report* the information at:

…

(iii) *ESG* 5.5.6R(8) (in relation to the *manager's* or the *firm's* investment policy and strategy);

…

5.5.6 R In addition to the requirements at *ESG* 5.4.4R, a *manager* or a *firm* providing *portfolio management* must include the following information in relation to a *sustainability product* in Part B of a *public product-level sustainability report*:

(1) the *sustainability label* that the *manager* or the *firm* is using in relation to the *sustainability product*;

…

(5) details as to how the product invests in accordance with the *manager's* or the *firm's* *investment* policy and strategy for that product on an ongoing basis;

…

(8) details of the relevant metrics (other than those set out in *ESG* 5.5.6R(7)) that a *retail client* might reasonably find useful in understanding the product's *sustainability objective* and/or the *manager's* or the *firm's* investment policy and strategy for that product~~:~~;

…

(10) details (if any) of how the *manager's* or the *firm's* approach in relation to the product deviates materially from the *manager's* or the *firm's* overarching approach disclosed in the *manager's* or the *firm's* *sustainability entity report*;

(11) details of how the *manager's* or the *firm's* investor stewardship strategy has been applied in relation to the *sustainability product*, including the activities undertaken and the outcomes the *manager* or the *firm* has achieved or expects to achieve; and

(12) details of the matters escalated (if any) in accordance with the *manager's* or the *firm's* escalation plan under *ESG* 4.2.9R(6).

5.5.7 R In addition to the information set out in *ESG* 5.5.6R, where a *manager* or a *firm* providing *portfolio management* uses the *sustainability label* 'sustainability impact', it must also include in Part B of a *public product-level sustainability report* details of the progress that the *sustainability product's* assets are making towards achieving a positive environmental and/or social impact, as measured in accordance with the method set out under *ESG* 4.2.17R(2).

5.5.8 G In relation to *ESG* 5.5.5R(2)(b), a *manager* or a *firm* providing *portfolio management* may choose to disclose any further information in *ESG* 5.5.6R that it considers appropriate to include in Part B of a *public product-level sustainability report*.

5.5.9 G To the extent that a *manager* or a *firm* providing *portfolio management* discloses the information referred to at *ESG* 5.5.6R(9):

(1) the *manager* or the *firm* should clearly explain the methodology used in providing each relevant metric and ensure that the metrics calculated under *ESG* 5.5.6R(7) and *ESG* 5.5.6R(8) are at least as prominently presented; and

…

5.5.10 G If a *manager* or a *firm* providing *portfolio management* discloses material deviations under *ESG* 5.5.6R(10), it may refer to the relevant sections of its *sustainability entity report*, and similarly its *sustainability entity report* may refer to these disclosures in Part B of its *public product-level sustainability report*.

5.5.11 G A *manager* or a *firm* providing *portfolio management* may, for the purposes of *ESG* 5.5.6R(11), choose to cross-reference and include a hyperlink in its *public product-level sustainability report* to a report that it has published for the purposes of demonstrating its compliance with the UK Stewardship Code 2020, published by the Financial Reporting Council; if doing so, it should clearly signpost the information which is relevant to the *sustainability product*.

Reviewing Part B of a public product-level sustainability report

5.5.12 R A *manager* or a *firm* providing *portfolio management* must ensure that Part B of a *public product-level sustainability report* remains consistent with the *sustainability label* that is used in relation to a *sustainability product*, as well as the disclosures required under *ESG* 5.2 and *ESG* 5.3 in relation to that product.

On-demand product-level sustainability information

5.5.13 R (1) A *manager* must prepare and provide ~~*on-demand sustainability information*~~ the specified information in *ESG* 5.5.13R(2) ('on-demand sustainability information') to a *person* who requests it in order to satisfy sustainability-related disclosure obligations, whether under this chapter or as a result of other legal or regulatory requirements~~:~~.

(1A) The *on-demand sustainability information* must be provided to the *person*:

(a) within a reasonable period of time; and

(b) in a format which the *manager* acting reasonably, considers appropriate to meet the information needs of that *person*.

(2) ~~A *manager* that receives a request for *on-demand sustainability information* under *ESG* 5.5.13R(1) must provide~~ In *ESG* 5.5.13R(1), the specified information is the information under ~~*ESG* 5.4.4~~ *ESG* 5.4.4R, *ESG* 5.5.1R to ~~*ESG* 5.5.4~~ *ESG* 5.5.4R (as applicable) and *ESG* 5.5.5R to *ESG* 5.5.7R in relation to assets under management in an *unauthorised AIF* in which the *person* is an investor, but only in respect of an *unauthorised AIF* which is a *UK AIF* which is not listed on *a recognised investment exchange* and which is managed by a *full-scope UK AIFM* or a *small authorised UK AIFM*.

…

5.6 Sustainability entity report

Content of a sustainability entity report

5.6.1 R In addition to the requirements at *ESG* 5.4.5R, a *manager* and a *firm* providing *portfolio management* must, in relation to the overall assets it manages within its *sustainability in-scope business*:

(1) set out the following information relating to:

(a) the *manager's* or the *firm's* approach to governance, with respect to managing sustainability risks and opportunities;

(b) the actual and potential impacts of any material sustainability-related risks and opportunities on the *manager's* or the *firm's* businesses, strategy and financial planning;

(c) how the *manager* or the *firm* identifies, assesses and manages sustainability-related risks; and

(d) the metrics and targets used by the *manager* or the *firm* to assess and manage relevant material sustainability-related risks;

…

(3) where relevant, briefly explain in its *sustainability entity report* how the *manager's* or the *firm's* strategy has influenced the decision-making and process by which it delegates functions, selects delegates, and relies on services, strategies or products offered or employed by third parties, including delegates.

5.6.2 G The *FCA* considers the following documents relevant in relation to a *manager* or a *firm* providing *portfolio management* determining the content of disclosures under *ESG* 5.6.1R(1):

(1) the *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* with respect to the *manager's* or the *firm's* disclosures on sustainability-related risks and opportunities;

…

(3) the *Global Reporting Initiative Standards* with respect to disclosing the impacts of the *manager* or the *firm* on the environment and/or society.

5.6.3 G A *manager* or a *firm* providing *portfolio management* should, in meeting the requirements of *ESG* 5.6.1R(1):

…

(2) consider disclosing the impact of the *manager* or the *firm* on the environment and/or society, having regard to the *Global Reporting Initiative Standards*; and

…

5.6.4 R Where a *manager* or a *firm* providing *portfolio management* uses either a *sustainability label* or one or more of the terms in *ESG* 4.3.2R(2) in accordance with *ESG* 4.3.2R(1) in relation to a *sustainability product*, it must, to the extent relevant to the particular product, include the following information in a clear and accessible way in a *sustainability entity report*:

(1) a description of the resources, governance and organisational arrangements the *manager* or the *firm* has in place, commensurate with the achievement of the product's *sustainability objective* and/or the *manager's* or the *firm's* investment policy and strategy for the product; and

…

Approach to relevant sustainability-related disclosures contained in other reports at an entity-level

5.6.5 R (1) If a *manager* or a *firm* providing *portfolio management* is a member of a *group*, it may rely on disclosures consistent with those of the *group* or a member of its *group* when producing its *sustainability entity report*, but only to the extent that those *group* disclosures are relevant to the *manager* or the *firm* and cover the assets the *manager* or the *firm* manages as part of its *sustainability in-scope business*.

(2) If a *manager* or a *firm* providing *portfolio management* relies on such *group* disclosures, it must ensure that its *sustainability entity report*:

(a) includes cross-references, including hyperlinks, to any disclosures contained within the *group* or *group* member's report that relate to assets managed by the *manager* or the *firm* in relation to its *sustainability in-scope business* on which the *manager* or the *firm* is relying to meet its disclosure obligations under this section; and

(b) sets out the rationale for relying on the disclosure made by its *group* or a member of its *group* and why the disclosure is relevant to the assets managed by the *manager* or the *firm* in relation to its sustainability in-scope business.

5.6.6 R A *manager* and a *firm* providing *portfolio management* must also ensure that any material deviations between its approach to governance, strategy, risk management or targets and metrics disclosed under *ESG* 5.6.1R(1) and the disclosures contained within the *group* report are clearly explained, either in its *sustainability entity report* or in the report made by its *group* or a member of its *group*.

5.6.7 R (1) If a *manager*, a *firm* providing *portfolio management* or a member of its *group* produces a document, other than its annual financial report, which includes disclosures relating to *sustainability characteristics*, the *manager* or the *firm* providing *portfolio management* may cross-refer to these disclosures in its *sustainability entity report* where this information is relevant to *clients* or a *person* who is an investor in an unauthorised *UK AIF* managed by a *full-scope UK AIFM* or a *small authorised UK AIFM*, including hyperlinks to where the relevant disclosures are available.

(2) Where a *manager* or a *firm* providing *portfolio management* cross-refers to disclosures made by a member of its *group* in accordance with *ESG* 5.6.7R(1), it must explain in its *sustainability entity report* the rationale for relying on the disclosures in the supplementary document and how such disclosures are relevant to the *clients* or a *person* who is an investor in an *unauthorised AIF* which is a *UK AIF* managed by a *full-scope UK AIFM* or a *small authorised UK AIFM* of the *manager's* or the *firm's* *sustainability in-scope business*.

Compliance statement

5.6.8 R *ESG* 2.2.7R applies in relation to the preparation of a compliance statement for the purposes of a *sustainability entity report* as if the reference to a *manager's* or a *firm* providing *portfolio management's* *TCFD entity report* has been substituted by the reference to a *manager's* or a *firm's* *sustainability entity report*.

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