

POLICY BRIEFING

UK FCA'S SUSTAINABILITY DISCLOSURE REQUIREMENTS

November 2024

This document is provided for information only. It should not be construed as advice, nor relied upon. PRI Association is not responsible for any decision or action taken based on this document or for any loss or damage arising from such decision or action. All information is provided "as-is" with no guarantee of completeness, accuracy or timeliness and without warranty of any kind, expressed or implied. PRI Association is not responsible for and does not endorse third-party content, websites or resources included or referenced herein. The inclusion of examples or case studies does not constitute an endorsement by PRI Association or PRI signatories. Except where stated otherwise, the opinions, recommendations and findings expressed are those of PRI Association alone and do not necessarily represent the views of the contributors or PRI signatories (individually or as a whole). It should not be inferred that any third party referenced endorses or agrees with the contents hereof. PRI Association is committed to compliance with all applicable laws and does not seek, require or endorse individual or collective decision-making or action that is not in compliance with those laws. Copyright © PRI Association (2024). All rights reserved. This content may not be reproduced, or used for any other purpose, without the prior written consent of PRI Association.

Except where stated otherwise, the opinions, recommendations and findings expressed are those of PRI Association alone, and do not necessarily represent the views of the contributors or PRI signatories (individually or as a whole). It should not be inferred that any third party referenced endorses or agrees with the contents hereof. PRI Association is committed to compliance with all applicable laws and does not seek, require or endorse individual or collective decision-making or action that is not in compliance with those laws.

PRI Association

Registered office: 25 Camperdown Street
London, UK, E1 8DZ Company no. 7207947
T: +44 (0) 20 3714 3220 W: www.unpri.org E: info@unpri.org



United Nations
Global Compact

ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. More information: www.unpri.org

ABOUT THIS BRIEFING

This briefing summarises key elements of the FCA [Sustainability Disclosure Requirements](#) which aim to address greenwashing, introduce sustainability labels, and require asset managers and distributors with sustainable investment products to make sustainability-related disclosures.

For more information, contact:

Margarita Pirovska

Director, Global Policy

Margarita.Pirovska@unpri.org

Louisa Guy

Policy Specialist, UK

Louisa.Guy@unpri.org

INTRODUCTION

Following multiple consultation processes, the FCA finalised its Sustainability Disclosure Requirements (SDRs) in November 2023, which are intended to improve trust and transparency in the market for sustainable investment products.

The SDRs include comprehensive disclosure requirements for both investment products and entities, including asset managers and distributors, as well as introducing four sustainability labels and specific naming and marketing rules to regulate the use of sustainability-related terms.

Sustainable products must have a clear sustainability objective, an investment policy and strategy that aligns with robust, evidence-based sustainability standards, and the identification of key performance indicators (KPIs) to measure progress. The SDRs also set out the importance of adequate resources, governance, and stewardship strategies to support the sustainability objectives.

The FCA made several substantial changes to its initial proposals in response to stakeholder feedback, including the addition of a fourth mixed goals label and amendments to the investment labels' requirements.

KEY ELEMENTS

The final package includes:

- An anti-greenwashing rule for all FCA-authorized firms.
- Four labels - Sustainability Focus, Sustainability Improvers, Sustainability Impact, and Sustainability Mixed Goals - to help consumers navigate investment products.
- Consumer-facing disclosures providing better, accessible information on products' key sustainability features.
- Detailed product-level and entity-level disclosures for institutional investors and consumers seeking more information.
- Requirements for distributors to make labels and consumer-facing disclosures available.

SCOPE

The anti-greenwashing rule applies to all UK FCA-authorized firms, regardless of their size or the specific financial activities they undertake.

The investment labels can be applied by UK asset managers to their investment products if they meet the qualifying criteria. This includes UK Alternative Investment Fund Managers (AIFMs), small authorized AIFMs, and managers of Undertakings for Collective Investment in Transferable Securities (UCITS) and Authorized Contractual Schemes (ACS).

They do not yet apply to overseas funds, pensions or financial advisers. The FCA have consulted on the regime's application to portfolio management services.

Feeder funds are allowed to use a label where the predominant purpose of the feeder is to reflect the sustainability objective of the master fund.

Listed investment trusts are in scope of the naming and marketing rules to the extent that they are marketing sustainability characteristics to prospective retail clients.

UK distributors, including platforms and advisers, are in scope.

In the policy statement, the FCA acknowledges the importance of overseas funds, which are not currently in scope. The FCA will work with the UK Treasury to understand the options for extending the regime to overseas funds, including those marketing under the [Overseas Funds Regime](#).

REQUIREMENTS

The anti-greenwashing rule requires all FCA-authorized firms to ensure sustainability-related claims are clear, fair and not misleading.

To qualify for a label, products must meet general criteria (including having a sustainability objective, investing at least 70% in sustainable assets, having KPIs, and meeting stewardship and governance requirements) as well as specific criteria for each label.

The FCA does not prescribe specific KPIs, allowing firms to select those that are most appropriate for their products. The KPIs must be measurable and provide a clear picture of the product's alignment with the sustainability standard.

- **Sustainability Focus:** Invests mainly in assets that meet an evidence-based standard of environmental/social sustainability. The KPIs must be an absolute measure of sustainability.
- **Sustainability Improvers:** Invests mainly in assets not currently sustainable but on a trajectory to improve sustainability over time. The KPIs must be able demonstrate the improvement of either the product as a whole or individual assets within the product towards becoming more environmentally or socially sustainable over time. Firms must develop short and medium-term targets for improvements and obtain robust evidence to satisfy themselves that the assets have the potential to meet the standard.
- **Sustainability Impact:** Aims to deliver measurable positive real-world impact alongside financial return. The KPIs must measure the positive impact that the product's assets aim to achieve on environmental or social issues, as well as the investor contribution.
- **Sustainability Mixed Goals:** Mix of focus, improvers and impact strategies. The KPIs will be a combination of those used for the Focus, Improvers, and Impact labels, set out above. The KPIs for this label must also include the proportion of assets invested in accordance with each of the relevant labels.

Firms must produce consumer-facing disclosures for labelled products and products using sustainability terms without a label. Detailed product and entity-level disclosures are required. Distributors must make labels and disclosures available to retail investors.

Asset managers with £5 billion or more in assets must report yearly on how they manage sustainability risks and opportunities. Those managing £50 billion or more must make their first report by 2 December 2025. Managers with £5 billion to less than £50 billion in assets must report by 2 December 2026.

The entity-level disclosures should be understood alongside the FCA's Policy Statement PS21/24: Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers, as there is some overlap.

PENALTIES

The FCA will apply its usual supervisory and enforcement approaches to the SDRs. The FCA will monitor compliance with the rules and may take enforcement action if it has reason to believe that serious misconduct may have taken place. Enforcement actions can range from fines and public censures to restrictions on business activities or individual bans for those responsible for non-compliance.

NEXT STEPS

The anti-greenwashing rule came into force on 31 May 2024.

Firms can use labels from 31 July 2024. Consumer-facing disclosures, naming/marketing rules and distributor rules also apply from this date.

The FCA will monitor implementation and review the SDRs in 3 years. It will engage with industry and international regulators as the regime embeds.