FINANCIAL CONDUCT AUTHORITY

Policy Statement

PS23/16

Sustainability Disclosure Requirements (SDR) and investment labels

November 2023

This relates to

Consultation Paper 22/20
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Foreword

Investors around the world trust the financial services industry in the United Kingdom to guard and grow their money. That's why we are a world leading centre for finance and asset management.

Those investors' priorities have been changing. They still want returns, of course, but with global assets under management in ESG-orientated funds expected to increase to $34trn by 2026, there is clearly demand for investments with a positive environmental or social impact.

Our research shows over 80% of consumers want their money to do good, as well as deliver a return. To maintain and grow our position as a global investment hub we need to keep pace with change. That means offering products consumers want.

The transition to a sustainable future brings with it opportunities which can be captured by providing for the financial needs of this journey.

These opportunities should be available for retail consumers as well as financial institutions. However, as a regulator with a consumer protection mandate, trust is vital. As it stands, 7 in 10 investors say they think that many investments that claim to be sustainable actually aren't.[1]

So, our aim with this Sustainability Disclosure Requirements (SDR) and investment labels regime is simple – financial products that are marketed as sustainable should do as they claim and have the evidence to back it up.

The regime will support consumers in navigating their investments with trust that the products they are buying do as they say they will. The disclosure requirements will help to overcome information asymmetries, and the anti-greenwashing rule will apply to all FCA-authorised firms.

We consulted widely, including convening a working group. We listened and, where we needed to, made changes, including creating a new 'mixed goals' label, ensuring funds that invest across sustainable strategies are recognisable to consumers. We've also amended the naming and marketing rules to reach a balance that is proportionate for firms without compromising consumer protection.

The package of measures has consumers at its heart and was tested with over 15000 people.

At every stage of forming these rules we have sought to create international interoperability and included in the Policy Statement is a mapping of our rules to those of our regulatory counterparts.

We want to work with other jurisdictions to demonstrate that it is possible to introduce rules that protect consumers but also help the market to grow. We'll continue to

1 Research conducted by Boring Money, and compiled in their Sustainable Investing Report 2022. In a survey of 1414 investors, 70% of participants responded that they 'Strongly agree' or 'Tend to agree' with the statement that 'Lots of investments that claim to be sustainable actually aren't'.

engage with our counterparts across the globe as they develop similar rules, as well as continuing to engage with HMT as it considers its approach to overseas funds. The FCA wants to see a level playing field for all firms operating across the market to maximise the benefits of the regime for consumers.

Raising the bar with these new rules is a crucial cornerstone of our ESG strategy, and furthers the objectives set for us by Parliament: to protect consumers, enhance market integrity, support competition in financial services, and our secondary objective to support UK competitiveness and economic growth. Our rules also support the Government's ambition for whole-of-economy Sustainability Disclosure Requirements and the UK's target to reach net zero by 2050.

The FCA remains committed to supporting firms and consumers as we embark on this key step in supporting the UK to a more sustainable future. Better industry standards will improve market integrity and consolidate the reputation of the UK as a leading international hub for sustainable finance, helping to attract those looking for genuine, credible sustainability-oriented investment opportunities.

Sheldon Mills and Sacha Sadan

Executive Director of Consumers and Competition and Director of Environmental, Social and Governance

Financial Conduct Authority

Chapter 1

Introduction

1.1 This Policy Statement (PS) contains our final rules and guidance to improve trust and transparency to the market for sustainable investment products. It follows our consultation on Sustainability Disclosure Requirements (SDR) and investment labels (CP22/20), issued in October 2022.

1.2 There is significant consumer interest in sustainable investment. Our Financial Lives survey found that 81% of adults surveyed would like the way their money is invested to do some good as well as provide a financial return. 76% would like to invest in a way that protects the environment. And 74% would like to invest in a way that has a positive social impact.

1.3 Consumers find it difficult to identify products that meet their sustainability preferences. This is not helped by a lack of standardised, accessible information and the use of unclear or confusing terms. For example, terms such as 'ESG (Environmental, Social and Governance)', 'responsible', 'green' or 'sustainable' are open to interpretation and are often used loosely and interchangeably.

1.4 Financial firms and other companies are also highly engaged with the vast majority of UK listed firms having voluntarily set net zero emissions targets, and the value of ESG-oriented assets under management (AUM) growing at pace. Firms and industry groups have expressed support that the market needs guardrails as it develops. This will help to ensure the market remains trusted and credible.

1.5 We have been concerned that some firms may be making misleading or exaggerated sustainability-related claims about their investment products.

1.6 So we are introducing a package of measures which aim to inform and protect consumers and improve trust in the market for sustainable investments. The regime should help underpin the UK's position as a world-leading competitive centre for asset management and sustainable finance.

1.7 The measures include an anti-greenwashing rule for all authorised firms, 4 investment labels, and new rules and guidance for firms marketing investment funds on the basis of their sustainability characteristics.

1.8 The new rules will help to further each of the FCA's objectives, as set by Parliament. The criteria that need to be met for use of the labels and the rules around the naming and marketing of products using sustainability terms should help enhance market integrity. Clear and accessible information and labels for consumers should enhance their protection as they navigate their investments. And introducing a clear framework for firms to assess products consistently and be more transparent about the sustainability standards they are using should help facilitate better competition between firms and internationally.

1.9 A summary of the regime is given in **Chapter 2** including the main changes we have made to it. The wider context is outlined in **Chapter 3** and we also set out the next steps for us and firms.

1.10 **Chapter 4** explains the anti-greenwashing rule. We are also consulting today on new general guidance to provide more detail on what this rule means.

1.11 The labels and the criteria investment funds must meet to qualify for a label are described in **Chapters 5** and **6**.

1.12 **Chapter 7** explains how firms can name and market their products using sustainability-related terms and **Chapter 8** explains the information that must be provided.

1.13 Rules for distributors are contained in **Chapter 9**.

1.14 **Chapter 10** explains the scope of the regime.

1.15 **Chapter 11** sets out operational considerations and the implementation timeline.

1.16 We provide an updated cost benefit analysis in **Chapter 12**.

1.17 **Annexes 1 – 3** provide the principles supporting the regime, a stand-alone overview of the full regime (with examples), and international compatibility.

Chapter 2

Summary

Our rules and guidance

2.1 We consulted on a package of measures which together aim to inform and protect consumers, enhance competition, and improve trust in the market for sustainable investment products. We have carefully considered the extensive consultation feedback, engaged with a broad range of stakeholders and carried out further consumer research to inform the final regime.

The final package includes:

- **An anti-greenwashing rule** for all FCA authorised firms to reinforce that sustainability-related claims must be fair, clear and not misleading. We are also consulting on supporting guidance
- **Four labels** to help consumers navigate the investment product landscape and enhance consumer trust
- **Naming and marketing rules** for investment products, to ensure the use of sustainability-related terms is accurate
- **Consumer-facing information** to provide consumers with better, more accessible information to help them understand the key sustainability features of a product
- **Detailed information** in pre-contractual, ongoing product-level, and entity-level disclosures, targeted at institutional investors and consumers seeking more information
- **Requirements for distributors** to ensure that product-level information (including the labels) is made available to consumers

Who this affects

2.2 Our anti-greenwashing rule applies to all FCA-authorised firms who make sustainability-related claims about their products and services.

2.3 The investment labels, disclosure, and naming and marketing rules apply to UK asset managers. We have also introduced targeted rules for the distributors of investment products to retail investors in the UK.

2.4 The rules do not apply to portfolio management products and services yet. We will consult on a wider application of these rules soon. Our Next Steps section in Chapter 3 provides more detail.

2.5 Many of our rules have been developed for retail investors, referred to as 'consumers'. However, part of the regime is also aimed at professional or institutional investors who we call 'clients'. We refer to 'clients' more broadly in the instrument in Appendix 1 to cover both retail and institutional investors.

2.6 This PS will also be of interest to:

- 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
- financial advisers

Our consultation

2.7 The consultation closed in January 2023. It built on views contained in Discussion Paper (DP) 21/4 on Sustainability Disclosure Requirements (SDR) and investment labels and the feedback we received.

2.8 The consultation contained proposals informed by an expert advisory group made up of key financial market stakeholders and subject matter experts (Disclosures and Labels Advisory Group (DLAG)). We would like to thank the DLAG members for their expert advice and support.

2.9 We would also like to thank stakeholders who responded to our consultation for their challenge, support, and detailed and thoughtful feedback. Receiving feedback from a broad range of stakeholders has enabled us to build a practical and proportionate regime that protects consumers and takes account of the impacts of costs and benefits on consumers and all sizes of firms.

2.10 In our update from March 2023, we said that stakeholders were broadly supportive of our proposals and outcomes. At the same time, respondents offered constructive feedback on specific elements of the package and drew out some practical challenges.

2.11 Our final measures have been informed by:

- The findings from our multi-firm review on the application of the Guiding Principles
- Careful consideration and analysis of the 240 consultation responses
- Extensive engagement with key domestic and international stakeholders such as regulators, Government, industry, DLAG members, consumer groups and others – including through meetings and roundtable discussions
- Feedback from the Treasury Sub-Committee's inquiry on Greenwashing: sustainability disclosure requirements
- Further testing with consumers and with firms
- Engagement with FCA's independent statutory panels – including the Financial Services Consumer Panel, the Practitioner Panel and the Smaller Business Practitioner Panel

2.12 We have summarised the broad feedback to our consultation and set out the main changes we have made in response in Table 1.

2.13 Some of the feedback received asked for additional guidance on the anti-greenwashing rule. Alongside this PS, we are therefore consulting on new guidance.

2.14 We also conducted further consumer research on our revised proposals. We have published the findings of this research today.

2.15 We also received feedback on the importance of ensuring compatibility with other regimes, most notably the Sustainable Finance Disclosure Regulation (SFDR) in the European Union (EU). We continue to engage with counterparts in the EU and other jurisdictions to encourage interoperability and compatibility as they consider their sustainability regimes.

2.16 We have included a revised mapping to the SFDR requirements in Annex 3 to help firms that will face obligations under both regimes. 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 consider introducing investment labels, we stand ready to work with the EU authorities on this important issue. We are also engaged with developments in other international jurisdictions, and will continue to do so.

What we are changing in response to the consultation

Summary of feedback and our response

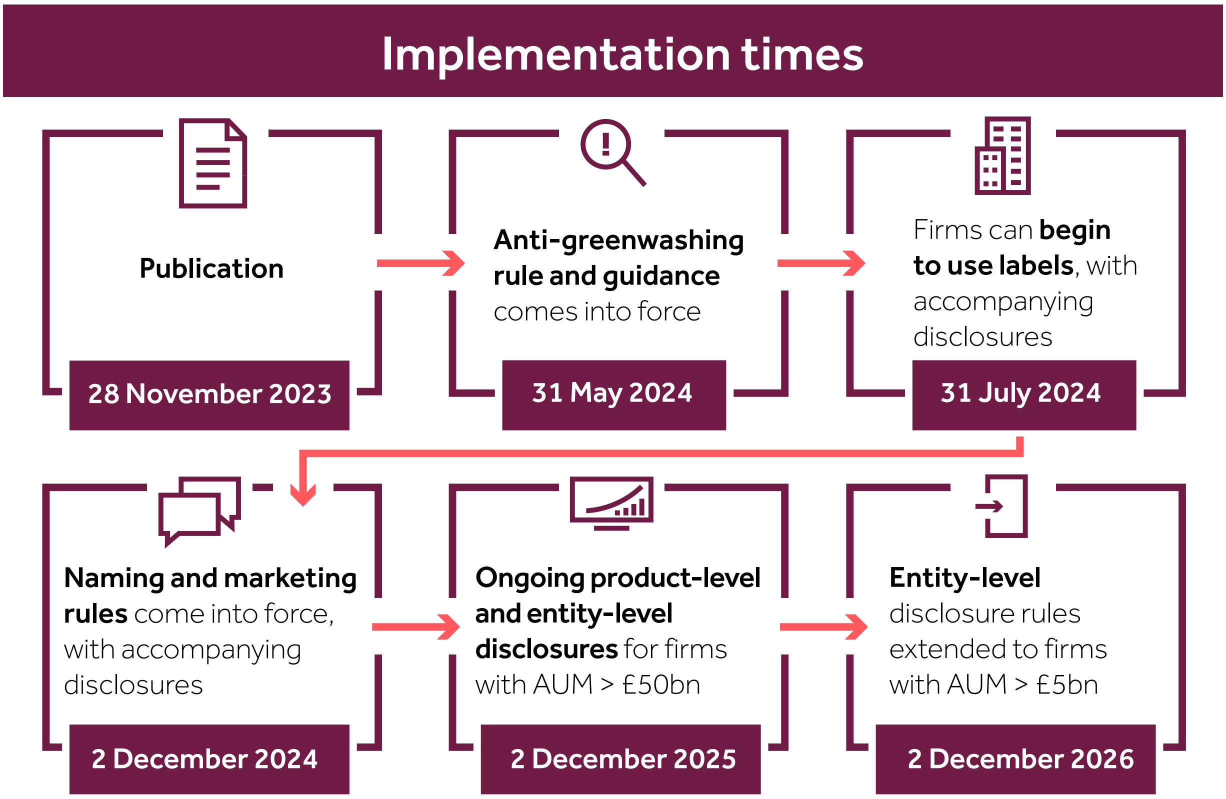
2.17 The table below outlines the main areas of feedback received and how we have responded to it. The following chapters provide more detail on these and address additional areas of feedback.

Table 1

Element of our proposals	Stakeholder feedback and our response
Naming and marketing	Stakeholders raised concerns that our proposals for the use of sustainability-related terms were too restrictive and asked for rules that enable firms to communicate important and factual information about products, so that consumers can continue to navigate to those products.
	Our response We have updated the rules to allow for the use of most sustainability-related terms if certain conditions are met.
Blended strategies	Stakeholders asked us to accommodate funds that invest in a blend of strategies within the regime.
	Our response We have introduced a fourth label, 'Sustainability Mixed Goals', for funds that invest across different sustainability objectives and strategies aligned with the other categories.
Improvers category	Stakeholders asked us to clarify stewardship expectations and to avoid the category becoming a 'catch-all'.
	Our response We have made some amendments and clarifications to acknowledge that stewardship comes in various forms, clarify that firms are not required to demonstrate a causal link between stewardship and assets' improvements, and clarified our expectations for products that may qualify for this label.
Focus category	Stakeholders asked us to allow internal frameworks to be used for the 'credible standard' that the product's assets must meet, and to clarify if internal processes can be used for independent assessment.
	Our response We have added clarification that internal frameworks can be used and independent assessment can be carried out either by a third party or via a firm's internal processes.
Impact category	Stakeholders asked us to acknowledge the scope for impact investing in public markets and align our proposals more closely with industry frameworks.
	Our response We encourage firms to use industry frameworks to the extent relevant for their products' sustainability objective. We have clarified that, as long as other criteria are met, investments in public markets can qualify for use of the label, in line with industry practice and frameworks.

Element of our proposals	Stakeholder feedback and our response
Other feedback on labels	We were asked to move away from primary and secondary channels for investor contribution, and to avoid using 'sustainable' in the names of labels, particularly for 'improvers'. We also received feedback on the names of the labels.
	Our response The primary and secondary channels for investor contribution were not prescribed in the rules. We have amended the names of the labels from 'sustainable' to 'sustainability', to reflect that some assets are on a journey to becoming sustainable, and to avoid consumers getting the impression that all labelled funds are invested in assets that are already sustainable.
Disclosures	Respondents asked us to incorporate sustainability information into existing product disclosures, and to not require a consumer-facing disclosure for all products.
	Our response We have retained the requirement for separate consumer-facing disclosures rather than for this information to be incorporated into existing disclosures. This is in line with consumer research findings. We will only require disclosures for products with labels or using sustainability-related terms.
Scope	We were asked to clarify the approach to overseas funds. We were also asked to consider alternative approaches to applying the labelling regime to portfolio managers.
	Our response We will continue to work with His Majesty's Treasury (HMT) on their approach to overseas funds. We will consult on an alternative approach to applying the regime to all types of portfolio managers.
Implementation times	We received mixed feedback on operational considerations and implementation dates for the rules.
	Our response We have set out a new timeline for implementation below, this takes account of the impact of change on all sizes of firm.

2.18 The rules and guidance come into force on the following dates:



How it links to our objectives

2.19 Our measures are compatible with and advance our strategic objective to ensure that markets function well by increasing transparency on the sustainability goals and features of products and firms, and by reducing the risk of harm from greenwashing.

2.20 Our proposals are also intended to advance the FCA's operational objectives:

- Investment labels, better consumer information, rules for distributors, and the naming and marketing rules should help to protect consumers by equipping them with information to navigate the market and identify products that meet their needs and preferences, as well as reducing the risk of greenwashing
- The disclosure requirements should help the flow of consistent information along the investment chain, increasing transparency in the market and furthering our objective to promote market integrity
- The labels and consumer-facing disclosures should help consumers to compare products more effectively and efficiently, potentially leading to greater competition among similar products (where consumers are comparing like-for-like), in line with our objective to promote competition in the interests of consumers

2.21 The Financial Services and Markets Act 2023 (FSMA) 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.

2.22 These rules and guidance are consistent with, and advance, our secondary competitiveness and growth objective by ensuring that the UK market for sustainable investment products is one of the most transparent and efficient. The measures should enable investors to have better confidence in identifying sustainable investment products and making informed purchases. 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. Attracting sustainable investments that support a thriving economy is a key element to promoting innovation, which is paramount to increasing the productivity of the UK economy.

2.23 In developing these measures, we have considered the regulatory principle in FSMA that, where relevant to the exercise of our functions, we contribute towards achieving the UK's net zero emissions target and 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 navigate the investment market and better understand which firms and investment products are aligned with the transition to a more sustainable economy.

Chapter 3

Wider context, considerations and next steps

Wider context of this policy statement

3.1 The measures we consulted on build on existing requirements and expectations for firms – including our Guiding Principles for the design, delivery and disclosure of ESG and sustainable investment funds, published as a Dear Chair letter in July 2021. We carried out a multi-firm review of the Guiding Principles and published the findings earlier this month. We found that, while most authorised fund managers have made efforts to comply with the rules, there is room for improvement to help consumers to navigate the market and make informed decisions.

3.2 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.

3.3 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 and to introduce a framework to facilitate and streamline the flow of robust and useful information between corporates, consumers, and investors and capital markets.

3.4 Our new SDR and labelling rules are a key component of that regime, which also includes the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards, transition plan disclosures, developing a UK Green Taxonomy and consideration of nature-related disclosures.

International landscape

3.5 We are a strong advocate of the development of international corporate reporting standards on sustainability. With the International Organization of Securities Commissions (IOSCO), we have supported the work of the IFRS Foundation since the International Sustainability Standards Board (ISSB) was first considered.

3.6 The ISSB launched its first sustainability-related reporting standards in June 2023. We refer to the ISSB's Sustainability Disclosure Standard (IFRS S1) as a helpful reference point for asset managers in scope of these rules and guidance to determine the content of their entity-level disclosures.

3.7 We intend to consult in 2024 on updating our Taskforce on Climate-Related Financial Disclosures (TCFD) aligned disclosure rules for listed companies to reference the ISSB's standards. The ISSB's global baseline standards will provide the internationally consistent and comparable sustainability disclosures that asset managers need to support their decision-making and to support the flow of information for their own disclosure requirements.

3.8 We have taken account of other international initiatives, such as the Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management, published by IOSCO in November 2021.

Consumer Duty

3.9 Our new rules are consistent with the Consumer Duty. While not all firms in scope of our regime are in scope of the Duty, we expect them to apply our rules and guidance keeping the aim of the Duty in mind. This means firms should:

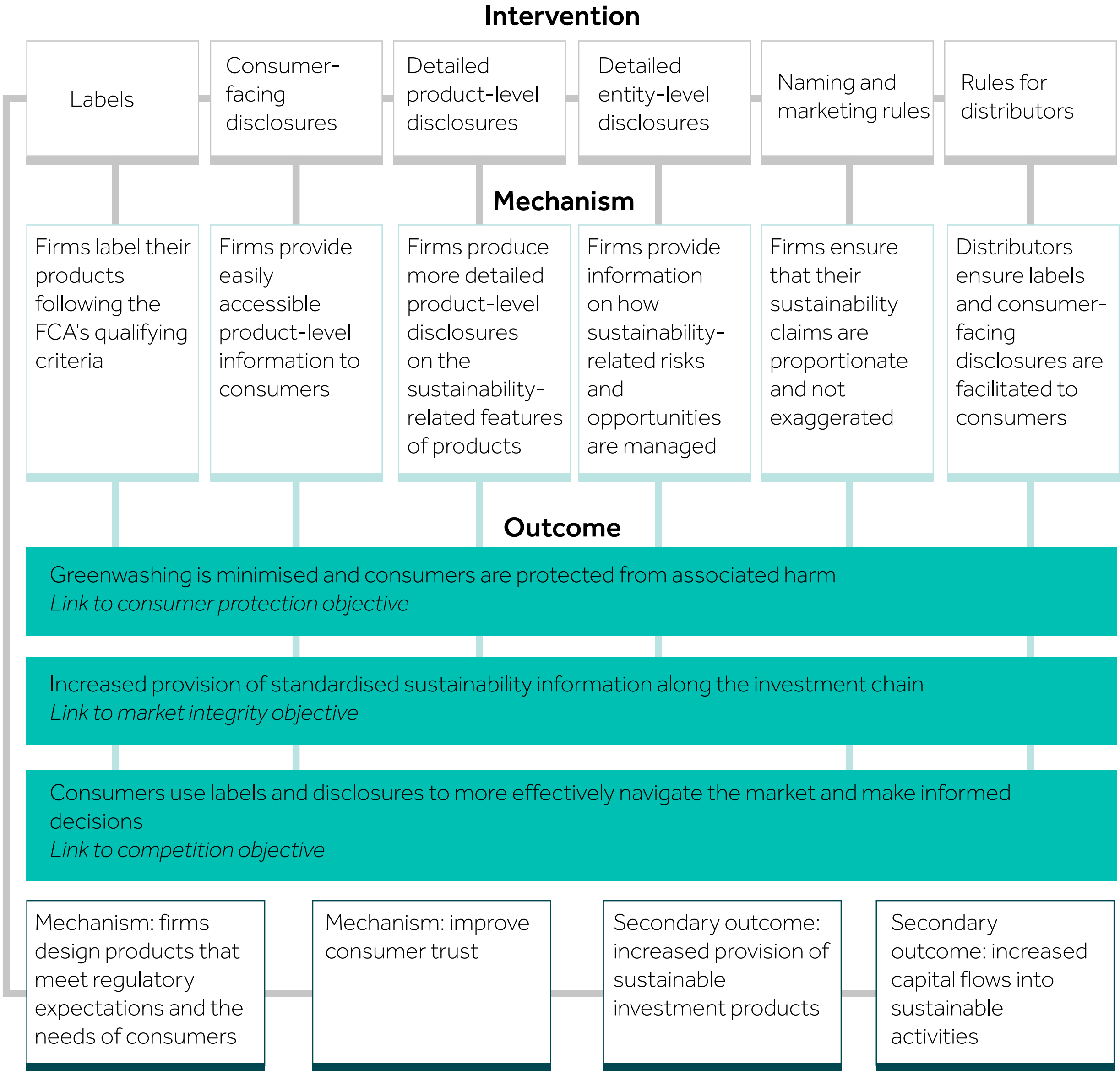
- **act in good faith** to deliver sustainability-related products and services, taking into account the reasonable expectations of retail customers
- **avoid causing foreseeable harm**, including harm caused through greenwashing and buying unsuitable products
- **enable and support retail customers to pursue their financial objectives**, including where customers have sustainability-related needs and preferences as part of their investment objectives

Outcomes we are seeking

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

3.11 Figure 1 below sets out the requirements being introduced, the actions that firms and other stakeholders will need to take, and how these will support our target outcomes.

Figure 1



Supervising and enforcing the regime

3.12 If a firm chooses to label a product, the firm remains responsible for its classification and ensuring the label is appropriate. The FCA's Fund Authorisation team will review, and may challenge, the application of any new fund submitted for authorisation, or amendments to existing funds. However, this will not be an approval of the label.

3.13 We will apply our usual supervisory and enforcement approaches to this regime. We will respond to compliance issues when they arise and act if we have intelligence that indicates a firm may not be meeting the requirements. We may take enforcement action where we have reason to believe that serious misconduct may have taken place.

3.14 We will continue to provide support to industry on implementation of the regime through stakeholder engagement, including webinars and events.

Measuring success

3.15 Table 2 below sets out what we will do to assess the effectiveness of our rules and the outcomes. We refer to the mechanisms set out in our causal chain above.

Table 2

Outcome	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	We expect to monitor uptake of labels and we will supervise the use of labels, including challenging inappropriate use of labels at the Fund Authorisations gateway. We will use available market intelligence that indicates 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	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	We will monitor for signs of greenwashing from a range of sources. This includes complaints to the Supervision Hub, intelligence gathered on quality of applications to Fund Authorisations and broader supervisory intelligence.

3.16 We will also carry out a post-implementation review 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 rule.

Equality and diversity considerations

3.17 We have considered the equality and diversity issues that may arise from the final rules and guidance in this Policy Statement.

3.18 We do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010.

Next steps for us

3.19 If you wish to respond to our consultation on anti-greenwashing guidance published today please do so by 26 January 2024.

3.20 The rules and guidance outlined in this PS are a starting point. We intend to expand and evolve the regime in future, including in the following areas:

- **Portfolio management.** We received feedback that our proposed approach for portfolio management would not be suitable, particularly as most portfolios are diversified and unlikely to invest only in UK funds with labels. Among the suggestions to address the matters raised were requests to allow portfolio managers to assess the assets within their portfolio against the criteria for labels – to follow a similar approach for portfolio management as was proposed for funds. We will consult on proposals to follow a similar approach for portfolio management, with a focus on where portfolio management is undertaken for UK retail clients, including managed portfolios and discretionary wealth management services, in early 2024.
- **Overseas funds.** Our regime applies to UK funds, and overseas funds are not in scope. We want consumers to have access to transparent and consistent information to support their trust and understanding of the sustainability credentials of all products marketed into the UK. To support a level playing field in this cross-border industry, promote competition and the competitiveness of UK firms and the asset management sector, we also want all firms marketing their products in the UK to be subject to the same broad requirements. Our view was supported by several respondents to our consultation. We will continue working with HMT to understand the options for extending the regime to overseas recognised funds, including those marketing under the Overseas Funds Regime. The extension of SDR to overseas funds is a matter for HMT.
- **Pension and other investment products.** In the medium term, we will consider extending the regime to pension products, as we recognise that the potential harms we are seeking to address with this regime may also arise with these products. Responses to the discussion chapter of our consultation paper broadly supported this. We thank respondents for their feedback and will provide a summary in due course.
- **Financial advisers.** Financial advisers have an important role to play in supporting consumers and the choices they make. However, we are aware that not all advisers feel comfortable talking to clients about sustainability. We therefore plan to set up an independent working group for the advice industry to work together to build on existing capabilities in sustainable finance, including how the SDR and labels support their role.
- **Disclosures.** We intend to build on our disclosure requirements over time in line with UK and international developments. This includes updating our guidance on transition plan disclosures, drawing on the outputs of the Government's Transition Plan Taskforce (TPT). Where appropriate, we will also consider updating product-level disclosures requirements once the UK Green Taxonomy is in use, and product and entity-level disclosure requirements in line with future ISSB standards.

3.21 We will also continue to engage with our international counterparts to encourage interoperability and compatibility as they consider their sustainability regimes.

3.22 We will run a series of webinars and events to help firms implement the rules. We will continue to update our website with further information as needed.

3.23 We have provided consumer information on our labels on our website and will work with consumer groups.

3.24 More information on the principles behind the regime and a high-level map of product types – which will be useful to other international regulators and firms – can be found in Annexes 1 – 3.

Next steps for firms

3.25 All **authorised firms** should:

- Prepare for the new anti-greenwashing rule if they make claims about the sustainability characteristics of their products or services, to ensure sustainability claims are fair, clear and not misleading
- Read our accompanying consultation on further guidance to the anti-greenwashing rule

3.26 In addition **UK asset managers** should

- Decide whether to label products that aim to achieve positive sustainability outcomes, if they meet the qualifying criteria.
- Familiarise themselves with our requirements (summarised in Annex 2 and set out in full in Appendix 1) and prepare to meet the relevant requirements in the implementation timeframes. This includes general requirements for use of the label (including notification to the FCA, publication), qualifying criteria, naming and marketing, disclosures, and ongoing requirements.

3.27 All **distributors** should:

- Prepare to make the labels and consumer-facing disclosures available to retail investors, and to keep them up to date following changes made by the firm
- Where relevant, prepare to add a notice on overseas funds to inform consumers that they are not subject to the regime

How to read this document

3.28 In each of the following Chapters we describe the feedback we received in response to questions asked in our consultation. We describe feedback we have received and our response in tables. We end each table or each Chapter by summarising the key takeaways that will form part of our regime.

3.29 We refer to 'products' throughout the PS but note that the rules currently only apply to the funds outlined in Appendix 1. We also use 'firms' throughout the PS to refer to the asset managers in scope of the regime.

Chapter 4

Anti-greenwashing rule

4.1 This chapter summarises the key points of feedback to the anti-greenwashing rule and our response.

4.2 We proposed an anti-greenwashing rule in the ESG Sourcebook to help ensure that sustainability-related claims made by all authorised firms about their products and services are fair, clear, and not misleading, and consistent with the sustainability profile of the product or service.

4.3 The rule applies to all communications about financial products or services which refer to the environmental and/or, social (ie, 'sustainability') characteristics of those products or services. Sustainability-related references can be present in, but are not limited to, statements, assertions, strategies, targets, policies, information, and images.

4.4 We asked:

> *Q20: Do you agree with our proposed general anti-greenwashing rule? If not, what alternative do you suggest and why?*

Table 3

Aspect of our proposals	Stakeholder feedback and our response
Guidance	The majority of respondents agreed with our proposed rule. However, some stakeholders called for further guidance to support the implementation of the anti-greenwashing rule, to understand how best to comply with the rule.
	Our response We are introducing the anti-greenwashing rule. To provide further clarity on our expectations, we are consulting on guidance for the anti-greenwashing rule. The consultation was published today, for response by 26 January 2024.
Interaction with naming and marketing rules	Respondents also asked about the interaction between the anti-greenwashing rule and the sustainability-related terms in the naming and marketing rules for asset managers.
	Our response In our proposed guidance on the anti-greenwashing rule, we clarify that the rule applies to references to environmental and/or social characteristics of financial products or services. We do not provide a specific list of terms for the rule. Firms, including asset managers, must comply with the anti-greenwashing rule when it comes into force. The anti-greenwashing rule forms the foundation of our naming and marketing rules as explained in Chapter 7.

Aspect of our proposals	Stakeholder feedback and our response
Implementation	Our proposal was for this rule to come into effect immediately on publishing our Policy Statement. However, respondents asked for more time for the anti-greenwashing rule to apply (some asked for 6-12 months or for it to be aligned with the rest of the regime) as firms may experience operational issues when trying to implement it alongside the rest of the SDR regime.
	Our response As we are currently consulting on the anti-greenwashing guidance, we propose extending the effective date of the anti-greenwashing rule. It will come into force on 31 May 2024. We decided on an earlier implementation date for the anti-greenwashing rule and guidance than the rest of the SDR regime as it applies to all sectors, and we did not want to delay implementing the rule for the rest of these sectors. We have taken into account feedback and provided more time compared to our initial proposal of immediate implementation.

Chapter 5

Investment labels: principles of the labelling regime and general criteria

5.1 In this chapter, we summarise the feedback received on the overarching principles and features of the labelling regime. This includes stakeholder feedback on the proposed general qualifying criteria for use of the labels, and confirmation of the final criteria we are implementing. In the next chapter, we cover the specific qualifying criteria for use of each of the individual labels.

5.2 We proposed to introduce investment labels to help consumers navigate the market and build trust. We proposed 3 labels, which firms could choose to use if their products met the qualifying criteria, called 'Sustainable Focus', 'Sustainable Improvers' and 'Sustainable Impact'.

5.3 Key features of the proposed labelling regime included (but were not limited to):

- Labels are for products seeking to achieve positive sustainability outcomes only – products using strategies such as ESG integration or basic ESG tilts alone would not qualify for a label
- Labelled products must have a sustainability objective as part of their investment objectives
- Labels distinguish between products based on the sustainability objective the product is seeking to achieve (referred to in the CP as 'intentionality'), and on the primary and secondary channels by which the product may achieve a positive outcome for the environment and/or society

5.4 We asked:

Q4: Do you agree with our characterisation of what constitutes a sustainable investment, and our description of the channels by which positive sustainability outcomes may be pursued? If not, what alternatives do you suggest and why?

Q5: Do you agree with the proposed approach to the labelling and classification of sustainable investment products, in particular the emphasis on intentionality? If not, what alternatives do you suggest and why?

Q7: Do you agree with our proposal to only introduce labels for sustainable investment products (i.e., to not require a label for 'non sustainable' investment products)? If not, what alternative do you suggest and why?

Feedback

5.5 The majority of stakeholders broadly agreed with our characterisation of a sustainable investment and our proposed approach to labelling. A few respondents considered that our proposals did not go far enough and others suggested alternative approaches or interventions. We have carefully considered all of the feedback. The main areas of feedback we received and our responses are summarised in Table 4.

Table 4

Aspect of our proposals	Stakeholder feedback and our response
Key features	Most respondents agreed with a labelling regime and the key features of sustainable investment products. We received significant feedback on the detailed criteria to qualify for a label.
	Our response Given the broad support for the labelling regime, we are taking forward the proposals largely as consulted upon, with some clarifications, restructuring and simplification where possible. The labels are for products seeking positive sustainability outcomes. However, we have amended the naming and marketing rules to help consumers navigate and differentiate between both labelled and non-labelled products that have sustainability characteristics (see Chapter 7).

Aspect of our proposals	Stakeholder feedback and our response
Mutual exclusivity of labels	Many respondents were concerned that funds invested with a combination of the attributes of the Focus, Improvers and/or Impact labels would not qualify for a label under the proposals. They suggested consumers could be confused if these products were not able to use a label. Some respondents said that it may be difficult to fit multi-asset products into a single category. Other respondents asked us to clarify the distinction between each of the labels.
	Our response We agree that products invested in a mix of assets that are already sustainable, have the potential to improve their sustainability over time, and/or aim to achieve a positive impact should have a place in the labelling regime. This would give consumers a consistent approach when navigating the market for products seeking to achieve positive sustainability outcomes. Following further consumer testing, we have added a new fourth label called 'Sustainability Mixed Goals' to accommodate these products. In keeping with the rest of the regime, firms using the 'Sustainability Mixed Goals' label will need to meet the requirements under the specific criteria for each of the other labels the fund is invested across. The criteria for each of the other labels are set out in Chapter 6, and we discuss the Sustainability Mixed Goals' label in more detail in Annex 2. Sustainability Impact™ Sustainability Focus™ Sustainability Improvers™ Sustainability Mixed Goals™
Primary and secondary channels for investor contribution	Many stakeholders agreed with the primary and secondary channels for investor contribution that we identified. However, they did not agree that they should be prescribed for the labels, as they considered that firms should be able to use appropriate channels for their products. Those that disagreed identified other investor contributor mechanisms, such as collaborative engagement and policy advocacy, or identified challenges including demonstrating a causal link between investor stewardship and positive outcomes. Stakeholders also called for more emphasis on the role the product's assets will play in achieving sustainability outcomes, and the investor's role in selecting those assets.
	Our response The rules did not prescribe primary and secondary channels for investor contribution. We referenced them in the consultation to describe the differences between the labels, and said that 'many, if not most, products generate outcomes via more than one of the channels'. We no longer refer to primary and secondary channels in descriptions of the labels.

Aspect of our proposals	Stakeholder feedback and our response
Do no harm to other environmental or social factors	Many stakeholders said that a sustainable investment should not include assets that cause harm or damage to other environmental or social factors (or other United Nations Sustainable Development Goals (SDGs)). They recommended that we should introduce minimum safeguards or require potential negative impacts to be explicitly recognised. Some stakeholders also suggested we should prevent firms from investing in certain assets, such as those relating to tobacco or fossil fuels.
	Our response We consider that it is for firms to determine what assets their products invest in. However, it is also important that firms provide sufficient transparency around the types of assets that their products will and will not invest in, so that consumers can make informed investment decisions. This is in line with Consumer Duty requirements. To that end, we are introducing a rule that requires firms to identify and disclose (in their consumer-facing and pre-contractual disclosures) if pursuing the positive outcome could result in negative environmental and/or social outcomes.
Labels for products seeking positive outcomes only	Stakeholders broadly agreed with our proposal and welcomed that we had listened to feedback to DP21/4, which included labels for 'Responsible' and 'Not Promoted as Sustainable' products. However, some respondents emphasised that consumers must be able to easily identify and navigate to others, such as ESG integrated, ethical, and exclusionary funds. Suggestions included introducing a label for those products, introducing a statement to clarify why those products do not have a label, and providing a warning on 'unsustainable' products.
	Our response While the labels remain only for products seeking positive sustainability outcomes, we have amended the naming and marketing rules to help consumers to navigate to and differentiate between products using sustainability-related terms both with and without labels (see Chapter 7).
Hierarchy between the labels	We received mixed comments about whether there appeared to be a hierarchy between the labels. While some stakeholders welcomed that we are not introducing a hierarchy, others felt consumers would perceive one (potentially from Improvers to Focus and to Impact).
	Our response We have not designed the labels as a hierarchy. They represent different types of investment objectives and investment approaches. Consumers are likely to place the labels into their own hierarchies according to their needs and preferences (as reflected in our latest consumer research).

Aspect of our proposals	Stakeholder feedback and our response
Names of the labels	We received some feedback on the names of the labels. Some stakeholders did not consider the term 'Sustainable' to be appropriate for the name of the label while the product is 'improving' its sustainability. Our consumer research also found consumers had mixed views on claiming that a 'sustainable' product could be improving.
	Our response We have amended the names of all labels from 'sustainable' to 'sustainability' to better reflect that the labels represent an investment approach. Firms' disclosures should help consumers to understand the product's objective and investment approach.
Other	We also received technical comments on how specific asset classes and strategies (such as real estate, Private Equity (PE) and Venture Capital (VC) funds, and index-tracking strategies), would qualify for the labels, and on alignment with existing initiatives and frameworks.
	Our response We have sought to accommodate different asset classes and strategies in the labelling regime. We provide more detail and examples in Annex 2.

Summary of key features of investment the labelling regime

- Firms can choose to use labels for products seeking to achieve positive sustainability outcomes, if they meet the qualifying criteria
- The 4 labels – Sustainability Focus, Sustainability Improvers, Sustainability Impact, and Sustainability Mixed Goals – will help consumers to differentiate between different sustainability objectives and different investment approaches to achieve those objectives
- The labels are not designed to be in a hierarchy

General qualifying criteria

5.6 We proposed a set of qualifying criteria that must be met in order for products to use an investment label. This included requirements under 5 overarching principles: sustainability objective, investment policy and strategy, KPIs, resources and governance, and stewardship.

5.7 We asked:

Q8: ***Do you agree with our proposed qualifying criteria? If not, what alternatives do you suggest and why? In your response, please consider:***

- *whether the criteria strike the right balance between principles and prescription*
- *the different components to the criteria (including the implementing guidance in Appendix 2)*
- *whether they sufficiently delineate the different label categories, and;*
- *whether terms such as 'assets' are understood in this context?*

Stakeholder feedback

5.8 Stakeholders broadly agreed with the general criteria we proposed. The feedback is summarised below in Table 5, along with our responses and corresponding updates to the rules.

5.9 Overall, we have restructured the criteria to more clearly set out: the criteria a product must meet, the requirements that the in-scope firm (the fund manager) must meet, and requirements that must be met on an ongoing basis. We have also simplified the language. We have clarified that the fund manager retains responsibility for compliance with the labelling rules, even where delegating any of the relevant activities to another firm or person.

Table 5

Aspect of our proposals	Stakeholder feedback and our response
Sustainability objective	Although stakeholders generally agreed with the need for products using the labels to have a sustainability objective, some thought that this objective should come under the investment policy and strategy rather than the investment objectives. Some asked for the rules to explicitly require that sustainability objectives have a plausible link to a 'positive' environmental and/or social outcome. Stakeholders also asked for clarifications on the interaction between the sustainability objective and pursuit of a financial return, and whether pursuing multiple sustainability objectives would be acceptable.
	Our response We have amended the definition of sustainability objective to include a reference to 'positive' environmental and/or social outcomes in the glossary term. We have kept the requirement that a sustainability objective must be part of the investment objectives. Where the strategy to pursue the sustainability objective is likely to have a material impact on the financial return, firms must disclose the extent to which the strategy may have affected, or be expected to affect, the financial return. We have not been prescriptive about whether there are multiple objectives or about how these should be measured, provided that the objectives are clear and specific, that is, they build a clear picture of what the product is aiming to achieve. Given the broad nature of SDGs, referring to the SDGs alone is unlikely to be sufficient.

Aspect of our proposals	Stakeholder feedback and our response
Investment policy and strategy	Some stakeholders sought clarification on whether the proposed 70% threshold for investing in assets under the Focus label applies to other labels, and some requested consistency across all labels. Some asked us to clarify our rationale for proposing '70%'. We received some requests for clarification on how assets held in the product for liquidity and risk management purposes (eg, cash, government bonds, derivatives) would be treated. Some stakeholders disagreed that firms should identify investments that a reasonable investor might consider to be in conflict with the sustainability objective. They either considered this would be too subjective, or that a labelled product should not include assets in conflict with the sustainability objective. Some stakeholders noted that it may be difficult for firms tracking indexes to retain responsibility for ensuring that index providers' methodology align with the sustainability objective.
	Our response **70% minimum threshold.** In response, we have applied the 70% minimum threshold to all labels. Although the sustainability objective should represent the aims of the overall product, the product may invest in other assets for liquidity and risk management purposes, so long as 70% of the gross value of the product's assets are invested in line with the sustainability objective. The minimum 70% threshold balances mixed feedback to our consultation and takes account of existing or proposed sustainability-related rules or guidance in other jurisdictions (for example some thresholds are higher, such as the European Securities and Markets Authority (ESMA) and the US Securities and Exchange Commission (SEC) proposed 80% for fund naming rules, while others are lower, such as the Monetary Authority of Singapore's 66%). We have made some limited exceptions to this threshold for products during their 'ramp up' phase, and we have built provisions for circumstances where products fall below the threshold (see Annex 2). **Asset selection.** We have clarified that at least 70% of the product's assets must be selected with reference to a robust, evidence-based standard that is an absolute (as opposed to a 'relative') measure of environmental and/or social sustainability. We have removed the requirement to identify assets in conflict with the sustainability objective as a labelled product should not include any assets in conflict with the objective. We have added a rule to that effect. **Index-tracking products.** We have clarified that the firm must use an index that aligns with the general and specific criteria for the label that it wants to use. Index-tracking products are discussed in more detail in Annex 2, Box 3.

Aspect of our proposals	Stakeholder feedback and our response
KPIs	Stakeholders sought clarification on matters such as how to measure progress towards the sustainability objective; appropriate levels of coverage; acceptable targets for the Improvers and Impact labels; clarity on KPIs that might not be acceptable; questions around whether KPIs should be backward or forward-looking; and whether KPIs could change. Some stakeholders asked for mandatory KPIs, linked to existing standards or frameworks, to promote consistency.
	Our response Firms must specify a measurable sustainability objective and determine the KPIs they will use to measure performance towards that objective. We are not prescribing the KPIs as firms will need to determine which KPIs are most appropriate for their products. Those KPIs may measure either the performance of the product or individual assets towards achieving the objective.
Resources and governance	We did not receive much feedback on this provision. However, some stakeholders sought guidance on our expectations, including what would be considered appropriate skills and experience, appropriate levels of due diligence, and our expectations on firms relying on third-party sources of data.
	Our response We have removed some of the detail relating to resources and governance in line with our approach for a more principles-based regime. Firms, including where delegating activities, must ensure that there are resources, governance and organisational arrangements in place commensurate with the product achieving the product's sustainability objective; there is adequate knowledge and understanding of the assets; and there is a high standard of due diligence in the selection of any data or other information used to inform investment decisions. We recognise that specifics relating to resources and governance may differ according to the nature, size, and complexity of the firm and/or the sustainability objective of the product.

Aspect of our proposals	Stakeholder feedback and our response
Stewardship	Most comments on stewardship are covered in the sub-section on the Improvers label in the following chapter. These related to challenges in demonstrating a causal link between stewardship and improvements; acknowledgement that stewardship takes place in different forms; and that investor stewardship strategies are usually developed at firm rather than product level. Some stakeholders called for greater links between our requirements and the UK Stewardship Code, published by the Financial Reporting Council (FRC), while others cautioned against it as not all firms will be signatories to the Code.
	Our response Firms can play a key role in accelerating the transition to a more sustainable future through stewardship activities. So, stewardship is an important principle that applies to all of the labels. We have however removed some of the detail from the Improvers category. To qualify for any label, firms must identify and apply the investor stewardship strategy and resources needed to support achievement of the product's sustainability objective, including the activities the firm expects to undertake and outcomes it expects to achieve. We have not been prescriptive as to the form in which stewardship would take place or whether the strategy is at firm or product level. So, we have removed references to terms that may imply a certain approach (eg, 'active' stewardship, engagement, voting). We do not expect firms to demonstrate a causal link between their stewardship activities and the outcomes. Disclosures may be cross referenced from UK Stewardship Code or other stewardship-related reporting.
Implementing guidance	We received a small number of comments on the Implementing Guidance. In particular, stakeholders considered some of the guidance to be too prescriptive (eg, stewardship) or not achievable (eg, describing third parties' methodologies).
	Our response In response to requests for clarification on some of our proposed rules and guidance, we have now incorporated some of the proposed Implementing Guidance into final Handbook rules and guidance to help firms better understand the requirements and our expectations. Other matters are included under the 'other considerations' sections of our overview of the regime in Annex 2. The Implementing Guidance is no longer a standalone non-Handbook guidance document. We will consider whether there is need for further guidance as firms implement the regime.

Summary of key features of the qualifying criteria

5.10 To use a label, products must meet the general and specific criteria relating to that label on an ongoing basis. Firms must also meet certain requirements and make associated disclosures.

5.11 The general criteria fall under 5 key themes:

- **Sustainability objective.** All products using a label must have a sustainability objective to improve or pursue positive environmental and/or social outcomes as part of their investment objectives. Firms must identify and disclose whether pursuing the positive sustainability outcomes may result in material negative outcomes.
- **Investment policy and strategy.** Ordinarily, at least 70% of the product's assets must be invested in accordance with its sustainability objective, with reference to a robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability. Firms must also identify and disclose any other assets held in the product for other reasons (eg, cash, derivatives), including why they are held.
- **KPIs.** Firms must identify KPIs to measure progress against the sustainability objective (these can measure the progress of the whole product or individual assets).
- **Resources and governance.** Firms must ensure there are appropriate resources, governance and organisational arrangements to support delivery of the sustainability objective.
- **Stewardship.** Firms must identify and disclose the stewardship strategy needed to support the delivery of the sustainability objective, including activities they expect to take and outcomes they expect to achieve. Firms must also set out an escalation plan to be able to take action when assets do not demonstrate sufficient progress towards the sustainability objective and/or KPIs. Assets subject to such action remain within the 70% threshold.

Chapter 6

Specific criteria for labels

6.1 We proposed that, in addition to meeting the general criteria, firms wanting to use the investment labels would also have to meet label-specific criteria.

6.2 We asked:

Q6: Do you agree with the proposed distinguishing features, and likely product profiles and strategies, for each category? If not, what alternatives do you suggest and why? In particular, we welcome your views on:

a. Sustainable Focus: whether at least 70% of a 'sustainable focus' product's assets must meet a credible standard of environmental and/or social sustainability, or align with a specified environmental and/or social sustainability theme?

b. Sustainable Improvers: the extent to which investor stewardship should be a key feature; and whether you consider the distinction between Sustainable Improvers and Sustainable Impact to be sufficiently clear?

c. Sustainable Impact: whether 'impact' is the right term for this category or whether should we consider others such as 'solutions;' and the extent to which financial additionality should be a key feature?

Q9: Do you agree with the category specific criteria for:

- *The 'Sustainable focus' category, including the 70% threshold?*
- *The 'Sustainable improvers' category? Is the role of the firm in promoting positive change appropriately reflected in the criteria?*
- *The 'Sustainable impact' category, including expectations around the measurement of the product's environmental or social impact?*
- *Please consider whether there any other important aspects that we should consider adding.*

Stakeholder feedback

6.3 Stakeholders broadly agreed with the proposed labels and we received constructive feedback on the specific criteria for each of the labels. Comments disagreeing with the proposed approach set out that the labels are broad and could lead to greenwashing or, on the other hand, that the bar to qualify is too high. Other comments included that labels do not reflect the investment decision-making process, and consumers may overlook non-labelled products, including ethical funds.

Sustainability Focus

6.4 We proposed to introduce a label for products investing mainly in assets that are sustainable for people and/or the planet. We proposed that at least 70% of the product's assets would need to meet a credible standard of environmental and/or social sustainability, or to align with a specified environmental and/or social sustainability theme.

6.5 We asked:

Q9: Do you agree with the category-specific criteria for:

- *The 'Sustainable focus' category, including the 70% threshold?*

Stakeholder feedback

6.6 Stakeholders agreed with the purpose of the label but sought clarifications on some of its features. In addition to those captured in other chapters, we received comments in the following areas:

Table 6

Aspect of criteria	Stakeholder feedback and our response
Threshold	We received mixed views on the requirement for at least 70% of the assets to meet a credible standard of sustainability or to be invested according to a sustainability theme. Some considered 70% too high for a diversified product suitable for retail investors, some considered it too low to meet consumers' expectations, and others considered it to be at the right level. Some also suggested that it could be reviewed regularly. However, some did not think a threshold should be needed as the sustainability objective should apply to the whole product.
	Our response As outlined in Chapter 5, the sustainability objective should represent the aims of the product as a whole. We have kept the requirement that at least 70% of the product's assets must be pursuing the sustainability objective, recognising that products are likely to hold assets for other purposes (eg, liquidity and risk management).

Aspect of criteria	Stakeholder feedback and our response
Credible standard of sustainability	Many stakeholders sought clarification on what constitutes a credible standard of environmental or social sustainability. Questions included whether proprietary standards are sufficient, and whether the standard should be an absolute or relative measure of sustainability (with mixed views about whether 'best in class' or ratings/scores are sufficient). Some were concerned that, until common standards appear, verification of standards and comparison of products may be difficult, so there may still be greenwashing risks. Some stakeholders asked whether multiple standards can be used for a single product.
	Our response We have removed the term 'credible' and replaced it with the attributes of the standard. We now refer to a 'robust, evidence-based standard that is an absolute measure of sustainability'. Firms will need to determine a standard that aligns with their product's sustainability objectives, and select assets that meet the standard, based on a methodology or approach that is determined by industry practice, an authoritative body or proprietary standards. The standard may be based on general environmental and/or social criteria such as the percentage of revenue associated with sustainability matters; reference an authoritative taxonomy such as the EU taxonomy or forthcoming UK Green Taxonomy; or set a minimum threshold of greenhouse gas (GHG) emissions for assets. It must however be robust (ie stand up to scrutiny), and evidence-based (ie derived from or informed by an objective and relevant body of data or other evidence). We provide more detail in Annex 2, Box 2.
Independent assessment	Many stakeholders sought clarification on the need to obtain 'independent assessment' on a credible standard. Some were concerned that assessment or verification by a third party would be costly and potentially not valuable until providers developed capabilities to carry out such an assessment. Many suggested allowing independent assessment via established internal processes – such as internal audit, independent non-executive directors (iNEDS), the Product Intervention and Governance Sourcebook framework, or processes for assessment of value.
	Our response We have not prescribed whether the independent assessment should be via an internal process or a third party, provided that it is independent to the manager's investment process. Firms may consider their existing internal processes or functions to be appropriate for the assessment as long as those carrying out the assessment are appropriately skilled. For transparency, firms will need to disclose the basis on which the standard is considered to be appropriate, and the function or third party that undertook the assessment (but not the name of the individual).

Aspect of criteria	Stakeholder feedback and our response
Alignment with themes	Some stakeholders commented that investing in accordance with a theme may not be considered as robust or on a level playing field as meeting a credible standard of sustainability. Some considered thematic investing to be better suited to the Impact category. Some, however, agreed with the approach and sought clarification as to whether a product could be pursuing more than one theme.
	Our response We have removed the option for a product to qualify for a Sustainability Focus label on the basis that 70% of its assets align with a sustainability theme alone. Thematic investing approaches may be applied across any of the labels (as discussed in Annex 2). The rules for a Sustainability Focus require 70% of the assets to meet a robust, evidence-based standard that is an absolute measure of sustainability – although the product can, in turn, be invested thematically.

Summary of key features of a Sustainability Focus label

- 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
- A minimum of 70% of a Sustainability Focus product's assets must meet that standard, and other assets must not be in conflict with the sustainability objective
- For all labels, independent assessment to confirm the standard is fit for purpose may be obtained via either internal processes or third parties, provided that the chosen method is independent from the manager's investment process
- The product may invest according to themes, provided that the requirements above are met

Sustainability Improvers

6.7 We proposed to introduce a label for products investing in assets that may not be sustainable now, with an aim to improve their sustainability for people and/or planet over time, including in response to the stewardship influence of the firm.

6.8 We asked:

Q9: Do you agree with the category-specific criteria for:

- *The 'Sustainable improvers' category? Is the role of the firm in promoting positive change appropriately reflected in the criteria?*

Stakeholder feedback

6.9 Many respondents welcomed this category but some did not. The feedback and our responses are summarised below:

Table 7

Aspect of the criteria	Stakeholder feedback and our response
General feedback	Stakeholders agreed that the labelling regime should accommodate investment in assets on a pathway to becoming more sustainable and for which investors can play a role in accelerating improvements. Some, however, cautioned against the category becoming a 'catch-all' for any product claiming to be improving over time. We received several suggestions for refinements to the criteria to help mitigate this concern. In addition to the comments received about using the term 'sustainable' in the name of the label, some stakeholders suggested consumers could be sceptical of this category and less likely to invest until improvements can be demonstrated. We also received some calls to clarify the differences between the Improvers label and ESG integration, and between the Improvers and Impact labels.
	Our response We see this label as an important category for supporting the transition to a more sustainable future. We have made some refinements to the criteria to clarify our expectations and help to mitigate concerns of it becoming a 'catch-all' label. These are outlined in our response to feedback in the paragraphs below. We have set out the differences between each of the labels in Annex 2.

Aspect of the criteria	Stakeholder feedback and our response
Assets with the potential to improve and 'improved' assets	Many stakeholders asked us to clarify how to determine assets that have the 'potential to become more environmentally or socially sustainable over time'. They also asked what happens to assets that have met their target for improvement, and many noted that divesting would not be a good outcome. Some stakeholders asked for clarification on how to treat assets that may be improving in one area but not in another, or where negative outcomes outweigh positive ones. We received mixed feedback on timeframes for improvements – some called for products to have either long-term or short-term targets, while others suggested long-term targets with regular updates on progress and/or interim/ short/ medium-term targets. We also received some feedback that specifying targets for improvements will be difficult for index-tracking products.
	Our response We have added a rule to clarify that the potential to become more environmentally or socially sustainable over time means the potential to meet a robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability over time. This approach puts greater emphasis on the firm's asset selection process. Firms must select assets on the basis of evidence that they have the potential to improve in time. We have also added a requirement that the firm must develop short and medium-term targets for improvements, and that these should be consistent with the investment horizon for the product. However, it is for firms to decide how to treat products or assets that have met their target(s) for improvement.
KPIs	Some stakeholders asked how to determine and disclose KPIs that would sufficiently demonstrate performance towards a product's sustainability objective. Some examples that stakeholders considered useful included: the TCFD's recommended metrics, Global Impact Investing Network (GIIN) Compass methodology, or relevant external benchmarks. Some called for qualitative KPIs to be allowed. Stakeholders also asked whether KPIs should be identified at product or asset level. Some considered product-level KPIs to be more appropriate as different assets may be improving at different timescales, while others wanted the option for either or both.
	Our response We have not prescribed KPIs as firms must select KPIs that are relevant for their specific products. We have however clarified that KPIs can demonstrate the improvement of either the product as a whole and/or the improvement of individual assets within the product.

Aspect of the criteria	Stakeholder feedback and our response
Stewardship	Stakeholders felt that the proposed criteria focused too heavily on the role of investor stewardship, and we received mixed views on what the appropriate balance between the role of stewardship and assets' own improvements should be. Stakeholders were concerned that it would be difficult for a firm to demonstrate a causal link between their stewardship and an asset's improvement. Some also considered that it may favour larger asset managers given the time and resource implications. We were asked to acknowledge that stewardship strategies are usually applied at firm rather than product level; stewardship may take place in different forms (including collective action); stewardship priorities may change depending on company/market developments; and the outcomes rather than the process are key. Some stakeholders also asked us to clarify what 'good' stewardship looks like and to set more specific expectations including on voting and stewardship-related metrics. We were also asked to require firms to have a clear escalation plan for assets that make insufficient improvements.
	Our response As outlined in Chapter 5, stewardship can play a significant role in accelerating the transition to a more sustainable future and is important for this label, as well as the other labels. We have however removed the stewardship-related requirements from this label, which instead apply as part of the general criteria. We have also added a requirement for firms to have an escalation plan for products using any label. We will monitor developments and consider whether and how to update our requirements accordingly. We encourage industry to develop best practice tools and guidance in the meantime, which we will discuss with the DLAG.

Summary of key features of a Sustainability Improvers label

- 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 should support delivery of the objective and help to accelerate improvements in sustainability over time.
- KPIs must be relevant to the product's sustainability objective and are therefore not prescribed. As with all labels, KPIs can demonstrate progress of the product or individual assets towards the sustainability objective.

Sustainability Impact

6.10 We proposed a label for products investing in solutions to problems affecting people or the planet (often in underserved markets or to address observed market failures) to achieve real-world impact. These products would have an explicit objective to achieve a positive, measurable contribution to sustainable outcomes.

6.11 We asked:

Q9: Do you agree with the category-specific criteria for:

- *The 'Sustainable impact' category, including expectations around the measurement of the product's environmental or social impact?*

Stakeholder feedback

6.12 The feedback to our proposals for the Sustainability Impact label is summarised below:

Table 8

Aspect of the criteria	Stakeholder feedback and our response
General feedback	Stakeholders broadly welcomed this category and most agreed that it should be called 'Impact' rather than 'Solutions.' Some stakeholders noted that all labels lead to some form of 'impact' and called for clarity on the differences between either the Impact and Improvers or Impact and Focus labels. Others considered this the clearest category with respect to its key features and criteria.
	Our response We have kept the name 'Impact'. However, for clarity and simplification, we have removed the reference to 'real-world' impact throughout the criteria. We recognise that all labels lead to some form of impact and outline the differences between the labels in Annex 2.

Aspect of the criteria	Stakeholder feedback and our response
Financial additionality	The most common area of feedback on this category related to financial additionality and concerns that the proposals only allowed for impact to be achieved through directing new capital into assets, thereby limiting the label to investments in private markets. Stakeholders were concerned that this would narrow the category considerably, as the products that could qualify would typically not be suitable for retail investors. Many suggested that the contribution made by assets within a product to a real-world outcome should be given equal weight to the investor's contribution. Stakeholders also recommended aligning more closely with existing initiatives and frameworks for impact investing. Some also suggested referring to 'investor contribution' instead of additionality.
	Our response Similar to our response regarding primary and secondary channels for investor contribution in Chapter 5, we confirm that firms are not required to invest new capital for their products to qualify for a Sustainability Impact label. We have, however, made small amendments to the criteria to acknowledge the role that the product's assets may have in contributing to positive impact alongside the investor's contribution. This approach is consistent with existing impact investing frameworks.
Underserved markets/ market failures	Some stakeholders did not agree that the category should be limited to directing capital to underserved markets or to addressing market failures. They suggested either removing this or clarifying what underserved markets and market failures mean.
	Our response We do not require firms to direct capital to underserved markets or to address market failures.
Financial returns	We received some calls for us to clarify our expectations regarding financial return, including whether products must aim to deliver impact 'while providing a financial return', and whether the real-world outcome should be prioritised over a financial return.
	Our response We have not included financial return expectations in the criteria for the Sustainability Impact label. As discussed in Chapter 5, if the investment strategy to pursue the sustainability objective is likely to result in any material impact on the financial return, this will need to be disclosed.

Aspect of the criteria	Stakeholder feedback and our response
Theory of change	Comments on the proposal that firms must specify a theory of change in line with the sustainability objective included that the theory of change should be clearly defined (or replaced with a requirement to define the sustainability problems and investors' proposed solution), reviewed periodically, science-based, and that the asset selection process should include identification and mitigation of potential negative impacts. Most stakeholders that commented on whether the theory of change should apply at asset or product level considered it should be at asset level.
	Our response We have retained the requirement for firms to specify a theory of change; firms have the flexibility to decide whether it is applied at product or asset level.
Measurability	Some stakeholders asked for guidance on how to measure and report real-world outcomes, particularly social outcomes. Some noted that requiring a 'robust method to measure and demonstrate' impact implies using a quantitative approach and suggested amending to 'assessing' the impact to allow for a qualitative method of measurement. Stakeholders also asked what we meant by 'enhanced' impact measurement.
	Our response Firms must be able to stand behind any claims they make regarding a product's objective to deliver a positive impact. They must be able to measure both the impact the product's assets may make as well as the investor contribution. We have not been prescriptive as to whether the method of measurement is quantitative or qualitative, provided that it is robust and details of the impact achieved are clearly disclosed (in the ongoing product-level reporting).
Escalation plan	While stakeholders typically agreed that firms must specify an escalation plan should the real-world outcome no longer plausibly be achievable, some noted that potential divestment of assets is not an option for certain asset classes or strategies (such as private equity/venture capital).
	Our response Firms must identify an escalation plan to be able to take action when assets do not demonstrate sufficient progress towards the sustainability objective and/or KPIs. Assets subject to such action remain within the 70%. However, firms must review and consider whether it remains appropriate to use a label at least annually. This applies across all labels. Our rules do not require divestment from assets as part of the escalation plan.

Summary of the key features of a Sustainability Impact label

- 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.
- As with all labels, firms must have and carry out an escalation plan in cases where assets are not demonstrating sufficient progress towards the sustainability objective.

Chapter 7

Naming and marketing

7.1 This chapter summarises the feedback received on the naming and marketing rules which apply to products made available to retail investors that do not use one of the labels. We proposed that these products would be restricted from using any sustainability-related terms in their product names and marketing. The requirements would not apply for the purposes of disclosing factual information in the pre-contractual disclosures, consumer-facing disclosures, or any other disclosure requirements the firm may be subject to.

7.2 We asked:

Q21: Do you agree with our proposed product naming rule and prohibited terms we have identified? If not, what alternative do you suggest and why?

Q22: Do you agree with the proposed marketing rule? If not, what alternative do you suggest and why?

Q23: Are there additional approaches to marketing not covered by our proposals that could lead to greenwashing if unaddressed?

Stakeholder feedback

7.3 A small minority of stakeholders – including consumer groups – agreed with our proposed approach to naming and marketing. They considered it to be a clear approach that would help consumers navigate the complex landscape and protect them from greenwashing. However, many stakeholders considered the approach to marketing in particular to be too constraining. We summarise the feedback and our response below.

Table 9

Aspect of our proposals	Stakeholder feedback and our response
General feedback	Some stakeholders agreed with our proposals for both naming and marketing, or naming alone, as they considered it would lead to a clear investment product landscape for consumers. Some stakeholders considered the anti-greenwashing rule, Consumer Duty, existing COLL rules and the Guiding Principles as sufficient requirements for firms to accurately name and market their products and did not agree with our proposals. Those stakeholders considered the proposals could hinder consumers' ability to differentiate between products and restrict consumer choice in products without a label. They were also concerned that firms may be discouraged from adopting sustainability-related investment approaches, firms could create other terms to describe their approaches, or that the proposals could lead to so called 'greenhushing' (where organisations hide their ESG credentials to avoid scrutiny and regulatory requirements). They were also concerned that there may be a disconnect between regulatory disclosures (which may include those terms if integral to the investment approach) and marketing, as well as a mismatch between disclosures for retail and institutional investors, and between UK and EU investors. Some stakeholders also asked us to consider the costs and timelines for updating existing products to meet our proposed requirements.
	Our response We recognise the strength of this feedback. It is important that consumers can navigate the market and find the products that meet their needs and preferences. This includes products that may not qualify for or use a label, but nevertheless have some sustainability characteristics. However, firms must accurately describe the sustainability characteristics of those products. Our final naming and marketing rules and guidance aim to strike the right balance. We have made some amendments so that firms can continue to use sustainability-related terms in product names and marketing (i.e. financial promotions) if they use a label or if they meet the product name, disclosure and statement conditions outlined in the summary below, Annex 2, and Appendix 1.

Aspect of our proposals	Stakeholder feedback and our response
Naming	Many stakeholders suggested that we continue to restrict the use of sustainability-related terms in product names but not marketing. Some stakeholders suggested that the terms 'sustainable' and 'impact' should be protected as they are used for labels, but that terms used to describe investment approaches like 'responsible' and 'exclusions' should not be restricted. Some asked whether terms like 'ethical', 'Socially Responsible Investing (SRI)', 'forestry' or synonyms to terms in our proposed list can be used. Others wanted a more comprehensive list including, for example, 'earth' and 'nature'. Some also said that passive funds need to be able to use index provider's product name in their own product, which may include terms like 'ESG'.
	Our response The name of a product is very important. We have made some amendments that enable firms to continue using sustainability-related terms in their names if certain conditions are met. These include producing certain disclosures and a statement to clarify that the product does not use a label and why (see the summary below, Annex 2 and Appendix 1). We have retained the non-exhaustive list of sustainability-related terms in the Handbook as a starting point. The list includes 'any other term which implies that a product has sustainability characteristics'. The naming rules are consistent with our Guiding Principles and anti-greenwashing rule. They specify that products using sustainability-related terms in their names must have sustainability characteristics and the name must accurately reflect those characteristics. We clarify in guidance that those characteristics should be material to the product ie, at least 70% of the product's assets. We continue to restrict the use of 'sustainable', 'sustainability' and 'impact' to products that use a label. In the case of passive funds, fund managers could choose not to name their product after the index it tracks if it does not meet our requirements, or should satisfy itself that the index name meets the requirements. *Ethical* We recognise that 'ethical investing' is a common approach, and we want consumers to be able to identify all products that meet their needs and preferences, including where those needs and preferences may be to invest in line with their individual ethics and values. In our consultation, we clarified that values-based investing is different to investing with an aim to achieve positive environmental and/or social outcomes. However, where an 'ethical' investment product has and markets sustainability (environmental and/or social) characteristics, it would be in scope of our naming and marketing requirements.

Aspect of our proposals	Stakeholder feedback and our response
Marketing	Many stakeholders asked for the rules to allow factual and proportionate use of sustainability-related terms in marketing. They said firms must be able to describe sustainability-related investment approaches, activities, and reporting using terms such as 'responsible', 'ESG integration', 'ESG index-tracking strategies', 'engagement', 'governance', 'net zero commitments', 'TCFD reporting', and 'UK Stewardship Code reporting'. Some stakeholders suggested that products using sustainability-related terms without a label could include a disclaimer to clarify that the product does not have a label. Some stakeholders asked about the impact on overseas funds, particularly those classified as Article 8 and 9 under SFDR, and some asked that we remain consistent with approaches in the EU and US which have not proposed marketing restrictions. Some stakeholders asked for examples of good and poor practice.
	Our response Firms should be able to accurately describe their products so that consumers are able to navigate to those that meet their needs and preferences. So, we have made amendments to the requirements so that firms can continue to use sustainability-related terms in their marketing if certain conditions are met. These include producing certain disclosures and a statement to clarify that the product does not use a label and why (see the summary below, Annex 2 and Appendix 1). Firms must comply with the anti-greenwashing rule and other financial promotions rules when using the terms, and we encourage firms to consider proposed guidance in GC23/3. The naming and marketing rules only apply when the sustainability-related terms are being used for products marketed to retail investors. They only apply when referring to sustainability characteristics and do not preclude firms from using the terms in other contexts, such as to describe the 'economic climate' or 'financial impact'. They also do not apply when firms are making short, factual, non-promotional statements about a product, such as when making a statement about who is 'responsible' for providing services in relation to a product, or stating that 'Firm X produces its sustainability product reports annually'. We continue to work with HMT on its approach to overseas funds.

Summary of key features of the naming and marketing rules

- All FCA-authorised firms are subject to the anti-greenwashing rule which requires that sustainability-related claims must be clear, fair and not misleading. This is consistent with the Consumer Duty's 'consumer understanding' outcome and forms the foundation of our naming and marketing rules for asset managers as well.
- Sustainability-related terms can only be used in product names and marketing if:
  - they use 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 product's name, or
  - they do not use a label but comply with the the 'Product name' and 'Marketing' sections below.

Product name

- The product must have sustainability characteristics and the product's 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 a labelled product.
- Firms must also produce and prominently publish a statement (on the relevant digital medium for the product and in the product-level disclosures) to clarify that the product does not have a label and the reasons why.
- In the case of a feeder fund, the product must only include in its name terms which are consistent with those used by the relevant master fund and the asset manager must provide clients with easy access to the disclosures referred to above, and produce the relevant statement.

Marketing

- Firms must produce the same disclosures and statement as those required when sustainability-related terms are used in the name of a product.
- In the case of a feeder fund, firms must meet the same conditions as when sustainability-related terms are used in the name of the product (above).

Chapter 8

Disclosures

8.1 We consulted on a tiered approach to disclosures, providing accessible information to retail investors and further detail to those who want to know more. We proposed the following disclosures:

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

Consumer-facing disclosures

8.2 We proposed that firms produce consumer-facing disclosures summarising the product's key sustainability characteristics. This would help consumers to understand those characteristics and compare similar products. We proposed that the consumer-facing disclosure would be produced by firms for all products, including those which were not engaged in sustainability-related strategies.

8.3 The disclosure would be provided in a new, standalone document, alongside other documents that provide key investor information. We did not propose a specific template for the information but, to promote consistency, we set out the categories of disclosures that firms would be required to make.

8.4 We asked:

Q11: Do you agree with our proposed approach to disclosures, including the tiered structure and the division of information to be disclosed in the consumer-facing and detailed disclosures as set out in Figure 7?

Q13: Do you agree with our proposals for consumer-facing disclosures, including location, scope, content and frequency of disclosure and updates? If not, what alternatives do you suggest and why?

Q14: Do you agree with the proposal that we should not mandate use of a template at this stage, but that industry may develop one if useful? If not, what alternative do you suggest and why?

Table 10

Aspect of our proposals	Stakeholder feedback and our response
General comments	Most stakeholders broadly agreed with our proposed tiered approach to disclosures. Some said that too much information is difficult for consumers to absorb, while greater standardisation – particularly around metrics – could promote comparison. Many other comments were consistent with those captured in other areas of feedback, including in relation to 'do no harm', the importance of clear definitions, and sequencing.
Location	Most stakeholders said that the consumer-facing disclosure should not be in a standalone document and asked how our proposals are aligned to the broader HMT review of the UK Retail Disclosure regime. Many stakeholders would prefer to include the information in the Key Investor Information Document (KIID) and ensure consumers can directly compare other important non-sustainability disclosures, such as charges and risk profiles. A few stakeholders raised concerns about the proposals resulting in multiple documents for consumers to read.
	Our response We have not amended our requirements in relation to the form and location of the consumer-facing disclosure. The consumer-facing disclosure must be in a standalone document, presented in a prominent place on the product webpage, app or other digital medium, alongside other key investor information. This may be achieved by co-locating the documents on product pages and ensuring clear signposting from the consumer-facing disclosure to the relevant document. Our consumer research showed that having a separate document to explain sustainability characteristics improved consumer comprehension. We have also specified the types of information that must be included in the disclosure to help address the current lack of consistent and accessible sustainability-related information. However, we have not prescribed a template (see below). We have sought to balance principles with prescription on key elements in the consumer interest where it is meaningful. This should help to improve consumer understanding of the sustainability characteristics of products and hence decision-making. We continue to stay closely engaged with work under the Future Disclosure Framework to ensure compatibility of requirements. As the framework develops, we will consider how best to facilitate consumers being able to make a holistic, decision-useful, evaluation of a product offering – ensuring information on ESG factors and sustainability is considered alongside other risks and costs.

Aspect of our proposals	Stakeholder feedback and our response
Scope	The majority of stakeholders agreed that consumer-facing disclosures should be produced for products with a label. However, they considered that producing disclosures for non-labelled products would be an unnecessary burden and cost, as information may not be relevant for consumers. As captured under the feedback for marketing in Chapter 7, some stakeholders suggested there could instead be a disclaimer that the product does not have a label.
	Our response We acknowledge that it may not be proportionate at this stage for products not using sustainability-related terms in their names and marketing to have a consumer-facing disclosure. So, our final rules only require consumer-facing disclosures for labelled products and products using sustainability-related terms in their naming and marketing (with the exception of where terms are used to make short, factual, non-promotional statements in marketing materials). Consumer-facing disclosures for products not using labels but with sustainability-related terms in their names or marketing must include a statement to clarify that the product does not have a label. Our consumer research indicated that consumers would find it helpful to know this information.
Content of disclosures	Most stakeholders broadly agreed with the content of disclosures. Some stakeholders considered the information may be too complex for consumers, and some believed it may therefore be difficult to restrict the disclosures to 2 pages. A few stakeholders also commented on the importance of clear and consistent terminology. Most stakeholders disagreed with the 'unexpected investments' category. Some said it is open to interpretation or that consumers may not have a clear idea of what is 'unexpected', and there may be negative associations with the word. Some noted that assets should be in line with the product's objective and there should therefore be no need for this category. Other comments included that we should provide guidance on sectors or themes that may be considered 'unexpected', and that it may be difficult to keep up to date due to changes in the portfolio or external environment.
	Our response We have made a few amendments to the categories of disclosures that must be made. There is no longer a separate category of 'unexpected investments', but the disclosure must include, under the sustainability approach, details of any types of assets held for reasons other than to pursue the sustainability objective and why these are held. Firms must also disclose any material negative environmental and/or social impacts that may arise (or have arisen) in pursuing the sustainability objective. This approach should provide the needed clarity to consumers about what the product is invested in, as per our latest consumer research, without explicitly referring to 'unexpected' investments. Where a 'sustainability mixed goal' label is used, the disclosure must include details of the proportion of assets invested in accordance with each relevant label. Where a product without a label uses sustainability-related terms in naming and/or marketing, we have specified the minimum information required (see Annex 2).

Aspect of our proposals	Stakeholder feedback and our response
Frequency of disclosures and updates	Stakeholders broadly agreed with the proposal for reviewing and updating disclosures on an annual basis, with some stakeholders proposing some flexibility to align with annual year-end dates for funds and having regard to data availability throughout the year. However, some disagreed with the proposal to notify investors sixty days in advance prior to a change in the disclosure and proposed that we align with existing rules on notifications based on materiality.
	Our response In our final rules, we specify that firms must review and update the consumer-facing disclosure at least every 12 months. We have also simplified the notification requirements so that firms using labels notify their clients of changes (eg, revising or ceasing to use a label) and update their consumer-facing disclosures as soon as reasonably practicable.
Template	The majority of stakeholders agreed with our proposal not to provide a template at this stage, but that it may be helpful for industry to develop one. Some noted challenges with more prescriptive templates from other initiatives, such as SFDR, although some felt a mandatory template could be helpful now or in the longer term to support standardisation. Most stakeholders nevertheless agreed that, at this stage, we should specify the types of information to disclose to ensure standardisation and compatibility, and said this approach would still allow flexibility to account for the range of products and asset classes. Stakeholders asked how an industry-led template could be developed and some offered to help or encouraged multiple organisations to produce it. However, a few stakeholders felt that an industry template could be complex and costly, with the need to evolve over time.
	Our response We have not added a template for the consumer-facing disclosure but continue to set out the categories of disclosures that firms must make. This will help promote a consistent flow of information but still provide firms with flexibility in presenting the information. We also continue to encourage development of an industry-led template and industry collaboration on best practice.

Box 1. Consumer research

To inform our consultation, we carried out behavioural research with 15,000 participants to assess how well product classification, labelling and disclosures may help consumers navigate the market. We have carried out some further in depth qualitative consumer research with around 45 participants to focus on some key aspects of our final rules, including the introduction of the mixed label and disclosures. Our research found that consumers supported the idea of the labelling regime and understood the regime with 4 labels. We sought views on the name of the new label and found that names including 'Goals', such as 'Sustainability Mixed Goals', were clearer and better understood by participants.

Overall, participants responded positively to the labels and felt that the consumer-facing disclosure was important to help them understand what the labels meant. It was also clear that consumer education is important for consumers to understand that firms – rather than the FCA – are responsible for assessing their products against the criteria to use a label. We have developed a webpage which includes more detail on the regime for consumers.

We have published an executive summary of the consumer research.

Summary of key features of the consumer-facing disclosures

- Firms must produce a clear, concise consumer-facing disclosure for i) products with a label and (ii) or products using sustainability-related terms without a label.
- It must be located in a prominent place on the relevant digital medium (eg, webpage, mobile app) through which the product is offered, and hard copies must be made available on request. It must not exceed 2 pages.
- The disclosure must include the following information:
  - either the product's sustainability objective and label, or the statement to clarify that the product does not have a label;
  - the investment policy and strategy (including what the product will and will not invest in);
  - relevant metrics;
  - details of where a consumer can access other relevant sustainability and non-sustainability information; and
  - for the 'Sustainability Mixed Goals' label only, the proportion of assets invested in accordance with each of the other relevant labels.
- It 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.

Detailed product-level disclosures

8.5 We proposed the following detailed product-level disclosure requirements, aimed at institutional investors and retail investors who may want more information:

- Pre-contractual disclosures made in either a fund prospectus, prior information document, or 'Part A' of a sustainability product report, as relevant;
- Ongoing product-level disclosures made in Part B of a sustainability product report; and
- On-demand information that certain firms must provide on request to eligible clients

8.6 We proposed that firms using a label would be required to produce these disclosures, and the information disclosed would be associated with the general and specific labelling criteria. We also proposed that where products without a label have sustainability characteristics that are integral to their investment policy and strategy, those features must be disclosed in the relevant pre-contractual documents.

8.7 We asked:

*Q15: **Do you agree with our proposals for pre-contractual disclosures? If not, what alternatives do you suggest and why? Please comment specifically on the scope, format, location, content and frequency of disclosure and updates.***

*Q16: **Do you agree with our proposals for ongoing sustainability-related performance disclosures in the sustainability product report? If not, what alternative do you suggest and why? In your response, please comment on our proposed scope, location, format, content and frequency of disclosure updates.***

*Q17: **Do you agree with our proposals for an 'on demand' regime, including the types of products that would be subject to this regime? If not, what alternative do you suggest and why?***

Table 11

Aspect of our proposals	Stakeholder feedback and our response
General feedback	Stakeholders broadly agreed with our proposals and many of the comments have been captured earlier in this PS (eg, information relating to 'do no harm' and 'unexpected investments', sequencing with corporate reporting).

Aspect of our proposals	Stakeholder feedback and our response
Pre-contractual disclosures and ongoing sustainability -level disclosures	Stakeholders broadly agreed with the proposals. We also received requests for us to take a proportionate, non-prescriptive approach, and to align or allow cross-referencing with SFDR and other existing product-level disclosure requirements. In relation to pre-contractual disclosures, some stakeholders considered that our investment policy and strategy requirements could result in lengthy disclosures, and did not agree that sustainability-related disclosures should be in a separate section of the pre-contractual materials. Some also felt that pre-contractual disclosures for investor stewardship could become a tick-box exercise. Some also noted that updating pre-contractual materials annually would be onerous.
	Our response We are proceeding with the disclosure requirements, with some amendments to reflect changes to the requirements and wording of the qualifying criteria for labels. To avoid undue disclosure burden, firms are able to cross-reference to relevant information from their ongoing product-level disclosures, such as to Stewardship Code reporting, provided that the information is relevant and clearly signposted. We have also clarified that pre-contractual materials do not need to be updated annually, but must be updated as soon as reasonably practicable when revising or ceasing to use a label. We no longer require disclosures relating to the investment policy and strategy to be in a separate section of the pre-contractual materials, provided that the disclosures are clearly identifiable.
Data, metrics	Stakeholders noted potential challenges regarding data availability and/or quality. Suggestions to address these included allowing qualitative disclosures on progress towards the sustainability objective, mandating reporting on data quality, disclosing data 'as far as able' and introducing a safe harbour for KPI disclosures. Some stakeholders asked for reporting against the UK Green Taxonomy (once developed) and for all products to report in line with the ISSB standards.
	Our response We have not amended our requirements relating to data. Firms using labels must take reasonable steps to ensure the data used for KPIs is accurate and complete. All firms disclosing KPIs or other metrics may use proxies and assumptions to address data gaps. Firms may also choose to disclose data quality metrics to provide transparency on the proportion of the product for which data are verified, reported, estimated or unavailable. We have not added any requirements for all products to disclose a baseline of metrics. We will however consider updating product-level disclosure requirements in line with UK and international developments, such as the UK Green Taxonomy and future ISSB standards.

Aspect of our proposals	Stakeholder feedback and our response
On demand	We received mixed views, including requests to clarify how the rules apply to different types of firm and comments that the approach may be disproportionate for smaller firms. Rather than requiring firms to respond to client requests, stakeholders suggested requiring annual disclosure, aligning with existing reporting periods, or allowing the firm to develop its own reporting cycle. Some also sought clarification on whether disclosures could be requested for all products – with or without a label.
	Our response We are proceeding with the on-demand sustainability information requirements broadly unchanged, except for small updates to reflect the implementation timeframe of the regime. The rules apply in respect of UK Alternative Investment Funds (AIFs) not listed on a recognised exchange, and we will consult on the application of the regime to portfolio management services in early 2024. As with on-demand requirements under our climate-related disclosure rules, firms can either provide information as at an agreed calculation date with the client, or select the most recent calculation date for which up-to-date information is available.

Summary of detailed product-level disclosure requirements:

- All products 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 (from the date the label is first used or by 2 December 2024 for products using the terms without a label), and
  - ongoing product-level disclosures annually (after 12 months from either the date the label or terms are used)
- For products using a label, the information that must be disclosed is broadly associated with the qualifying criteria for the labels.
- For products 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.
- For the 'Sustainability Mixed Goals' label only, the disclosures must include the proportion of assets invested in accordance with each of the relevant labels, and the information required in relation to those labels.

Entity-level disclosures

8.8 We proposed that all asset managers with AUM above £5 billion (regardless of whether they use a label or sustainability terms) must produce disclosures 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. To help firms determine the content of disclosures that may be useful for clients and consumers, we also proposed to add Handbook guidance referencing the ISSB's sustainability disclosure standards (IFRS S1) and Sustainability Accounting Standards Board (SASB) standards.

8.9 We asked

*Q18: **Do you agree with our proposals for sustainability entity report disclosures? If not, what alternatives do you suggest and why? In your response, please comment on our proposed scope, location, format, content, frequency of disclosures and updates.***

*Q19: **Do you agree with how our proposals reflect the ISSB's standards, including referencing UK adopted IFRS S1 in our Handbook Guidance once finalised? If not, please explain why?***

Table 12

Aspect of our proposals	Stakeholder feedback and our response
Sustainability-related financial reporting	Many stakeholders noted that in building from TCFD requirements, disclosures would focus on sustainability-related financial reporting. Many requested that we require firms to disclose their wider impacts on the environment and society as well, particularly given the labelling regime focuses on products that aim to achieve positive outcomes for the environment and/or society.
	Our response We agree that disclosure of firms' impacts on the environment or society would be useful for clients and consumers. So, we have added a Handbook guidance provision stating that firms should consider disclosing their impact on the environment and/or society, having regard to the Global Reporting Initiative (GRI) Standards. We have also referenced the GRI Standards in guidance that may be relevant to firms when determining the content of their disclosures. While we have only referenced the GRI's Universal Standards, we encourage firms to consider the Topic Standards and new Sector Standards that are being developed, as relevant.

Aspect of our proposals	Stakeholder feedback and our response
Alignment	Many comments referred to the interactions between other reports (eg, TCFD disclosures, PRI reporting, TPT, ISSB, SFDR) and requested that information is aligned with, replicated or cross-referred from those reports. Some also requested that we consider interactions between initiatives more broadly, including the Glasgow Financial Alliance for Net Zero (GFANZ), Race to Zero, and the UN SDGs. Some stakeholders considered sustainability reporting at entity-level may be premature and potentially burdensome, so suggested a phased introduction, waiting until there is more demand, or delaying until the ISSB standards are in place. Others called for ISSB standards to be adopted at pace or recommended that the timing for adopting ISSB standards does not impact the timing of SDR requirements. Some stakeholders asked how asset managers should use the ISSB standards.
	Our response We have referenced the ISSB, SASB and GRI standards as documents to consider when firms are determining the content of their disclosures. However, as the ISSB and GRI standards are designed for corporate reporting, we only envisage asset managers using the standards as a starting point when considering the types of sustainability-related information that would be decision-useful to clients and consumers. We do not expect asset managers to disclose each line item set out in these standards. These entity-level disclosure requirements are a starting point, setting the direction of travel from climate to wider sustainability-related reporting. We encourage the development of industry-led guidance which further specifies the types of information that may be useful for asset managers to disclose. Other frameworks, such as the Taskforce on Nature-related Financial Disclosures, may also be useful.

Aspect of our proposals	Stakeholder feedback and our response
Scope and content	Stakeholders also sought clarifications on matters relating to scope (eg, thresholds calculations), interaction between product and entity-level sustainability reports, and matters relating to specific sectors, asset classes or sustainability topics. Some also suggested that we introduce additional requirements, such as disclosures on funding/lobbying of non-sustainable funds, and proportion of AUM that have labels.
	Our response We have not made any changes to the scope of these requirements or any further changes to the content. We continue to encourage smaller firms with under £5 billion AUM to produce disclosures voluntarily, and we will consider whether to amend the threshold as part of our post-implementation review of climate-related disclosures. We have also made small amendments to clarify that both firms using labels and those using sustainability-related terms in their product names and marketing must include information on resources, governance and organisational arrangements relating to their sustainability objective and/or investment policy and strategy, as relevant, in their sustainability entity report.

Summary of entity-level disclosure requirements:

- Consistent with the TCFD's (and ISSB's) 4 pillars, firms are required to disclose their governance, strategy, risk management, and metrics and targets in relation to managing sustainability-related risks and opportunities.
- The TCFD's supplementary guidance for asset managers, IFRS sustainability disclosure standard (IFRS S1), the SASB Standards and GRI Standards are documents that may be relevant for firms to help determine what to disclose.
- Where firms use labels or sustainability-related terms in their product names and marketing, they must also include details on their resources, governance and organisational arrangements in relation to those products.
- All firms with over £5 billion AUM must make these disclosures annually in a sustainability entity report, which builds from the TCFD entity report.
- 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.

Chapter 9

Distributors

9.1 Distributors have a significant role to play in communicating sustainability-related information to consumers along the investment chain. We proposed that distributors (such as 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 products, alerting retail investors that the product is based overseas and is not subject to the UK labelling and disclosure requirements.

9.2 We asked:

Q24: Do you agree with our proposals for distributors? If not, what alternatives do you suggest and why?

Stakeholder feedback

9.3 Most stakeholders broadly agreed with our proposals. We summarise the feedback and our response below:

Table 13

Aspect of our proposals	Stakeholder feedback and our response
Practical considerations and scope	Stakeholders asked for clarification on practical considerations, such as where and how distributors should provide retail investors with access to the labels and disclosures (particularly where distributors do not have a website). They also asked us to clarify the interactions and division of responsibilities between distributors and other firms, such as manufacturers and portfolio managers, as well as how to treat adviser-arrangers or advisers that build portfolios/fund selections.
	Our response We have made an amendment to clarify that distributors can communicate the labels and consumer-facing disclosures (for both labelled products and products using sustainability-related terms without a label) using the channel that they would ordinarily use to communication to their customers if they do not use websites, mobile apps or another digital medium. We have not added any further prescription regarding practical considerations, as these are likely to vary among different distributors. We remind distributors of their existing requirements, including those in the PROD Sourcebook and under the Consumer Duty, as relevant. The final rules in Appendix 1 clarify which rules and guidance apply in respect of firms that are 'distributors' and firms that are fund 'managers'.

Aspect of our proposals	Stakeholder feedback and our response
Notice on overseas products	We did not receive many comments on the notice for overseas products. Some stakeholders asked whether firms could use the labels voluntarily for overseas funds. Separately, some queried whether distributors are best placed to determine whether overseas funds are eligible for a label. Our consumer research found that consumers consider the notice to be clear and helpful (see Box 1).
	Our response We have made a small amendment to the notice for overseas products to change 'FCA' to 'UK'. This is to avoid any potential misconception among consumers that the FCA has approved the labels on products that use them. We provide information on the regime for consumers in our consumer-facing webpage. We have clarified that distributors must ensure the notice is placed on overseas products by 2 December 2024.
Advisers	Some comments focused on the role of advisers within the overall regime. Some stakeholders asked us to introduce or clarify suitability rules as soon as possible. We also received several suggestions for matters to take into account or clarify. This included whether advisers are expected to understand the labelling regime, qualification requirements, interaction between existing rules and expectations such as MiFID II suitability and governance rules, or Know Your Customer expectations.
	Our response We continue to explore how to clarify our expectations for advisers around taking sustainability matters into account in investment advice and suitability. We are conscious of the need to be proportionate given the different sizes of advisers. We plan to establish an independent working group for the advice industry to help build on existing capabilities in sustainable finance, including how the SDR and labels support their role. While the consumer-facing disclosures have been designed for consumers, they should also help advisers to better understand the sustainability characteristics of investment products.

Summary of requirements on distributors:

- Distributors must communicate the labels and provide access to 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.
- They must keep the labels and consumer-facing disclosures up to date with any changes that the firm makes to a label or the disclosures.
- Distributors must also include a notice on overseas products (ie, recognised schemes – including Exchange Traded Funds) to clarify that they are not subject to the UK sustainable investment labelling and disclosure requirements.
- The notice must be (i) in a prominent place on the relevant digital medium, along with a link to the FCA webpage setting out more information for consumers, or (ii) communicated via the channel the distributor would ordinarily use.

Chapter 10

Scope of the regime

10.1 We proposed to introduce the anti-greenwashing rule for all FCA-authorised firms.

10.2 We also proposed specific rules for UK asset management firms (ie, those managing Undertakings for Collective Investment in Transferable Securities (UCITS) and AIFs, and carrying out portfolio management) and distributors of their products to help consumers navigate the market and make better informed decisions.

10.3 We stated our intention to expand the scope to other investment products in due course and that we will continue to work with HMT to consider options for how to treat overseas products.

10.4 We asked:

> *Q1:* ***Do you agree with the proposed scope of firms, products and distributors under our regime? If not, what alternative scope would you prefer, and why?***

Stakeholder feedback

10.5 Stakeholders broadly agreed with the proposed scope, with some of the comments already captured in other chapters – including those in relation to portfolio management and distributors.

10.6 We summarise the feedback and our response below:

Table 14

Aspect of our proposals	Stakeholder feedback and our response
General	Stakeholders broadly agreed with the proposed scope. Some of the comments, including in relation to portfolio management and advisers, have been captured in other chapters.
	Our response We are proceeding with the rules for UK funds as a starting point and intend to consult on applying the rules to UK portfolio managers in early 2024.

Aspect of our proposals	Stakeholder feedback and our response
Overseas products	While we did not seek views on whether overseas funds should be in scope, many stakeholders asked how these funds would be treated. Many also asked for these funds to be brought into scope at the same time as UK funds or as soon as possible, or through an opt-in mechanism. Excluding overseas funds was seen by some as potentially creating an uneven playing field and a competitive advantage for non-UK funds, as well as confusion for consumers who would receive different types of information depending on where a product is based.
	Our response We have made some amendments within the rules to clarify that they only apply in respect of UK firms and products. However, we continue to work with HMT on the approach to overseas funds.
Pension and other investment products	Some stakeholders wanted a broader range of, if not all, investment products to be in scope. Several stakeholders suggested that the regime should apply to pension products at the same time as funds and portfolios, and asked how to treat pensions invested into a labelled fund, or whether they could opt in to the regime. We were also asked whether or when other types of product, such as a structured products, credit funds/leveraged finance, charity funds, sovereign wealth, products funding Voluntary Carbon Credits/Markets (VCC/VCM) and others would be in scope.
	Our response We will continue work to develop proposals for pensions products and insurance-based investment products in the medium term, engaging with the Department for Work and Pensions (DWP) and The Pensions Regulator (TPR). In addition, we are continuing our work to explore how to clarify our expectations for advisers regarding product suitability. We will continue to monitor developments to determine whether to expand the scope any further. The rules prohibit firms and products that are not in scope from using the investment labels. Where out-of-scope products are invested in products that use a label (eg, a pension product invested in a labelled product, or a mirror fund of an authorised fund), firms must comply with our anti-greenwashing rule and other existing requirements to ensure any marketing and communication about that product is fair, clear and not misleading.

Aspect of our proposals	Stakeholder feedback and our response
Feeder funds	Some stakeholders requested that feeder funds are brought in scope of the regime and able to use the labels, as feeder funds are marketed to retail investors.
	Our response We agree that feeder funds (including feeder AIFs, feeder UCITS, feeder Long Term Asset Funds (LTAFs) and feeder Non-UCITS Retail Schemes (NURS)) should be able to use the labels that their in-scope master fund uses. So, we have amended our rules to allow feeder funds to use a label where the predominant purpose of the feeder is to reflect the sustainability objective of the master fund. The feeder fund can only use the same label as the relevant master fund, and must keep the use of the label up to date with any changes the master fund manager makes. The feeder fund manager must also meet general requirements for use of a label such as use of the FCA graphic, record-keeping, and notifying the FCA and publication (see Appendix 1), and provide clients with access to relevant disclosures produced by the master fund. Feeder funds not using a label must only use the same sustainability-related terms in their name and marketing as their master fund and meet certain requirements – including providing clients with access to disclosures produced by the master fund, and adding the relevant statement to clarify that the product does not have a label and why.
Fund of funds	In addition to the feedback we received relating to portfolio management (see Chapter 3), stakeholders asked how the regime should apply to a 'fund of funds' (ie, a fund that invests in other funds). Some stakeholders commented that, as these are authorised funds, they should be treated as such.
	Our response Our rules do not set out any specific requirements for a 'fund of funds'. Where a fund in scope of the regime invests in other funds, those funds will be treated as 'assets'. The rules apply as usual to the authorised fund, so the firm can apply the labelling criteria and must make the associated disclosures, or comply with the naming and marketing requirements.

Aspect of our proposals	Stakeholder feedback and our response
Other clarifications	Stakeholders also requested: • for closed-ended AIFs to be out of scope • clarification on whether listed investment trusts are in scope of naming and marketing rules by virtue of being listed, regardless of whether they have retail clients • clarification relating to how interactions between overseas funds or firms doing business in the UK, or UK firms or funds doing business overseas should be treated
	Our response • Closed-ended AIFs under regulation 74 of the Alternative Investment Fund Managers Directive (AIFMD) UK Regulation (ie, those that are closed-ended and make no additional investments after 22nd July 2013) are exempt from the definition of a sustainability product • Listed investment trusts are in scope of the naming and marketing rules to the extent that the product is listed and marketing sustainability characteristics to prospective retail clients • Overseas funds and firms are not in scope. The rules only apply to UK firms and their UK-domiciled products marketed in the UK. Entity-level disclosure rules apply to UK firms, capturing their approach to managing sustainability risks and opportunities in respect of UK and overseas funds managed from the UK.

Summary of firms and products in scope of the regime

Table 15

Firm	Product	Element of the regime
Asset Managers (referred to in Appendix 1 as 'managers'): • in relation to an Authorised Unit Trust scheme (AUT), the manager of the AUT in accordance with the trust deed; • in relation to an Open-ended Investment Company (OEIC) which is a UK UCITS or an AIF, the person appointed to manage the scheme; • in relation to an Authorised Contractual Scheme (ACS), the ACS manager; • in relation to an Investment Company with Variable Capital (ICVC) which has not appointed a person to manage the scheme, the company; • Full-scope UK AIFMs; • Small authorised UK AIFMs	• Authorised funds (including a 'fund of funds' and master funds. See requirements for feeder funds below) • Unauthorised AIFs* listed on a recognised exchange, including investment trusts • Unauthorised AIFs* not listed on a recognised exchange *except for non-UK AIFs, closed-ended AIFs that make no additional investments after 22 July 2013, Social Entrepreneurship Funds (SEFs) and Qualifying Venture Capital Funds (RVECAs)	**Labelling:** general requirements for use of a label and qualifying criteria **Product-level disclosures:** produce and publish consumer-facing, pre-contractual and ongoing product-level disclosures: • Listed unauthorised AIFs produce public disclosures, and • Non-listed unauthorised AIFs produce disclosures on demand **Naming and marketing:** requirements for use of sustainability-related terms in naming and marketing, associated disclosures and statement

Firm	Product	Element of the regime
Managers of feeder funds	Feeder funds	**Labelling:** only permitted to use the label that the relevant master fund uses, and most of the general requirements for use of a label apply **Product-level disclosures**: provide retail clients with easy access to the product-level disclosures produced by the relevant master fund **Naming and marketing:** requirements to use the same sustainability-related terms in naming and marketing that the master fund uses, provide clients with access to associated disclosures produced by the relevant master fund, and, where sustainability-related terms are used without a label, produce a statement explaining why
All in-scope managers with AUM above £5 billion	All in-scope products above	Entity-level disclosures
Distributors	All in-scope products above and recognised schemes (incl. Exchange-Traded Funds (ETFs)) marketed to retail clients	Communicate labels and consumer-facing disclosures Notice on overseas products

Chapter 11

Implementation and operationalising the regime

11.1 In this chapter, we set out the feedback and our response on the implementation and operationalisation of the regime.

Implementation of the regime

11.2 Our proposals sought to balance the need to move quickly to achieve our outcomes while giving firms sufficient time to prepare for the new rules. We proposed that:

- the anti-greenwashing rule would come into force immediately;
- labelling, naming and marketing, consumer-facing and pre-contractual disclosure requirements and rules for distributors would become effective 12 months after publication of the PS, and firms would be required to make the first ongoing product-level disclosures 24 months after publication;
- entity-level disclosures would be staggered with the largest firms making their first disclosures 24 months after publication of the PS.

11.3 We asked:

Q2: Do you agree with the proposed implementation timeline? If not, what alternative timeline would you prefer, and why?

Stakeholder feedback

11.4 We received mixed feedback on all of the implementation periods, some of which has already been captured in other sections – including timelines for bringing overseas funds, pensions and advisers into scope. We summarise the feedback received and our responses below.

Table 16

Aspect of our proposals	Stakeholder feedback and our response
Implementation	Some stakeholders agreed with the proposals, while some asked for the rules to come into force earlier. Some suggested a roadmap would be helpful. However, we also received some requests (mainly from firms) for us to allow more time for implementation. Stakeholders suggested that the anti-greenwashing rule should apply after 6-12 months, and labelling, disclosures and naming and marketing rules should apply after 18-24 months. They cited reasons such as data collection and analysis, necessary shareholder approvals, and consumer notifications. Some suggested a phased approach for smaller firms or a gradual implementation that takes into account interactions with corporate reporting requirements to ensure data availability. Some stakeholders asked whether firms could use the labels earlier than 12 months after the publication of the PS and encouraged 'early adopters'. Some stakeholders also asked for clarity on the FCA's process and timelines for approving changes to product documentation. Some suggested that firms could fast track the approval process through grandfathering clauses, or that some of the rules should be disapplied until FCA approval is complete. Some also noted that depositaries need sufficient time to review fund applications.
	Our response We are proceeding with a staggered implementation timeline that aims to balance the need to address potential harm as early as possible, while acknowledging the time firms of all types and sizes may need to operationalise the requirements. Our implementation timeline is outlined in Table 17 below.
Reporting deadlines	Some respondents asked for the reporting dates to align with either the calendar year, financial year or other reporting dates such as those under SFDR.
	Our response Firms using labels may choose when, after 31 July 2024, to use a label and align their disclosures accordingly. For firms producing disclosures without labels, firms may choose to publish disclosures earlier than the 2 December deadline to align with their existing reporting periods, or change their reporting deadline after the first year of reporting (provided that there is no period of time left uncovered, publishing an interim disclosure or report where needed).

Summary of implementation timeline

Table 17

Element of the regime	Timelines	
All firms		
Anti-greenwashing rule	31 May 2024	This gives all firms additional time to consider the guidance that we are consulting on Guidance Consultation (GC23/3)
Firms using product labels		
Labels, consumer-facing, pre-contractual disclosures and naming and marketing rules	From 31 July 2024	This allows firms that are ready to use labels earlier than 12 months after the PS is published to do so. Consumer-facing and pre-contractual disclosures must be published at the same time as the label is first used, and relevant naming and marketing rules must be met
Ongoing product-level disclosures	From 31 July 2025 (public) From 2 December 2025 (on demand)	Ongoing product-level disclosures must be either (i) published 12 months after the label is first used and annually thereafter, or (ii) provided to eligible clients on demand from 2 December 2025
Firms using sustainability-related terms without product labels		
Naming and marketing rules, consumer-facing and pre-contractual disclosures	2 December 2024	This allows a 12-month implementation period to produce relevant disclosures and statements. Firms must still comply with the anti-greenwashing rule from 31 May 2024.
Ongoing product-level sustainability disclosures	From 12 months after the terms are first used	Ongoing product-level disclosures must be produced annually
Distributors		
Labels, consumer-facing disclosures, notice on overseas funds	From 31 July 2024 (where firms are using labels) 2 December 2024 (notice on overseas funds)	The notice on existing overseas funds must be included by 2 December 2024.
Firms with above £5 billion in AUM		
Entity level disclosures	2 December 2025 (largest firms) 2 December 2026 (smaller firms)	The rules apply to larger firms (asset managers with above £50 billion in AUM) first and to smaller firms (with above £5 billion in AUM) one year later

Operationalising the regime

11.5 We set out proposals for the operationalisation of product classification and labelling. We proposed that in-scope firms wanting to apply a label to their product must ensure they meet the qualifying criteria, make the associated disclosures, review categorisation annually, retain records of this, and notify investors if use of the label changes. Independent verification of labels would not be mandatory.

11.6 We also proposed requirements for the use of a graphic associated with each label and for firms to notify us via a dedicated mailbox when they use a label. We explained that the graphics would be trademarked and set out on the FCA website.

11.7 We asked:

Q10: Does our approach to firm requirements around categorisation and displaying labels, including not requiring independent verification at this stage, seem appropriate? If not, what alternative do you suggest and why?

Table 18

Aspect of our proposals	Stakeholder feedback and our response
Categorisation and displaying the labels.	Stakeholders broadly agreed with the proposals to display and use the graphic for products with a label. A few stakeholders raised specific questions, such as how the label should be used in non-digital mediums and whether consumers may interpret the graphic as being endorsed by the FCA. A few stakeholders also asked for more guidance on how firms should determine if they meet the criteria.
	Our response While we will still set out the labels on the FCA website and the ability to download the graphic will be connected to the notification process. For products that use a label, the graphic must be used when displaying the label and in the consumer-facing and detailed product-level disclosures. Firms can only use the FCA graphic. We recognise that it may not be practicable to use the graphic in all circumstances (eg, when communicating the label in non-digital mediums, or taking into account specific client needs or accessibility requirements). To ensure consumers correctly understand what the labels represent, we will focus on consumer understanding through our communications and engagement, along with information on the FCA website.

Aspect of our proposals	Stakeholder feedback and our response
Notification on use of a label	We received little feedback on this proposal. However, comments included those seeking clarity on what information should be included in the notification and querying whether the notification would be covered by the existing process to submit an application/amendment form.
	Our response Rather than a dedicated mailbox, we are introducing a form on our online notification and applications system for firms to notify us before using a label, or as soon as reasonably practicable after. The notification will include what label is being used, the start date, and the Product Reference Number (PRN). We will also require firms to notify us before or as soon as reasonably practicable after they revise or stop using a label, through the same form.
Not requiring independent verification	The majority of stakeholders agreed with our proposals that independent verification of labelling would not be required at this stage, as this would be costly and potentially disadvantage smaller firms, and firms' compliance teams would ensure labels are used appropriately. However, some stakeholders were concerned about the risk of firms incorrectly classifying products, and asked if this approach could be kept under review.
	Our response While we currently do not require independent verification for use of labels, we will keep this under review.
FCA role	Some stakeholders asked for more clarity on FCA's role and process, from how applications will be assessed at the authorisations stage, to supervision of the regime and our enforcement approach when rules are breached.
	Our response We will apply our usual supervisory and enforcement approaches to the regime, as explained in Chapter 3.

Summary of operationalising the regime

- When using a label, firms must use the graphic prescribed by us. The ability to download the graphic will be connected to the notification process for use of a label.
- Firms must use our online notification and applications system to notify us before, or as soon as reasonably practicable after using a label, or revising or ceasing to use a label.
- Independent verification for using a label is not required. However, we will keep this under review. We will apply our usual supervisory and enforcement approaches.

Chapter 12

Cost Benefit Analysis

12.1 In CP22/20, we provided a cost benefit analysis (CBA) for our proposals on the Sustainability Disclosure Requirements (SDR) and investment labels regime.

12.2 In this chapter, we set out how the costs and benefits presented in our consultation for our proposals have been revised due to:

- the final policy, following updates made as a result of feedback received
- feedback received on CP22/20's CBA
- updated firm and fund population data from this year
- updates to our internal Standardised Cost Model (SCM)
- our assessment of how our final rules are consistent with our secondary international competitiveness and growth objective.

12.3 We asked:

Q3: 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.

Stakeholder feedback

12.4 In this section, we summarise the feedback received on our original CBA, and our responses to the points raised. We received mixed comments on the CBA which focused mostly on the size and categorisation of the costs, and the affected population, rather than the methodology.

Table 19

Aspect of our proposals	Stakeholder feedback and our response
General feedback on benefits	Some stakeholders said they expected the benefits to exceed the compliance costs of the regime, through the standardisation of information and helping to reduce greenwashing. A few stakeholders raised whether costs would be higher than benefits, and whether some of the benefits would be achieved. For example, without standardised KPIs, it may be difficult to achieve the level of consistency that can promote better informed capital allocation decisions. Some also asked whether the scope of the regime, which does not include overseas funds, could lead to some confusion for consumers and, in turn, limit the benefits.
	Our response We have captured the likely benefits in the original CBA and do not consider these need to be updated in light of the feedback received. We have clarified in Chapter 5 that we are not prescribing KPIs, as firms will need to determine which KPIs are most appropriate for their products. We continue to work with HMT on the approach to overseas funds and are introducing the requirement for distributors to add a notice on overseas funds to inform consumers they are not subject to the regime. We continue to expect that many of the benefits will be indirect and will arise from a better functioning market over the long term.
General feedback on costs	Some firms commented on the specific cost categories provided in the CBA, including that some looked lower than expected and should account for external legal, IT and consultancy costs. Some also felt that the regime could have disproportionate costs on smaller firms. Some stakeholders also felt that there may be additional burden on top of the EU SFDR requirements, and stressed that interoperability will be essential to reduce compliance costs. Some stakeholders said they were not able to comment accurately on the CBA, as it was too early and difficult to assess the full impact of the regime.
	Our response In our consultation, we set out the assumptions used in our CBA and the limitations of our analysis. The assumptions were based on feedback we received from firms who responded to our request for information and on internal FCA data. We acknowledged the costs faced by firms, including smaller firms, in meeting the requirements. Stakeholders that provided their own cost estimates largely based these on the cost of the SFDR, rather than on the proposed SDR regime specifically. As noted in the original CBA, SDR only requires sustainability-related metrics associated with the firm's sustainability objective, while SFDR requires several other sustainability-related metrics, which we expect will result in higher data-related costs in comparison to SDR. We did not consider these estimates to accurately represent SDR-related costs and therefore have not updated costs in line with these. We acknowledge that firms using a label or sustainability-related terms will incur costs to produce the new standalone consumer-facing disclosure and detailed product-level disclosures. We aim to ensure our regime is compatible with SFDR to the extent possible and expect firms to leverage existing capabilities where possible. We have provided an updated mapping of requirements against SFDR in Annex 3.

Aspect of our proposals	Stakeholder feedback and our response
External verification	Some stakeholders sought clarity on whether external verification would be required in determining a credible standard for the Sustainability Focus label, as this could lead to considerable additional costs.
	Our response We have clarified in Chapter 11 that external verification is not required for use of the labels and therefore have not accounted for these costs in our CBA. We have also clarified that independent assessment of the robust, evidence-based standard can by undertaken via internal processes or third parties.
Impact of naming and marketing requirements	Many stakeholders felt the costs associated with the naming and marketing requirements were underestimated and needed to accurately reflect the costs of reviewing and updating documentation and marketing materials.
	Our response We have made amendments to the naming and marketing requirements to allow the use of sustainability-related terms (instead of prohibiting these). These products must be accompanied by the same types of disclosures as a labelled fund. They must also include a notice clarifying that the product does not have an investment label and explaining why. We have updated the CBA analysis to reflect the one-off and ongoing costs associated with these changes.
Affected funds	A few stakeholders said that the rules would affect a greater number of funds than the estimated number of 450 and the CBA should be based on the total population of all funds using sustainability-related terms in fund documentation and marketing materials, as well as unauthorised funds and investment trusts.
	Our response We use Morningstar fund data to estimate the number of funds and firms using sustainability-related terms that are likely to use labels or sustainability-related terms in their funds. This includes authorised funds that are using terms in their name and/or objectives. We acknowledge the affected fund population is likely to be greater, because the data source does not have full market coverage and the fund population could grow over time. To ensure our estimates are based on the latest available information, we have updated our estimate using the same approach as the original CBA – as described below in the revised CBA.
Impacts of higher costs	A few stakeholders also raised whether the costs associated with labelled funds, within the value for money framework, could lead to a higher ongoing charges figure (OCF).
	Our response We acknowledge that asset managers may incur higher compliance costs associated with labels. The extent to which firms may pass these costs on to consumers will depend on a number of factors, including supply and demand elasticities. However, firms have existing requirements in place for their assessment of value, to ensure they are delivering value to consumers as well as the requirements of the Consumer Duty.

Aspect of our proposals	Stakeholder feedback and our response
Distributors	A few stakeholders suggested platforms may have to take further action that should be factored into the costs, such as updating systems to provide access to disclosures and changing their own material to reflect updates to the fund materials. It was also noted that the CBA did not estimate costs for small platforms.
	Our response We expect distributors to already have processes and systems in place to provide information to clients and consumers, although we have factored in the costs of additional changes likely to be required as a result of this regime – including updating these existing systems. Our CBA includes costs to the total population of platforms based on our internal data. We estimate the size of the affected population of firms in order to use appropriate assumptions in our SCM on the scale of costs relative to firm size. We describe our approach in more detail below.
Anti-greenwashing rule	A few stakeholders commented on the costs for the anti-greenwashing rule, including that some estimates appeared low, and we should factor in additional gap analysis and training.
	Our response We have updated our cost estimations to include one-off costs to complete gap analysis to ensure their practices comply with the anti-greenwashing rule in addition to familiarisation costs.
Treasury Sub-Committee (TSC) feedback	The Treasury Sub-Committee on Financial Services Regulation wrote to us in March 2023, asking us to provide a new CBA analysis that estimates the monetary and other costs to consumers of the proposals, including switching costs.
	Our response We have carefully considered this feedback, alongside the consultation feedback, when updating the CBA. The proposals are designed to give consumers better information to support their investment decisions and do not require consumers to switch, so the updated CBA does not include the monetary costs of consumers' switching. Following the introduction of the regime, any choice to switch from an unlabelled product to a labelled one will be an individual consumer's decision, and will likely be based on several factors, which may include consideration of switching costs.

Summary of our CBA

12.5 We have updated our CBA to reflect the final policy, the latest information on the affected population of funds and firms, and assumptions in our SCM. We have also carefully considered further impacts of our proposals in response to feedback.

12.6 We estimate the total one-off cost to industry to be approximately £204.8m and the ongoing annual cost to be approximately £34.2m. The costs have increased due to changes to the policy in response to stakeholder feedback and updating our assumptions to ensure our CBA continues to remain robust:

- Revising the assumed increase in label uptake resulting from the introduction of a fourth mixed label in response to stakeholder feedback
- Accounting for costs to assess any changes firms need to make to comply with our anti-greenwashing rule (gap analysis costs) in response to stakeholder feedback
- An increase in the estimated number of funds using sustainability-related terms since the last CBA
- Updated assumptions on the sizes of affected firms based on the latest available information. This is the key driver of overall cost increases
- Updated assumptions in the FCA's standard assumptions (eg, salaries) in our SCM

12.7 To consider the scale of costs to industry, we can compare them to the total assets under management (AUM) of in-scope firms. Our supervisory analysis using data submitted by asset managers estimates that there are approximately £11 trillion AUM in the UK's asset management industry. The estimated total one-off costs of compliance are equivalent to 0.002% of the AUM of all asset managers in scope, whilst the estimated total ongoing costs of compliance are equivalent to 0.0003% of AUM of the same group of firms. Note that these firms are manufacturers of products distributed by advisers and platforms.

12.8 We expect our updated policy will enhance the expected benefits set out in CP22/20, as we set out in the next section. In summary, we expect the following benefits to include: reduced harm from greenwashing and increased consumer protection, increased provision of standardised sustainability-related information, better informed capital allocation and asset pricing, and better labelling and transparency to help facilitate an orderly transition to a more sustainable future.

12.9 We expect the updates to our proposals will enhance these benefits through increased provision of standardised sustainability-related information which will enable consumers to better navigate the market and make more informed decisions. This is due to the introduction of the fourth label, increasing label uptake, and our revised naming and marketing rules allowing firms to use sustainability-related terms and to explain the sustainability features of the products through consumer and product-level disclosures.

12.10 While our cost estimates have increased in this updated CBA, we expect this policy to continue to be net beneficial. We expect benefits to scale accordingly due to the positive impacts of increased uptake of labels and improving the provision of sustainability-related information and ensuring sustainability claims are proportionate through our revised naming and marketing rules. Linking to the causal chain presented in table 3, these measures should help to protect consumers by reducing greenwashing and increasing the provision of standardised sustainability information along the investment chain. This should enable consumers to more effectively navigate the sustainable investment market and make informed decisions. We consider that the expected benefits and improved market functioning resulting from the introduction of the regime are likely to exceed the compliance costs over the medium and long-term. As explained in Chapter 3, 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.

12.11 In the next sections, we set out the revisions to our CBA based on our updated proposals – including the revised benefits, affected population and costs, and further impacts considered as part of our CBA.

Revised benefits

12.12 Our updated policy responds to stakeholder feedback and we expect the final regime to enhance the benefits set out in our consultation. To summarise, these benefits include:

- **Reduced harm from greenwashing and increased consumer protection.** Together, the anti-greenwashing rule, labelling, disclosure, and naming and marketing rules should help ensure firms are using sustainability-related terms appropriately and protect consumers from greenwashing.
- **Increased provision of standardised sustainability-related information.** Introducing labels and consumer-facing disclosures should help consumers to better navigate the market, make more informed decisions and improve trust in the market.
- **Better informed capital allocation and asset pricing.** The disclosure requirements and labelling should help support a coordinated flow of information along the investment chain, improving transparency and helping markets to price assets more accurately and allocate capital more effectively.
- **Better labelling and transparency to help facilitate an orderly transition to a more sustainable future.** More informed capital allocation and asset pricing should result in less exposure to abrupt market corrections. Clients and consumers should be better able to hold firms to account for their sustainability-related claims.

12.13 We set out below how we expect our updated policy will enhance these benefits.

12.14 We received feedback on our original naming and marketing proposals that prohibiting sustainability-related terms was too constraining and it would be difficult for firms to explain the sustainability features of the products and for consumers to navigate the market. In response to this, our final rules allow for sustainability-related terms to be used with consumer-facing and product-level disclosures. Our revised naming and marketing rules should enable consumers to better navigate the breadth of products across the sustainable investment market, beyond labelled products which are seeking positive sustainable outcomes. Consumers will be able to access consistent information using consumer-facing disclosures for both labelled and unlabelled products and make better informed decisions.

12.15 In addition, introducing the 'Sustainability Mixed Goals' label requested by stakeholders ensures we are accommodating for products with mixed strategies that meet the criteria for a label. We consider this will increase overall label uptake. And with more funds using labels, there will be an increased provision of standardised sustainability-related information compared to our initial proposals. As a result, more firms will take a consistent approach to categorising their products, and consumers may be able to better navigate a wider range of products in the sustainable investment market. More consumers can also have increased confidence that a sustainable-labelled product is meeting certain criteria and can hold firms to account for their sustainability-related claims.

12.16 We have also revised our consultation proposal on consumer-facing disclosures, responding to feedback that it may be disproportionate to require firms to produce a standalone consumer-facing disclosure document for all products. The consumer research we carried out found that consumer understanding improved when sustainability information was in a separate document. We have sought to strike a balance with the research and stakeholder feedback, with our final proposals requiring a separate consumer-facing disclosure to be produced for labelled and unlabelled products using sustainability-related terms. This will allow consumers to more effectively navigate the sustainable investment market and make more informed decisions about their investments.

12.17 We expect these updates to generate further benefits to medium and long-term market functioning through increased provision of standardised sustainability-related information. The further improvements in standardisation should further 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. This should further support a coordinated flow of information along the investment chain, resulting in 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.

12.18 We estimate the number of funds using sustainability-related terms is likely to be a minimum of around 630 funds compared to 450 funds in our original CBA (see section 'Revised affected population' below). This means we consider our proposals will enhance the benefits described above through provision of more standardised sustainability-related information for a greater number of funds.

12.19 We also expect the publication of our PS could help guide international work in this space, as other jurisdictions consider and develop their rules and guidance. This would promote improvements in the standardisation of sustainability-related information and minimise risk of greenwashing in global investment markets. We will continue to engage with other jurisdictions to encourage compatibility.

Revised affected population

12.20 Following updates to the policy and to reflect the latest information on population size, we have updated our estimates for the affected population of firms.

12.21 We estimate the total affected population by filtering regulatory data for: (i) in-scope firms and (ii) firms offering in-scope products. A more detailed description of how the policy applies is presented below. The estimated population of firms in the three broad categories of firms is set out in Table 20 below. Note, the overall population of authorised firms has reduced since we completed our CBA in the consultation.

Table 20: Summary of estimated population impacted by policy

Population	Population reference	Policy proposals	Estimated population
Asset managers[1]	A	In-scope of: • Sustainable investment labels • Detailed product-level disclosures • Consumer-facing product-level disclosures • Naming and marketing rules • Entity-level disclosures if AUM of £5bn or more	1,393
Distributors (advisers and platforms)	B	Expectations for distributors	5,504
All authorised firms[2]	C	Anti-greenwashing rule	45,608

Table notes: 1. In this CBA, we refer to firms managing UCITs or AIFs as asset managers. The total population of asset managers may include firms providing other activities such as wealth management or portfolio management services. 2. This population includes asset managers and distributors.

12.22 We then grouped the population based on how the policy applies so that we could estimate different sets of compliance costs for each group. For each population, we estimate the number of small (S), medium (M) and large firms (L) to use as a proxy for the scale of costs. These size classifications map to assumptions around compliance costs in our SCM. We discuss how these classifications relate to assumptions underpinning our costs in the section below, 'Costs to firms'.

12.23 We describe below the approach we took to estimate the number of affected firms and their size for the three broad populations of firms A, B and C. This approach is broadly similar to the approach taken in our original CBA, although we have updated our population estimates using the latest data and information.

Population A

12.24 Population A is the population of asset managers that provide in-scope products. We estimate the total population A by filtering our regulatory data for relevant permissions and portfolios. We create 4 sub-populations for the purpose estimating compliance costs:

- Sub-populations A1-A2: we estimate the number of UK-based funds affected by the labelling and naming and marketing rules to be at least approximately 630. This figure was estimated by (i) filtering Morningstar fund data for key sustainability-related terms in their name or objectives (eg, 'sustainable', 'ESG') and (ii) limiting the sample to funds that are actively marketed in the UK. This estimate is based on a sample of existing funds in Morningstar data which may not have full market coverage. The total funds affected will also change over time as new funds are launched. Therefore, we expect this estimate to represent a minimum. For the purposes of the CBA, we assume that 45% (sub-population A1) of the products (and corresponding firms) that currently have sustainability-related terms in their names and marketing materials will use the investment labels under our rules, and the remaining 55% (sub-population A2) will be subject to our naming and marketing rules. The analysis is based on our supervisory knowledge and our assumptions of actions that firms may take. While this is the same approach as in our original CBA, we have updated our assumptions and re-run the analysis with the latest Morningstar data. We expect label uptake to be higher than assumed in the original CBA due to the changes we have made in response to consultation feedback, such as introducing the additional Sustainability Mixed Goals label, so we expect more funds to be eligible for a label. We assume this sub-population are medium-sized on average.

- Sub-population A3: This sub-population is comprised of the asset managers that do not use sustainability labels or sustainability-related terms, estimated by subtracting sub-population A1 and A2 from the total population A (all asset managers). We estimate the size of asset managers using internal data and supervisory analysis of the distribution of AUM across asset managers.
- Sub-population A4: This is the total number of asset managers with AUM of £5bn or more based on our regulatory data. We estimate the additional costs to this sub-population to produce entity-level disclosures that would be incurred in addition to costs for populations A1-A3. We estimate the number of asset managers of £5 billion or more AUM (on a 3-year rolling average) using our regulatory data on AUM (MIF003 reporting) at the last reporting date.

Population B

12.25 Population B is the population of distributors, including advisers and platforms, that distribute in-scope products. We estimate the total number of advisers (sub-population B1) and platforms (sub-population B2) by filtering our regulatory data for relevant permissions and portfolios. We estimate the number of S/M/L advisers based on supervisory analysis and we assume that all platforms are medium on average. The proportion of S/M/L firms has changed, as we have revised our assumptions with updated information.

Population C

12.26 Population C1 is the total population of authorised firms in scope of the anti-greenwashing rules. Population C2 is the population of authorised firms in scope of the anti-greenwashing rule, excluding asset managers and distributors in scope of other rules. We exclude these populations from our estimates specifically for the anti-greenwashing rule as the familiarisation and gap analysis costs related to the anti-greenwashing rule for asset managers and distributors are already included in our estimates for populations A and B. We estimate the number of S/M/L firms by deducting the number of S/M/L asset managers and distributors from the total S/M/L firms estimated in our SCM. The SCM uses underlying tariff base data to give each firm a rank among all firms that use the same tariff base (eg, annual income, gross premium income) and then takes each firm's maximum rank (many firms use multiple tariff bases) to order firms. The top 250 firms are classified as large, firms from 251 to 1,750 as medium, and all the rest as small.

Summary

12.27 In Table 21 below, we provide a summary of the estimated firm population by sub-group and size.

Table 21: Estimated population impacted by policy for the purposes of estimating costs

Population impacted	Population reference	Policy	Estimated population, by size
A: Asset managers, including wealth managers			
Asset managers using labels[2]	A1	Investment labels Detailed product-level disclosures Consumer-facing product-level disclosures	M: 40[1]
Asset managers using sustainability-related terms and no labels[2]	A2	Naming and marketing rules Detailed product-level disclosures Consumer-facing product-level, including disclosure of why a label is not used	M: 49[1]
Asset managers not using sustainability-related terms or labels	A3	Naming and marketing rules	L: 33 M: 1,270
Asset managers with AUM of £5bn or more *Note: this is a sub-population of A1-A3.*	A4	Entity-level disclosures	L:33 M:120
B: Distributors			
Advisers[3]	B1	Expectations for distributors	L: 3 M: 599 S: 4,867
Platforms	B2		M: 35
C: All remaining authorised firms			
All authorised firms, excluding asset managers and distributors	C	Anti-greenwashing rule to address the naming and marketing of non-sustainable products	L: 214 S: 38,497

Tables notes: 1. We refer to small, medium, and large firms in this table as S, M and L, respectively. 2. As noted above, the estimated total number of asset managers using labels and sustainability-related terms is likely to be a minimum. As this population of asset managers is based on an estimate of the proportion of asset managers we assume to use labels for their fund, we cannot observe their size. We assume that the relevant costs for asset managers using labels or sustainability-related terms are equivalent to those for medium-sized firms in our SCM. 3. Table 1 (page 91) of the CBA in CP22/20 incorrectly labelled populations G and H (advisers) as large and medium. The cost estimations in the CBA were based on populations G and H being medium and small respectively, which are more aligned with the estimates in this table.

Revised compliance costs to firms

12.28 Following updates to our estimation to reflect the final policy, feedback received and latest evidence, we now estimate the total one-off cost to industry to be approximately £204.8m and the ongoing annual cost to be £34.2m.

12.29 A summary of the estimated costs by the affected population of firms and policy is set out in Table 22 below.

Table 22: Estimated compliance cost to population in scope

Population sub-group	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: Asset managers using a label	£14.2m	£351k	£8.7m	£217k
A2: Asset managers using sustainability-related terms	£8.9m	£180k	£5.4m	£109k
A3: Other asset managers amending naming and marketing	£21m	£16k	£9.2m	£7k
A4: Asset managers with AUM of £5bn or more in scope of entity level disclosures	Additional £2.4m for asset managers in A1-A3 with AUM of £5bn or more	Additional £16k for asset managers in A1-A3 with AUM of £5bn or more	Additional £1.5m for asset managers in A1-A3 with AUM of £5bn or more	Additional £10k for asset managers in A1-A3 with AUM of £5bn or more
B1: Advisers	£128.3m	£23k	£9.2m	£2k
B2: Platforms	£6.3m	£180k	£0.2m	£7k
C: All remaining authorised firms	£23.6m	£1k	-	-
Total costs	£204.8m	-	£34.2m	-

Table notes: 1. All costs are presented in 2023 values through this section. 2. 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%.

Updates based on final policy

12.30 We have also revised our cost estimates in the consultation to reflect updates to the final policy.

12.31 We have introduced a fourth mixed label which has increased the number of firms we estimate will adopt labels.

12.32 Firms using labels for their funds will be required to notify the FCA of the name of the fund using a label, the date this label was first used and link to the product, using our online notification and applications system. This is instead of the original proposal in our consultation, which was for firms to inform the FCA of use of labels via email. Integrating the notification process into our online notification and applications system makes this process more efficient and simpler for firms. We continue to consider that the cost associated with making this notification will be minimal and is included as part of the costs of implementing labels.

12.33 To allow for more flexibility, sustainability-related terms are no longer prohibited and may be used in fund names and supporting materials if product-level and consumer-facing disclosures are provided. We estimate that the remaining population of firms with funds with sustainability-related terms currently (population A2) – that are not estimated to use labels (population A1) – will now incur costs to provide product-level disclosures. We have adjusted our estimates accordingly to account for higher ongoing costs to provide product-level disclosures.

12.34 While we intend to consult separately on portfolio management, we have not made adjustments to the estimated firm population in the CBA because firms carrying out portfolio management may also provide in-scope products and therefore will still be impacted by the regime.

Other updates

12.35 We have also adjusted our existing assumptions for our cost estimations in response to feedback and to reflect the latest information.

12.36 As described above, following feedback to our consultation, we have updated our cost estimations to include one-off costs to firms to complete gap analysis to ensure their practices comply with the anti-greenwashing rule in addition to familiarisation costs. We still consider the additional ongoing costs to be minimal as we have sought to align the anti-greenwashing rule with our existing requirements and expectations, so firms should already have processes in place to ensure the information they communicate is not misleading.

12.37 We have also updated our analysis to reflect updates to the underlying salary and firm size data our SCM made in early 2023. The remaining underlying assumptions underpinning inputs to the SCM remain the same as in our CBA guidance.

12.38 The broad categories of costs and the scale of costs are the same as outlined in the consultation. However, we have made some minor adjustments to reflect updates to the policy:

- Asset managers that are not using labels or sustainability-related terms will not be required to produce consumer-facing disclosures and we therefore do not anticipate any IT changes would be required to comply with our proposals. IT-related costs have therefore been removed for this population.
- Costs relating to asset managers removing sustainability-related terms have been removed, as our final policy allows asset managers to use these terms with product-level disclosures and consumer-facing disclosures. The estimated

costs to this new group of asset managers (A2) are broadly similar to those using sustainable labels. However, we expect costs relating to change, governance and IT projects to be lower, as firms will not need to operationalise labels.

12.39 Table 23 sets out the estimated average one-off and ongoing costs from our final policy. While a full description of the expected costs are set out in the CBA in CP22/20, we briefly outline the types of cost and key assumptions underpinning the calculations in Table 23 below for clarity.

Table 23: Estimated average one-off and ongoing costs from our proposals, by cost type and population

Cost type	Population sub-group	Assumptions	Average cost per firm
Familiarisation and gap analysis	A1: Asset managers using a label	Based on our SCM, we assume 20/5/2 (L/M/S) compliance/ regulatory analysis staff review the policy documentation to familiarise themselves with the rulkes and 4/2/1 legal/regulatory analysis staff review the legal text	L: £15,000 M: £4,000 S: £1,000
	A2: Asset managers using sustainability-related terms		
	A3: Other asset managers amending naming and marketing		
	B1: Advisers		
	B2: Platforms		
	C: All remaining authorised firms	As the anti-greenwashing rule is less complex than our other rules, we estimate that 6/1.5 (L/S) compliance/regulatory analysis staff review the policy documentation and 2/1 (L/S) legal/regulatory analysis staff review the legal text	L: £4,000 S: £1,000
Training	A1: Asset managers using a label	We assume around 4 hours of bespoke training is required, with 2 hours of familiarisation time required after a training course As above, we estimate that L/M/S firms will need to provide bespoke training to 10, 5, and 1 staff member respectively	L: £9,000 M: £4,000 S: £1,000
	A2: Asset managers using sustainability-related terms		
	A3: Other asset managers amending naming and marketing		
	B1: Advisers		
	B2: Platforms		

<table>
<tr><th>Cost type</th><th>Population sub-group</th><th>Assumptions</th><th>Average cost per firm</th></tr>
<tr><td rowspan="6">Change and governance</td><td>A1: Asset managers using a label</td><td rowspan="6">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
We estimate the project-length for each population using our SCM to be:
• A1: 560 person-days
• A2 and B: 540/280/6 (L/M/S) person-days
• A3 and A4: 45/14/3 (L/M/S) person-days
We also estimate costs of board and executive committee approvals for all populations</td><td>M: £217,000</td></tr>
<tr><td>A2: Asset managers using sustainability-related terms</td><td>M: £109,000</td></tr>
<tr><td>A3: Other asset managers amending naming and marketing</td><td rowspan="2">L: £21,000
M: £7,000
S: £1,000</td></tr>
<tr><td>A4: Asset managers with AUM of £5bn or more in scope of entity level disclosures</td></tr>
<tr><td>B1: Advisers</td><td rowspan="2">L: £224,000
M: £109,000
S: £2,000</td></tr>
<tr><td>B2: Platforms</td></tr>
</table>

Cost type	Population sub-group	Assumptions	Average cost per firm
IT changes	A1: Asset managers using a label	Asset managers using labels will likely incur costs to update their IT systems to implement detailed and consumer-facing disclosures. We expect this to be a moderate sized IT change and base our cost estimations on assumptions in our SCM	M: £126,000
	A2: Asset managers using sustainability-related terms	Asset 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 156 person days	M: 63,000
	A4: Asset managers with AUM of £5bn or more in scope of entity level disclosures	Some asset 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
	B1: Advisers B2: Platforms	Distributors will likely need to implement changes to their IT systems to make the label and consumer-facing disclosures available to retail investors Based on our SCM, we estimate that large distributors will spend 546 person-days on this project and medium-sized distributors will spend 156 person-days on this project	L: £230,000 M: £63,000

Cost type	Population sub-group	Assumptions	Average cost per firm
Ongoing (annual) costs	A1: Asset managers 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: 560 person-days A2-B: 45/14/3 (L/M/S) person-days	M: £217,000
	A2: Asset managers using sustainability-related terms		M: £109,000
	A3: Other asset managers amending naming and marketing		L: £21,000 M: £7,000 S: £1,000
	A4: Asset managers with AUM of £5bn or more in scope of entity level disclosures		
	B1: Advisers		
	B2: Platforms		

Other impacts

12.40 We also consider further impacts as part of our CBA.

Costs to the FCA

12.41 As we have finalised our policy, we are now able to make an assessment of the costs to the FCA to oversee this regime. We do not anticipate a significant increase in costs for the FCA. The regime will build on our existing supervisory approach and will be taken forward with existing resources, although the Fund Authorisations team will experience higher volumes of applications as firms make alterations to their existing funds or launch new funds. We will also incur IT costs in developing and maintaining the notification form on our online notification and applications system, including processing the associated data.

Indirect impacts to benchmark providers

12.42 We have considered the potential indirect impacts to benchmark administrators that may arise as a result of the SDR and labels regime. In particular, in relation to index-tracking funds, where the fund manager mirrors the name of the underlying index in the fund name. If an index name contains sustainability-related terms and does not meet the requirements under the regime, then it is possible that fund managers may ask benchmark administrators for the index name to be changed.

12.43 We did not receive specific feedback through the consultation on this, so we engaged with several benchmark administrators to explore the potential costs associated with changing the name of an index. The main costs are administrative costs, including changing names in systems and reports, and costs associated with consulting users, although custom indices would not require users to be consulted. We did not receive specific cost estimates associated with these changes but these were described as not significant.

12.44 We also recognise that firms may choose to amend the name of the fund themselves if they have no contractual obligation to mirror the index name. In addition, benchmark administrators may themselves choose to make changes to index names, following the new anti-greenwashing rule.

Indirect impacts to consumers

12.45 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. However, firms have existing requirements in place for their assessment of value, to ensure they are delivering value to consumers as well as the requirements of the Consumer Duty.

12.46 In the original CBA, we acknowledged that consumers may choose to switch products. There are a range of factors that could contribute to a consumer's decision to switch, with sustainability outcomes being one of these factors. The regime is designed to give consumers better information to support their investment decisions and does not require consumers to switch, so the updated CBA does not include the monetary costs of consumers' switching.

Impact on international competitiveness and growth

12.47 We consider our regime is likely to 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.

12.48 It should enable investors 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. 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 – a key driver of long-term productivity growth and international competitiveness of the UK economy.

Monitoring outcomes

12.49 We will monitor the outcomes we expect from our regime as per Chapter 3, where we set out what we will do to assess the effectiveness of our rules and the outcomes. We will also seek to monitor any unintended consequences of the regime.

Annex 1

Principles supporting the regime

Key concepts

In this section, as context we set out the rationale for the design of our Sustainability Disclosure Requirements and investment labels regime. With the overarching objective to design a regime that will 'inform and protect consumers and improve trust in the market for sustainable investment', our approach rests on 3 main principles:

1. **Navigating a complex landscape.** The key components of the regime – including requirements related to product classification, labelling, naming and marketing, and disclosure – are designed to help consumers navigate among products with sustainability characteristics that have different objectives and investment strategies, providing consumers with information and tools they need to identify those products that best meet their needs and preferences.
2. **Intentionality.** To help consumers understand products' sustainability characteristics and whether a given product is pursuing positive sustainability outcomes, the classification and labelling of sustainable investment products are based on their sustainability objectives.
3. **Clear and objective criteria.** To give consumers confidence in the sustainability characteristics of the products that they are offered, a product must meet clear, objective criteria to use a label and be able to include terms like 'sustainable', 'sustainability' or 'impact' in its name.

Our approach also seeks to:

- **Balance principles versus prescription** – in a fast-moving and evolving market, our regime aims to strike the right balance between principles and prescription and avoid 'codifying' too much too soon; for instance, we have signalled that we expect over time to build out entity and product-level disclosure expectations as the ISSB develops further sustainability-related reporting standards.
- **Achieve international coherence** – recognising that the UK is a global financial centre, the regime aims, as far as possible, to be interoperable with international standards and frameworks, as well as emerging regimes in other jurisdictions. We have provided a mapping between our regime and the SFDR in Annex 3.

1. Navigating a complex landscape.

As set out in both DP21/4 and CP22/20, the market for sustainable investment is complex, and has grown rapidly. There are a wide variety of product types with different objectives, different investment policies and strategies and different sustainability characteristics. And the terminology used to describe them can be unclear, and inconsistently applied, interpreted or understood.

To help work towards a common understanding, a number of bodies and groups have characterised the different investment strategies and approaches observed in the market today. These include the Investment Association (2021), the Bridges Spectrum of Capital, and more recently the Global Sustainable Investment Alliance (2023). The different strategies and approaches include:

- **Screening.** Applying defined criteria or rules that determine whether an investment is permissible. Different sustainability-related screening approaches include: negative (undesirable criteria); positive (desirable criteria); 'best-in-class' (selection of certain criteria relative to peers); or norms-based (selection according to compliance with widely recognised standards or norms).
- **ESG integration.** Ongoing consideration of ESG risks and opportunities within an investment analysis and decision-making process, to assess their implications for risk-adjusted returns.
- **Thematic investing.** Selecting assets with certain defined sustainability characteristics, to access specified trends that may be, for example, medium to long term trends, regional or global.
- **Stewardship.** As defined in the UK Stewardship Code 2020, published by the FRC, stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.
- **Impact investing.** Investing with the intention to generate a positive, measurable social and/or environmental impact alongside a financial return.

A firm may apply the investment strategies and approaches above individually or in combination to deliver products that meet different consumer needs and preferences, including products that seek to achieve positive sustainability outcomes (also see Figure 2). The different types of products that consumers may invest in may reflect different needs and preferences as follows:

- **Risk management.** Some consumers may wish to invest in products that seek to avoid downside risk to returns due to companies' poor environmental or social practices. They may invest in products that adopt an ESG integration strategy.
- **Values.** Some consumers may want to invest in line with their values. They may wish to avoid investing in companies that engage in activities they see as harmful to the environment or society. They may therefore invest in products that adopt a negative or norms-based screening approach.
- **Opportunities.** For other consumers, the rationale for investing in a product with sustainability characteristics may be a positive one. The motive may be to capture commercial opportunities, in the belief that investment in companies with better environmental or social credentials will deliver better financial returns. They may invest in products that adopt positive or best-in-class screening strategies, or products that invest according to a sustainability-related theme, including products that are tilted towards desirable sustainability characteristics.
- **Positive sustainability outcomes.** Or the consumer may want to invest in a way that contributes purposefully to positive environmental and/or social outcomes. Depending on their other preferences – eg, diversification, or the balance of financial and sustainability considerations – these consumers may consider products that place greater emphasis on certain strategies such as

positive or best-in-class screening strategies, products that invest according to a sustainability-related theme or products that pursue a positive, measurable environmental or social impact.

Importantly, consumers' investment beliefs are not mutually exclusive. The different approaches and strategies above reflect different consumer preferences, and there is no hierarchy between them. Some products may adopt a blend of the strategies and approaches, depending on the different financial and sustainability preferences that consumers may have.

However, today we do not have a whole-of-market approach to classify and label products according to their sustainability objectives and characteristics. And we do not have a common framework for firms to communicate to consumers about their products' sustainability objectives, their investment policies and strategies, and their performance against any sustainability-related targets.

Our package of labelling, naming and marketing rules and disclosure measures aims to help fill this gap and to help address the risk of harm to consumers:

- our labelling and classification regime is designed to help consumers identify products that are seeking to improve or pursue positive sustainability outcomes, and clarifies our expectations when firms use the terms 'sustainable' and 'impact' – see Principle 2, *Intentionality*, below
- at the same time, our disclosure requirements and naming and marketing rules are designed to help consumers navigate investment products with other sustainability characteristics and find the information they need to navigate to a product that meets their preferences – see *Investment product landscape*, below

2. Intentionality

To qualify for a label, a product must have a 'sustainability objective' that is clear, specific and measurable and part of the product's investment objectives. The sustainability objective is an explicit statement of intention to invest 'with the aim of directly or indirectly improving or pursuing positive environmental and/or social outcomes'. This is the foundation of our classification and labelling approach.

Contribution to positive environmental and/or social outcomes

Positive environmental and/or social outcomes may be improved or pursued via a mix of:

- contributions made by the assets in which the product invests ('enterprise contribution')
- contributions made by the investor's activities, for instance through investor stewardship ('investor contribution')

Both contributions are critical. The firm's disclosures should be clear about the sustainability characteristics of the assets in which its products will (and will not) invest in and how these link to the product's objectives. The firm should also be transparent about the investment activities that it will undertake.

In our consultation, we set out (in Box 3; p25) 3 main channels or mechanisms by which an investor may plausibly contribute to positive outcomes for the environment and/or society. Broadly these encompass: investor stewardship and engagement; influencing asset prices and the cost of capital by 'screening in' assets that have desirable sustainability characteristics, and 'screening out' those that do not; and seeking a positive sustainability impact by allocating capital in accordance with a stated theory of change. We recognised that many, if not most, products will generate outcomes via more than one of the channels.

Nature of the sustainability objective

To help consumers identify the products that align most closely with their preferences, the regime further distinguishes products by the nature of their sustainability objective. It also distinguishes among products according to whether they aim to achieve positive outcomes for the environment and/or society directly or indirectly.

- Some products will aim to pursue sustainability objectives directly (**Sustainability Impact**)

In the case of products that pursue sustainability outcomes indirectly, the regime further distinguishes between those:

- that invest mainly in assets that are considered to be sustainable for the environment and/or society now (**Sustainability Focus**), and
- that may not be sustainable now, but are on a path to improving their sustainability for the environment and/or society over time (**Sustainability Improvers**).

A fourth '**Sustainability Mixed Goals**' label applies if a mix of sustainability objectives (and approaches) is present in a product.

So, importantly, all labelled categories aim to improve or pursue positive environmental and/or social ouctomes – not just Sustainabilty Impact products.

Accommodating investment in assets that may not yet be sustainable for the environment and/or society, but are in transition to becoming more sustainable over time, is an important feature of the regime. Recognising such products within the regime can support a whole-of-economy transition to a more sustainable future.

As noted in our consultation, identifying a 'plausible link' between the target characteristics for the product's assets and positive outcomes for the environment and/or society does not of course mean that any positive sustainability outcome is certain. And the potential magnitude of any outcome will also depend on the particular facts and circumstances. For instance, the asset pricing/cost of capital mechanism may be stronger in less-liquid segments of the market. Further, robust methodologies to measure and attribute such outcomes are still being developed.

3. Clear and objective criteria

Clear, objective criteria for the use of investment labels are essential to upholding the integrity of the regime and improving trust in investment products.

The regime must instil a level of consumer trust that, when a product displays a label, it is genuinely pursuing a sustainability objective and equipped to do so. The consumer can be confident that the product's investment policy and strategy, and the firm's resources, governance, stewardship and its ongoing monitoring and disclosure of KPIs, are all aligned with delivery of that objective.

Accordingly, a further key feature of the regime is a set of **qualifying criteria** that a product must meet in order to use one of the labels. These criteria comprise 'general criteria' that apply for all of the labels as well as certain criteria specific to each of the 4 labels.

The criteria relate to (1) the product's sustainability objective; (2) the investment policy and strategy for that product; (3) the KPIs that flow from the product's sustainability objective; (4) the firm's resources and governance; and (5) the firm's investor stewardship. The criteria cover what firms must 'do' and most have associated information that the firm must 'disclose' in respect of the product and their approach.

As observed in our consultation, the criteria are objective, rigorous and aim to 'raise the bar'. At the same time, they provide flexibility to accommodate different sustainability objectives for continued evolution and innovation in the market within clear guardrails. In developing the criteria, we sought to build from and remain consistent with existing relevant expectations and requirements. These include those set out in our Guiding Principles, and the UK Stewardship Code 2020.

Investment product landscape

In this section, we set out the landscape in more detail. Figure 2 below outlines 7 stylised (not intended as definitive) categories of investment fund both with and without sustainability characteristics. It also illustrates the range of investment strategies and approaches – as introduced under Principle 1, above – that products may consider applying in each category.

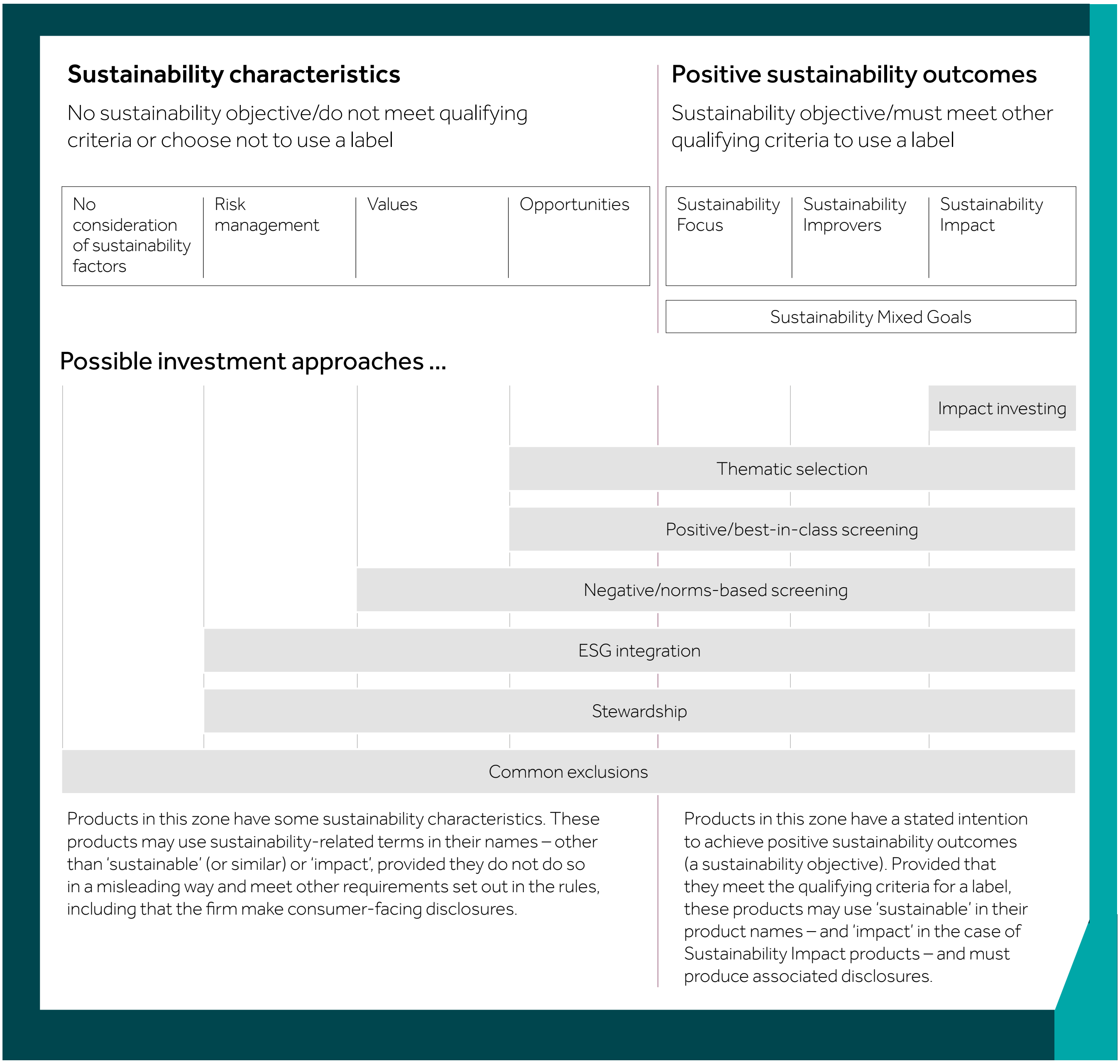
These investment strategies and approaches will typically be applied incrementally, either individually or in combination, and at differing intensities depending on the objective and investment policy and strategy of the product. In addition to applying any combination of the investment strategies and approaches, products in the 'positive sustainability outcomes' category must have a sustainability objective, to improve or pursue positive environmental and/or social outcomes, as part of their investment objectives.

The vertical dotted line in Figure 2 broadly represents how our regime applies to products that may have a sustainability objective and meet other qualifying criteria for labelling, and those that do not (or choose not to use a label):

- Products in categories to the right of the line may use one of the investment labels (provided they meet the general and specific criteria as set out in the rules), giving consumers confidence that the product meets the requirements of an investment product with sustainability objectives. These products must also produce consumer-facing and detailed disclosures, setting out the information necessary to support a consumer's investment decisions.
- Products in the categories to the left of the line may have sustainability characteristics that are material to the product, but either do not meet the criteria for using a label or choose not to use one. However, firms using sustainability-related terms to describe those products must meet certain conditions in order to give consumers better information about the product's sustainability characteristics. The conditions include not using 'sustainable', 'sustainability' or 'impact' in product names, producing consumer-facing and detailed disclosures, and producing a statement to clarify that the product does not have a UK sustainable investment label.

This approach should help consumers to navigate the landscape of products with sustainability characteristics in line with their preferences and receive consistent types of information to help them make informed decisions.

Figure 2. A stylised map of the landscape



Annex 2

Overview of SDR and labelling regime

1. This section provides an overview of most of our final rules and guidance. This aims to support firms in familiarising themselves with the overarching requirements and how they might be applied in practice. However, it is not intended to be comprehensive eg it does not include rules relating to publication or data requirements. Firms must refer to the final rules and guidance in Appendix 1. **The examples and expectations on how certain areas of the regime (in particular the labelling criteria) might apply are for illustrative purposes only** and do not include the level of detail or full criteria that would need to be met to qualify for a label. Firms must assess each of their products against the rules in Appendix 1.

Investment labels

2. The aim of the labelling regime is to help consumers navigate the sustainable investment market. We are introducing 4 investment labels with sustainability objectives that aim to improve or pursue positive outcomes for the environment and/or society.

3. The labels aim to give consumers confidence that:

- the product has specific a sustainability objective as part of its investment objectives; and
- the firm has committed to high standards (the qualifying criteria) to deliver on the sustainability objective

Sustainability Impact ™
Sustainability Focus ™
Sustainability Improvers ™
Sustainability Mixed Goals ™

4. The labels represent different sustainability objectives and in turn different investment approaches to pursue those objectives. So, different products might invest in similar assets but have different labels depending on their objectives.

5. Products may aim to improve or pursue positive environmental and/or social outcomes either:

- indirectly through investing in assets with sustainability characteristics that either meet (Sustainability Focus) or have the potential to meet (Sustainability Improvers) a robust, evidence-based standard of sustainability;

- directly through both the firms' investment activities and sustainability characteristics of the assets (Sustainability Impact); or
- both indirectly and directly (Sustainability Mixed Goals)

Qualifying criteria

6. To use a label, products must meet the **general** and **specific qualifying criteria** for each label. In addition, firms will need to meet specific requirements under the criteria and make associated disclosures. Disclosures are covered in a separate section of this Annex. Firms will also need to meet the general requirements for publication, notification and review of the labels, which are covered in 4.1 of Appendix 1.

7. Consistent with the Consumer Duty, where applicable, the criteria and associated disclosures provide a framework for firms to assess their products consistently and demonstrate that they are acting in good faith to support achievement of their product's sustainability objectives. Consumers should be able to trust that the firm has committed to high standards to deliver on the sustainability objectives and hold firms to account.

8. The criteria accommodate products investing in different asset classes and those with different investment strategies. This includes both active and passive strategies, where for passive strategies the product tracks an index that aligns with the sustainability objective and meets the criteria. It also includes investments in derivatives, short selling and securities lending, where the firm can demonstrate how these align with the product's sustainability objective. We provide more detail in Boxes 3 and 4.

9. We have said that governance is an enabler of environmental and/or social outcomes, rather than an end in itself. So, products investing in assets with good governance alone would need to do more to qualify for a label. Similarly, investment strategies such as exclusions, negative screening, ESG integration or basic ESG tilts alone would not be enough to qualify for a label.

General criteria

10. To use a label, a product must meet the following criteria:

Sustainability objective

11. The product must have an explicit **sustainability objective** as part of its investment objectives that

- aligns with one of the specific sustainability labels
- is clear, specific, and measurable

12. SASB standards may be used to help determine the topics a retail client would associate with environmental and/or social outcomes. We have referenced these in our Handbook Guidance.

Investment policy and strategy

13. The product must have **at least 70%** of its assets invested in accordance 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 (see Box 2)
- any other assets must not conflict with the sustainability objective

14. However, limited exceptions to meeting the 70% threshold are:

- where products are designed to build their initial portfolio over time and therefore have yet to fully invest in assets, such as in the case of an LTAF, and
- if a firm is carrying out its escalation plan or taking actions to meet the criteria on an ongoing basis (see the ongoing requirements section below).

15. **Other considerations:** The sustainability objective should represent what the product as a whole is aiming to achieve. 70% is however a minimum threshold for investing in assets that directly pursue the objective, acknowledging that the product may also invest in some assets for liquidity, risk or diversification purposes. Those assets may not have sustainability characteristics or may not pursue the sustainability objective, provided that they do not conflict with the objective.

Box 2. Robust, evidence-based standard of sustainability

Robust, evidence-based standard of sustainability

The general qualifying criteria require that the product's assets be selected with reference to a robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability (referred to in short as the 'robust, evidence-based standard').

Firms should select assets using a methodology or approach that is applied in a systematic way, and that can be used for both determining 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 standard must be:

- **robust**, meaning that it will stand up to scrutiny
- **evidence-based**, meaning that it is derived from or informed by an objective and relevant body of data or other evidence.

Other considerations:

The role of the robust, evidence-based standard – and the way it is applied in selecting the product's assets – will differ according to the labelled category:

- For Sustainability Focus, products invest in assets that are environmentally and/or socially sustainable, determined using the standard
- For Sustainability Improvers, products invest in assets that demonstrate their potential, over time, to meet the standard
- For Sustainability Impact, products may, but are not required to, invest in assets with reference to the standard (depending on the investment strategy and theory of change for the particular product).

There are different types of standards that may be used. Non-exhaustive examples include:

- **General environmental and/or social criteria.** For example, the standard may set a minimum threshold for the percentage of revenue, or the percentage of expenditure on operations, capital or research and development associated with environmental or social matters relevant to the product's sustainability objective.
- **Taxonomy-based.** For example, the standard may directly reference an authoritative taxonomy relevant to the sustainability objective of the product, such as the EU taxonomy for sustainable activities, or the forthcoming UK Green Taxonomy.
- **Emissions profiles.** For example, the standard may set a minimum absolute threshold of GHG emissions or carbon emissions intensity for assets.

Products may also be invested thematically, provided that the assets are selected with reference to a robust, evidence-based standard. For example, the standard may set a minimum percentage of revenue associated with activities that seek to improve or pursue positive outcomes relating to environmental and social themes (eg, clean energy, sustainable agriculture, forest regeneration, pollution prevention, water and waste management, social housing or diversity, equity and inclusion) and the firm may develop a proprietary methodology to select assets that meet the standard, in accordance with those themes.

KPIs

16. The product must have KPIs that demonstrate progress towards achieving the sustainability objective.

17. Those KPIs may measure either the performance of the product and/or individual assets towards achieving the objective.

18. Firms 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).

19. **Other considerations:** We have not prescribed any KPIs for firms to use as the most relevant KPIs are likely to depend on the specific sustainability objectives for each product. However, we encourage firms to use industry frameworks and best practice to the extent relevant for their products' sustainability objective. We will discuss this with the DLAG. In line with our proposed anti-greenwashing guidance, KPIs should deliver a fair representation of the product's progress towards the objective and enable consumers to understand that progress, including through use of contextual and historical information. This is consistent with expectations under the Consumer Duty.

Firm requirements

20. Firms must meet specific requirements in relation to using a label and ensure the product meets the general and specific criteria on an ongoing basis. The firm retains responsibility for compliance, including when delegating its activities.

Sustainability objective, investment policy and strategy and KPIs

21. **Negative outcomes.** Firms must determine (and disclose) whether any material negative environmental and/or social outcomes may arise in pursuing the sustainability objective.

22. **Other considerations:** Firms may identify negative outcomes that pursuing a positive environmental and/or social objective may result in through their risk management and due diligence processes when selecting the product's assets.

23. For example, a firm may identify that its strategy focused on increasing the development of affordable housing (a positive sustainability outcome) may have a negative outcome for the environment, due to real estate construction impact.

24. Firms should consider their Consumer Duty requirements to act in good faith. They should consider what a reasonable consumer would expect in a labelled product in determining whether to invest in assets that they have identified as potentially leading to negative outcomes.

25. **Investment policy and strategy.** Firms must also determine the product'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

26. **Other considerations:** The investment policy and strategy should provide sufficient information to enable clients and consumers to understand how the product is invested. This includes enabling them to distinguish between different investment approaches that may be used to pursue sustainability objectives (such as screening, thematic approaches etc). We also expect firms to consider the level of detail that would be decision-useful to include. For example, considering whether to disclose the types of environmental and/or social factors applied in positive or negative screens, and the proportion of the product the screen has been applied to.

27. Where relevant to its investment policy and strategy, firms should also explain how their use of derivatives, short selling and/or their securities lending policy aligns with or contributes to achieving the sustainability objective (see Box 4).

28. **Independent assessment.** Firms must obtain or undertake an independent assessment of the robust, evidence-based standard for 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. Firms will need to disclose the basis on which standard is considered appropriate and the function or third party (not naming individuals) that carried out the assessment.

29. **Assets that do not pursue the sustainability objective.** Firms must identify (and disclose) assets that the product invests in for reasons other than to pursue the sustainability objective, such as cash and derivatives used for liquidity and risk management purposes. The product must not invest in any assets that conflict with its sustainability objective.

30. **Robust and evidence-based KPIs.** Firms must also identify (and disclose) the KPIs that they will use to measure the product's progress towards meeting its sustainability objective.

31. **Escalation plan.** Firms must have an escalation plan setting out the actions they will take if the assets do not demonstrate sufficient performance against the sustainability objective or KPIs.

32. The plan should set out the anticipated timescales for addressing any matters that may result in insufficient performance against the sustainability objective.

Resources and governance

33. Firms must have in place 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.

34. **Other considerations:** In meeting the requirements, firms may also consider interactions between organisational arrangements and the delivery of the product to avoid any potential conflicts, as well as oversight by a product governing body, where appropriate. We remind firms of existing obligations such as for governing bodies to have sufficient knowledge, skills and experience, commit sufficient time and act with honesty, integrity and independence.

Stewardship

35. Firms must identify the investor stewardship strategy needed to deliver the sustainability objective, including the expected activities and outcomes, and ensure the strategy and appropriate resources are applied.

36. **Other considerations:** We acknowledge that stewardship may take place in different forms for different asset classes and strategies, may include collaborative engagement, and are likely to be executed at firm level. While firms should outline the outcomes they expect to achieve as a result of their stewardship activities, and therefore demonstrate some correlation between the two, we do not expect firms to demonstrate a causal link between those activities and outcomes. We note that outcomes may not be achieved on an annual basis so disclosures should provide sufficient contextual information to help consumers understand that outcomes may not be achieved in the short term.

37. Where stewardship plays a significant role in the sustainability product's investment policy and strategy, firms may consider disclosing KPIs related to the outcomes achieved or that measure progress towards the product's sustainability objective.

Index-tracking products

38. Where a product tracks an index, firms must only use an index that has a methodology aligned with the product's sustainability objective and the general and specific criteria.

39. We have outlined our expectations for passive products in Box 3 below.

Meeting requirements on an ongoing basis

40. Firms will need to ensure the criteria are met on an ongoing basis. This includes:

- ensuring the matters outlined above (eg investment policy and strategy, escalation plan) remain fit for purpose or are updated as necessary, that the independent assessment remains valid and, where relevant, that the index continues to meet the requirements when rebalanced
- continuing to maintain appropriate governance and resources, and an appropriate investor stewardship strategy for the product
- monitoring whether pursuing the sustainability objective may result in negative outcomes that have not already been identified, identifying any new assets that do not pursue the objective, and monitoring progress towards the objective
- carrying out the escalation plan if assets do not demonstrate sufficient performance towards the sustainability objective

41. Firms must take actions as needed to ensure the criteria are met on an ongoing basis. Firms 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.

42. Firms 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, firms will need to revise or cease to use the label and comply with the relevant notification requirements to clients and to the FCA.

43. **Other considerations:** In ensuring the criteria are met on an ongoing basis, firms may make updates eg, to their investment policy and strategy, independent assessment, and escalation plan. Firms should consider if making updates in one area may impact another.

Specific criteria

44. The key features of each label that make up the specific criteria are set out below. The examples provided in this section are for illustrative purposes to outline some of the types of approaches and features of products that could potentially qualify for a label. They do not reflect the level of detail or full criteria that will need to be met.

Sustainability Focus

45. This is for products with a sustainability objective consistent with an aim to invest at least 70% in assets that are environmentally and/or socially sustainable, determined using the robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability.

Examples of product profiles

ABC Global Renewables Index Fund

The objective of the fund is to track an index that is designed to reflect the performance of a global range of companies that produce or provide activities or services to support the production of energy from solar, wind, hydrogen and other renewable sources. The index is designed to reflect the performance of a global range of those companies, and comprises equity securities of companies that are positioned to benefit from the increased demand for clean energy. Those companies must derive a minimum percentage of revenues from the types of activities or services listed above.

ABC Green Future Emerging and Frontier Market LTAF

The fund aims to achieve capital growth over the long term and a positive environmental impact by investing in climate themes that contribute towards the mitigation of climate change and adaptation of society to negative impacts of climate change. This may include renewable energy infrastructure, forestry assets, climate insurance provision and resilient real estate. Investments will be selected according to the percentage of expenditure on operations, capital or research and development associated with those climate themes.

Sustainability Improvers.

46. This is for products with a sustainability objective consistent with an aim to invest at least 70% in assets that have the potential to improve environmental and/or social sustainability over time, and that are determined by their potential to meet the robust, evidence-based standard of sustainability. Firms must obtain robust evidence for selecting those assets.

47. Firms must also identify the period of time in which the product and/or its assets are expected to the meet the standard, including short and medium-term targets for improvements (commensurate with the investment horizon of the product).

48. **Other considerations:** Stewardship plays a key role in this category. Firms' investor stewardship strategy should support delivery of the objective and therefore help to accelerate improvements in environmental and/or sustainability.

49. The methodology or approach to select assets may be a relative measure or approach eg, selecting the 'best-in-class' for a particular sector. The evidence firms may use as the basis for selecting assets may, for example, include forward-looking metrics, transition plans, strategies or other credible information that demonstrates those assets are on a pathway to becoming more sustainable.

50. We have not specified how firms should treat assets that have met their targets for improvements. This will be for the firm to decide.

Examples of product profiles

ABC Emerging Markets Social Advancement Fixed Income Fund

The fund aims to provide capital growth over the long term by investing in the bonds of companies in emerging markets that have committed to improving their business practices in line with key global social standards, in relation to human rights, working conditions and local community impact. These companies have:

- published their strategies to improve business practices in line with global social standards
- specified timelines for meeting their targets and
- met the firms range exclusions criteria.

In line with ABC's stewardship strategy, ABC will support these companies in meeting global social standards.

ABC XYZ Global Net Zero Improvers Index Fund

The investment objective of the fund is to track the index. The sustainability objective is to invest in companies that are on a credible path to net zero by 2050. The index is constructed by selecting assets according to a net zero alignment framework, demonstrating their potential to decarbonise over time, and that meet XYZ's sustainability exclusions criteria. Assets in the fund will be subject to ABC's stewardship strategy.

Sustainability Impact

51. This is for products with a sustainability objective consistent with an aim to achieve a pre-defined positive, measurable, impact in relation to an environmental and/or social outcome (and invest at least 70% of their assets in accordance with that aim).

52. Firms must:

- specify a theory of change setting out how they expect their investment activities and the product's assets to contribute to positive impact
- specify a robust method for measuring and demonstrating the positive impact of both their investment activities and the product's assets.

53. **Other considerations:** We recognise that all labels have some of the common features associated with impact investing, such as intentionality, measurability and reporting on progress. While the Sustainability Focus and Improvers labels have an aim consistent with investing in assets that can indirectly improve or pursue positive outcomes, the Impact category aims to directly achieve a positive impact. A key feature of this category is that firms will need to measure and report on how their investment activities contribute to achieving the impact (ie their investor contribution) as well as how the assets are achieving the impact.

54. Firms may contribute to positive impact through investment activities such as engagement with the product's assets, investing in initial public offerings, participating in new rounds of capital raising, or directing new capital to projects and activities that offer solutions to environmental and/or social problems.

55. We encourage firms to refer to existing frameworks and guidance for impact investing.

56. We also note that impact measurement reporting could include the following:

- an articulation of the ambition and assessment of expected results
- an explanation of the investor contribution
- monitoring of progress throughout the lifecycle of the investment
- where investment is realised or at pre-defined point in time, ex-post evaluation and assessment
- independent verification of results

Examples of product profiles

ABC Global Climate Impact Investment Trust

The fund aims to provide capital growth over a longer time horizon by investing in companies and projects that focus on the increased provision of climate change solutions – such as renewable energy generation and infrastructure. Investments will include both listed assets, and unlisted assets and projects that aim to increase access to renewable energy in specified areas. The impact of investments and the firm's contribution will be measured and reported at least annually.

ABC Social Impact Real Estate Fund

The fund aims to provide capital and income growth through investing in and owning socially positive real estate assets. The fund will own residential units and let them to organisations that support occupants classified as homeless to progress into self-sufficient living, with the rent financed by local housing authorities. ABC will review and report on its contribution and the contribution of investments in achieving positive social impact relating to the fight against homelessness.

Sustainability Mixed Goals

57. This is for products with a sustainability objective to invest at least 70% in accordance with a combination of the sustainability objectives for the other labels. Firms must identify (and disclose) the proportion of assets invested in accordance with any combination of the other labels. However, requirements for each of the other labels must be met.

58. **Other considerations:** For example, for a product invested in assets that are already sustainable and assets that have the potential to improve over time, a firm may use the Sustainability Mixed Goals label but will need to meet the specific criteria (and associated disclosures) for the Sustainability Focus and Sustainability Improvers labels, respectively, for the proportion of assets that are sustainable or improving.

Examples of product profiles

ABC Sustainable Multi-asset Allocation

The fund aims to provide capital growth through investment in funds that purposefully set out to invest in companies that provide solutions to challenges posed by the transition to a more sustainable future, on both people and planet. These funds may include both labelled and unlabelled funds that the investment manager considers to meet, or demonstrate the potential to meet, sustainability criteria.

ABC Multi-asset Green Energy Fund

This fund intends to provide capital growth by investing in a range of equities and bonds that support and catalyse the transition to renewable energy in the wider economy. This product intends to invest around 30%-40% of assets in equities and bonds focused on companies already predominantly producing renewable energy and around 40%-50% of assets in equities and bonds supporting activities to increase renewable energy production.

Box 3. Passive Products

Passive products

The qualifying criteria for labels were designed to accommodate both active and passive strategies, where for passive strategies the product tracks an index that meets the criteria for a label.

When constructing a passive product with the intention of using a sustainability label, managers should ensure that the chosen index aligns with the sustainability objective for their product (to improve or pursue positive sustainability outcomes) and meets the qualifying criteria.

Managers of passive products should also consider the most appropriate KPIs to track the performance of the product towards the sustainability objective. This may require a deeper assessment and understanding of the index methodology to identify KPIs that can be repeatably produced and fairly reflect the performance of the product against its sustainability objective. Managers may consider either product-wide or asset-specific KPIs to be most appropriate to demonstrate the performance of index-tracking products.

We understand that managers do not have direct input to or control of the assets that are selected to be tracked within the index. For example, index providers may rebalance their indexes and this may lead to the removal or introduction of assets. However, as the manager remains responsible for ensuring the product meets the criteria on an ongoing basis, we would expect them to take reasonable steps to do so. This may, for example, include regular engagement with the index provider. We would also expect the manager's stewardship strategy to include its approach for stewardship in respect to passive products.

Firms will also need to disclose how the index providers' methodology aligns with the product's sustainability objective in their pre-contractual disclosures. We have not prescribed how managers should do so. However, we expect managers to consider what would be decision-useful for their clients and consumers.

Box 4. Alternative tools and strategies

Alternative tools and strategies: derivatives, short selling, securities lending

In our consultation, we acknowledged the important role that wider investment tools such as derivatives, short selling and securities lending can play – whether generating additional income or supporting an overall investment strategy – and our overarching position remains unchanged.

Our rules provide flexibility for firms to determine the most suitable approach to these alternative investment tools and approaches based on their product's sustainability objectives and investment policy and strategy. Firms should be transparent as to how these tools and strategies are used, explaining how they support the attainment of the product's sustainability objectives.

Derivatives and short selling

As noted above, where relevant to its investment policy and strategy, firms should explain how use of derivatives and how short selling aligns with or contributes to the sustainable investment product's stated sustainability objective.

For derivatives, we are not being prescriptive around how exposures should be calculated for the purposes of meeting any thresholds. Instead, firms should apply the rules based on the profile of their investment strategy and in the way that best reflects the economic and strategic reality of their exposures.

Securities lending

We do not consider securities lending as being incompatible with sustainable investing as securities lending arrangements can be tailored to meet the sustainability objectives of the lending and borrowing parties. Firms should clarify their securities lending policy and the steps they will take to ensure this is coherent with their products' sustainable investment strategies. We would also expect that any impacts on voting or broader stewardship activities as a result of securities lending are explained.

59. We have summarised the key attributes of each of the labels in the table below.

Table 24:

	Sustainability Focus	Sustainability Improvers	Sustainability Impact	Sustainability Mixed Goals
Objective	To invest in assets that are environmentally or socially sustainable determined by a robust, evidence-based standard of sustainability	To invest in assets that have the potential become more sustainable over time, determined by their potential to meet a robust, evidence-based standard of sustainability over time	To achieve a predefined, positive, measurable environmental and/or social impact	To invest in assets that meet or have the potential to meet a robust, evidence-based standard for sustainability, and/or invest with an aim to achieve positive impact.
Link to positive environmental or social outcome	Indirect	Indirect	Direct	Indirect and direct.
Standard of sustainability	Product's assets are determined using the standard	Product's assets have the potential to meet the standard	Can be used to select assets that have the potential to contribute to positive, measurable impact	Combination
KPIs	Measure the sustainability of the assets	Measure the assets' sustainability improvements	Measure the positive impact (both the impact of the assets and the investor's contribution)	Measure the sustainability and improvement of the assets, and/or impact of both the assets and investor contribution
Stewardship ***[and escalation plan]***	To support assets in remaining sustainable/ delivering long-term value	To support and accelerate improvements over time	To support assets in delivering positive impact	To support assets in remaining sustainable/ accelerate improvements over time/ delivering positive impact

60. We have also summarised how investment activities carried out in accordance with the 4 key financing strategies identified by GFANZ could be classified under our regime.

Box 5. GFANZ

Many firms that are in scope of our regime for investment labels and sustainability-related disclosures are signatories of the GFANZ.

These firms may be interested in how investment activities carried out in accordance with the 4 key financing strategies identified by GFANZ would be classified under our regime.

The 4 strategies – defined in Towards a Global baseline for Net-zero Transition Planning and elaborated in Defining Transition Finance and Considerations for Decarbonization Contribution Methodologies – are:

- **Climate solutions.** Financing or enabling the development and scaling of climate solutions.
- **Aligned.** Financing or enabling entities that are already aligned to a 1.5º C pathway.
- **Aligning.** Financing or enabling entities that are aligning to a 1.5º C pathway.
- **Managed phaseout.** Financing or enabling the accelerated, managed phaseout of high-emitting physical assets.

As long as other qualifying criteria for labelling are met, investment activities that meet the definitions of the 4 key financing strategies can be accommodated within the labelled product categories under our regime. For example:

Climate solutions. Depending on a product's sustainability objective and the robust, evidence-based standard that the firm references to select the product's assets, a financing strategy for climate solutions may form part of the investment policy and strategy for any one of the labelled product categories. For instance:

- a Sustainability Focus product may invest with reference to a robust, evidence-based standard that emphasises climate solutions
- a Sustainability Impact product may be dedicated to scaling up investment in new climate solutions technologies
- a Sustainability Improvers product may invest in companies with credible, strategic and rounded transition plans that look beyond their own decarbonisation to also consider how they can help accelerate whole-of-economy decarbonisation, including by adapting their business models to contribute to the delivery of climate solutions

Aligned and **Aligning** financing strategies are most likely to be found in Sustainability Improvers products. Both strategies direct financing to assets issued by companies that are still in transition. Therefore, even in the case of an Aligned financing strategy, the investment is unlikely to already meet a reasonable investor's threshold for sustainability. Both Aligned and Aligning financing strategies – including, for example, products tracking a Paris-Aligned and Climate Transition benchmark – may form part of the asset selection approach in a Sustainability Improvers product, where that product is directed towards a future 1.5º C emissions profile for assets.

Managed phaseout. Relative to the other financing strategies, Managed Phaseout may be less prominent in a retail-oriented investment product. That said, the managed phaseout of high-emitting assets may be part of the transition plans of some companies included in the investments of a Sustainability Improvers product.

Naming and marketing requirements for asset managers

61. Consumers must be able to navigate to both labelled and non-labelled products and be given clear, accurate information that will help them navigate the market and make informed investment decisions. So, in addition to the anti-greenwashing rule, we have introduced naming and marketing requirements for asset managers to help consumers differentiate between products that have sustainability objectives and use a label and those that have sustainability characteristics but do not use or qualify for a label. We have introduced requirements on the use of sustainability-related terms such as 'green', 'climate', 'social' etc, and any others that imply a product has sustainability characteristics. However, we have clarified that these rules do not apply when using the terms in other contexts eg financial impact, and when making short, factual, non-promotional statements, such as 'Firm X produces its sustainability product reports annually'.

62. Labelled funds are restricted from using the term 'impact' in the product name unless the product uses the Sustainability Impact label. And specific rules apply to feeder funds, requiring them to use the same terms as the master fund, provide access to disclosures and produce the statement outlined in the relevant sections below.

63. The following requirements apply to products that do not use a label but that use sustainability-related terms in their names and marketing:

Product names

- the product must have sustainability characteristics and the product's name must accurately reflect those characteristics
- the terms 'sustainable', 'sustainability' and 'impact' (or another variation of those terms) cannot be used

We clarify in guidance that the sustainability characteristics of a product should be material to that product, meaning, for example, that at least 70% of its assets have sustainability characteristics.

64. **Other considerations:** The naming rules and guidance are consistent with our Guiding Principles, which state that a fund that uses sustainability-related terms in its name could be misleading unless the fund pursues ESG/sustainability characteristics, themes or outcomes in a way that is substantive and material to the fund's objectives, investment policy and strategy. We have simplified the wording to:

- refer to sustainability characteristics only (as these characteristics may in turn be based around certain themes or pursuing certain outcomes); and
- state that sustainability characteristics should be material to the product (which in turn means that those characteristics will be material to the fund's objectives and/or investment policy and strategy). We clarify that this means, for example, that at least 70% of the assets have sustainability characteristics.

65. Firms should consider whether it is appropriate to use terms that represent investment approaches such as 'responsible' in a fund name. In these cases, although the investment approach may be applied across the whole product, 70% of the product's assets may not have sustainability characteristics as a result of applying that approach. For example, it may be misleading to use the term if, after applying a responsible investment approach across the product, the product only invests in a small percentage of assets that have sustainability characteristics.

66. A sustainability-related term may need to be qualified to accurately reflect a product's sustainability characteristics, eg, 'low-carbon tilt' rather than 'low carbon'. This may help to clarify that the majority of the product may not necessarily have sustainability characteristics. However, firms should consider whether it is appropriate to use the sustainability term eg, 'low-carbon' in the name of the fund and whether the use of that term may appear to overstate the product's sustainability characteristics. We would not expect to see a term such as 'low-carbon tilt' in a product name if the product is only marginally tilted towards assets with sustainability characteristics.

67. In line with the anti-greenwashing rule and proposed guidance, firms should also consider the product name as a whole and how it may be interpreted by a consumer. This includes consideration of whether the use of sustainability-related terms in the name of a product range meets the requirements above, and remains appropriate for each particular product within that range. It also includes consideration of whether a consumer will understand a term like 'ESG' in a product name without further clarification as to what the sustainability characteristics or investment approach is.

68. Where a fund tracks a benchmark, the fund manager could choose not to use the name of the benchmark if the name does not meet our requirements, or should satisfy itself that the fund name meets the requirements. Benchmark administrators are in scope of the anti-greenwashing rule and must ensure their product names meet the rule.

Marketing

69. Firms can continue to use the terms in marketing (ie when communicating those terms in financial promotions) provided that the anti-greenwashing rule is met and the disclosures and statement set out below are produced.

Disclosures

70. Firms using sustainability-related terms in product names and marketing for products without a label must produce the same types of disclosures as for labelled products (consumer-facing, pre-contractual and ongoing product-level disclosures) so that consumers have consistent information across all products that use sustainability-related terms.

Statement

71. Firms using sustainability-related terms in product names and marketing must publish a statement in a prominent place on the relevant digital medium where the product is offered explaining why the product does not have a label. Our latest round of consumer research revealed this to be helpful to consumers. The statement must include:

- an explanation as to the purpose of a label, using either the following standard text or an alternative which reflects the substance: 'Sustainable investment labels help investors find products that have a specific sustainability goal'
- a statement to clarify that the product does not have a label, using the following text: 'This product does not have a UK sustainable investment label'
- a brief explanation as to why the product does not have a label

72. Where firms are not communicating sustainability-related terms in financial promotions via a digital medium, they should nevertheless take reasonable steps to ensure the content of the disclosures and statement above is communicated to retail clients as appropriate.

73. **Other considerations:** Where it applies, firms should consider their obligations under the Consumer Duty whether promoting their products via digital or non-digital mediums.

Consumer-facing disclosures

74. Consumer-facing disclosures should provide consumers with better information on the key sustainability characteristics of investment products in a simple, accessible, consumer-friendly way to help them assess whether those products meet their needs and preferences.

75. Our rules are consistent with the consumer understanding outcome under the Consumer Duty. Where the Duty applies, firms will need to ensure their communications meet the information needs of retail customers, are likely to be understood, and equip retail customers to make decisions that are effective, timely and properly informed. The information must be communicated in a way that is fair, clear and not misleading.

76. We also remind firms of the Consumer Duty's requirements for tailoring a consumer disclosure appropriately to their needs and to 'testing, monitoring, and adapting communications', where appropriate, to support understanding and good outcomes.

77. We have set parameters for the format and content of consumer-facing disclosures to ensure some consistency for consumers, without introducing a template. For example, disclosures must be clear, concise, easily read and understood, and no more than 2 pages of A4 if printed.

78. All products using labels or sustainability-related terms in their names and marketing must produce consumer-facing disclosures. These must be short, standalone documents on a relevant digital medium (with hard copies kept for a minimum of 5 years and made available to consumers or us on request).

79. They must be kept up to date in accordance with the label or sustainability-related terms used, reviewed at least every 12 months, and updated every 12 months with progress towards the sustainability objective, where relevant. And if firms revise or cease to use a label, they must publish the updated the consumer-facing disclosure as soon as reasonably practicable, including the reasons for the revision and date of the revised disclosure.

80. Consumer-facing disclosures must include the following information:

81. (In Tables 25, 26 and 27, disclosure items marked 'L' must be included in the disclosures for products using labels and those marked with 'NL' are the minimum information requirements for products using sustainability-related terms without a label. However disclosures for products not using labels may include other disclosure items below as appropriate.)

Table 25

L NL	Basic information	Firm and product name, ISIN or other unique identifier, date of the disclosure
L	Label	The label and the relevant descriptor for the label
NL	Statement	Statement clarifying that the product does not have a label and why
L	**Sustainability goal**	A summary of any material effect (or expected effect) on the financial risk and return as a result of the investment strategy to pursue the sustainability goal; progress towards achieving the goal; and where pursuing that goal may result in material negative environmental and/or social outcomes
L NL	**Sustainability approach**	The key sustainability characteristics of the assets that the product will and will not invest in
		The types of assets held in the product for reasons other than to pursue the sustainability objective and why, and a summary of the investor stewardship approach in relation to the product. Mixed goals products must also disclose the proportion of assets invested in accordance with each sustainable investment category
L	**Sustainability metrics**	KPIs that demonstrate performance towards the objective, and contextual information
L NL		Any other metrics that a consumer might find useful in understanding the investment policy and strategy for the product, and contextual information

L NL	Further details	Details as to where consumers can access pre-contractual disclosures, ongoing product-level disclosures, entity-level disclosures and non-sustainability-related information

82. Firms must clearly signpost the 'sustainability goal', 'sustainability approach' and 'sustainability metrics' as such. Disclosures relating to the sustainability goal and label descriptors, or statement clarifying that the product does not have a label, must be located in a prominent place in the consumer-facing disclosure.

83. **Other considerations:** We encourage industry to consider developing a template that can be used voluntarily, where this may be helpful.

84. A strategy may have a material impact on the financial return of the product where the firm has specifically decided to opt for sub-market returns while pursuing positive environmental and/or social outcomes.

Detailed product-level disclosures

85. While the consumer-facing disclosures provide a summary of the key sustainability characteristics of a product, pre-contractual and ongoing product-level disclosures in a sustainability product report will provide more detail. This is intended to be useful for consumers that want to know more or for other stakeholders such as institutional investors.

86. All products using labels or sustainability-related terms in their names and marketing must produce the detailed product-level disclosures. Firms must keep these disclosures under review and update them as appropriate when revising or ceasing to use a label.

87. The key attributes of the product-level disclosures are as follows:

88. **Pre-contractual disclosures.** These will be made either in a fund prospectus, prior disclosure document or sustainability product report (Part A) depending on the type of firm producing the disclosures. The disclosures must be clearly identifiable in the pre-contractual materials, which may be achieved by including the information in a dedicated section. Disclosures relating to the label and sustainability objective, or statement clarifying that the product does not have a label, must be located in a prominent place in the pre-contractual materials.

Table 26

89. Pre-contractual disclosures must include:

L	Label	The label used for the product
NL	Statement	Statement clarifying that the product does not have a label and why

L	Sustainability objective	The sustainability objective; where the investment strategy to pursue the objective may result in a material effect (including expected effect) on the financial risk and return; the link between the objective and positive environmental and/or social outcome; and where pursuing that objective may result in material negative environmental and/or social outcomes.
L NL	Investment policy and strategy	Details of the investment policy and strategy for the product, including how the manager determines the assets the product invests in (eg, the criteria it applies to determine sustainability characteristics)
L		The robust, evidence-based standard of sustainability, including the basis on which the standard is considered appropriate and the function or third party that carried out the independent assessment (without naming individuals)
L		The proportion of assets invested in accordance with the sustainability objective and the types of assets that are held for other reasons, and why.
L		How the index providers' methodology aligns with the product's sustainability objective (where relevant)
L	Sustainability metrics	Details of the policies and procedures, and the KPIs, that the firm will use to monitor and demonstrate performance towards the sustainability objective
NL		Details of any other metrics a consumer may find useful in understanding the investment policy and strategy for the product
L	Investor Stewardship	Details of the investor stewardship strategy and resources to support achievement of the sustainability objective, including how that strategy will be applied and, where relevant, whether the firm is a signatory to the UK Stewardship Code
L	Escalation plan	Any actions the firm will take in accordance with its escalation plan
L	Category-specific disclosures	Specific disclosures associated with the relevant labels: • Sustainability Improvers (eg, expected timescales for improvement and the types of evidence relied on), • Sustainability Impact (eg, the theory of change and method to measure and demonstrate impact) and • Sustainability Mixed Goals (eg, the proportion of assets invested in accordance with each sustainable investment category and the specific disclosures associated with each category)

2.1 **Other considerations:** Pre-contractual disclosures are largely a static document. We do not expect firms to make changes to these disclosures as a result of these rules, other than when first using a label, or revising or ceasing to use a label, as relevant.

2.2 **Ongoing product-level disclosures.** These disclosures must be made annually from when the firm starts to use the label for a product. They must be made in a Sustainability Product Report (Part B), which builds from the TCFD product report where firms are in scope of the TCFD-aligned disclosure requirements, or on demand (see below).

Table 27

2.3 Ongoing product-level disclosures must include:

L NL	Basic information	Date of the report
L	Label	The label used for the product
NL	Statement	Statement clarifying that the product does not have a label and why
L	Sustainability objective	Details of the sustainability objective, progress towards achieving the objective, the proportion of assets invested in accordance with the sustainability objective and the types of assets held for other reasons (and why)
L NL	Investment policy and strategy	Details of how the product is invested in accordance with its investment policy and strategy on an ongoing basis
L	Sustainability metrics	Details of the product's performance against KPIs
L NL		Details of any other relevant metrics that a consumer might find useful in understanding the investment policy and strategy for the product
L NL		Contextual information and historical annual calculations for the KPIs and/or metrics (as relevant)
L NL	Material deviations	Details as to how the firm's approach to the product materially deviates from its entity-level approach (where relevant)
L	Investor stewardship	Details as to how investor stewardship has been applied, including activities undertaken and outcomes achieved (or expected to be achieved). These may include cross-references to Stewardship Code reporting, provided that information relevant to the product is clearly signposted.
L	Escalation plan	Details of matters escalated
L	Category-specific disclosures	Specific disclosures associated with the relevant labels: • Sustainability Impact (eg, progress that the product is making towards achieving a positive impact)

90. **On-demand.** Where public disclosures are not appropriate, which may be the case for unauthorised AIFs not listed on a recognised exchange, the information above must be provided to eligible clients on demand. Eligible clients are those that need the information for their own sustainability-related disclosure requirements. Firms must respond to one request for the information per 12-month period (at a calculation date agreed with the client or at the most recent date the up-to-date information is available within the 12-month reporting period). Firms must provide the information to the client within a reasonable timeframe and in a format that meets the information needs of the client. However, firms are not required to produce on-demand disclosures before 2 December 2025.

Firms' management of sustainability risks/opportunities

91. Disclosures on how firms are managing sustainability-related risks and opportunities in relation to products managed on behalf of clients and consumers enable those clients and consumers to take sustainability matters into account when granting mandates or selecting product providers.

92. The disclosures must be made annually in a Sustainability Entity Report, which builds from the TCFD Entity Report, by all firms with assets under management of over £5 billion. Firms can cross-refer to disclosures made in a group or parent-level report, or another relevant report, provided the relevant information is clearly signposted and any material deviations from the group or parent approach are explained. Firms must also set out the rationale for doing so and include a compliance statement.

93. Consistent with the TCFD's (and ISSB's) 4 pillars, firms are required to include details of their governance, strategy, risk management and metrics and targets in relation to managing sustainability-related risks and opportunities. In doing so, firms may consider disclosing the sustainability topics they prioritise, their impact on the environment and/or society (having regard to GRI standards) and referring to the TCFD's supplementary guidance for asset managers. They may also find the IFRS sustainability disclosure standard (IFRS S1), and the SASB standards relevant to help determine what information to disclose.

94. Where a firm uses investment labels or sustainability-related terms in the naming and marketing of its products it must also include details of its resources, governance, and organisational arrangements in relation to those products.

95. **Other considerations:** We expect in-scope firms to be able to leverage their capabilities and processes built for climate-related disclosures to produce disclosures on the sustainability-related topics that they are prioritising in their governance, strategy, risk management, and metrics and targets.

96. We have referenced the IFRS S1, SASB standards and GRI standard as materials that may be useful for determining the content of disclosures. However, as they were developed for different purposes, we encourage firms to consider those documents through the lens of what information would be decision-useful for their clients and consumers. We would not expect line by line disclosures. We will monitor developments and consider whether and how to update the disclosure requirements over time. In addition, we encourage industry to develop guidance relating to disclosures for specific sectors, asset classes or sustainability topics.

Distributors

97. Distributors (such as advisers and platforms) play a key role in communicating sustainability information to retail investors.

98. They are required to communicate the label and consumer-facing disclosures (both for labelled and unlabelled funds) to retail investors. This may be by displaying the label prominently on the relevant digital medium (eg, product webpage), and by providing access to the consumer-facing disclosures, or otherwise communicating them to consumers via the distributors' usual channels of communication. Distributors must also ensure the labels and disclosures are kept up-to-date in accordance with any changes the firm makes to their products.

99. Distributors and advisers are also subject to the anti-greenwashing rule and must therefore ensure all sustainability-related references comply with that rule.

100. Distributors must also provide a notice on overseas products (recognised schemes, including ETFs), to clarify that they are not subject to the UK sustainability disclosure and labelling regime. This must be in a prominent place on the relevant digital medium, along with a hyperlink to the relevant FCA webpage setting out further information on the regime for retail consumers, or otherwise communicated via the distributor's usual channel of communication. The notice must be applied to products by 2 December 2024.

101. We continue to work with HMT on the approach to overseas funds.

102. **Other considerations:** We expect distributors to make the labels and consumer-facing disclosures available to retail investors as soon as reasonably practicable after the firm produces them, however we have not prescribed timelines within our rules. This approach recognises that firms are likely to apply labels to their products at different times after 31 July 2024.

103. We also remind distributors that the purpose of the rules is to meet the needs of retail investors. We expect distributors to take this into consideration when determining where and how to provide retail clients with access to the labels and consumer-facing disclosures.

Annex 3

International compatibility

1. As part of our ESG strategy, we are committed to implementing rules that are coherent with international frameworks and standards as far as possible.

2. We recognise that many UK firms are already subject to the EU SFDR and have already invested in systems and processes to classify products according to the SFDR provisions.

3. We are introducing a labelling regime that categorises products to help consumers navigate the market, and one that is underpinned by clear, objective qualifying criteria. As a result, our starting point is different to the SFDR. However, the regimes are compatible, and firms should be able to use much of the information they already use for their product categorisation and disclosures under SFDR to meet our qualifying criteria and disclosure requirements.

4. Prior to the publication of our consultation, the US SEC also issued proposals that, similar to SFDR, categorise products to determine the disclosures that firms would be required to make.

5. In our consultation we provided a mapping of our proposals to requirements in the SFDR and US SEC's proposals. Our assessment has broadly remained the same. However, to help firms we have provided an updated analysis of the criteria for labels in line with our final rules. The mapping below is to SFDR requirements only as the US SEC has yet to finalise its approach.

EU Sustainable Finance Disclosure Requirements

6. In our consultation we set out how Article 6, Article 8 and Article 9 funds under SFDR could map to our labels. To complement this, below we have set out a summary of our qualifying criteria and the relevant information under SFDR that firms may leverage to support meeting the SDR requirement.

	SDR requirement	SFDR requirement/information to leverage
Product	Sustainability objective that is clear, specific and measurable	Some products may have a sustainability objective (eg Article 9 funds)
	At least 70% of its assets invested in accordance with a robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability	Proportion of investments with a sustainability objective/promoting sustainability characteristics. However no specific link to a robust, evidence-based standard
	Robust and evidence-based KPIs to measure performance against the sustainability objective	Measure the attainment of the sustainable investment characteristics/objective through sustainability indicators

	SDR requirement	SFDR requirement/information to leverage
Firm	Identify material negative environmental and/or social outcomes that may arise in pursuing the sustainability objective	Disclosure of principal adverse impacts
	Identify assets held for reasons other than to pursue the sustainability objective	Disclosure of the proportion of investments with a sustainability objective/promoting sustainability characteristics
	Monitor performance of the product in achieving the sustainability objective	Measure the attainment of the sustainable investment characteristics/objective through sustainability indicators
	Have an investment policy for achieving the sustainability objective and investment strategy for what the product invests in	Disclosure of investment strategy, monitoring, etc
	Have an escalation plan in setting out the actions to be taken if the assets do not demonstrate sufficient performance against the sustainability objective	Disclosure of engagement policies. (Firms may need to expand on this to set out an escalation plan under SDR)
	Obtain independent assessment of the standard for sustainability to confirm that it's appropriate for asset selection/fit for purpose	Disclosures on whether assurance is provided under SFDR. However, 'independent assessment' in SDR is only limited to the sustainability standard (which can be via internal processes)
	Ensure there are appropriate resources, governance and organisational arrangements, commensurate with the delivery of the sustainability objective	No specific requirement under SFDR
	Identify and apply the investor stewardship strategy needed to deliver the sustainability objective, including the expected activities and outcomes	Disclosure of engagement policies. (Firms may need to expand on this requirement under SDR eg, for other forms of stewardship)
	Where a product tracks an index, firms must only select an index that aligns with the general and specific criteria	No specific requirement under SFDR
	Ensuring the labelling criteria are met on an ongoing basis	Monitoring requirements, (Firms may need to expand to capture all SDR requirements)

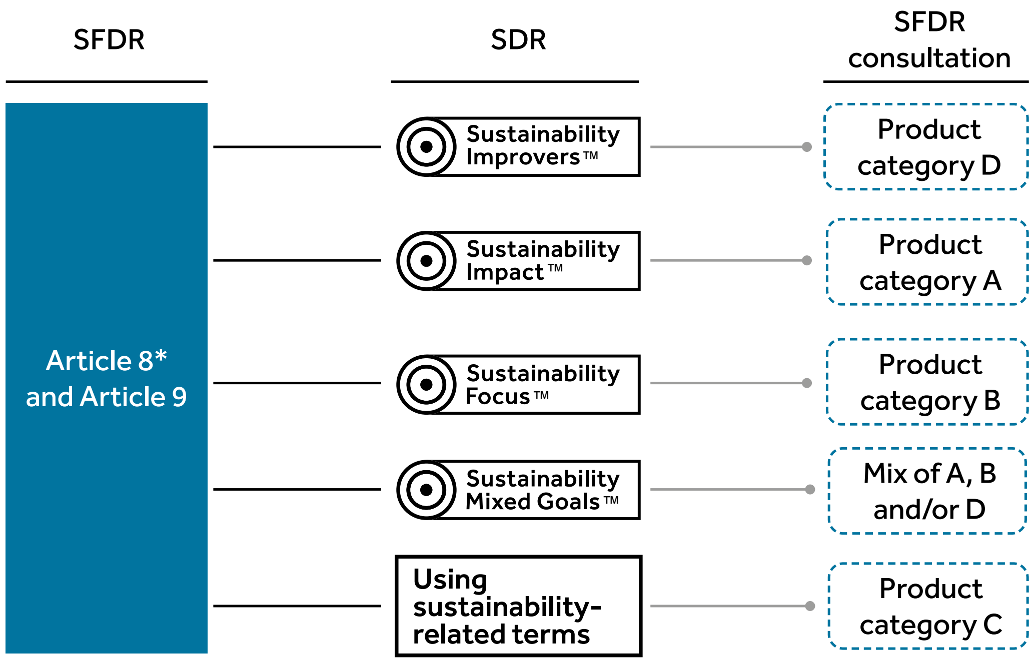
Ongoing EU developments

7. ESMA has proposed guidelines on fund names using ESG or sustainability-related terms.

8. In September 2023, the European Commission published a targeted consultation questionnaire, consulting on changes to SFDR. The questions in this consultation align in many ways with the rules and guidance we have set out in this PS.

9. We will monitor developments in this space and continue to support greater alignment and compatibility between the two regimes. This will be helpful to firms when assessing their products and will result in greater consistency in product information to help consumers navigate the market.

10. We have set out below a high-level summary of how our labels map to the current SFDR categories and those proposed in the SFDR consultation.



* Article 8 funds would need to level up to qualify for the SDR labels

Proposed SFDR consultation categories

Product category A: products investing in assets specifically striving to offer targeted, measurable solutions to sustainability related problems that affect people and/or planet

Product category B: products aiming to meet credible sustainability standards/themes

Product category C: products that exclude activities and/or investees involved in activities with negative sustainability effects

Product category D: products with a transition focus aiming to bring measurable improvements to the sustainability profile of assets they invest in

Other international developments

11. Since we published our consultation there have been several developments in other jurisdictions that are looking to achieve similar outcomes around sustainability disclosures, naming and marketing and in some cases considering a labelling or product categorisation framework. For example:

- The Australian Government's latest Sustainable Finance Strategy includes plans to develop a labelling system for investment products marketed as sustainable to retail investors, as well as pre-contractual and periodic information.
- The Swiss Federal Department of Finance has also announced a planned consultation on efforts to address greenwashing, in line with the Swiss Federal Council's position on greenwashing, which has many similarities to our approach.
- The Dutch Authority for the Financial Markets proposed guidelines on making sustainability claims to help firms comply with existing requirements to ensure those claims are correct, clear and non-misleading. It also published a position paper on proposed improvements to SFDR in light of discussions on the European Commission's review. This includes proposals to introduce 'transition', 'sustainable' and 'sustainable impact' labels.

12. We will continue to engage with and support international policy makers as they consider their sustainability regimes, with a view to promoting compatibility to the extent possible.

Annex 4

List of non-confidential respondents

2° Investing Initiative (2DII)

7IM

A2Risk

abrdn

Acadian Asset Management

Affirmative Investment Management

AJ Bell

Allianz Global Investors

Apex Group

Association for Financial Markets in Europe (AFME)

Association of British Insurers (ABI)

Association of Investment Companies (AIC)

Association of Professional Compliance Consultants (APCC)

Association of Real Estate Funds (AREF)

Atomos Investment Ltd

Aviva

Ayres Punchard Investment Management Limited

Baillie Gifford & Co

Barclays

BDO LLP

Better Buildings Partnership (BBP)

Big Society Capital

BlackRock

BlueMark

BNY Mellon Investment Management

Border to Coast Pension Partnership Limited

Bovill

Brewin Dolphin Limited

British Private Equity & Venture Capital Association (BVCA)

British Property Federation (BPF)

British Vehicle Rental and Leasing Association (BVRLA)

Brunel Pension Partnership Limited

Cancer Research UK

Capital Group

Carbon Intelligence, part of Accenture

Carbon Tracker and Planet Tracker

Cardano

Castlefield Partners Limited

CCLA Investment Management

CFA Society of the UK

Charles Stanley & Co Limited

Chemical Industries Association (CIA)

CIRCA5000 Ltd

Clarity AI

ClientEarth

Climate & Company

CMS Cameron McKenna Nabarro Olswang LLP

Connected Asset Management Limited

Deloitte LLP

Depositary and Trustee Association (DATA)

Dimensional Fund Advisors Ltd

E3G

EdenTree Investment Management

EIRIS Foundation

EQ Investors

Ernst & Young LLP (EY)

ESG Accord

Ethical Consumer Research Association Ltd

Ethical Screening

Ethical Futures

European Association for Investors in Non-Listed Real Estate Vehicles (INREV)

European Leveraged Finance Association (ELFA)

Evelyn Partners Investment Management LLP

Evenlode Investment Management Limited

Eversheds Sutherland Financial Services

Farrer & Co LLP

FCA Practitioner Panel

FE fundinfo

Federated Hermes Limited

Feedback Global

FIA EPTA (European Principal Traders Association)

Fidelity International

Financial Inclusion Centre

Financial Markets Law Committee (FMLC)

Financial Services Consumer Panel

First Sentier Investors

Fulcrum Asset Management

FundRock

GAM Investments

Global Impact Investing Network (GIIN)

Global Infrastructure Investor Association (GIIA)

Global Legal Entity Identifier Foundation (GLEIF)

Global Reporting Initiative (GRI)

Green Circle Solutions

Gresham House

Holden & Partners

Hymans Robertson LLP

ICAS

ICE

Investment Company Institute (ICI) and ICI Global

Impact Frontiers

Impact Investing Institute (III)

impak Ratings

Impax Asset Management

InfraRed Capital Partners

Innovate Finance

Insight Investment

Institute and Faculty of Actuaries (IFoA)

Institute of Chartered Accountants in England and Wales (ICAEW)

Institutional Investors Group on Climate Change (IIGCC)

interactive investor

International Capital Market Association (ICMA)

International Corporate Governance Network (ICGN)

International Organization for Standardization (ISO), Task Committee 68 Financial Services (TC68), Standards Advisory Group (AG2)

International Regulatory Strategy Group (IRSG)

International Securities Lending Association (ISLA)

International Swaps and Derivatives Association (ISDA)

Invesco

Investment Property Forum (IPF)

Isio

J.P. Morgan Asset Management (JPMAM)

Janus Henderson Investors

Keep It Easy Financial Planning

Leadenhall Capital Partners

Loan Market Association (LMA)

London CIV

M&G plc

Macfarlanes LLP

Make My Money Matter (MMMM)

Managed Funds Association

Martin Currie Investment Management Ltd

MBO & Co

Melville Rodrigues Consulting LLP

Mercer Limited

Montanaro Asset Management

Morningstar

MSCI

Nest

Net Purpose

Neuberger Berman Europe Limited

NorthPeak Advisory

Overstory Finance

P1 Investment Management

Paradigm Norton Financial Planning Limited

Parmenion

Personal Investment Management & Financial Advice Association (PIMFA)

PortF.io

PortfolioMetrix

Preqin

Principles for Responsible Investment (PRI)

Quoted Companies Alliance

Rathbones Group Plc

Redington Ltd

Ripple Energy Limited

Rose and North Ltd

Royal Institution of Chartered Surveyors (RICS)

Royal London

Sarasin and Partners LLP

Schroders

Securities Industry and Financial Markets Association's (SIFMA) Asset Management Group (AMG)

ShareAction

Simmons & Simmons LLP

Sizewell C

Slater Investment Limited

Square Mile

SRI Services

St James's Place

Standard Chartered

State Street Global Advisors

T Rowe Price

Taylormade Financial Planning LLP

Teachers Insurance and Annuity Association of America (TIAA)

The Alternative Investment Management Association (AIMA) and the Alternative Credit Council (ACC)

The Big Exchange

THE Collaboration

The Global Steering Group for Impact Investment (GSG)

The Good Economy

The Investing and Saving Alliance (TISA)

The Investment & Life Assurance Group (ILAG)

The Investment Association

The Law Society

threesixty services

Tribe Impact Capital LLP

Triodos Bank UK

Tumelo

UK Finance

UK Sustainable Investment and Finance Association (UKSIF)

United Kingdom Shareholders Association (UKSA) and UK Individual Shareholders Society (ShareSoc)

Universal Owner Initiatives

Universities Superannuation Scheme (USS) and Railpen

Virgin Money Unit Trust Managers Limited (VMUTM)

Waverton

Weightmans LLP

WellHouse Consulting

WHEB

WWF UK

XPS Pensions Group

A number of respondents requested their answers to be treated as confidential and we have also decided to treat some responses from individuals as confidential.

Annex 5

Abbreviations used in this paper

Abbreviation	Description
ACS	Authorised Contractual Scheme
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund manager
AUM	Assets under management
AUT	Authorised Unit Trust
CBA	Cost benefit analysis
CP	Consultation Paper
COLL	Collective Investment Schemes Sourcebook
DLAG	Disclosures and Labels Advisory Group
DP	Discussion Paper
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
ETF	Exchange-Traded Fund
EU	European Union
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSMA	Financial Services and Markets Act
GFANZ	Glasgow Financial Alliance for Net Zero
GHG	Greenhouse gas
GIIN	Global Impact Investing Network

Abbreviation	Description
GRI	Global Reporting Initiative
HMT	His Majesty's Treasury
IFRS	International Financial Reporting Standards
IFRS S1	General requirements for disclosure of sustainability-related financial information
INED	Independent Non-Executive Director
IOSCO	International Organization of Securities Commissions
ISSB	International Sustainability Standards Board
IT	Information Technology
KIID	Key Investor Information Document
KPI	Key Performance Indicator
LTAF	Long Term Asset Fund
PS	Policy Statement
PRI	Principles for Responsible Investment
SASB	Sustainability Accounting Standards Board
SCM	Standardised Cost Model
SDG	Sustainable Development Goals
SDR	Sustainability Disclosure Requirements
SEC	Securities and Exchange Commission
SFDR	Sustainable Finance Disclosure Regulation
SRI	Socially Responsible Investing
TCFD	Taskforce on Climate-Related Financial Disclosures
TSC	Treasury Sub-Committee
TPT	Transition Plan Taskforce
UCITS	Undertakings for Collective Investment in Transferable Securities

Abbreviation	Description
UK	United Kingdom
US	United States of America

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Appendix 1

Made rules (legal instrument)

SUSTAINABILITY LABELLING AND DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION INSTRUMENT 2023

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 28 November 2023.

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
Conduct of Business sourcebook (COBS)	Annex C
Insurance: Conduct of Business sourcebook (ICOBS)	Annex D
Mortgages and Home Finance: Conduct of Business sourcebook (MCOB)	Annex E

Banking: Conduct of Business sourcebook (BCOBS)	Annex F
Claims Management: Conduct of Business sourcebook (CMCOB)	Annex G
Funeral Plan: Conduct of Business sourcebook (FPCOB)	Annex H
Product Intervention and Product Governance sourcebook (PROD)	Annex I
Environmental, Social and Governance sourcebook (ESG)	Annex J
Collective Investment Schemes sourcebook (COLL)	Annex K
Consumer Credit Sourcebook (CONC)	Annex L
Investment Funds sourcebook (FUND)	Annex M

Notes

E. In the Annexes to this instrument, the notes (indicated by "**Note**:" or "*Editor's 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 Instrument 2023.

By order of the Board
23 November 2023

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

consumer-facing disclosure	a disclosure produced under *ESG* 5.2 in respect of a *sustainability product*.
feeder fund	(in *ESG*) any of the following: (1) a *feeder AIF*; (2) a *feeder LTAF*; (3) a *feeder NURS*; or (4) a *feeder UCITS*.
Global Reporting Initiative Standards	the revised Universal Standards 2021 (in effect from 1 January 2023).
IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information	the International Financial Reporting Standard (IFRS) S1 General Requirements for Disclosure of Sustainability-related Financial Information published in June 2023. Available at the following URL: [*Editor's note*: insert link to https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf?bypass=on]
master fund	(in *ESG*) any of the following: (1) a *master AIF*; (2) a *master UCITS*; (3) a *qualifying master scheme* or a single *sub-fund* of a *qualifying master scheme* that is an *umbrella*; or (4) a *qualifying master LTAF* or a single *sub-fund* of a *qualifying master LTAF* that is an *umbrella*.

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*.
pre-contractual disclosure	a disclosure produced under *ESG* 5.3 in respect of a *sustainability product*.
pre-contractual materials	(in *ESG*) one of the following (as applicable): (1) a *prospectus*; or (2) (if not within (1)) in relation to a *full-scope UK AIFM*, the prior disclosure of information required by *FUND* 3.2.2R.
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*.
relevant digital medium	(in *ESG*) a *firm's* website and any mobile application or other digital medium that the *firm* may be using in relation to a *sustainability product*.
sustainability characteristics	environmental or social characteristics.
sustainability entity report	(in *ESG*) a public report regarding the overall assets managed by a *manager* 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*.
sustainability label	any of the labels that are listed at *ESG* 4.1.1R(1).

sustainability objective a statement of intention to undertake activities with the aim of directly or indirectly improving or pursuing positive environmental and/or social outcomes.

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*.

theory of change (in *ESG*) a comprehensive description and illustration of how and why a desired change is expected to occur in a particular context.

Amend the following definitions as shown.

client …

(B) in the *FCA Handbook*:

…

(11) …

<ins>(12) (in *ESG*) in addition to (1), includes:</ins>

<ins>(i) a *unitholder* or potential *unitholder* in a *scheme*; and</ins>

<ins>(ii) to the extent not within (i), an investor or potential investor in an *AIF*.</ins>

distribute …

(5) …

…

<ins>(6) (in *ESG*) in relation to a *client*, offering, selling, recommending, advising on, *arranging*, *dealing*, proposing or providing a</ins>

sustainability product or a *recognised scheme* (including an *ETF* that is a *recognised scheme*).

…

distributor …

(4) …

(5) (in *ESG*) a *firm* which offers, sells, recommends, advises on, *arranges*, *deals*, proposes or provides a *sustainability product* or a *recognised scheme* (including an *ETF* that is a *recognised scheme*).

manager …

(4) (in *ESG*) in addition to (1) and (1A):

(a) (in relation to an *ACS*) the *authorised contractual scheme manager*;

(b) (in relation to an *ICVC* which has not appointed a *person* to manage the *scheme*) the company;

(c) a *small authorised UK AIFM*; and

(d) a *full-scope UK AIFM*.

on-demand TCFD information an *on-demand TCFD product report* or *underlying asset data*.

TCFD in-scope business the following activities, as set out in more detail in ~~*ESG* 1.2.1R~~ *ESG* 1A.1.1R(2):

(1) *portfolio management*;

(2) *managing a UK UCITS*;

(3) *managing an AIF*;

(4) providing *insurance-based investment products*;

(5) operating a *personal pension scheme* (excluding a *SIPP*) or *stakeholder pension scheme*; and

(6) operating a *SIPP*, but only in relation to *SIPPs* which contain an *insurance-based investment product*, a *unit*, an interest in a *closed-ended investment fund* or a *pre-set investment portfolio* provided by the *firm*.

TCFD product any of the following:

…

(5) an *unauthorised AIF* managed by a ~~*UK AIFM*~~ *full-scope UK AIFM* or a *small authorised UK AIFM*, unless it is ~~a closed-ended *AIF* that makes no additional investments after 22 July 2013 (see regulation 74(1) of the *AIFMD UK Regulation*).~~:

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

(b) a *SEF*; or

(c) an *RVECA*.

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.3.12	R	(1)	A *manufacturer* must select distribution channels that are appropriate for the *target market*.
		(2)	A *manufacturer* must provide each *distributor* with adequate information in good time to enable it to comply with the *rules* applicable to it in this section.
		(3)	The information to be made available under (2) includes all appropriate information regarding the *product* and the product approval process from time to time to enable the *distributor* to comply with *PRIN* 2A.3.16R.
2A.3.12 A	G	A *manufacturer* that is a *manager* is reminded of its obligations under *ESG* 4.1.8R and *ESG* 5.2.9R in meeting its obligations under *PRIN* 2A.3.12R.	

…

Distributors: obtaining information from manufacturers

2A.3.16 R A *distributor* must ensure that the product distribution arrangements contain effective measures and procedures to obtain sufficient, adequate and reliable information from the *manufacturer* about the *product* to:

(1) understand the characteristics of the *product*;

(2) understand the identified *target market*;

(3) consider the needs, characteristics and objectives of any *retail customers* in the *target market* with characteristics of vulnerability;

(4) identify the intended distribution strategy for the *product*; and

(5) ensure the *product* will be *distributed* in accordance with the needs, characteristics and objectives of the *target market*.

2A.3.16A	G	A *distributor* is reminded of its obligations under *ESG* 4.1.16R to *ESG* 4.1.19R in meeting its obligations under *PRIN* 2A.3.16R.

…

Annex C

Amendments to the Conduct of Business sourcebook (COBS)

In this Annex, underlining indicates new text.

4 Communicating with clients, including financial promotions

4.1 Application

Who? What?

…

4.1.1C G …

4.1.1D G A *firm* is reminded of its obligations under the naming and marketing *rules* in *ESG* 4.3 (in particular, *ESG* 4.3.1R) when it:

(1) *communicates* or *approves* a *financial promotion* that references the *sustainability characteristics* of a product or service; or

(2) undertakes *sustainability in-scope business* in relation to a *sustainability product*.

…

4.10 Approving and confirming compliance of financial promotions

…

Approving financial promotions

…

4.10.2B G …

4.10.2C G A *firm* is reminded of its obligations under *ESG* 4.3.1R when it *communicates* or *approves* a *financial promotion* that makes reference to the *sustainability characteristics* of a product or service.

…

18 Specialist Regimes

…

18.5 Residual CIS operators and small authorised UK AIFMs

…

Format and content of fund documents

…

18.5.9	G	…
18.5.9A	G	A *small authorised UK AIFM* that uses a *sustainability label*, or one of the terms in *ESG* 4.3.2R(2) in accordance with *ESG* 4.3.2R(1), in relation to a *UK AIF* is reminded of its obligations in *ESG* 5.3 to *ESG* 5.5 relating to the preparation of Part A of a *public product-level sustainability report*.

…

Annex D

Amendments to the Insurance: Conduct of Business sourcebook (ICOBS)

In this Annex, underlining indicates new text.

2 General matters

…

2.2 Communications to clients and financial promotions

…

Pricing claims: guidance on the clear, fair and not misleading rule

2.2.4 …

<u>Sustainability-related claims: guidance on the clear, fair and not misleading rule</u>

<u>2.2.4A</u>	<u>G</u>	<u>A *firm* is reminded of its obligations under *ESG* 4.3.1R when it *communicates* or *approves* a *financial promotion* that references the *sustainability characteristics* of a product or service.</u>

Annex E

Amendments to the Mortgages and Home Finance: Conduct of Business sourcebook (MCOB)

In this Annex, underlining indicates new text.

3A Financial promotions and communications with customers

…

3A.2 The fair, clear and not misleading rules

Fair, clear and not misleading communications

…

3A.2.2	G	…
3A.2.2A	G	A *firm* is reminded of its obligations under *ESG* 4.3.1R when it *communicates* or *approves* a *financial promotion* that references the *sustainability characteristics* of a product or service.

…

Annex F

Amendments to the Banking: Conduct of Business sourcebook (BCOBS)

In this Annex, underlining indicates new text.

2	**Communications and financial promotions**	
…		
2.2	**The fair, clear and not misleading rule**	
…		
2.2.6	G	…
2.2.7	G	A *firm* is reminded of its obligations under *ESG* 4.3.1R when it *communicates* or *approves* a *financial promotion* that references the *sustainability characteristics* of a product or service.

…

Annex G

Amendments to Claims Management: Conduct of Business sourcebook (CMCOB)

In this Annex, underlining indicates new text.

3 Financial promotions, and communications with customers

…

3.2 Financial promotions and communications – general standards

The fair, clear and not misleading rule

…

3.2.2 G (1) …

(2) In complying with that *rule*, *firms* should:

(a) have regard to the average *customer's* understanding of the services that the *firm* provides;

(b) present information in a logical order;

(c) use plain and intelligible language and, where the use of jargon or technical terms is unavoidable, explain the meaning of any jargon or technical terms;

(d) make key information prominent and easy to identify, including by means of headings and the layout, display and font attributes of text, and by the use of design devices such as tables, bullet points and graphs; and

(e) avoid unnecessary disclaimers.

<u>3.2.2A</u> <u>G</u> <u>A *firm* is reminded of its obligations under *ESG* 4.3.1R when it *communicates* or *approves* a *financial promotion* that references the *sustainability characteristics* of a product or service.</u>

…

Annex H

Amendments to the Funeral Plan: Conduct of Business sourcebook (FPCOB)

In this Annex, underlining indicates new text.

4 Communications and financial promotions

…

4.2 Communications and financial promotions: the obligations

Fair, clear and not misleading rule

…

4.2.4	G	…
4.2.4A	G	A *firm* is reminded of its obligations under *ESG* 4.3.1R when it *communicates* or *approves* a *financial promotion* that references the *sustainability characteristics* of a product or service.

…

Annex I

Amendments to the Product Intervention and Product Governance sourcebook (PROD)

In this Annex, underlining indicates new text.

3	**Product governance: MiFID**	
…		
3.3	**Distribution of products and investment services**	
	General	
…		
3.3.2	G	…
3.3.2A	G	A *distributor* is reminded of its obligations under *ESG* 4.1.16R to *ESG* 4.1.19R in meeting its obligations under *PROD* 3.3.1R.
…		

Annex J

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

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

1 Purpose and application

1.1 Purpose and application

Purpose

…

1.1.2 G *ESG* 1A and *ESG* 2 ~~contains~~ contain *rules* and *guidance* regarding the disclosure of climate-related financial information consistent with *TCFD Recommendations and Recommended Disclosures*.

1.1.3 G …

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*, 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 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* 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* must produce in relation to a *sustainability product*, together with *rules* and *guidance* requiring a *manager* to produce an entity-level report.

1.1.4 G The TCFD-related disclosures are intended to help meet the information needs of market participants, including a *firm's* institutional *clients* (e.g. pension trustees, employers and corporate investors) and *consumers* of their products (e.g. pension scheme members and retail investors), in relation to the climate-related impact and risks of a *firm's TCFD in-scope business*.

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 sustainability in-scope business*.

…

1.2 General application

1.2.1 R ~~(1)~~ ~~The *rules* in this sourcebook apply to a *firm* of a type listed in column 1 of the table at *ESG* 1.2.1 R(2) in relation to the *TCFD in-scope business* carried out from an establishment maintained by it in the *United Kingdom* as described in column 2.~~

~~(2)~~ ~~This table belongs to *ESG* 1.2.1R(1).~~ [deleted]

~~**Column 1: Type of firm**~~	~~**Column 2: TCFD in-scope business**~~
~~Part A: Asset managers~~	
~~Any *firm*~~	~~*Portfolio management*~~
~~*UK UCITS management company*~~	~~*Managing a UK UCITS*~~
~~*ICVC* that is a *UCITS scheme* without a separate management company~~	~~*Managing a UK UCITS*~~
~~*Full-scope UK AIFM*~~	~~*Managing an AIF*~~
~~*Small authorised UK AIFM*~~	~~*Managing an AIF*~~
~~Part B: Asset owners~~	
~~*Insurer* or *pure reinsurer*~~	~~Providing *insurance-based investment products*~~
	~~Operating a *personal pension scheme* (excluding a *SIPP*) or *stakeholder pension scheme*~~
	~~Operating a *SIPP*, but only in relation to *SIPPs* containing *insurance-based investment products* provided by the *firm*~~

<table>
<tr><td rowspan="5">~~Other asset owners (other than *insurers* or *pure reinsurers*)~~</td><td colspan="2">~~Operating a *personal pension scheme* (excluding a *SIPP*) or *stakeholder pension scheme*~~</td></tr>
<tr><td colspan="2">~~Operating a *SIPP*, but only in relation to *SIPP*s containing any of the following provided by the *firm*:~~</td></tr>
<tr><td>~~(a)~~</td><td>~~a *unit*~~</td></tr>
<tr><td>~~(b)~~</td><td>~~an interest in a *closed-ended investment fund*~~</td></tr>
<tr><td>~~(c)~~</td><td>~~a *pre-set investment portfolio*~~</td></tr>
</table>

1.2.2 R ~~A *firm* is exempt from the disclosure requirements under *ESG* 2 if and for as long as the assets under administration or management in relation to its *TCFD in-scope business* amount to less than £5bn calculated as a 3-year rolling average on an annual assessment.~~ [deleted]

1.2.3 G The specific application of the *rules* and *guidance* in *ESG* 2, *ESG* 4 and *ESG* 5 is set out in *ESG* 1A and *ESG* 3.

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).

<table>
<tr><th colspan="2">Type of firm</th><th>Applicable provisions</th></tr>
<tr><td colspan="2">All *firms*</td><td>*ESG* 4.1.1R(1);
ESG 4.3.1R</td></tr>
<tr><td colspan="2">*Distributors*</td><td>*ESG* 4.1.1R(1);
ESG 4.1.16R to *ESG* 4.1.19R;
ESG 4.3.1R.</td></tr>
<tr><td colspan="3">Asset managers</td></tr>
<tr><td colspan="2">A *firm* managing a *UK UCITS* or an *AIF*, excluding:</td><td rowspan="2">*ESG* 2 (except for *ESG* 2.3.5R to *ESG* 2.3.8R relating to *on-demand TCFD information*);</td></tr>
<tr><td>(a)</td><td>a *firm* managing a *feeder fund*; or</td></tr>
</table>

(b) a *full-scope UK AIFM* or a *small authorised UK AIFM* managing an *unauthorised AIF* not listed on a *recognised investment exchange*;	*ESG* 4 (except for *ESG* 4.1.16R to *ESG* 4.1.19R relating to *distributors*) only in relation to *UK UCITS* and *UK AIFs*; *ESG* 5 (except for *ESG* 5.5.13R to *ESG* 5.5.15R relating to *on demand sustainability information*) only in relation to *UK UCITS and UK AIFs*.
A *firm* managing a *feeder fund*	*ESG* 4.1.2R to *ESG* 4.1.8R, *ESG* 4.1.13R and *ESG* 4.1.14R; *ESG* 4.3.1R to *ESG* 4.3.8R; *ESG* 5.6
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*.
Asset owners	
A *firm* in table *ESG* 1A.1.1R(2), Part B	*ESG* 2 (except for *ESG* 2.3.5R to *ESG* 2.3.8R relating to *on-demand TCFD information*); *ESG* 4.1.1R(1); *ESG* 4.3.1R.

Insert the following new chapter, ESG 1A (Application of ESG 2), after ESG 1 (Purpose and application). All of the text is new and is not underlined.

1A Application of ESG 2

1A.1.1 R (1) The *rules* in *ESG* 2 apply to a *firm* of a type listed in column 1 of the table at *ESG* 1A.1.1R(2) in relation to the *TCFD in-scope business* carried out from an establishment maintained by it in the *United Kingdom* as described in column 2.

(2) This table belongs to *ESG* 1A.1.1R(1).

Column 1: type of firm	**Column 2: TCFD in-scope business**
Part A: Asset managers	
Any *firm*	*Portfolio management*
UK UCITS management company	*Managing a UK UCITS*
ICVC that is a *UCITS scheme* without a separate management company	*Managing a UK UCITS*
Full-scope UK AIFM	*Managing an AIF*
Small authorised UK AIFM	*Managing an AIF*
Part B: Asset owners	
Insurer or *pure reinsurer*	Providing *insurance-based investment products*
	Operating a *personal pension scheme* (excluding a *SIPP*) or *stakeholder pension scheme*
	Operating a *SIPP*, but only in relation to *SIPPs* containing *insurance-based investment products* provided by the *firm*
Other asset owners (other than *insurers* or *pure reinsurers*)	Operating a *personal pension scheme* (excluding a *SIPP*) or *stakeholder pension scheme*
	Operating a *SIPP*, but only in relation to *SIPP*s containing any of the following provided by the *firm*:
	(a) a *unit*
	(b) an interest in a *closed-ended investment fund*
	(c) a *pre-set investment portfolio*

1A.1.2 R A *firm* is exempt from the disclosure requirements under *ESG* 2 if and for as long as the assets under administration or management in relation to its

TCFD in-scope business amount to less than £5bn calculated as a 3-year rolling average on an annual assessment.

Amend the following text as shown.

2 Disclosure of climate related financial information

2.1 Preparation of climate-related reports

Application

2.1.1 R (1) …

(2) If a *firm* (including an *OPS firm*) receives a request for *on-demand* <u>*TCFD*</u> *information* from a *person* who is entitled to make such request under *ESG* 2.3.5R, it must prepare and provide the *on-demand* <u>*TCFD*</u> *information* to the *person* within a reasonable period of time and in a format which the *firm*, acting reasonably, considers appropriate to meet the information needs of that *person*.

…

2.2 TCFD entity report

Content of a TCFD entity report

2.2.1 R (1) Subject to *ESG* 2.2.5R and *ESG* 2.2.6R, a *firm* must include in its *TCFD entity report* climate-related financial disclosures regarding the overall assets managed or administered by the *firm* in relation to its *TCFD in-scope business* as defined under ~~*ESG* 1.2.1R~~ <u>*ESG* 1A.1.1R</u>.

…

…

2.3 Product-level reporting

…

On-demand TCFD product reports and underlying data

2.3.5 R (1) A *client* who requires *on-demand* <u>*TCFD*</u> *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).

(2) On receipt of a request from a *client* under (1), a *firm* must provide *on-demand* <u>*TCFD*</u> *information* as at a calculation date determined in

accordance with *ESG* 2.1.9R or at an alternative calculation date where this has been agreed between the *client* and the *firm*.

…

…

Insert the following new chapters, ESG 3 (Application of ESG 4 and ESG 5), ESG 4 (Sustainability labelling, naming and marketing) and ESG 5 (Disclosure of sustainability-related information), directly before ESG TP 1 (Transitional provisions). The text is all new and is not underlined.

3 Application of ESG 4 and ESG 5

3.1 Application of ESG 4 and ESG 5 to firms

Application

3.1.1 R This chapter applies to all *firms*.

Application of ESG 4 and ESG 5

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

(1) *ESG* 4.1.1R(1) and *ESG* 4.3.1R apply to all *firms*.

(2) In addition to the *rules* set out at *ESG* 3.1.2R(1), *ESG* 4.1.16R to *ESG* 4.1.19R apply to a *distributor* who *distributes* a *sustainability product* or a *recognised scheme*, including an *ETF* that is a *recognised scheme*, to *retail clients*.

(3) Subject to *ESG* 3.1.3R, all the *rules* and *guidance* in *ESG* 4 and *ESG* 5 apply to a *manager* of a type listed in column 1 of the table at *ESG* 3.1.2R(4) in relation to the *sustainability in-scope business* described in column 2 which either:

(a) is carried out from an establishment maintained by the *manager* in the *United Kingdom*; or

(b) to the extent that it is not carried out from an establishment maintained by the *manager* in the *United Kingdom*, is carried on in relation to a *UK AIF*.

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

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

UK UCITS management company	Managing a *UK UCITS*
ICVC that is a *UCITS scheme* without a separate management company	Managing a *UK UCITS*
Full-scope UK AIFM	Managing an *AIF*
Small authorised UK AIFM	Managing an *AIF*

Exemption from ESG 5.6 for managers of assets below threshold

3.1.3 R A *manager* 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.

Delegation of activities

3.1.4 R Where a *firm* delegates its activities to another *person*, that *firm* still remains responsible for ensuring compliance with the requirements of *ESG* 4 and *ESG* 5.

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:

(1) the *scheme property*, in relation to an *authorised fund*; or

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

4 Sustainability labelling, naming and marketing

4.1 Sustainability labels

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

(a) 'Sustainability focus';

(b) 'Sustainability improvers';

(c) 'Sustainability impact'; or

(d) 'Sustainability mixed goals'.

(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*:

(a) that is not a *feeder fund* if it satisfies the requirements set out in *ESG* 4.2; or

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

4.1.2 R Where a *manager* is undertaking *sustainability in-scope business* in relation to a *sustainability product* that is a *feeder fund*, it may use a *sustainability label* in relation to that product where:

(1) the *feeder fund* uses the same label as that used by the relevant *master fund* which is a *sustainability product*;

(2) the *manager* ensures that its use of the label is kept updated in accordance with any changes that the relevant *master fund* makes; and

(3) the *manager* ensures that it provides *clients* with easy access (for example, by providing hyperlinks) to the *consumer-facing disclosure*, *pre-contractual disclosure* (or Part A of a *public product-level sustainability report* in circumstances where the *sustainability product* does not have *pre-contractual materials* that relate to it) and Part B of a *public product-level sustainability report* that has been produced by the relevant *master fund*.

4.1.3 R As far as reasonably practicable, a *manager* 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 business of the *manager*; and

(2) when disclosing the use of that label in a *consumer-facing disclosure*, a *pre-contractual disclosure* and Part B of a *public product-level sustainability report*.

4.1.4 G For the purposes of *ESG* 4.1.3R, the relevant graphic can be accessed through the *FCA's online notification and application system*.

4.1.5 R A *manager* that uses a *sustainability label* must not:

(1) use a *sustainability label* in a way that is misleading;

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

(a) the *FCA* has conferred or approved the use of a *sustainability label* in relation to a particular *sustainability product*; or

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

(3) publish 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* that uses a *sustainability label* must:

(1) prepare and retain a record as to the basis on which the label has been used; and

(2) keep that record updated for the duration of the label's use (including where the use of the label changes, as set out under *ESG* 4.1.11R and *ESG* 4.1.14R).

Notifying the FCA

4.1.7 R A *manager* 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* 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 business of the *manager*:

(a) the label that has been applied to the relevant *sustainability product*; and

(b) details as to where the *consumer-facing disclosure* pertaining to that product can be easily accessed.

(2) A *manager* 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* 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 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.

4.1.10 G For the purposes of the *rules* and *guidance* in *ESG* 4 and *ESG* 5, a 'prominent place' should take account of the content, size and orientation of the information pertaining to the *sustainability product* (or, in the case of *ESG* 4.1.19R, a *recognised scheme*, including an *ETF* that is a *recognised scheme*) on the relevant webpage or page of the mobile application or other digital medium as a whole.

Reviewing sustainability labels

4.1.11 R A *manager* 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 *manager* 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 *manager* 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* has taken steps under *ESG* 4.2.22R; and

(b) where the *manager* 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* 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* 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 that the *sustainability label* has been revised or ceased and the reasons for that revision or cessation as soon as reasonably practicable;

(2) publish the revised *sustainability label* (or the fact that the *manager* has ceased to use a label) and the reasons for the revision or cessation on the *relevant digital medium* for the 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* 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* 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.

4.1.15 G For the purposes of *ESG* 4.1.13R(1), *authorised fund managers* are reminded of their obligations under, as relevant, *COLL* 4.3, *COLL* 8.3 or *COLL* 15.5, as a change in the use of a *sustainability label* is likely to require pre-event *unitholder* notification.

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* undertaking *sustainability in-scope business* is using in relation to that product by either:

(a) displaying the label on the *relevant digital medium* for the business of the *distributor* 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; or

(b) where the *distributor* does not use a *relevant digital medium*, using the same channel(s) that the *distributor* would ordinarily use to communicate information; and

(2) ensure that *retail clients* are provided with access to a *consumer-facing disclosure* which relates to that product.

4.1.17 R Where a *manager* 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.

4.1.18 R A *distributor* that *distributes* a *sustainability product* to *retail clients* must ensure that its *relevant digital medium*, or any other channel(s) that the *distributor* would ordinarily use to communicate information, and any *financial promotion* relating to that product are kept updated in accordance with any changes that are made to the relevant *sustainability label* or 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:

(1) where the terms set out in *ESG* 4.3.2R(2) are used in either the name of a *recognised scheme* or a *financial promotion* relating to that scheme, prepare a notice which includes the following text: 'This product is based overseas and is not subject to *UK* sustainable investment labelling and disclosure requirements'; and

(2) in relation to the *relevant digital medium* for the 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

(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

(3) where relevant, in relation to any other channel(s) that the *distributor* would ordinarily use to communicate information, notify *retail clients* using that means of communication.

4.2 Criteria for applying sustainability labels

4.2.1 R A *manager* 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* 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 reminded of *ESG* 3.1.4R – namely, that where it delegates its activities to another *person* it still remains 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:

(1) have an explicit *sustainability objective* as part of its investment objectives that:

(a) aligns with one of the *sustainability labels* set out under *ESG* 4.1.1R (as detailed further under *ESG* 4.2.13R, *ESG* 4.2.14R, *ESG* 4.2.16R and *ESG* 4.2.18R); and

(b) is clear, specific and measurable;

(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:

(i) the product is still to be fully invested in assets, as set out in the product's investment strategy under *ESG* 4.2.9R(2)(b); or

(ii) the *manager* is taking steps under *ESG* 4.2.22R.

(b) the product's 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 under *ESG* 4.2.13R, *ESG* 4.2.14R and *ESG* 4.2.17R(1); and

(c) where the product invests in assets that are not in accordance with its *sustainability objective*, those assets must not have attributes that conflict with that objective; and

(3) have robust and evidence-based key performance indicators (KPIs) that can demonstrate the product's progress towards meeting its *sustainability objective*.

4.2.5 G A *manager* 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*.

4.2.6 G In relation to *ESG* 4.2.4R(2)(a), not meeting the 70% threshold is only likely to be justified in relation to *sustainability products* that are designed to build their initial portfolio over time, such as may be in the case of an *LTAF*.

4.2.7 G In relation to *ESG* 4.2.4R(2)(b), assets should be selected using a methodology or approach which:

(1) is applied in a systematic way; and

(2) may be based on, or determined by, an authoritative body, industry practice or a proprietary methodology for determining:

(a) the *sustainability characteristics* of a product's assets; and

(b) the ability of those assets to contribute to a positive environmental or social outcome.

4.2.8 G The KPIs under *ESG* 4.2.4R(3) should measure the *sustainability product's* progress towards achieving its *sustainability objective* and/or the performance of individual assets towards achieving that objective.

General criteria: manager requirements in relation to the use of a sustainability label

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

(1) determine whether pursuing that product's *sustainability objective* could result in negative environmental and/or social outcomes;

(2) determine the *sustainability product's*:

(a) investment policy for achieving its *sustainability objective*; and

(b) investment strategy for meeting the requirements under *ESG* 4.2.4R(2), including, where appropriate, the timescales by which the product is expected to be fully invested in assets;

(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*, is independent from the *manager's* investment process; and

(b) the individuals responsible for carrying out the assessment are appropriately skilled;

(4) identify any assets which the *sustainability product* invests in for reasons other than to pursue its *sustainability objective*;

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

(6) have an escalation plan setting out the actions that the *manager* 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* governance and resources, ensure that:

(a) there are appropriate resources, governance and organisational arrangements in place, commensurate with enabling the *sustainability product* to achieve its *sustainability objective*;

(b) there is adequate knowledge and understanding of the assets in which the *sustainability product* is invested; and

(c) 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 *sustainability product*; and

(8) in relation to investor stewardship:

(a) identify the investor stewardship strategy needed to support the achievement of the *sustainability product's sustainability objective*, including the activities which are expected to be undertaken and the outcomes which are expected to be achieved; and

(b) ensure that the investor stewardship strategy and appropriate resources are applied in order to support the achievement of the *sustainability objective*.

4.2.10 G In meeting the requirements of *ESG* 4.2.9R(6), a *manager* 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*.

4.2.11 R A *manager* must, with respect to a *sustainability product* that is an index-tracking product, only use an index that has a methodology which is aligned with the product's *sustainability objective* and the requirements in *ESG* 4.2.4R(2).

Specific criteria

4.2.12 R A *manager* 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* 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* 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* must, in relation to the use of the *sustainability label* 'sustainability improvers':

(1) identify the period of time by which the product and/or the assets in which the product invests is expected to meet the robust, evidence-based standard set out under *ESG* 4.2.4R(2)(b);

(2) identify short and medium-term targets for improvements in the sustainability of the product and/or the assets in which the product invests, commensurate with the investment horizon of the product; and

(3) obtain robust evidence 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).

Specific criteria: sustainability impact

4.2.16 R A *manager* 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* 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* 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* considers it appropriate; and

(2) specify a robust method to measure and demonstrate that the *manager'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* 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* must, in relation to the use of the *sustainability label* 'sustainability mixed goals':

(1) identify the proportion of assets which are invested in accordance with each of the 2 or more *sustainability objectives* referred to in *ESG* 4.2.18R; and

(2) meet the requirements (as relevant) under *ESG* 4.2.15R and *ESG* 4.2.17R.

Manager requirements on an ongoing basis

4.2.20 R A *manager* 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* must ensure that:

(a) the requirements in *ESG* 4.2.4R continue to be met;

(b) the *sustainability product's* investment policy, strategy and escalation plan under *ESG* 4.2.9R(2) and *ESG* 4.2.9R(6) are updated as appropriate;

(c) the independent assessment obtained under *ESG* 4.2.9R(3) remains valid;

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

(e) the *manager* 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* must:

(a) monitor whether pursuing the *sustainability product's sustainability objective* could result in negative outcomes that have not already been identified under *ESG* 4.2.9R(1).

(b) monitor whether the *sustainability product* is investing in assets that pursue its *sustainability objective* and identify any new assets that have not already been identified under *ESG* 4.2.9R(4); and

(c) monitor the ongoing performance of the *sustainability product* in achieving its *sustainability objective*, measured against the product's KPIs set out under *ESG* 4.2.4R(3).

4.2.21 R A *manager* must, in relation to a *sustainability product* that is an index-tracking product, ensure that the index continues to meet the requirements of *ESG* 4.2.4R(2) when that index is rebalanced.

4.2.22 R (1) A *manager* must, when ensuring the matters set out in *ESG* 4.2.20R are met:

(a) apply, as appropriate, its escalation plan under *ESG* 4.2.9R(6) where the product's assets do not demonstrate sufficient performance against the product's *sustainability objective* and/or the KPIs under *ESG* 4.2.4R(3); and

(b) subject to *ESG* 4.2.25R, ensure that, if a *sustainability product* ceases to meet the general or specific criteria with respect to using a *sustainability label,* it takes action to restore compliance as soon as reasonably practicable.

(2) A *manager* 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* is taking action under *ESG* 4.2.22R(1)(b) with respect to restoring compliance with *ESG* 4.2.3R(2)(a), the *FCA* would ordinarily expect only minimal deviations from the requirements under *ESG* 4.2.3R(2)(a).

4.2.24 G In relation to *ESG* 4.2.22R(2), a *manager* is reminded of its obligation under *ESG* 4.1.11R(2) to ensure that it reviews its 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* must, where the steps taken under *ESG* 4.2.22R are not sufficient for ensuring ongoing compliance with the general and specific criteria:

(1) revise or cease the use of a *sustainability label* as soon as reasonably practicable; and

(2) take the steps set out under *ESG* 4.1.13R.

4.2.26 R Where a *manager* 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:

(a) *communicates* with a *client* in the *United Kingdom* in relation to a product or service; or

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

(2) A *firm* must ensure that any reference to the *sustainability characteristics* of a product or service is:

(a) consistent with the *sustainability characteristics* of the product or service; and

(b) fair, clear and not misleading.

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

4.3.2 R (1) A *manager* 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* 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.

(2) For the purposes of *ESG* 4.3.2R(1), the relevant terms are:

(a) 'ESG' (or 'environmental, social and governance');

(b) 'environment', 'environmental' or 'environmentally';

(c) 'social' or 'socially';

(d) 'climate';

(e) 'sustainable' or 'sustainability';

(f) 'green';

(g) 'transition';

(h) 'net zero';

(i) 'impact';

(j) 'responsible';

(k) 'sustainable development goals' or 'SDG(s)';

(l) 'Paris-aligned'; and

(m) any other term which implies that a *sustainability product* has *sustainability characteristics*.

(3) A *manager* may use the terms in *ESG* 4.3.2R(2):

(a) to make short factual statements which are not *financial promotions*; or

(b) to make statements in a context not intended to refer to, or describe, the *sustainability characteristics* of a *sustainability product*.

4.3.3 G Examples of circumstances which may fall within *ESG* 4.3.2R(3) include references to 'financial impact' or 'economic climate', or a statement about who is 'responsible' for providing services in relation to a *sustainability product*.

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

4.3.4 R (1) A *manager* 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* complies with *ESG* 4.3.4R(2).

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

4.3.5 R A *manager* 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:

(1) The *sustainability product* must:

(a) have *sustainability characteristics* and a name which accurately reflects those characteristics; and

(b) not, in its name, use the terms 'sustainable', 'sustainability' or 'impact' or any other variation of those terms to refer to the *sustainability characteristics* of the product.

(2) The *manager* must produce:

(a) a *consumer-facing disclosure*;

(b) a *pre-contractual disclosure* (or Part A of a *public product-level sustainability report* in circumstances where the product does not have *pre-contractual materials* that relate to it); and

(c) Part B of a *public product-level sustainability report*.

(3) The *manager* must publish the following information on the *relevant digital medium* for the 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) 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) 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) a brief explanation as to why the product does not use a *sustainability label*.

4.3.6 G In relation to *ESG* 4.3.5R:

(1) In relation to *ESG* 4.3.5R(1)(a), the *sustainability characteristics* of a *sustainability product* should be material to that product – for example, at least 70% of its assets should have *sustainability characteristics*.

(2) In relation to *ESG* 4.3.5R(3)(a), a *manager* 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 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.

4.3.7 R A *manager* that is undertaking *sustainability in-scope business* in relation to a *sustainability product* that is a *feeder fund* must, where it intends to use the terms in *ESG* 4.3.2R(2) in the product's name, ensure that:

(1) the *feeder fund* uses only terms that are consistent with those used by the relevant *master fund* which is a *sustainability product*;

(2) the *manager* provides *clients* with easy access (for example, by providing hyperlinks) to the information set out under *ESG* 4.3.5R(2), produced by the relevant *master fund*; and

(3) the *manager* complies with the requirements of *ESG* 4.3.5R(3).

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

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

(2) A *manager* 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* 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:

(a) in relation to a *sustainability product* which is not a *feeder fund*, comply with the requirements in *ESG* 4.3.5R(2) and *ESG* 4.3.5R(3); and

(b) in relation to a *sustainability product* which is a *feeder fund*, comply with the requirements of *ESG* 4.3.7R(1) to *ESG* 4.3.7R(3).

4.3.9 G The requirements in *ESG* 4.3.8R are without prejudice to the need to ensure that the relevant *financial promotion* is fair, clear and not misleading.

4.3.10 G Where a *manager* is not using a relevant digital medium to *communicate* the terms in *ESG* 4.3.2R(2) in 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* must prepare the disclosures in *ESG* 5.1.1R(2) in accordance with this chapter where it:

(a) is undertaking *sustainability in-scope business* in relation to a *sustainability product* that is not a *feeder fund*; and

(b) 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 that product.

(2) The disclosures are:

(a) a *consumer-facing disclosure* for *retail clients* as set out under *ESG* 5.2; and

(b) a *pre-contractual disclosure* as set out under *ESG* 5.3.

Reviewing consumer-facing disclosures and pre-contractual disclosures

5.1.2 R (1) A *manager* 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* must keep a *consumer-facing disclosure* and a *pre-contractual disclosure* under review, as follows:

(a) in relation to a *consumer-facing disclosure*, a *manager* 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* 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* 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 *manager* 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* 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 *manager* must publish, as soon as reasonably practicable, the information specified in *ESG* 5.1.3R(3) on the *relevant digital medium* for the 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:

(a) the revised *consumer-facing disclosure* or *pre-contractual disclosure*;

(b) the reasons for the revision; and

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

5.2 Consumer-facing disclosures

5.2.1 R A *manager* 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:

(1) where it uses a *sustainability label* in relation to a *sustainability product*, the information in *ESG* 5.2.2R; or

(2) 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), the information set out at:

(a) *ESG* 5.2.2R(1) to *ESG* 5.2.2R(4), *ESG* 5.2.2R(7)(a) and (b), *ESG* 5.2.2R(8)(b) and (c) and *ESG* 5.2.2(9); and

(b) *ESG* 4.3.5R(3)(a) to (c).

5.2.2 R For the purposes of *ESG* 5.2.1R, a *manager* must include the following information in the *consumer facing disclosure* which relates to a *sustainability product*:

(1) the *manager's* name;

(2) the name of the *sustainability product* to which the *consumer-facing disclosure* relates;

(3) the date of the disclosure;

(4) the *International Securities Identification Number (ISIN)* or other unique identifier (if any) for that *sustainability product*;

(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* has adopted to pursue the product's *sustainability objective*;

(b) the product's progress towards achieving its *sustainability objective*; and

(c) any material negative environmental and/or social outcomes that may arise when pursuing the product's *sustainability objective*, as identified under *ESG* 4.2.9R(1);

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

(a) for the *sustainability label* 'sustainability focus', the relevant descriptor is: 'invests mainly in assets that focus on sustainability for people or the planet';

(b) for the *sustainability label* 'sustainability improvers', the relevant descriptor is: 'invests mainly in assets that may not be sustainable now, with an aim to improve their sustainability for people or the planet over time';

(c) for the *sustainability label* 'sustainability impact', the relevant descriptor is: 'invests mainly in solutions to sustainability problems, with an aim to achieve a positive impact for people or the planet'; and

(d) for the *sustainability label* 'sustainability mixed goals', the relevant descriptor is: 'invests mainly in a mix of assets that either focus on sustainability, aim to improve their sustainability over time, or aim to achieve a positive impact for people or the planet' as appropriate;

(7) a summary of the *manager's* investment policy and strategy in relation to the *sustainability product's sustainability characteristics* (including, where relevant, the s*ustainability 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* 'sustainability approach';

(b) sets out the key *sustainability characteristics* of assets in which that *sustainability product* will and will not invest;

(c) details any types of asset that the product invests in for reasons other than to pursue its *sustainability objective* and why the product invests in those assets; and

(d) summarises the *manager'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* 'sustainability metrics' and sets out:

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

(b) any other metrics that a *retail client* might reasonably find useful in understanding the *sustainability characteristics* of the product; and

(c) any relevant contextual information, such as an explanation of how the metrics in *ESG* 5.2.2R(8)(a) and (b) should be interpreted;

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

(a) the relevant *pre-contractual disclosure* in relation to the *sustainability product*, including, where applicable, Part A of the *public product-level sustainability report* in relation to that product;

(b) Part B of the *public product-level sustainability report* in relation to the product;

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

(d) other non-sustainability related information in relation to a *sustainability product* – for example, costs and charges that are associated with that product; and

(10) for a *manager* 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* 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* 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* 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* 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 reminded of its obligations under *PRIN* 2A.5.8R to *PRIN* 2A.5.12R in tailoring a *consumer disclosure* appropriately to the needs of its *retail clients*.

5.2.8 R A *manager* 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 (1) A *manager* must publish a *consumer-facing disclosure* on the *relevant digital medium* for the 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.

(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:

(a) identify the particular *sustainability product* to which the *consumer-facing disclosure* relates;

(b) identify the relevant *sustainability label* (if any); and

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

5.2.10 G If a *manager* 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* 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:

(1) the *pre-contractual materials* for the particular *sustainability product*; or

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

5.3.2 R (1) A *manager* 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* 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:

(a) the information at *ESG* 5.3.3R(3)(a) and *ESG* 5.3.3R(6); and

(b) the information set out under *ESG* 4.3.5R(3)(a) to (c).

5.3.3 R For the purposes of *ESG* 5.3.2R, a *manager* must include the following information in the *pre-contractual disclosure* which relates to a *sustainability product*:

(1) the *sustainability label* that the *manager* 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* has adopted to pursue the product's *sustainability objective*;

(b) the link between the *sustainability product's sustainability objective* and a positive environmental and/or social outcome; and

(c) any material negative environmental and/or social outcomes that may arise when pursuing the product's *sustainability objective*, as identified under *ESG* 4.2.9R(1);

(3) details of the *manager's* investment policy and strategy – in particular:

(a) how the *manager* 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* relies upon under *ESG* 4.2.4R(2)(b) including:

(i) the basis on which that standard is considered to be appropriate for the purposes of determining the assets the product invests in (in accordance with its *sustainability objective)*; and

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

(c) the proportion of assets (which may be expressed as an approximate figure or range) that are invested in accordance with the *sustainability product's sustainability objective*, as well as the types of assets that are not invested in accordance with that objective, and the reason(s) for that;

(4) where the *sustainability product* is an index-tracking product, how the index provider's methodology for index-construction aligns with the product's *sustainability objective*;

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

(7) details of the *manager'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* is a signatory of the UK Stewardship Code 2020, published by the Financial Reporting Council; and

(b) how the *manager* 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* 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* 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* may consider disclosing the following information:

(1) the proportion of the product's assets that have *sustainability characteristics*;

(2) any screening criteria (either positive or negative) that apply; and

(3) the application of any index it uses.

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

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

(a) the timescale identified in *ESG* 4.2.15R(1) and the short and medium-term targets identified in *ESG* 4.2.15R(2); and

(b) a summary of the types of evidence the *manager* 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* uses the *sustainability label* 'sustainability impact', it must include the following information:

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

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

(a) details as to the proportion of the *sustainability product's* assets which are invested in accordance with each of the *sustainability objectives* referred to in *ESG* 4.2.18R; and

(b) in relation to the proportion invested in accordance with:

(i) the requirements for using the *sustainability label* 'sustainability improvers' under *ESG* 4.2.15R, the information set out under *ESG* 5.3.6R(1); and

(ii) the requirements for using the *sustainability label* 'sustainability impact' under *ESG* 4.2.17R, the information set out under *ESG* 5.3.6(R)(2).

5.3.7 R A *manager* 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).

5.3.8 G In meeting the requirements of *ESG* 5.3.7R, a *manager* may, for example, choose to include the required information in a dedicated section of the *pre-contractual materials*.

5.3.9 R A *manager* 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* must prepare the reports in *ESG* 5.4.1R(2) in accordance with this chapter where it:

(a) is undertaking *sustainability in-scope business* in relation to a *sustainability product* that is not a *feeder fund*; and

(b) 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 that product.

(2) The reports are:

(a) 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; and

(b) Part B of a *public product-level sustainability report* in accordance with *ESG* 5.5.5R to *ESG* 5.5.12R.

5.4.2 R A *manager* 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*:

(1) A *manager* must produce and publish Part B of a *public product-level sustainability report* annually, covering a reporting period of 12 *months*, and must publish the first report within 12 *months* after the *manager* first starts to use a *sustainability label* or uses one or more of the terms listed in *ESG* 4.3.2R(2) in accordance with *ESG* 4.3.2R(1) in relation to a *sustainability product*.

(2) A *manager* must produce and publish a *sustainability entity report* annually, covering a reporting period of 12 *months* and, in relation to the first report:

(a) where a *manager* meets the requirements of an *enhanced SMCR firm* pursuant to *SYSC* 23 Annex 1 8.2R paragraph 1 in relation to *sustainability in-scope business*, the first report must be produced and published by 2 December 2025; and

(b) where a *manager* does not meet the requirements of an *enhanced SMCR firm* pursuant to *SYSC* 23 Annex 1 8.2R paragraph 1 but has assets under management in relation to *sustainability in-scope business* of £5bn or more calculated as a 3-year rolling average on annual assessment, the first report must be produced and published by 2 December 2026.

(3) A *manager* may change the reporting dates in *ESG* 5.4.3R(1) and *ESG* 5.4.3R(2) for subsequent reports following the first report, but the *manager* must ensure that there is no period of time which is not covered by Part B of a *public product-level sustainability report* or a *sustainability entity report* and must issue an interim report if necessary.

(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*.

5.4.4 R A *manager* 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* overall Part B of a *public product-level sustainability report* with respect to climate-related disclosures.

5.4.5 R A *manager* 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* overall *sustainability entity report* with respect to climate-related disclosures.

Data considerations when preparing sustainability reports

5.4.6 R A *manager* 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* 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* 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* must not disclose metrics where:

(1) there are gaps in underlying data or methodological challenges; and

(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*, being misleading.

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

(1) any gaps in the underlying data relied upon to make sustainability-related disclosures;

(2) how the *manager* 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* 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* being unable to make the relevant disclosure;

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

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

5.4.11 G In addition, a *manager* 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* in relation to preparing Part B of a *public product-level sustainability report* or a *sustainability entity report*.

5.4.13 R A *manager* 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* to prepare Part B of a *public product-level sustainability report* or a *sustainability entity report*.

5.4.14 R The *manager* 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*.

5.4.15 R Where relevant, a *manager* 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* 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* must ensure that Part A of a *public product-level sustainability report*:

(1) contains the information set out in *ESG* 5.3.3R and *ESG* 5.3.6R; and

(2) is made available to *clients* before they invest in a *sustainability product*.

5.5.3 R A *manager* must publish Part A of a *public product-level sustainability report* on the *relevant digital medium* for the 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.

5.5.4 R A *manager* 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* 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* must:

(a) where a *manager* 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* 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:

(i) *ESG* 5.5.6R(3);

(ii) *ESG* 5.5.6R(5);

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

(iv) *ESG* 5.5.6R(9); and

(v) *ESG* 5.5.6R(10)

5.5.6 R In addition to the requirements at *ESG* 5.4.4R, a *manager* 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* is using in relation to the *sustainability product*;

(2) details of the product's *sustainability objective*;

(3) the date of the report;

(4) details as to the product's progress towards achieving its *sustainability objective*;

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

(6) the proportion of assets (which may be expressed as an approximate figure or range) that are invested in accordance with the product's *sustainability objective*, as well as the types of assets that are not invested in accordance with that objective and the reason(s) for that;

(7) details of the *sustainability product's* performance against the KPIs under *ESG* 4.2.4R(3);

(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* investment policy and strategy for that product:

(9) details of the following information, where this is relevant to a *retail client's* understanding of the metrics set out at *ESG* 5.5.6R(7) and *ESG* 5.5.6R(8):

(a) relevant contextual information such as how the metrics should be interpreted and their associated limitations – for example, if particular assumptions or proxies have been used; and

(b) historical annual calculations of the metrics in *ESG* 5.5.6R(7) and *ESG* 5.5.6R(8) after the first year of preparing Part B of a *public product-level sustainability report* in relation to the product that enable *clients* to compare the product's sustainability performance year-on-year in a way that is easy to understand and is not misleading;

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

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

(12) details of the matters escalated (if any) in accordance with the *manager'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* 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* 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* discloses the information referred to at *ESG* 5.5.6R(9):

(1) the *manager* 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

(2) the metrics referred to in *ESG* 5.5.6R(8) may include (for example) KPIs that are not linked specifically to the *sustainability objective* of the *sustainability product*, but which may be common metrics within a particular sector.

5.5.10 G If a *manager* 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* 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* 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* 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:

(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 the information under *ESG* 5.4.4, *ESG* 5.5.1R to *ESG* 5.5.4 (as applicable) and *ESG* 5.5.5R to *ESG* 5.5.7R.

5.5.14 R (1) On receipt of a request from a *person* under *ESG* 5.5.13R(1), a *manager* must provide *on-demand sustainability information* as at a calculation date determined in accordance with *ESG* 5.4.8R or at an alternative calculation date where this has been agreed between the *person* and the *manager*.

(2) A *manager* is not required to comply with a request made under *ESG* 5.5.13R(1) before 2 December 2025.

5.5.15 R The entitlement in *ESG* 5.5.13R(1) is limited to one request for *on-demand product-level sustainability information* in respect of each *sustainability product* in each of the *manager's* 12-*month* reporting periods under *ESG* 5.4.8R.

5.5.16 G A *manager* is encouraged to consider, where practicable, making available to a *person* the information under *ESG* 5.5.13R(2) irrespective of the *person's* eligibility to request such information under *ESG* 5.5.13R(1).

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* 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* 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* businesses, strategy and financial planning;

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

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

(2) explain, either in its *sustainability entity report* or in a cross-referenced *public product-level sustainability report*, where its approach to a particular *investment* strategy, asset class or product is materially different to its overall entity-level approach to governance, strategy, risk management or targets and metrics; and

(3) where relevant, briefly explain in its *sustainability entity report* how the *manager'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* 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* disclosures on sustainability-related risks and opportunities;

(2) the Sustainability Accounting Standards Board standards with respect to relevant sector-specific matters; and

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

5.6.3 G A *manager* should, in meeting the requirements of *ESG* 5.6.1R(1):

(1) consider disclosing sustainability-related topics that it has prioritised in its governance, strategy and risk management, and the rationale for doing so;

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

(3) refer to part 4, section D of the *TCFD Annex*, entitled 'Asset managers' in determining how to make disclosures required under *ESG* 5.6.1R(1) with respect to assets managed on behalf of *clients*.

5.6.4 R Where a *manager* 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* has in place, commensurate with the achievement of the product's *sustainability objective* and/or the *manager's* investment policy and strategy for the product; and

(2) a description of the processes in place to ensure 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 *sustainability product*.

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

5.6.5 R (1) If a *manager* 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* and cover the assets the *manager* manages as part of its *sustainability in-scope business*.

(2) If a *manager* 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* in relation to its *sustainability in-scope business* on which the *manager* 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* in relation to its sustainability in-scope business.

5.6.6 R A *manager* 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* or a member of its *group* produces a document, other than its annual financial report, which includes disclosures relating to *sustainability characteristics*, the *manager* 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* 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 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 TCFD entity report* has been substituted by the reference to a *manager's sustainability entity report*.

Amend the following as shown.

TP 1 Transitional provisions

(1)	**(2)**	**(3)**	**(4) Transitional provision**	**(5) Transitional provision: dates in force**	**(6) Handbook provision:**

	Material to which the transitional provision applies				**coming into force**
1.1	*ESG* 2 as it applies to *firms* falling within Part A (asset managers) of the table in ~~*ESG* 1.2.1R(2)~~ <u>*ESG* 1A.1.1R(2)</u>	R	*ESG* 2 is disapplied where a *firm* does not meet the requirements of an *enhanced scope SMCR firm* pursuant to *SYSC* 23 Annex 1 8.2R paragraph 1.	From 1 January 2022 to 31 December 2022	Effective date of instrument
1.2	*ESG* 2 as it applies to *firms* falling within Part B (asset owners) of the table in ~~*ESG* 1.2.1R(2)~~ <u>*ESG* 1A.1.1R(2)</u>	R	*ESG* 2 is disapplied where a *firm* has assets under management or administration in relation to *TCFD in-scope business* of less than £25bn calculated as a 3-year rolling average on an annual assessment.	From 1 January 2022 to 31 December 2022	Effective date of instrument
…					
1.5	*ESG* 2.3.5R(3)	R	For a *firm* to whom the disapplication in *ESG TP* 1.1 or *ESG TP* 1.2 is available, (a) the earliest reporting period for which a *person* can request *on-demand* <u>*TCFD*</u> *information* is to commence from 1 January 2023, and (b) the earliest a *person* can request *on-demand* <u>*TCFD*</u> *information* is 1 July 2024.	From 1 January 2022	Effective date of instrument
1.6	*ESG* 2.3.9R(1)(b)	R	The first reporting deadline for scope 3 greenhouse gas	From 1 January 2022	Effective date of instrument

			emissions is 30 June 2024.		
1.7	*ESG* 4.1.16R to *ESG* 4.1.19R	R	A *distributor* is not required to comply with the *rules* specified in column 2 until: (1) in relation to *ESG* 4.1.16R to *ESG* 4.1.18R, 31 July 2024; and (2) in relation to *ESG* 4.1.19R, 2 December 2024.	From 31 July 2024 in relation to a *distributor* in paragraph (1) of column 4; and from 2 December 2024 in relation to a *distributor* in paragraph (2) of column 4.	28 November 2023
1.8	*ESG* 4.3.1R	R	The *rule* in column 2 applies from 31 May 2024.	From 31 May 2024	28 November 2023
1.9	*ESG* 4.3.2R to *ESG* 4.3.8R	R	A *manager* is not required to comply with the *rules* specified in column 2 until either: (1) the date on which a *sustainability label* is first used in relation to a *sustainability product*; or (2) 2 December 2024.	From either the date on which a *sustainability label* is first used in relation to a *sustainability product* or 2 December 2024.	28 November 2023
1.10	*ESG* 5.1 to *ESG* 5.3; *ESG* 5.4 insofar as it relates to the preparation of Part A of a *public product-level sustainability report*; and *ESG*	R	A *manager* is not required to comply with the *rules* specified in column 2 until either: (1) the date on which a *sustainability*	From either the date on which a *sustainability label* is first used in relation to a *sustainability*	28 November 2023

	5.5.1R to *ESG* 5.5.4R			*label* is first used in relation to a *sustainability product*; or	*product* or 2 December 2024.	
			(2)	2 December 2024.		

Annex K

Amendments to the Collective Investment Schemes sourcebook (COLL)

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

4 Investor Relations

…

4.2 Pre-sale notifications

…

Table: contents of the prospectus

4.2.5 R This table belongs to *COLL* 4.2.2R (Publishing the prospectus).

Document status		
…		
Investment in overseas property through an intermediate holding vehicle		
26A	…	
Sustainability information		
26B	The following information, as applicable:	
	(a)	where a *sustainability label* is used in relation to a *scheme*, the information set out at *ESG* 5.3.3R and *ESG* 5.3.6R, in accordance with *ESG* 5.3.2R(1);
	(b)	where a *sustainability label* is not used in relation to a *scheme*, but that *scheme* uses the terms in *ESG* 4.3.2R(2) under *ESG* 4.3.2R(1) in the product's name or in a *financial promotion* relating to that *scheme*, the information required under *ESG* 5.3.2R(2).
…		

4.5 Reports and accounts

…

Contents of the annual long report

4.5.7 R (1) An annual long report on an *authorised fund*, other than a *scheme* which is an *umbrella*, must contain:

…

(e) the report of the auditor in accordance with *COLL* 4.5.12R (Report of the auditor); ~~and~~

(f) subject to *COLL* 4.5.7R(1)(g), its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 2.3.1R~~.~~; and

(g) where applicable, Part B of its *public product-level sustainability report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 5.5.5R.

(2) An annual long report on a *scheme* which is an *umbrella* must be prepared for the *umbrella* as a whole and must contain:

(a) for each *sub-fund*:

…

(iii) comparative information in accordance with *COLL* 4.5.10R; ~~and~~

(iv) subject to *COLL* 4.5.7R(2)(a)(v), its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 2.3.1R; and

(v) where applicable, Part B of its *public product-level sustainability report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 5.5.5R;

…

…

…

Contents of the half-yearly long report

4.5.8 R (1) A half-yearly long report on an *authorised fund*, other than for a *scheme* which is an *umbrella*, must contain:

…

(b) the report of the *authorised fund manager* in accordance with *COLL* 4.5.9R (Authorised fund manager's report); ~~and~~

(c) subject to *COLL* 4.5.8R(1)(d), its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website in accordance with *ESG* 2.3.1R, where the half-yearly long report most closely follows the reporting deadline of 30 June, under *ESG* 2.1.1R(1); and

(d) where applicable, Part B of its *public product-level sustainability report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website in accordance with *ESG* 5.5.5R, where the half-yearly long report is the report that most closely follows the date on which Part B of the *public product-level sustainability report* was published.

(2) A half-yearly long report on a *scheme* which is an *umbrella*, must be prepared for the *umbrella* as a whole and must contain:

(a) for each *sub-fund*:

…

(ii) the report of the *authorised fund manager* in accordance with *COLL* 4.5.9R; ~~and~~

(iii) subject to *COLL* 4.5.8R(2)(iv), its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 2.3.1R, where the half-yearly long report most closely follows the reporting deadline of 30 June, under *ESG* 2.1.1R(1); and

(iv) where applicable, Part B of its *public product-level sustainability report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 5.5.5R, where the half-yearly long report is the report that most closely follows the date on which Part B of the *public product-level sustainability report* was published.

…

…

6 Operating duties and responsibilities

…

6.9 Independence, names and UCITS business restrictions

…

Use of the term 'long-term asset fund' or 'LTAF'

…

6.9.8D G …

ESG naming restrictions

6.9.8E G Further requirements related to the naming and marketing of *authorised funds* are found in *ESG* 4.3.

…

8 Qualified investor schemes

…

8.3 Investor relations

…

Table: contents of qualified investor scheme prospectus

8.3.4 R This table belongs to *COLL* 8.3.2R.

1	**Document status**	
…		
18B	**Information on authorised contractual schemes**	
	A statement that:	
	…	
	(4)	the *scheme property* of a *co-ownership scheme* is beneficially owned by the *participants* as tenants in common (or, in Scotland, is the common property of the *participants*).
18C	**Sustainability information**	
	The following information, as applicable:	
	(1)	where a *sustainability label* is used in relation to a *scheme*, the information set out at *ESG* 5.3.3R and *ESG* 5.3.6R, in accordance with *ESG* 5.3.2R(1); or

	(2)	where a *sustainability label* is not used in relation to a *scheme*, but that *scheme* uses the terms in *ESG* 4.3.2R(2) under *ESG* 4.3.2R(1) the information required under *ESG* 5.3.2R(2).
	…	
…		

Contents of the annual report

8.3.5A R (1) An annual report, other than for a *scheme* which is an *umbrella*, must contain:

…

(d) the report of the auditor in accordance with *COLL* 4.5.12R (Report of the auditor); ~~and~~

(e) subject to *COLL* 8.3.5AR(1)(d), its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 2.3.1R; and

(f) where applicable, Part B of its *public product-level sustainability report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 5.5.5R.

(2) An annual report on a *scheme* which is an *umbrella* must be prepared for the *umbrella* as a whole and must contain:

(a) for each *sub-fund*:

…

(iii) comparative information in accordance with *COLL* 4.5.10R (1A) and (2A); ~~and~~

(iv) subject to *COLL* 8.3.5AR(2)(v), its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 2.3.1R; and

(v) where applicable, Part B of its *public product-level sustainability report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 5.5.5R.

…

…

…

Contents of the half-yearly report

8.3.5B R (1) A half-yearly report on an *authorised fund* or *sub-fund* must contain:

…

(b) the report of the *authorised fund manager* in accordance with *COLL* 8.3.5CR; ~~and~~

(c) subject to *COLL* 8.3.5BR(1)(d), its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to ~~where~~ the report's location on the *firm's* website, in accordance with *ESG* 2.3.1R, where the half-yearly report most closely follows the reporting deadline of 30 June, under *ESG* 2.1.1R(1); and

(d) where applicable, Part B of its *public product-level sustainability report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 5.5.5R, where the half-yearly report is the report that most closely follows the date on which Part B of the *public product-level sustainability report* was published.

…

…

15 Long-term asset funds

…

15.4 Prospectus and other pre-sale notifications

…

Table: contents of a long-term asset fund prospectus

15.4.5 This table belongs to *COLL* 15.4.2R.

1	**Document status**
	…

28	**Information on authorised contractual schemes**	
	…	
	(4)	the *scheme property* of a *co-ownership scheme* is beneficially owned by the *participants* as tenants in common (or, in Scotland, is the common property of the *participants*).
<u>**28A**</u>	<u>**Sustainability information**</u>	
	<u>The following information, as appropriate:</u>	
	<u>(1)</u>	<u>where a *sustainability label* is used in relation to a *scheme*, the information set out at *ESG* 5.3.3R and *ESG* 5.3.6R, in accordance with *ESG* 5.3.2R(1); and</u>
	<u>(2)</u>	<u>where a *sustainability label* is not used in relation to a *scheme*, but that *scheme* uses the terms in *ESG* 4.3.2R(2) under *ESG* 4.3.2R(1) the information required under *ESG* 5.3.2R(2).</u>
…		

15.5 Annual report and investor relations

…

Contents of the annual report

15.5.3 R (1) An annual report, other than for a *scheme* which is an *umbrella*, must contain:

…

(e) the report of the auditor in accordance with *COLL* 4.5.12R (Report of the auditor); ~~and~~

(f) <u>subject to *COLL* 15.5.3R(1)(g),</u> its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to ~~where~~ the report's location on the *firm's* website, in accordance with *ESG* 2.3.1R<u>; and</u>

<u>(g)</u> <u>where applicable, Part B of its *public product-level sustainability report* or an adequately contextualised and prominent cross-reference and to the report's location on the *firm's* website, in accordance with *ESG* 5.5.5R</u>.

(2) An annual report on a *scheme* which is an *umbrella* must be prepared for the *umbrella* as a whole and must contain:

(a) for each *sub-fund*:

…

(iii) comparative information in accordance with *COLL* 4.5.10R(1A) and (2A); ~~and~~

(iv) subject to *COLL* 15.5.3R(2)(v), its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on *firm's* website, in accordance with *ESG* 2.3.1R; and

(v) where applicable, Part B of its *public product-level sustainability report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 5.5.5R.

…

…

…

Contents of the half-yearly report

15.5.5 R (1) A half-yearly report on an *authorised fund* or *sub-fund* must contain:

…

(b) the report of the *authorised fund manager* in accordance with *COLL* 15.5.6R; ~~and~~

(c) subject to *COLL* 15.5.5R(1)(d) its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 2.3.1R, where the half-yearly report most closely follows the reporting deadline of 30 June, under *ESG* 2.1.1R(1); and

(d) where applicable, Part B of its *public product-level sustainability report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 5.5.5R, where the half-yearly report is the report that most closely follows the date on which Part B of the *public product-level sustainability report* was published.

…

…

TP 1 Transitional provisions

COLL TP 1.1

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
…					
~~57~~ 58	*COLL* 15.4.5R(16)(10A)	R	The *authorised fund manager* of a *long-term asset fund*, in respect of which an *authorisation order* is in force on 3 July 2023, is not required to comply with the *rule* specified in column (2) until: (a) the *prospectus* is next updated; or (b) 3 July 2024, whichever is earlier.	From 3 July 2023 to 3 July 2024	3 July 2023
Amendments made by the Sustainability Labelling and Disclosure of Sustainability-Related Financial Information Instrument 2023					
59	The *rules* and amendments referred to in *COLL TP* 1 60R, 62R and 63R.	G	The effect of *ESG* 4.1.1R(2) is that the *authorised fund manager* of an *authorised fund* cannot use a *sustainability label* before 31 July 2024.	From 28 November 2023 to 31 July 2024	28 November 2023
60	*COLL* 4.2.5R(26B)(a), *COLL* 8.3.4R(18C)(1) and	R	The *authorised fund manager* is not required to comply with a *rule* specified in column (2) until	From 28 November 2023 until the date on which a *sustainability*	28 November 2023

	COLL 15.4.5R(28A)(1)		the date on which a *sustainability label* is first used in relation to the *authorised fund*.	*label* is first used in relation to the *authorised fund*.	
61	*COLL* 4.2.5R(26B)(b), *COLL* 8.3.4R(18C)(2) and *COLL* 15.4.5R(28A)(2)	R	Where a *sustainability label* is not used in relation to an *authorised fund*, but the *authorised fund* uses the terms in *ESG* 4.3.2R(2) under *ESG* 4.3.2R(1), the *authorised fund manager* is not required to comply with a *rule* specified in column (2) until 2 December 2024.	From 28 November 2023 to 2 December 2024	28 November 2023.
62	The amendments to *COLL* 4.5.7R, *COLL* 8.3.5AR and *COLL* 15.5.3R	R	An *authorised fund manager* is not required to include the information prescribed by the amendments made to the *rules* specified in column (2) in its annual long report or (if applicable) its annual report in respect of any *annual accounting period* ending before Part B of the *authorised fund's public product-level sustainability report* is first published in accordance with *ESG* 5.4.3R.	From 28 November 2023 to the end of the *annual accounting period* during which Part B of the *authorised fund's public product-level sustainability report* is first published in accordance with *ESG* 5.4.3R.	28 November 2023

63	The amendments to *COLL* 4.5.8R, *COLL* 8.3.5BR and *COLL* 15.5.5R	R	An *authorised fund manager* is not required to include the information prescribed by the amendments made to the *rules* specified in column (2) in its half-yearly long report or (if applicable) its half-yearly report in respect of any *half-yearly accounting period* ending before Part B of the *authorised fund's public product-level sustainability report* is first published in accordance with *ESG* 5.4.3R.	From 28 November 2023 to the end of the *half-yearly accounting period* during which Part B of the *authorised fund's public product-level sustainability report* is first published in accordance with *ESG* 5.4.3R.	28 November 2023

Annex L

Amendments to the Consumer Credit sourcebook (CONC)

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

3 Financial promotions and communications with customers

…

3.3 The clear fair and not misleading rule and general requirements

…

Guidance on clear, fair and not misleading

…

3.3.9	G	...
3.3.9A	G	A *firm* is reminded of its obligations under *ESG* 4.3.1R when it *communicates* or *approves* a *financial promotion* that references the *sustainability characteristics* of a product or service.

…

Annex M

Amendments to the Investment Funds sourcebook (FUND)

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

3 Requirements for alternative investment fund managers

…

3.2 Investor information

…

Prior disclosure of information to investors

3.2.2 R An *AIFM* must, for each *UK AIF* that it manages, and for each *AIF* it *markets* in the *UK*, make available to *AIF* investors before they invest, in line with the *instrument constituting the fund*, the following information and any material changes to it:

…

3.2.2A G An *AIFM* will also need to include the following when making available the information required by *FUND* 3.2.2R:

(1) where a *sustainability label* is used in relation to a *UK AIF*, the information set out at *ESG* 5.3.3R and *ESG* 5.3.6R, in accordance with *ESG* 5.3.2R(1); and

(2) where a *sustainability label* is not used in relation to a *UK AIF*, but the *AIF* uses any of the terms in *ESG* 4.3.2R(2) in accordance with *ESG* 4.3.2R(1), the information required under *ESG* 5.3.2R(2).

…

TP1 Transitional Provisions

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional provision	Transitional provision: date in force	Handbook provisions: coming into force
…					
7	*FUND* 3.2.4AG	G	A *full-scope UK AIFM* does not need to comply with the	From 23 September	23 September 2016

			provisions of the *Securities Financing Transactions Regulation* referred to in *FUND* 3.2.4AG for:	2016 until 12 July 2017	
			…		
<u>8</u>	<u>*FUND* 3.2.2AG(1)</u>	<u>G</u>	<u>An *AIFM* of a *UK AIF* is not required to include the information specified under *ESG* 5.3.2R(1) when making available the information required by *FUND* 3.2.2R until the date on which a *sustainability label* is first used in relation to the *UK AIF*.</u>	<u>From 28 November 2023 until the date on which a *sustainability label* is first used in relation to the *UK AIF*</u>	<u>28 November 2023</u>
<u>9</u>	<u>*FUND* 3.2.2AG(2)</u>	<u>G</u>	<u>An *AIFM* of a *UK AIF* that is not using a *sustainability label* but is using any of the terms in *ESG* 4.3.2R(2) does not need to include the information required under *ESG* 5.3.2R(2) when making available the information required by *FUND* 3.2.2R until 2 December 2024.</u>	<u>From 28 November 2023 to 2 December 2024</u>	<u>28 November 2023</u>

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