

FCA finalises UK SDR and labelling rules for asset managers

AT A GLANCE

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What's new?

- On 28 November 2023, the FCA finalised its [rules on UK Sustainability Disclosure Requirements \(UK SDR\) and investment labels](#) as part of a package of new measures to tackle greenwashing. This follows an initial consultation launched in October 2022.

What does this mean?

- The final rules include a sustainability labelling regime for investment products, disclosure requirements as part of the UK SDR regime, and a general 'anti-greenwashing' rule.

- The FCA has updated its proposed labels, including by changing the names from 'sustainable' to 'sustainability' to reflect that some assets will transition, and clarifying that the 'Improvers' label does not require firms to demonstrate a causal link between stewardship and assets' improvements. The FCA also introduced an additional label for products with mixed investment strategies. The final labels are:

- (1) Sustainability Focus:** products investing in assets that a 'reasonable investor' would consider sustainable
- (2) Sustainability Improvers:** products investing to improve the sustainability of assets
- (3) Sustainability Impact:** products investing in solutions to environmental or social problems
- (4) Sustainability Mixed Goals:** products investing across different objectives and strategies aligned with the other labels.

- The labelling regime will be supported by rules restricting the use of certain sustainability terms in product names and marketing. 'Sustainable', 'sustainability', and 'impact' are only allowed by products that apply a label. However, the FCA has now made changes to allow products to use general sustainability-related terms (e.g. 'social' and 'green') if they meet

specified conditions e.g. the product must have sustainability characteristics and its name must accurately reflect those characteristics.

- Under UK SDR, the FCA will require:
 - Consumer-facing product-level disclosures** in a standalone document for products that apply a label or use sustainability-related terms in their name or marketing.
 - More detailed disclosures** targeting a wider audience (e.g. institutional investors) that provide greater transparency on a product's sustainability objective, investment strategy and performance in pre-contractual information and sustainability product reports. Firms must disclose how they manage sustainability risks and opportunities when managing investments on behalf of clients in sustainability entity reports.
- For products with a label, firms must also disclose whether the investment strategy could negatively impact other sustainability factors in consumer-facing and pre-contractual disclosures.
- The FCA is also introducing targeted requirements for distributors of investment products, including financial advisors and investment platforms, to make the labels and consumer-facing disclosures available to consumers. Distributors must place a notice on overseas products, alerting consumers that the product is not subject to UK labelling and disclosure requirements.

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- The FCA revised its proposal for the anti-greenwashing rule, applicable to all FCA-authorized firms, to apply immediately, instead proposing an effective date of 31 May 2024. Alongside the Policy Statement, the FCA published a [consultation on supporting guidance](#) for the anti-greenwashing rule for response by 26 January 2024.
- The labelling regime and targeted requirements for distributors apply from 31 July 2024. Firms applying labels must produce consumer-facing and pre-contractual disclosures when a label is first used, and ongoing product-level disclosures either (i) 12 months after the label is first used, or (ii) on demand from 2 December 2025.
- Where products without labels use sustainability-related terms, they must comply with the naming and marketing rule and produce consumer-facing and pre-contractual disclosures by 2 December 2024, producing ongoing disclosures 12 months after the terms are first used.
- Entity-level disclosures must be published by 2 December 2025 for larger asset managers (above £50bn in assets under management (AUM)) and 2 December 2026 for smaller asset managers (above £5`bn in AUM). This scope and sequencing aligns with the FCA's TCFD-aligned disclosure requirements in [PS 21/24](#).
- The FCA committed to: consulting on proposals for portfolio management (which had been included in the initial consultation) in early 2024; working with HMT to consider capturing overseas funds; considering the inclusion of pension products; and building on disclosure requirements over time, drawing on the Transition Plan Taskforce outputs, the UK Taxonomy and future International Sustainability Standards Board standards.

What do firms need to do?

- Firms should start by re-performing any previous scoping exercises to determine what entities and products are in scope of the final rules. They should identify what products might qualify for a label and determine their ambitions for aligning any new and existing products to the labels.
- Firms should identify any gaps between their product disclosures against the new UK SDR and labelling requirements to inform an implementation plan that aligns with the timelines set out by the FCA.
- To ensure ongoing compliance, firms will need to develop robust processes and controls to monitor their approach to labelling, disclosure and communications on sustainability issues. As part of this, firms should review their product governance framework to consider changes to existing or new products that will be impacted by these rules. This can be done alongside reviews following the FCA's thematic in November 2023 on implementation of the ESG principles.
- Despite similarities with the EU SFDR, the FCA's rules reflect a more principles-based approach, for example by allowing firms to determine what disclosures they make. The labels also do not neatly align with SFDR's Article 6, 8 and 9 classifications. Firms caught by both regimes will need to manage these differences and develop an approach to disclosures and product strategy that is interoperable between regulations.
- In light of the new 'anti-greenwashing' rule, firms should take stock of their products and ensure that any references to sustainability in marketing, product names and client communications are accurate.
- In line with the expectation set by the FCA, firms should consider Consumer Duty when complying with the new rules on UK SDR, labels and anti-greenwashing. In particular, they will need to ensure that disclosures meet the information needs of retail consumers.

Next steps

The consultation on supporting guidance for the anti-greenwashing rule closes on 26 January 2024. The UK Government is expected to consult on transition plan disclosure requirements for UK-registered companies in Q4 2023. The FCA is expected to consult on UK SDR requirements for listed companies in H1 2024.

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