

UK sustainability disclosure requirements and investment labels for asset managers

Insights - 07/08/2024

The final rules on UK sustainability disclosure requirements and investment labels have been issued by the Financial Conduct Authority (FCA), the first of which came into force on 31 May 2024.

All FCA-approved asset managers need to familiarise themselves with the sustainability disclosure requirements (SDR) regime and prepare to meet the relevant regulatory requirements within the implementation timeframes.

In this briefing, we outline the key components of the SDR regime and the practical next steps for asset managers.

Ogier's Sustainable Investment Consulting team presented recent developments regarding the final rules on the UK's SDR - you can [replay the webinar here](#).

The Financial Conduct Authority consultation paper

The FCA published its policy statement (PS23 / 16) on 28 November 2023, following the publication of the FCA consultation paper (CP22 / 20) on 25 October 2022. The FCA proposed sustainability disclosure requirements framework came into effect early this year and encompasses the following elements:

- a new opt-in labelling regime for sustainable investment products
- a requirement to prepare consumer-facing product-level disclosures
- additional requirements on pre-contractual disclosures for products using an investment label or where sustainability features are otherwise integral
- ongoing sustainability reporting for firms using investment labels

- entity-level disclosures
- new naming and marketing rules, restricting the use of sustainability-related terminology
- an anti-greenwashing rule applicable to all authorised firms to reinforce that sustainability-related claims must be fair, clear and not misleading
- requirements for distributors to ensure that product-level information (including the labels) is made available to consumers

Substantial changes in the policy statement

Each of the elements above remain in the final rules set out in the policy statement, although the FCA has made a number of substantial changes to its initial proposals in response to stakeholder feedback. These are:

- portfolio management — the removal of portfolio management products and services from scope of the sustainability disclosure requirements (for now)
- non-UK AIFs — clarification that non-UK alternative investment funds (AIFs) are not in scope of the SDR, although it is possible for these funds that are marketing into the UK to seek appropriate labels if they wish
- a fourth label — the addition to the labelling regime of a fourth “sustainability mixed goals” label (described in more detail below) for funds that invest across a mix of different sustainability objectives and strategies
- clarification of labels — amendments and clarifications to the requirements of the investment labels proposed in the consultation paper
- anti-greenwashing guidance — the launch of a consultation on guidance to supplement the new anti-greenwashing rule (which otherwise remains substantially the same)
- naming and marketing rules — relaxations to the naming and marketing rules to allow for the use of most sustainability-related terms in relation to funds that do not use a label, provided certain conditions are met

Investment labelling regime requirements

70% threshold

There is a 70% minimum threshold for all labels, meaning that the product may invest in other assets for liquidity and risk management purposes so long as 70% of the gross value of the product’s assets is invested in line with the sustainability objective.

Stewardship

All labels must now identify what kind of stewardship strategy they are going to use and report on engagements carried out. However, the FCA has clarified that firms are not required to demonstrate a causal link between stewardship and asset improvement.

Sustainability focus label

This label is for funds that invest mainly in assets that focus on sustainability for people or the planet.

The sustainability focus label has not changed much in the final policy (a minimum 70% of investments are still required to have a sustainability objective.)

Sustainability improvers

This label encompasses funds that invest mainly in assets that may not be sustainable now but have the potential to improve their sustainability in time. Assets selected for this label must show evidence that they have potential to improve in time. This label does not have stewardship requirement.

Sustainability impact label

This label is for funds that invest mainly in solutions to sustainability problems with an aim to achieve a positive impact for people or the planet.

Regarding the sustainability impact label, respondents to the Consultation Paper had raised a concern that the requirement for “financial additionality” under this label allowed only for impact to be achieved through directing new capital into assets. This would limit the label to investments in private markets (at the expense of public market investing).

In response, the FCA has clarified that as long as other criteria are met, investments in public markets can qualify for use of the label. In particular, the amended criteria for use of the label acknowledge the role that the product’s assets may have in contributing to positive impact alongside the investor’s contribution, in line with industry.

Sustainability mixed goals label

This label addresses the previous mutual exclusivity of the labels and is intended to be suitable for funds that invest across different sustainability objectives and strategies aligned with the other categories. It can be used by funds that invest mainly in a mix of assets that either focus on sustainability, aim to improve their sustainability over time, or aim to achieve a positive impact for people or the planet.

The idea behind the "sustainability mixed goals" category was to create a place within the labelling regime for "products invested in a mix of assets that are already sustainable, have the potential to improve their sustainability over time, and/or aim to achieve a positive impact" (consistent with the Sustainability Focus, Sustainability Improvers, and Sustainability Impact labels, respectively).

Implementation time frames

The rules and guidance relating to the various aspects of the sustainability disclosure requirements come into force on the following dates:

- 31 May 2024 (in force) – anti-greenwashing rule and guidance came into force
- 31 July 2024 (in force) – firms can begin to use labels, with accompanying disclosures
- 2 December 2024 – naming and marketing rules will come into force, with accompanying disclosures
- 2 December 2025 – ongoing product-level and entity-level disclosures for firms with assets under management (**AUM**) greater than £50 billion will come into force
- 2 December 2026 – entity-level disclosures will be extended to firms with AUM greater than £5 billion

Next steps for asset managers

All FCA-authorized firms should:

- prepare for the new anti-greenwashing rule if they make claims about the sustainability characteristics of their products or services, to ensure sustainability-related claims are fair, clear, and not misleading
- read the FCA's GC23/3 consultation on further guidance to the anti-greenwashing rule

In addition, UK asset managers should:

- decide whether to label products that aim to achieve positive sustainability outcomes, if they meet the qualifying criteria
- familiarise themselves with the FCA's requirements (summarised in Annex 2 and set out in full in Appendix 1 of the Policy Statement) and prepare to meet the relevant regulatory requirements within the implementation timeframes

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