

Sustainability Disclosure Requirements (SDR) and investment labels

Discussion Paper

DP21/4

November 2021

How to respond

We are asking for comments on this Discussion Paper (DP) by **7 January 2022**.

You can send them to us using the form on our website at: www.fca.org.uk/dp21-04-response-form

Or in writing to:

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1 Introduction

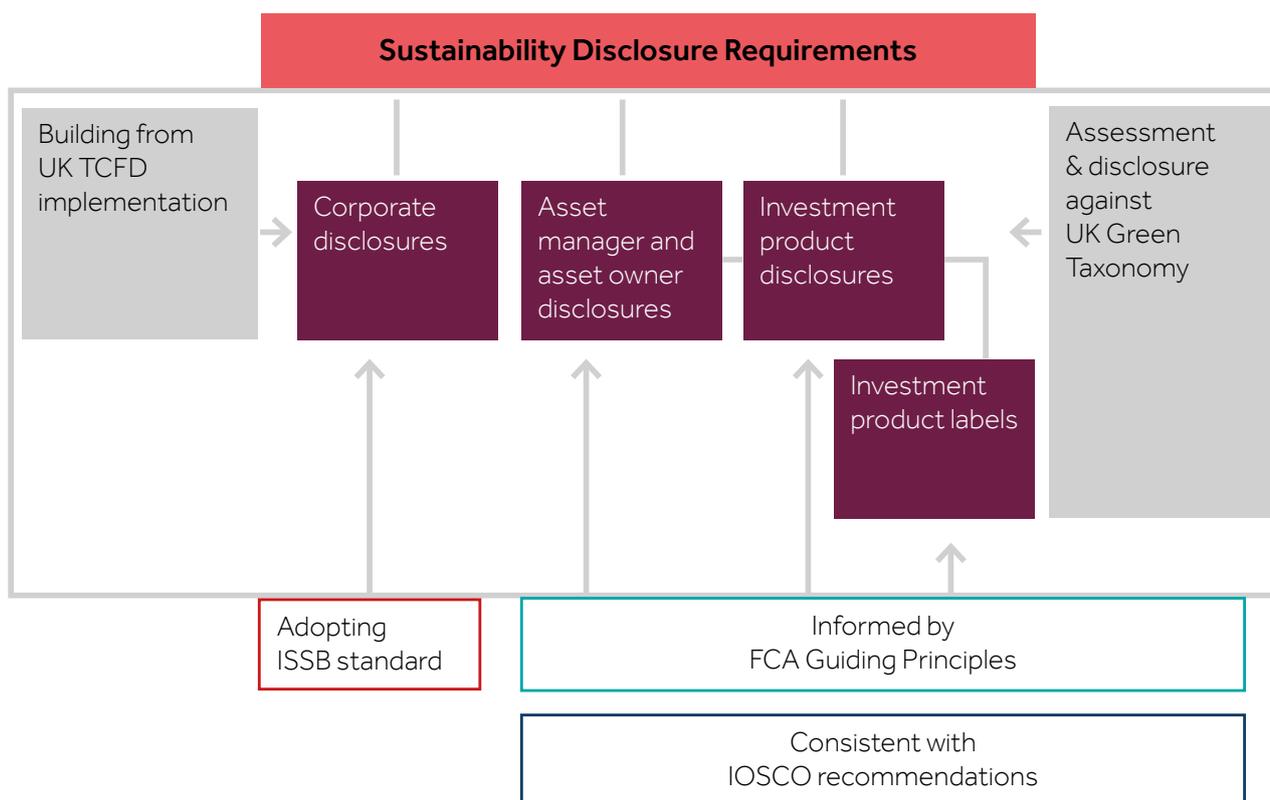
- 1.1** Financial services and markets have an important role in the transition to a more sustainable future. Financial services firms are increasingly incorporating consideration of Environmental, Social and Governance (ESG) factors into their operations, products and services. And, in response to growing consumer demand, firms are providing an increasingly diverse range of products that target various sustainability objectives, themes or characteristics.
- 1.2** We welcome the growing market and innovation in these products, which represents an important mechanism for allocating capital to sustainable economic activities. However, there is also a risk of harm if the market responds to rising demand without adequate regulatory checks and balances and delivers poor outcomes to consumers.
- 1.3** We have previously highlighted the risk of misleading ESG-related claims by products and providers, including in our 'Dear Chair' [letter to authorised fund manager chairs](#), published in July 2021. [A strategy for positive change: our ESG priorities](#) – published alongside this Discussion Paper (DP) – reiterates our commitment to enhancing both 'transparency' and 'trust' as ESG and sustainable products continue to grow in prominence.
- 1.4** Our work in this area contributes to the Government's ambitions on climate change and green finance. These were announced by the Chancellor in his Mansion House speech in July 2021 and are elaborated in the Government's '[Greening Finance: A Roadmap to Sustainable Investing Roadmap](#)' (Roadmap), published in October 2021.
- 1.5** The Roadmap sets out how the Government will realise these ambitions. Two initiatives, in particular, will require action from the FCA to implement them:
- **Sustainability Disclosure Requirements (SDR):** Real economy companies, including listed issuers, and asset managers and asset owners will be required to report on their sustainability risks, opportunities and impacts. The regime will build on measures already taken or underway to implement disclosure rules aligned with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) across the economy, expanding the scope to cover wider sustainability topics beyond climate change. SDR will also include disclosure requirements relating to the forthcoming UK Green Taxonomy (defined as a 'common framework setting the bar for investments that can be defined as environmentally sustainable'). The Government has confirmed that the global baseline sustainability reporting standards to be developed by the International Financial Reporting Standards (IFRS) Foundation's International Sustainability Standards Board (ISSB) will form a core component of the SDR framework, and the backbone of its corporate reporting element. We have been engaged with this work as co-chair of a workstream on issuers' sustainability disclosures under the International Organization of Securities Commissions (IOSCO). Several regulators and Government departments will have a role in implementing SDR. The Treasury is leading a cross-Whitehall/cross-regulator working group to develop policy recommendations and legislative proposals.

- **Sustainable investment labels:** Certain investment products will be required to display a label reflecting their sustainability characteristics. This will complement the entity- and product-level SDR disclosures. The FCA will develop and implement the labels, building on existing work under other domestic and international initiatives by industry and official sector initiatives. The input we receive will inform policy proposals to be issued for consultation in Q2 2022.

1.6 In this DP, we are seeking initial views on SDR disclosure requirements for asset managers and certain FCA-regulated asset owners, as well as the sustainable investment labelling system. Together these aim to build trust in the market, enhance transparency in the interest of consumers (defined in this paper as end-consumers such as pension scheme members, retail investors etc) and meet certain information needs of institutional investors. The input we receive will inform policy proposals to be issued for consultation in Q2 2022.

1.7 Our work to implement the labels and SDR disclosures is consistent with several other domestic and international initiatives and frameworks. Figure 1 below gives an overview of sustainability-related initiatives, showing the interlinkages and how our work fits in.

Figure 1: Inputs to SDR



1.8 The EU Sustainable Finance Disclosure Regulation (SFDR) also requires firms to report on their sustainability risks and impacts. We acknowledge that many UK firms and their products are subject to SFDR in respect of their cross-border EU business. We are seeking views in this paper on the extent to which we can remain as consistent as possible with SFDR, while reflecting the needs of the UK market. We are also

considering how overseas funds marketing into the UK should be treated, including in respect of the incoming Overseas Funds Regime.

1.9 We aim to consult in Q2 2022 on proposed rules to implement SDR disclosure requirements for asset managers and certain FCA-regulated asset owners and sustainable investment labels within our Handbook. This DP aims to inform our work to develop these proposals, with a specific focus on:

- sustainable investment labels
- consumer-facing disclosures for investment products
- client- and consumer-facing entity- and product-level disclosures by asset managers and FCA-regulated asset owners

1.10 Industry participants and others have already undertaken considerable work in these areas, and we note that there are several relevant industry and official sector initiatives underway. As with international standards, it is important that we gather as wide a range of stakeholder views as possible on these to ensure we build on, and avoid duplicating or conflicting with, existing work.

1.11 This paper focuses on the elements of SDR relevant to firms involved in investment management and decision-making processes. However, we recognise the important role that financial advisers play in providing consumers with sufficient information to assess which products meet their needs. We are also exploring how best to introduce specific sustainability-related requirements for these firms and individuals. Building on existing rules, a key aim will be to confirm that they should take sustainability matters into account in their investment advice and understand investors' preferences on sustainability to ensure their advice is suitable. We will develop proposals on this in due course, working with Government.

Sustainable investment – an increasingly diverse market

1.12 Consumers are increasingly demanding financial products that take sustainability into account. Our most recent Financial Lives survey asked consumers of retail investment or pension products a series of ESG-related questions. The survey [data](#) shows that:

- **80%** of respondents wanted their money to 'do some good', while also providing a financial return
- **71%** wanted to 'invest in a way that is protecting the environment' and
- **71%** would not put their money into 'investments which are unethical'

1.13 This demand is being met, both domestically and internationally, by a growing market in sustainable financial products including sustainable investment products. The CFA Institute [describes](#) sustainable investment products as those balancing 'traditional investing with ESG insights to improve long-term outcomes.'

1.14 We have seen rapid recent growth in the provision of these products. The Investment Association (IA), which tracks funds flows across different sectors, found that between Q1 2020 and Q2 2021 funds under management for responsible investment products grew by 151%. According to [Morningstar](#), 2020 saw record investment of over £200 billion into European sustainable retail investment products, almost double the figure for 2019. These investments also represent an increasing proportion of total assets

under management (AUM). Bloomberg has predicted that responsible and sustainable financial products will account for fully one third of global AUM by 2025.

- 1.15** As well as its rapid growth, another key characteristic of this market is its diversity. Consumers are presented with an ever-expanding range of products which aim to integrate or fulfil sustainability objectives in a variety of ways. Fund EcoMarket, a fund comparison site, lists over 800 funds with responsible, sustainable or ethical characteristics. Their diversity is reflected in the number of sub-classifications (over 50) used to categorise these products. These categories are wide-ranging, including 'Arctic drilling exclusions', 'Responsible supply chain policy', 'Invests in clean energy/renewables' and 'Human Rights'. They speak to the market's diverse nature, the different sustainability themes, outcomes or strategies that funds pursue, and the complex and sometimes confusing use of terminology.
- 1.16** Diversity of products can be highly beneficial to consumers, if it reflects product innovation and healthy competition between providers that helps consumers better match products with their needs and preferences. However, without common standards, clear terminology and accessible product classification and labelling, there is a risk that consumers become confused by the array of choices available and are unable to assess product suitability. This could also lead to a lack of trust in the market for sustainable investment products.
- 1.17** Many products will fall within a range of objectives, strategies and characteristics that will be suitable for different consumers with different investment goals and risk appetites. This is set out in Box 1 below.

Box 1: Investment strategies

The Global Sustainable Investment Review 2020 outlines a variety of 'building blocks' in ESG investing and explains that it is not unusual for investment products to combine a variety of investment strategies. These include:

- **ESG Integration:** The systematic and explicit inclusion by investment managers of ESG factors into financial analysis.
- **Corporate engagement and shareholder action:** Employing shareholder power to influence corporate behaviour, including through direct corporate engagement (ie communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting guided by comprehensive ESG guidelines.
- **Norms-based screening:** Screening of investments against minimum standards of business or issuer practice based on international norms such as those issued by the United Nations (UN), International Labour Organization (ILO), Organisation for Economic Co-operation and Development (OECD) and non-governmental organisations (NGOs).
- **Negative/exclusionary screening:** The exclusion from a fund or portfolio of certain sectors, companies, countries or other issuers based on certain criteria. Exclusion criteria (based on norms and values) can refer, for example, to product categories (eg weapons, tobacco), company practices (eg animal testing, violation of human rights, corruption) or controversies.
- **Best in class/positive screening:** Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers, and that achieve a rating above a defined threshold.
- **Sustainability themed/thematic investing:** Investing in assets specifically contributing to sustainable solutions, such as sustainable agriculture or green

buildings, or investing in sustainable themes such as low carbon portfolios or portfolios promoting gender equity.

- **Impact investing and community investing:** Investing to achieve positive social and environmental impacts. This approach involves measuring and reporting against these impacts, demonstrating the intentionality of investor and underlying asset/investee, and demonstrating the investor contribution. Community investing is broader than impact investing and considers other forms of investing and targeted lending activities.

Our role

- 1.18** As this market continues to grow, it must do so in a way that safeguards consumers' interests through transparency and openness. This objective is a priority in our [2021/2022 Business Plan](#), which includes the aims of promoting transparency through high-quality sustainability disclosures, promoting trust in investment products and protecting consumers from misleading claims about their sustainability characteristics. We have set out how we intend to do this in [A strategy for positive change: our ESG priorities](#), published alongside this DP.

Outcomes

- 1.19** We want our regulatory approach to create the right conditions for market participants to manage the risks from moving to a more sustainable economy and capture opportunities to benefit consumers. We aim to introduce a framework that encourages structured dialogue within firms, and subsequently disclosure, on how they identify and manage sustainability-related risks, opportunities and impacts. We want consumers to be able effectively to navigate the market for sustainable financial products and have enough information to assess which products meet their needs and hold firms to account for their sustainability claims.
- 1.20** Our work with the Treasury and others to implement SDR disclosures and sustainable investment labels will help achieve this. We consider that better disclosures and a clear product classification and labelling system will help both consumers and institutional investors make better informed decisions about their investments. This should, in turn, help to advance our operational objectives by:
- Enhancing competition in the interests of consumers, as financial services firms will be able to develop products that better meet consumer preferences.
 - Protecting consumers from buying unsuitable products, as investors will be better able to navigate the range of products on offer, assess which products meet their needs, and hold providers to account for claims made.
 - Protecting and enhancing the integrity of the UK financial system, as assessment of sustainability-related matters will improve across the market, resulting in better informed pricing and capital allocation decisions. This should also help to enhance trust in the market for sustainable investment products.
- 1.21** To help us with this work, we intend to use and build upon existing skills and frameworks. Alongside this DP we are establishing a Disclosures and Labels Advisory Group (DLAG). The group is composed of a range of relevant stakeholders, including

industry experts and consumer representatives. It will meet regularly and provide us with feedback, technical advice and constructive challenge as our work develops. We have included the membership list for the group in Annex 2. We will also engage with other groups, such as the Climate Financial Risk Forum (CFRF). The CFRF is a senior industry forum, co-chaired by the FCA and Prudential Regulation Authority, which brings together financial sector representatives to share their experiences in managing climate-related risks and opportunities.

- 1.22** Finally, we are also collaborating both internationally and domestically to achieve these aims. We support the Government's commitment to achieving a net zero economy by 2050 and have formally been directed to take this into consideration when carrying out our activities. This was set out in our [remit letter](#) from the Chancellor in March 2021.

Who should respond to this Discussion Paper?

- 1.23** The SDR disclosures and sustainable investment labels that we are introducing would apply to certain asset managers and FCA-regulated asset owners, and the investment products they offer. Both initiatives would be introduced in the interest of consumers, such as pension scheme members and retail investors, and institutional investor clients, such as pension scheme trustees, employers and corporate investors. However, we welcome contributions from all parts of the financial sector, and other interested parties. This includes:

- regulated firms
- industry groups and trade bodies
- consumer groups and individual consumers
- policy-makers and other regulatory bodies
- industry experts and commentators
- academics and think tanks
- stakeholder advocacy groups

Equality and diversity considerations

- 1.24** We have considered the equality and diversity issues that may arise from the proposals in this DP. We do not consider that these proposals adversely impact any of the groups with protected characteristics i.e. age, disability, sex, marriage or civil partnership, pregnancy and maternity, race, religion and belief, sexual orientation and gender reassignment. We will keep this under review as we develop proposals for consultation.

2 Our approach

2.1 We want consumers to be able to make effective choices about sustainable investment products. To do so they must be provided with sufficient, consistent information to help compare similar products and make considered choices about their investments. This includes information on how product manufacturers are managing sustainability risks, opportunities and impacts, both across their organisations and the products they manage as well as details of the sustainability characteristics of individual investments.

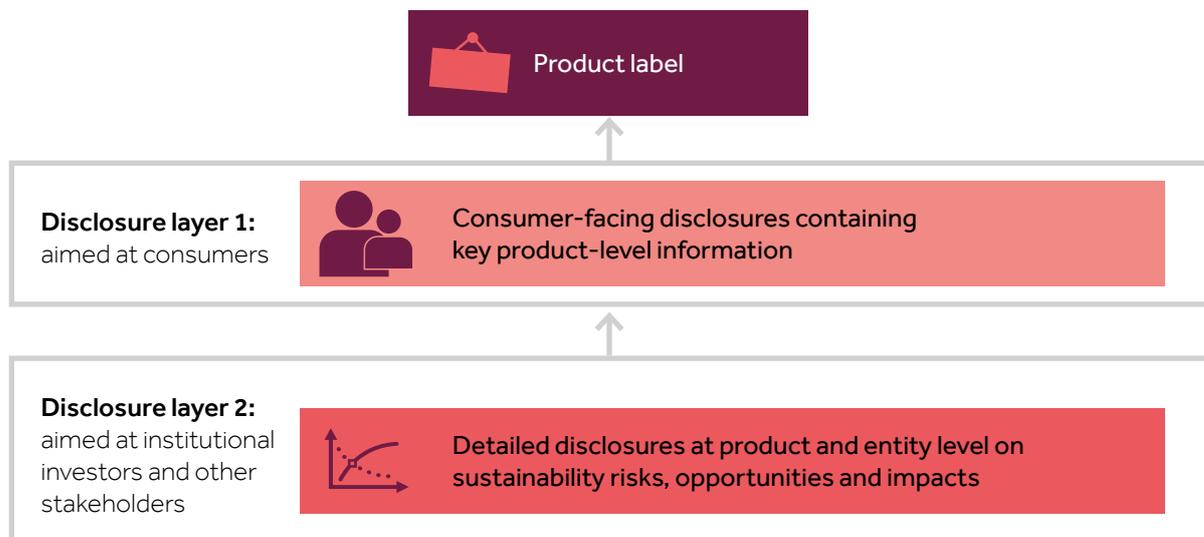
2.2 In this DP we are seeking feedback on a potential approach to delivering this. Consistent with the broader aims set out in the Roadmap, we are aiming to create a framework for sustainability disclosures, supported by product labels to:

- increase the provision of sustainability-related financial information to consumers and other stakeholders
- build trust in the market for ESG and sustainable investment products by combatting potential 'greenwashing' (where sustainability claims made by firms do not bear scrutiny) and enabling consumers to make informed choices
- play a role in educating consumers about sustainable investing and the different sustainability-related characteristics of products
- foster competition by more reliably distinguishing products
- encourage better management of sustainability risks, opportunities and impacts across the financial system
- support market demand and innovation for greater investment in responsible and sustainable investment strategies, and
- reduce market fragmentation by establishing clear categories for sustainable investment products

2.3 Sustainability-related information, presented in a standard way or to standardised definitions, could be useful to institutional investors as well as retail consumers. This information may also be of interest to a wider set of stakeholders including policymakers, regulators and NGOs.

2.4 There could be benefits in requiring this information to be presented in an easily accessible and standardised way that is appropriate to the intended audience. To simultaneously meet the information needs of retail consumers and institutional investors, one approach we are considering is a 3-tiered system incorporating labels and disclosures. This is set out in Figure 2 below:

Figure 2: Early views on a product labelling and disclosure system



2.5 The information to be included in this structure, including metrics and methodologies as relevant, would reflect a consistent approach throughout the design, delivery and disclosure of sustainable investment products.

- **Product labels.** A standardised product classification and labelling system would help consumers understand the sustainability characteristics of different products and navigate the products on offer.
- **Consumer-facing disclosures.** Consumer-facing product-level disclosures could provide standardised information on the product’s key sustainability attributes. This would allow consumers to better understand the sustainability characteristics of the product, compare similar products or the same product over time, and hold the provider to account for sustainability claims made.
- **Detailed disclosures.** Detailed disclosures could be made at entity and product level. These could provide more granular information than the consumer-facing disclosures, as well as additional information as relevant. The disclosures could be useful to institutional investors, as well as a broader range of stakeholders (as set out in paragraph 2.3).

2.6 Under this approach, the entity- and product-level disclosure requirements would build on our proposed TCFD-aligned disclosure requirements, widening the scope beyond climate to other sustainability factors. In setting the potential scope of firms and products, we could as a starting point consider basing this on the proposed scope of our TCFD regime. Working with HMT, we are also considering how overseas funds marketing into the UK would be treated. In addition, we are exploring the best approach to introducing requirements for financial advisers, in due course.

2.7 We would welcome views on the types of firms and products that should be in scope of the requirements for labels and disclosures, including whether labels would be more appropriate for certain types of product. We are interested in understanding whether there are circumstances in which the labels might not be particularly meaningful, suitable or feasible. This could include, for example, where portfolio management services are provided on the basis of segregated mandates or where products are not targeted at retail consumers. We welcome any specific examples.

- Q1:** What are your views on the tiered approach set out in Figure 2? We welcome views on any concerns and/or practical challenges.
- Q2:** Which firms and products should be in scope of requirements for labels and disclosures? We particularly welcome views on whether labels would be more appropriate for certain types of product than for others, please provide examples.

2.8 We discuss each of the three tiers in more detail in the following sections of this paper, including their interaction with existing initiatives or disclosure requirements.

3 Labels

3.1 In this chapter we explore potential approaches to a sustainable product classification and labelling system. We explain our thinking and seek feedback on a possible set of labels we are considering.

Overview and current position

3.2 Retail consumers appear to be strongly influenced by what they consider to be objective and reliable product labels. Recent consumer behavioural research by FCA economists, published in July 2021, found that labels were an important driver of consumers' choices of sustainable investment products.

3.3 As a regulator, we have an important role to build trust in this growing and complex market. Without trust, the market will be unable to fully develop and unlock potential benefits to consumers and wider society. We consider that classifying and labelling investment products according to objective criteria, and using common terminology, could help to combat potential greenwashing and enhance trust.

3.4 Classification and labelling of sustainable financial products has become increasingly common internationally, albeit with differences in terms of policy aims and practical implementation. For example:

- The categorisation of sustainable financial products introduced by SFDR has become a de facto classification and labelling system for sustainability-related investment products: products that do not consider sustainability factors ('Article 6' products); products that 'promote' sustainability factors ('Article 8') and products that have sustainable 'objectives' ('Article 9'). The EU is also developing an EU Ecolabel for retail financial products.
- The French Authorities have introduced a SRI label for ESG funds and a 'Greenfin' label for climate-focused funds.
- In August 2021 the German Federal Financial Supervisory Authority ('BaFin') consulted on sustainable investment labels.

Current initiatives

3.5 As set out in Box 2, we have identified a number of existing initiatives (both in the UK and internationally) relating to the labelling or classification of sustainable and responsible investment products, or to sustainability-related financial disclosures.

3.6 One of the key challenges investors currently face is the sometimes interchangeable use of key sustainable finance and ethical terms and the lack of agreed definitions. Some existing initiatives are specifically focused on this issue, such as the IA's Responsible Investment Framework and the British Standards Institution's (BSI) standardisation documents relating to sustainable finance.

Box 2: Sustainability disclosure and classification initiatives

- **The CFA Institute** issued voluntary ESG disclosure standards for investment products in November 2021. This sets out principles for disclosures promoting greater transparency and consistency of product-level disclosures directed at both institutional and retail investors as well as consultants. This includes disclosure requirements for key elements of product strategy, such as objectives, benchmarks, sources and types of ESG information, exclusions, stewardship etc. It does not seek to define key terminology.
- **The IA** developed a Responsible Investment Framework following consultation with industry. This aims to bring clarity and consistency to the way products are described to clients, making it easier for investors to understand the products available to them. The Framework includes definitions for key terms.
- **The Investing and Saving Alliance (TISA)** is developing templates for consumer communications on ESG products (in the form of an 'ESG factsheet') and is currently running an engagement programme to understand how consumers interact with these products. This aims to promote clarity, consistency and comparability around how the sustainability characteristics of investment products are communicated, to make products more accessible to retail investors.
- **BSI** has a sustainable finance standards programme underway; having already developed standards for embedding the principles of sustainable finance in financial firms and established specifications for responsible and sustainable investment management at the entity level, the BSI programme has begun work to develop standards for sustainable investment products. The BSI has defined key investment terminology as they relate to the entity-level guidance and we expect these will evolve to capture product-level considerations. For example, it includes definitions for responsible, sustainable and impact investing, as discussed in more detail in relation to labels and classification from paragraph 3.15 onwards.
- **IOSCO** has published a set of recommendations for sustainability-related practices, policies, procedures and disclosures. This includes recommendations for entity-level disclosures consistent with the TCFD's recommendations as well as disclosures to help investors better understand sustainability-related products and material sustainability-related product-level risks.

3.7 We welcome views on how we can best leverage these initiatives and any additional work, already underway or upcoming, that would be useful to engage with as we develop our proposals in line with the Roadmap. As discussed in paragraph 1.21, we have established a Disclosures and Labels Advisory Group to provide us with feedback, technical advice and constructive challenge as our work develops. Organisations leading several of the initiatives above are represented on the group.

Q3: Which aspects of these initiatives, or any others, would be particularly useful to consider (for example in defining terms such as responsible, sustainable and impact) and how best should we engage with them?

Key design principles

3.8 There are some important features which we need to consider in designing a labelling and classification system:

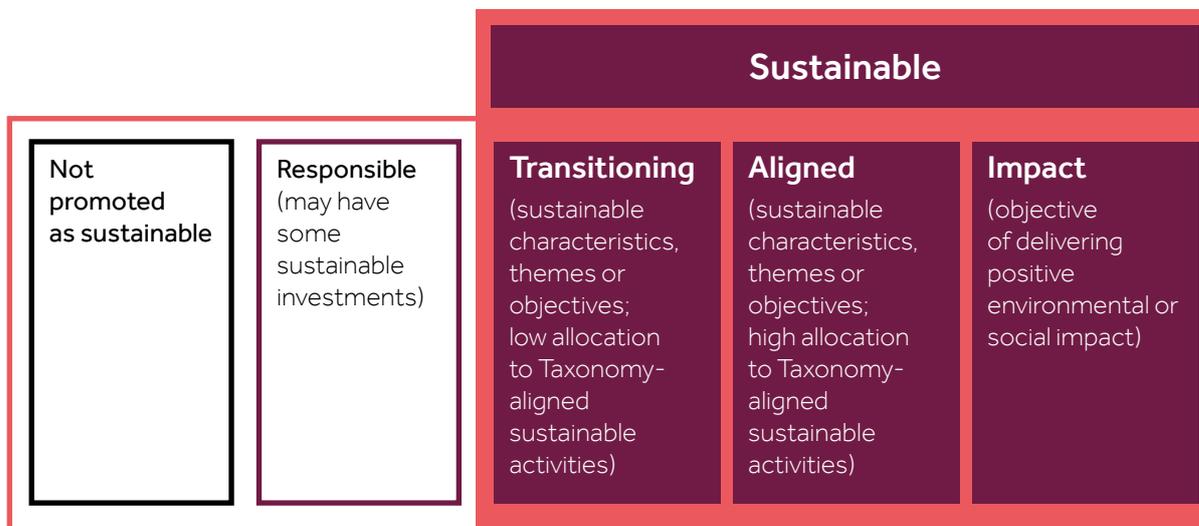
- **Objective, descriptive versus subjective labels.** Our starting point is that the labelling and classification system should use objective criteria and descriptive labels, referencing for instance the proportion of sustainable investments, or the nature of the product's objectives or strategy. An objective approach could help consumers navigate products without imposing a value judgement as to whether a product is 'good' or 'bad'. Subjective markers, such as 'medals' or 'traffic lights', would not seem appropriate for a regulatory labelling regime. A subjective regime may also be more difficult to supervise effectively.
- **Investment objectives and strategies versus allocation of investments to sustainable projects and activities.** In objectively describing a spectrum of sustainable product categories, different dimensions could be considered. These include the objectives and strategies of the product – its sustainability characteristics, themes or objectives, and how it is pursuing them – and the proportion of its investments that are currently allocated to sustainable projects or activities. The latter could use the sustainability criteria of the UK Taxonomy as it is developed.
- **Consistency and compatibility with the current market and existing initiatives and flexibility as the market develops.** Any classification system needs to reflect the breadth of products in the market, ideally using terminology that is already familiar to both investors and industry. As described above in Box 2, work has already been done to define common terms, classifications and disclosures. It is likely to be preferable to build upon existing initiatives to develop a coherent and interoperable system. However, we are also aware that any system needs a degree of flexibility, to accommodate market developments and avoid stifling innovation.

A potential approach

3.9 One approach would be to only apply labels to products that make sustainability claims or that are marketed as being sustainable. However, this might limit the usefulness of the labels to only those consumers making active choices in this area.

3.10 An alternative approach would be to develop a classification and labelling system that covers the full range of investment products available to retail consumers. This would help consumers form a view of the sustainability characteristics of their investments, including those that do not proactively make sustainability claims. We have set out in Figure 3 below how a classification and labelling system could potentially work in line with this approach. In the following sections we explain the principles informing this design, the interaction with other classification initiatives and the potential criteria for the different categories and labels.

Figure 3: Potential approach to a sustainable product classification and labelling system



Note: The five blocks in this Figure represent potential categories of product in the classification and labelling system. Each would be supported by clear definitions and criteria

3.11 We recognise that many UK firms are subject to SFDR in respect of their EU business and have already invested in systems and processes to classify products according to SFDR provisions. We therefore consider it important to explore how products already classified under SFDR can map against the UK framework.

3.12 We consider an indicative mapping of the categories set out above against SFDR could be as follows:

- Not promoted as sustainable: Article 6
- Responsible and Sustainable 'Transitioning' categories: Article 8
- Sustainable 'Aligned': Article 9
- Sustainable 'Impact': a category in its own right, comprising only a (small) subset of Article 9 funds

3.13 We intend to provide further specificity of criteria, including entity-level criteria, as discussed in the 'Classification and criteria' section below.

3.14 We would welcome views on this approach and mapping to SFDR, including considerations on how products that are already classified under the EU regime could map across to the UK classification system.

Q4: Do you agree with the labelling and classification system set out in Figure 3, including the design principles we have considered and mapping to SFDR? We welcome views on further considerations and/or challenges.

Classification and criteria

3.15 As discussed above, it is likely to be preferable for a sustainability product classification system to be supported by objectively and clearly defined criteria that allow for clear

differentiation between categories. This system should build upon and be mappable against existing standards. It should be simple and intuitive to understand.

- 3.16** We have set out below our thinking on the criteria that could underpin the classification and labelling system, including minimum criteria. While Box 3 below focuses on minimum product-level criteria, we welcome views on whether it may be appropriate also to set a baseline of 'entry-level criteria' at entity level. These would apply to the firm responsible for delivering the product and managing the investments (eg the FCA-regulated entity, the parent or affiliate, or a delegated asset manager).
- 3.17** Entity-level criteria would help to ensure that arrangements relevant to the processes, resources and decisions applied in the management of the product also meet a minimum threshold of sustainability-related criteria before products can be considered 'Responsible' or 'Sustainable'. The aim would be to ensure that the firm's own approach is consistent with the product's aims and reflected in the design and delivery of the product. Criteria could include matters relating to systems and controls, governance, ESG integration and stewardship.
- 3.18** We welcome views on this approach and any criteria that would be appropriate to demonstrate at the entity level. We could consider applying a higher threshold entity-level standard for 'Sustainable' products, relative to 'Responsible' products. We could also consider incorporating evidence of firms' credentials under existing frameworks such as the FRC UK Stewardship Code 2020 and a firm's rating under the Principles for Responsible Investment's assessments.
- 3.19** In designing the classification and labelling system, we need to ensure that it is both meaningful and verifiable. We need to help consumers navigate investment products and guard against misleading information, and we must also develop a system that we can supervise effectively. We therefore expect there would need to be a baseline level of prescription in the criteria that must be met for a 'Responsible' or 'Sustainable' label.
- 3.20** We aim to find a balance between principles and prescription so as not to stifle innovation and support the continued development of the market. We welcome views on any quantifiable, measurable thresholds and criteria that could be applied to evidence suitability for obtaining each of the 'Responsible' and 'Sustainable' labels. We also seek feedback on the potential challenges and trade-offs in this approach.

Q5: **What are your views on 'entry-level' criteria, set at the relevant entity level, before products can be considered 'Responsible' or 'Sustainable'? We welcome views on what the potential criteria could be and whether a higher entity-level standard should be applied for 'Sustainable' products. We also welcome feedback on potential challenges with this approach.**

Q6: **What do you consider to be the appropriate balance between principles and prescription in defining the criteria for sustainable product classification? We welcome examples of quantifiable, measurable thresholds and criteria.**

- 3.21** Set out in Box 3 below is a potential approach to classification criteria. In the following sections we explain the foundations for these criteria and issues on which we would welcome views.

Box 3: Classification criteria

Minimum 'entry-level' criteria at the relevant entity level:

In order to use a 'Sustainable' or 'Responsible' product label, the entity responsible for managing investments must demonstrate key attributes such as: meeting existing governance, systems and controls requirements; identifying how ESG considerations are integrated into investment processes to minimise risks and take advantage of opportunities; stewardship and using ownership rights (eg, voting and engagement).

Product-level classification definitions and minimum criteria:

1. Sustainable – products that pursue specific sustainability characteristics, themes or objectives alongside delivering a financial return. Divided into three types of product:

a. Sustainable – Impact – Products with the objective of delivering net positive social and/or environmental impact alongside a financial return.

Minimum criteria: Intentionality, theoretical ability to deliver and measure additionality through investment decision-making and investor stewardship, impact measurement and verification.

b. Sustainable – Aligned – Products with sustainability characteristics, themes or objectives and a high proportion of underlying assets (measured according to a minimum threshold) that meet the sustainability criteria set out in the UK Taxonomy (or could otherwise be verifiably established to be sustainable, where a taxonomy is not yet available).

Minimum criteria: See Transitioning criteria below, with the addition of minimum thresholds for asset allocation.

c. Sustainable – Transitioning – Products with sustainability characteristics, themes or objectives that do not yet have a high proportion of underlying assets meeting the sustainability criteria set out in the UK Taxonomy (or can otherwise be verifiably established to be sustainable, where a taxonomy is not yet available). These products pursue strategies that aim to influence underlying assets towards meeting sustainability criteria over time, for instance through active and targeted investor stewardship. The expectation, therefore, is that this proportion will rise over time.

Minimum criteria: Evidence of sustainability characteristics, themes or objectives that are reflected fairly and consistently in the investment policy or strategy and may include some combination of:

- restrictions to the investible universe, including investment limits and thresholds
- screening criteria (positive or negative)
- the application of benchmarks or indices and expected or typical tracking error relative to the benchmark
- the entity's stewardship approach as applied to the product

2. Responsible – Impact of material sustainability factors on financial risk and return considered to better manage both risks and opportunities and deliver long-term, sustainable returns. No specific sustainability goals.

Minimum criteria: ESG integration, evidence of ESG analytical organisational capabilities and resources, demonstrable stewardship.

3. Not promoted as sustainable – Sustainability risks have not been integrated into investment decisions. No specific sustainability goals.

Sustainable – Impact

3.22 BSI's PAS 7431 defines impact investing as 'an approach where investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return'. However, others have defined impact investing in different ways.

3.23 For example, some commentators distinguish between three types of impact:

- **Enterprise impact:** the impact achieved by the companies and projects in which the product invests. Investee companies inherently generate an impact through their services, goods and organisational characteristics, and especially their productive activities.
- **Financial impact:** the impact that the investor can achieve by financing sustainable activities. For example, investors might fund certain economic activities at concessionary rates or fund activities that would otherwise fail to be financed.
- **Non-financial impact:** the impact the investor can achieve by non-financial means. This includes lobbying for higher regulatory standards or setting best practices in a specific industry and, importantly, stewardship and engagement activities.

3.24 Investing for impact is also often considered to incorporate the following attributes:

- **Intentionality** refers to the investor's deliberate intention to have a positive social or environmental impact through investments. This is considered essential to impact investing.
- Commonly, impact investments are also characterised by their having **return expectations**.
- Ongoing **measurement of impact** is widely seen as a fundamental aspect of impact investing.

3.25 Another characteristic often associated with impact investing is **additionality**. This can be defined in terms of whether a proposed activity will produce some 'extra good' in the future relative to a specified baseline, typically the counter-factual in which the investment has not taken place.

3.26 However, others consider additionality too strict a requirement for the purpose of determining whether an investment product has impact.

3.27 If additionality (whether financial or non-financial) were one of the necessary criteria for impact products, it is likely that fewer products would qualify for an 'Impact' label than those currently categorised as Article 9 funds under the SFDR. This may argue for an additional category of 'Impact' products that would only contain a sub-set of the funds currently categorised as Article 9 under the SFDR. This approach is articulated at paragraph 3.12.

Box 4: Financial additionality

In the context of developmental programmes, the OECD defines financial additionality as the ability 'to extend financing to an entity that cannot obtain finance from local or international private capital markets with similar terms or quantities without official support, or if it mobilises investment from the private sector that would not have been otherwise invested'.

Retail investors' ability to affect the access to – and therefore cost of – capital of companies by financing activities that would not otherwise be funded (or funded at worse terms) tends to be very limited in listed equities, where new capital usually goes to fund general corporate expenditure.

As well as providing additional capital, funding at lower cost or catalysing investments, investors can achieve additionality by providing non-financial value, most notably through their stewardship activities. Stewardship is an important mechanism through which asset owners and asset managers can influence the management of corporations and ensure better alignment with investors' values.

Q7: Do you agree with these high-level features of impact investing? If not, why not? Please explain, with reference to the following characteristics:

- **intentionality**
- **return expectations**
- **impact measurement**
- **additionality**
- **other characteristics that an impact product should have**

Sustainable – 'Aligned' and 'Transitioning'

3.28 Investment products that claim to achieve a positive impact on sustainability through stewardship are, currently, a minority. This is because, for example, decreasing greenhouse gas (GHG) emissions in the real world is significantly more difficult than buying the assets of companies involved in climate change mitigation or adaptation solutions. Demonstrating that an investment strategy can effect change is also challenging.

3.29 Instead, many sustainable products emphasise sustainability-related features, themes or a sustainability focus, or pursue a strategy that is aligned with certain values. Typically, this translates into investing in certain types of assets and excluding others or, more often, overweighting certain companies and underweighting others.

3.30 BSI's PAS 7431 defines 'sustainable finance' as the 'application of financial services to achieve the goal of sustainability'. In the context of investment products, there is a broad spectrum of products that claim to be sustainable. These include: products actively engaging with investee companies to improve their sustainability performance; those claiming to have sustainability-related characteristics, themes or a sustainability objective; and those pursuing strategies aligned with certain values.

- 3.31** Most sustainable investment products have some sustainability-related portfolio-level composition criteria. These criteria could, for example, be linked to the emissions intensity of investee companies' activities or the percentage of a portfolio invested in industrial processes considered sustainable under a specified taxonomy.
- 3.32** Products may also use strategies to minimise their exposure to assets seen as non-sustainable (referred to as 'exclusions' or 'negative screening'). The introduction of green taxonomies, most notably in the EU, China and the UK (with Technical Screening Criteria to be developed) is helping to clarify which economic activities should be considered sustainable from a number of perspectives. This enables product providers to base their claims on more verifiable interpretations of sustainability.
- 3.33** The labelling system described in Figure 3 sets out three categories of sustainable investment products: 'Impact', 'Aligned' and 'Transitioning'. All would be expected to pursue specific sustainability objectives, themes or characteristics alongside financial objectives. The clear differentiator between 'Aligned' and 'Transitioning' would be the proportion of assets considered sustainable (based on the UK Taxonomy or other criteria): 'Transitioning' products would at the time of assessment have a low allocation to sustainable activities, while 'Aligned' products would have a higher allocation (above a specified threshold). We are also considering the role of other differentiators such as the tracking of low carbon benchmarks, as explained in paragraph 3.40.
- 3.34** These classifications would therefore allow for products pursuing certain sustainability characteristics, themes or objectives, but investing in assets that are transitioning towards sustainability, to be assigned a 'Sustainable' label. Such an approach would recognise that investors can play an important role in facilitating the transition through active investor stewardship. Importantly, it would avoid discouraging investment in economic activities and projects that are in the process of transitioning to being more sustainable in future. Investment in these products is critical to supporting broader sustainability goals such as the Government's commitment to achieving net zero emissions by 2050.
- 3.35** At the same time, it is important that the labels clearly convey to consumers which products are captured within each category, so that consumers can find the products most appropriate to their preferences. By clearly labelling these products as 'Transitioning', consumers would be able to choose whether they want to invest in a product that uses stewardship influence and other means to help investee companies become more sustainable over time, or whether they would prefer to invest in companies already possessing certain sustainable characteristics. We would welcome views on this proposed treatment of assets that are considered transitioning, and how these assets are represented in the overarching labelling system.

Q8: What are your views on our treatment of transitioning assets for:

- a: the inclusion of a sub-category of 'Transitioning' funds under the 'Sustainable' label?**
- b: possible minimum criteria, including minimum allocation thresholds, for 'Sustainable' funds in either sub-category?**

Responsible

- 3.36** BSI's PAS 7341 defines responsible investment as 'the consideration of the impact of material factors, including material ESG considerations, on financial risk and return to better manage both risks and opportunities and deliver long-term sustainable returns and investment decisions'. ESG integration is defined in PAS 7341 as 'the systematic and explicit inclusion of material ESG criteria into investment analysis and investments decisions'.
- 3.37** We generally expect investment managers to consider material sustainability risks as part of the risk management of an investment product. However, the degree to which managers integrate ESG factors in how they manage their clients' investments varies.
- 3.38** At the product level, 'Responsible' products could be characterised by the integration of ESG factors and stewardship, directed towards the delivery of long-term sustainable investment decisions and returns. 'Responsible' products may have high, low or no allocation to sustainable investments. The criteria applied would not impose any restriction on the investible universe of such funds; exclusions, tilting or allocation thresholds would therefore not be an expectation. However, the criteria could include demonstrable evidence of ESG analytical capabilities and effective stewardship at entity level, applied in the management of the product.

Q9: What are your views on potential criteria for 'Responsible' investment products?

Not promoted as sustainable

- 3.39** Certain investment products do not take sustainability considerations into account, even as a form of risk management. Sustainability considerations may, for example, be deprioritised for certain investment strategies. Likewise, when clients wish to invest in products that track a third-party index that does not embed sustainability-related criteria, sustainability factors may not be considered.

Q10: Do you agree that there are types of products for which sustainability factors, objectives and characteristics may not be relevant or considered? If not, why not? How would you describe or label such products?

Additional considerations

- 3.40** **Benchmarks and indices:** Various sustainable indices are becoming an increasingly popular choice for tracker funds. Alongside market-led developments, the UK has standards for two types of low carbon benchmarks. These are the 'UK Climate Transition' benchmark and the 'UK Paris-aligned' benchmark which allow investors to reduce emissions in a product over time.

Q11: How do you consider products tracking Climate Transition and Paris-aligned benchmarks should be classified?

- 3.41** **Derivatives, short-selling and securities lending:** The debate over the role of derivatives in ESG investing is ongoing.
- 3.42** Certain ESG derivatives are being launched where the payoff or the underlying reflect certain sustainability-related performance criteria or characteristics. By contrast,

others might consider 'traditional' derivatives to be more appropriate for managing sustainability-related risks. We welcome views from stakeholders on whether the use of derivatives in pursuing sustainability strategies should have a bearing on the classification of relevant investment products.

3.43 Similarly, we welcome views on

- the use of short-selling strategies in sustainable investing, both to mitigate risks and to achieve sustainability-related goals, and
- securities lending in the context of sustainable investing, with reference to whether certain types of sustainable products should be subject to specific requirements or limitations as regards securities lending and whether sustainability should be taken into consideration in stock lending criteria.

Q12: What do you consider the role of derivatives, short-selling and securities lending to be in sustainable investing? Please explain your views.

4 Disclosures

Overview

- 4.1** Consistent with the aim of SDR as set out in the Roadmap, the sustainability-related disclosures to be implemented by the FCA would provide consumers and institutional investors with key sustainability-related information. This would include information about how the investment firm is managing sustainability risks, opportunities and impacts, and about the sustainability characteristics of investment products. Information provided under the regime would also be of interest to broader stakeholders such as service providers, policy makers and NGOs.
- 4.2** The disclosure regime would build on our climate-related disclosure requirements, aligned with the recommendations of the TCFD (see Figure 1). We consulted on both entity and product-level disclosure requirements for asset managers and FCA-regulated asset owners during the summer and aim to finalise our policy position by the end of 2021.
- 4.3** The SDR disclosure requirements would widen the scope of these disclosures beyond climate, to cover sustainability matters more broadly. They would also extend beyond financial risks and opportunities to cover the impact firms and investment products are having on the environment and society. As well as maintaining the TCFD's structure for detailed entity-level and product-level disclosures, we would expect the consumer-facing layer of disclosure to be a subset of the detailed information that firms would be required to provide. We consider that the information should also support and complement the classification and labelling regime.
- 4.4** Overall, we aim to design a regime that avoids duplication and ensures that clients and consumers are provided with consistent and coherent information. As set out in the Roadmap, information to be disclosed in line with SDR corporate reporting requirements will support the information to be disclosed by firms, further enhancing consistency.
- 4.5** We are considering the most appropriate way to embed climate-related disclosures made in line with our TCFD rules into the broader sustainability disclosures, expanding as appropriate. We would welcome views on practical considerations on this approach, including jurisdictional or other limitations. We also welcome suggestions on other ways to streamline these disclosure requirements.

Q13: What are your views on streamlining disclosure requirements under TCFD and SDR, and are there any jurisdictional or other limitations we should consider?

Consumer-facing disclosures

- 4.6** As set out under 'Our approach' in Chapter 2, we envisage an initial layer of disclosures that are more accessible to retail consumers. We refer to these as 'consumer-facing' disclosures. These disclosures should provide the most salient sustainability-related information for consumers to make considered choices about their investments. This could include the following:
- investment product label
 - objective of the product, including specific sustainability objectives (for example, to reduce the carbon intensity of investments while providing a financial return to clients)
 - investment strategy pursued to meet the objectives, including sustainability objectives
 - proportion of assets allocated to sustainable investments (according to criteria set out in the UK Taxonomy)
 - approach to investor stewardship
 - wider sustainability performance metrics (supported by brief contextual information)
- 4.7** As set out at 1.3, in July 2021 we wrote to the chairs of authorised fund managers setting out our expectations on the design, delivery and disclosure of ESG and sustainable investment funds. We reiterated existing rules for communication on some of these matters, including investment objectives, strategy and stewardship approach. Firms in scope of the SDR would be expected to embed those principles into their product design and subsequent disclosures.
- 4.8** We are also considering prescribing a baseline set of sustainability metrics to enable consumers to understand the sustainable performance of the product over time, for example carbon reduction metrics. The baseline set could include the core metrics required under our proposed TCFD-aligned disclosure rules, supplemented by other Social (S) and Governance (G) metrics.
- 4.9** We recognise that typical investment-focused language and sustainability-related metrics may not be comprehensible to retail investors. So, investor education will need to play a key role in ensuring these disclosures help consumers in their decision-making. We are considering how best to explain key terminology within the disclosures themselves, for example, to disentangle ethical investing from sustainability, and explain terms such as stewardship. We are also exploring how firms can present metrics in a contextualised and clear way.
- 4.10** To help inform our approach, we intend to carry out further experiments to test elements of the consumer-facing disclosures with consumers. The aim is to give us a better understanding of what consumers understand and what types of information they consider to be decision-useful. We intend to publish the findings next year, and these will go on to inform our proposals. We welcome views from consumer groups and other stakeholders on the approach set out above and any further considerations in making disclosures accessible to retail investors.
- 4.11** We will likely seek to ensure a baseline level of prescription in the consumer-facing disclosures to ensure consistency and comparability. We welcome views on the level of prescription required including potential use of templates and/or an 'ESG factsheet' for providing information. We anticipate designing the consumer-facing disclosure

requirements in such a way that the disclosures can be easily read alongside the Key Information Investor Document (KIID), providing additional colour on ESG matters while avoiding duplication of information. We also welcome views on the general approach and types of information that should be included, including non-financial metrics.

Q14: What are your views on consumer-facing disclosures, including the content and any considerations on location, format (eg an 'ESG factsheet') and scope?

Detailed underlying disclosures

4.12 As set out in Figure 2, we are considering a second layer of more detailed disclosures to supplement the information presented in consumer-facing disclosures. This layer of information would be primarily aimed at more sophisticated or institutional investors, to support their decision-making about both the products that they are investing in and their providers. These may also be of interest to wider stakeholders, as set out in paragraph 2.3.

4.13 We envisage firms would make these disclosures at both entity and product level. We intend for our TCFD-aligned entity- and product-level disclosure requirements to be compatible with, and to act as a foundation for, these broader sustainability disclosures. This would help avoid confusing users of the information or unnecessary duplication.

Product level

4.14 At product level, the detailed disclosures would provide stakeholders with additional information to support the content in the consumer-facing disclosures. This would ensure that these meet the information needs of those seeking more granular detail.

4.15 For example, this could include more information on the methodologies used to calculate metrics. While data gaps exist and methodologies have yet to converge, it is critical that firms are transparent about how they have calculated metrics. Where proxies and assumptions are used to fill data gaps, we would expect these to be clearly explained. We acknowledge the limitations of proxies and recognise that in some cases it is challenging to make assumptions where there is little data to base them on. We are considering the responses to our consultation on TCFD-aligned disclosure requirements on this issue.

4.16 We also consider the following to be useful types of information that are more suited to a more detailed layer of disclosure:

- information on data sources, limitations, data quality etc
- further supporting narrative, contextual and historical information
- further information about UK Taxonomy alignment
- information about benchmarking and performance

4.17 Some of this information is expected to be required under our proposals for TCFD-aligned disclosures or other disclosure regimes such as SFDR. For example, the Principal Adverse Impact indicators in the SFDR could be a starting point for the

environmental metrics beyond climate, as well as for a set of minimum safeguards for social indicators.

Q15: What are your views on product-level disclosures, including structure, content, alignment with SFDR and degree of prescription?

Entity level

- 4.18** Alongside information on the sustainability-related characteristics of products, clients and consumers are increasingly interested in how the firms offering these products are managing sustainability risks, opportunities, and impacts. Clients and consumers want to know how risks and opportunities are incorporated into investment processes, and they are increasingly demanding information on the impact firms are having on the environment and society.
- 4.19** Taken together, this information enables both prospective clients and consumers to take sustainability matters into account when granting mandates or selecting providers. It also enables existing clients and consumers to hold their providers to account.
- 4.20** For the SDR entity-level disclosures we envisage building on our proposed TCFD disclosure requirements for asset managers and asset owners. This would introduce a familiar reporting framework. It could also encourage more structured dialogue on sustainability matters, improve transparency about how firms are taking those factors into account, and promote coherent disclosures under an international framework.
- 4.21** In designing our TCFD-aligned disclosure rules we recognised that many UK firms operate on a global basis. We proposed flexibilities that would allow firms to make disclosures at the level of consolidation which they consider would be most decision-useful for clients and consumers. This approach also recognises that many firms are already making TCFD-aligned disclosure rules voluntarily at a group level.
- 4.22** In expanding the scope of disclosure requirements beyond climate change, we want to understand whether there are any jurisdiction-specific sustainability-related considerations that we should take into account as we work towards retaining a flexible approach. We welcome views on any practical or other types of challenge you may face in producing sustainability-related disclosures in line with the TCFD's framework. We also welcome views on how stewardship and voting records could form part of disclosures.

Q16: What are your views on building on TCFD entity-level disclosures, including any practical challenges you may face in broadening to sustainability-related disclosures?

Interaction with other sustainability disclosure initiatives

- 4.23** As well as building on our own disclosure requirements, we want to take into account other initiatives and be consistent with them as far as possible. This approach aims to avoid fragmentation, as well as an increased burden on firms and confusion to consumers and other users of the information. For example:

- **The entity- and product-level disclosure requirements in SFDR.** We are exploring the extent to which content of the disclosure requirements under SFDR is relevant for the UK market and should therefore be captured under SDR. We recognise that in some respects the UK regime may require more information than SFDR, such as product-level metrics. We are seeking views on specific requirements for entity- or product-level disclosures that may be useful to consider or build upon.
- **The international sustainability standards in development by the IFRS Foundation.** Although the ISSB sustainability standard is being developed for corporate reporting, we recognise that some investment firms would disclose against those standards where they form part of a listed issuer group. Investment firms would also rely on data disclosed by corporates to produce their own disclosures. To support further consistency and comparability of disclosures, the standard will provide more specificity than the TCFD's recommendations. As set out in the Roadmap, the Government will create a mechanism to adopt and endorse ISSB-issued standards for use in the UK. We would then expect to consult on amending our TCFD-aligned disclosure rule for listed companies to reference the new standard, rather than the TCFD's recommendations. We would also remain consistent in our disclosure requirements for investment firms to support the flow of information along the investment chain.

Q17: How can we best ensure alignment with requirements in the EU and other jurisdictions, as well as with the forthcoming ISSB standard? Please explain any practical or other considerations.

5 Operation of the system

- 5.1** As set out in earlier chapters, we are considering a tiered approach to disclosures and product classification which would meet the information needs of different audiences. This would in turn need to be applied to different types of products by firms involved in the investment management process.
- 5.2** We are seeking views on our initial approach to labels and disclosures, as discussed throughout the paper. However we are also keen to hear views on how this approach would work in practice, taking into account the broader stages and participants involved in the investment chain, as well as the need for verification and supervision.

Distribution and communication along the investment chain

- 5.3** The approach set out in this paper would apply to manufacturers of the products, rather than distributors. We are interested in understanding if there are any practical challenges with this approach, and how we can ensure that the information disclosed is made available along the chain. Some considerations may include how information will be disclosed in materials outside of those that could be mandated under our rules, such as general marketing or sales materials, and how information will be communicated in different mediums such as online or in-person channels.
- 5.4** Similarly, we are interested in better understanding the interaction with rating and index providers, where these are used, and if there are any challenges or concerns in disclosing the required information to consumers and institutional investors.
- 5.5** As discussed at paragraph 1.11, we are also exploring how to introduce rules for financial advisers, given the role they play in the investment chain. Building on existing rules, we consider it would be appropriate to confirm that advisers should consider sustainability matters in their investment advice and ensure their advice is suitable and reflects consumer sustainability-related needs and preferences. We acknowledge that the EU has taken this approach in introducing suitability requirements for different types of financial market participants. However, these were not onshored in the UK prior to the UK's withdrawal from the EU. We welcome any views on this approach and any particular considerations that we would need to take account of in our proposals.

Q18: What are your views on the roles of other market participants in communicating sustainability-related information along the investment chain?

Verification and supervision

- 5.6** In line with the approach taken by SFDR, we would expect in-scope product providers to determine the correct categorisation for their products, according to criteria that we will develop and consult on in due course. We may challenge firms' claims during our

regulatory engagement with them, for example at the gateway when authorising new funds, and on an ongoing basis through supervisory dialogue.

5.7 Beyond regulatory tools, we also want to explore whether there are market-led mechanisms that might support the establishment and verification of a robust system. For example, we want to understand whether there could be a role for independent verifiers to underpin trust in the system.

5.8 Independent third-party verification of product-level disclosures could help instil additional confidence in investors and investment managers, and improve the quality of sustainability-related information given to consumers. On the other hand, there may be cost and capacity implications relating to this approach.

Q19: Do you consider that there is a role for third-party verification of the proposed approach to disclosures, product classification and labelling and organisational arrangements of product providers? Do you consider that the role may be clearer for certain types of products than others?

5.9 Finally, we need to consider how to measure the impact of the labels and disclosures once they are embedded and in the public domain. We would aim to do this through our usual approach to measuring the success of our outcomes. In the context of the labels and disclosures, this could include feedback from consumers and engagement with firms and groups such as the [CFRF](#). In the medium to long term we would expect to see an improvement in the quality of product applications. We are also working to understand how data and analytics tools could be used in the collection and analysis of information disclosed.

5.10 We welcome views on these potential approaches and any other useful ways to measure the impact of our prospective proposals. This could include measures of impact beyond regulatory tools, such as market-led initiatives and academic work.

Q20: What approaches would you consider to be most effective in measuring the impact of our measures, including both regulatory and market-led approaches, and should disclosures be provided in a machine-readable format to better enable data collection and analysis?

Annex 1

List of questions

- Q1:** What are your views on the tiered approach set out in Figure 2? We welcome views on any concerns and/or practical challenges.
- Q2:** Which firms and products should be in scope of requirements for labels and disclosures? We particularly welcome views on whether labels would be more appropriate for certain types of product than for others, please provide examples.
- Q3:** Which aspects of these initiatives, or any others, would be particularly useful to consider (for example in defining terms such as responsible, sustainable and impact) and how best should we engage with them?
- Q4:** Do you agree with the labelling and classification system set out in Figure 3, including the design principles we have considered and mapping to SFDR? We welcome views on further considerations and/or challenges.
- Q5:** What are your views on 'entry-level' criteria, set at the relevant entity level, before products can be considered 'Responsible' or 'Sustainable'? We welcome views on what the potential criteria could be and whether a higher entity-level standard should be applied for 'Sustainable' products. We also welcome feedback on potential challenges with this approach.
- Q6:** What do you consider to be the appropriate balance between principles and prescription in defining the criteria for sustainable product classification? We welcome examples of quantifiable, measurable thresholds and criteria.
- Q7:** Do you agree with these high-level features of impact investing? If not, why not? Please explain, with reference to the following characteristics:
- intentionality
 - return expectations
 - impact measurement
 - additionality
 - other characteristics that an impact product should have

- Q8:** What are your views on our treatment of transitioning assets for:
- a:** the inclusion of a sub-category of 'Transitioning' funds under the 'Sustainable' label?
 - b:** possible minimum criteria, including minimum allocation thresholds, for 'Sustainable' funds in either sub-category?
- Q9:** What are your views on potential criteria for 'Responsible' investment products?
- Q10:** Do you agree that there are types of products for which sustainability factors, objectives and characteristics may not be relevant or considered? If not, why not? How would you describe or label such products?
- Q11:** How do you consider products tracking Climate Transition and Paris-aligned benchmarks should be classified?
- Q12:** What do you consider the role of derivatives, short-selling and securities lending to be in sustainable investing? Please explain your views.
- Q13:** What are your views on streamlining disclosure requirements under TCFD and SDR, and are there any jurisdictional or other limitations we should consider?
- Q14:** What are your views on consumer-facing disclosures, including the content and any considerations on location, format (eg an 'ESG factsheet') and scope?
- Q15:** What are your views on product-level disclosures, including structure, content, alignment with SFDR and degree of prescription?
- Q16:** What are your views on building on TCFD entity-level disclosures, including any practical challenges you may face in broadening to sustainability-related disclosures?
- Q17:** How can we best ensure alignment with requirements in the EU and other jurisdictions, as well as with the forthcoming ISSB standard? Please explain any practical or other considerations.
- Q18:** What are your views on the roles of other market participants in communicating sustainability-related information along the investment chain?

- Q19:** Do you consider that there is a role for third-party verification of the proposed approach to disclosures, product classification and labelling and organisational arrangements of product providers? Do you consider that the role may be clearer for certain types of products than others?
- Q20:** What approaches would you consider to be most effective in measuring the impact of our measures, including both regulatory and market-led approaches, and should disclosures be provided in a machine-readable format to better enable data collection and analysis?

Annex 2

Membership of Disclosures and Labels Advisory Group (DLAG)

Chair:

- FCA

Members (representatives of the following organisations):

- 2 Degrees Investing Institute
- Association of British Certification Bodies
- British Standards Institute
- CFA Institute
- ESG Accord
- Financial Services Consumer Panel
- Impact Investing Institute
- Investment Association
- Principles for Responsible Investment
- ShareAction
- SRI Services
- The Investing and Saving Alliance
- The United Kingdom Accreditation Service
- UK Sustainable Investment and Finance Association
- Wisdom Counsel

Observers:

- HM Treasury
- Department for Business, Energy and Industrial Strategy
- Department for Work and Pensions

Annex 3

Abbreviations used in this paper

Abbreviation	Description
AUM	Assets Under Management
BSI	British Standards Institute
CFRF	Climate Financial Risk Forum
DP	Discussion Paper
ESG	Environmental (E), Social (S) and Governance (G)
GHG	Greenhouse Gas
HMT	The Treasury
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
ISSB	International Sustainability Standards Board
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
SDR	Sustainability Disclosure Requirements
SFDR	EU Sustainable Finance Disclosure Regulation
TCFD	Taskforce on Climate-related Financial Disclosures

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