



Responsible & Sustainable Investment Distributor Best Practice Guide v1

June 2024



About TISA

The Investing and Saving Alliance (TISA) is a unique, rapidly growing membership organisation for UK financial services.

Our ambition is to improve the financial wellbeing of all UK consumers. We do this by focusing the convening the power of our broad industry membership base around the key issues to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

TISA membership is representative of **all sectors of the financial services industry**. We have **over 200-member firms involved in the supply and distribution of savings, investment products and associated services**, including the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, Fintech businesses, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

As consumers, the financial services industry and the economy react to and recover from the effects of the pandemic, the importance of the three key pillars of work that TISA prioritises has never been more apparent:

- **Strategic policy initiatives that influence policymakers** regarding the financial wellbeing of UK consumers & thereby enhancing the environment within which the industry operates in the key areas of **consumer guidance, retirement planning, later lifetime lending, vulnerable customers, financial education, savings and investments**.
- TISA is recognised for the **expert technical support provided to members** on a range of operational and regulatory issues targeted at improving infrastructure and processes, establishing standards of good practice and the interpretation and implementation of new rules and regulations covering **MiFID II, CASS, ESG/RSI, operational resilience, Cyber Risk, SM&CR** and a range of other areas.
- **Digital transformation initiatives** that are driving ground-breaking innovation and the development of industry infrastructure for greater operational effectiveness and revenue promoting opportunity for firms. TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives – **TISAtech** (a digital marketplace that brings together financial institutions and FinTechs for greater collaboration and innovation) and **TURN** (TISA Universal Reporting Network – a digital platform providing a secure data exchange for financial services using blockchain technology) – alongside projects **Digital ID** and **Open Savings, Investment & Pensions**. This reflects TISA's commitment to open standards and independent governance.



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1. Introduction and Scope

Purpose and status of Best Practice Guide

This guide has been drafted in response to the FCA's Sustainability Disclosure Requirements (SDR) and Investment labelling regime that were published in November 2023 and the accompanying non-handbook guidance on the Anti-Greenwashing Rule that was published in April 2024. The aim of the guide is to assist firms in preparing for working under these new regulations, in particular advice firms and DFMs whose products and services are not subject to the SDR & labelling regime themselves, but which will be subject to certain aspects of the regulation and whose advisers or portfolio managers will be recommending or buying labelled funds for clients. This guide considers the final rules and non-handbook guidance as at the date of publication.

TISA wishes to point out that this guide neither reduces, nor extends any binding legal, regulatory or supervisory requirements as regards the Sustainable Disclosure Requirements or Labelling of Funds Regulations.

For the purposes of the guide, the terms Consumer, Customer and Client may be used interchangeably, but the FCA definition of a retail consumer/customer should be applied to the text in this document.

Scope

Currently the SDR and labelling regime only apply to UK Firms and their UK-domiciled investment fund products. Overseas funds are not in scope, although the FCA has indicated a preference for them to be brought into the same or a similar regime and it continues to work on proposals for pension and insurance products.

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

At the time of publication of this best practice guide an FCA consultation paper is open for responses regarding the extension of the same SDR and labelling regime to portfolio management products and services, including MPS, customised portfolios and bespoke portfolios. For the avoidance of doubt this BPG does not cover that consultation paper.

Summary of the SDR and investment label regime

The rules introduce: i) an anti-greenwashing rule applicable to all authorised firms; ii) four labels for investment funds with sustainability characteristics; iii) rules and guidance on the naming marketing of such products; and iv) disclosure requirements.

- The anti-greenwashing rule reiterates that all sustainability related claims must be fair, clear and not misleading but also expressly requires that when sustainability characteristics of a product or service are referenced, they must be in line with the product or service's sustainability profile.



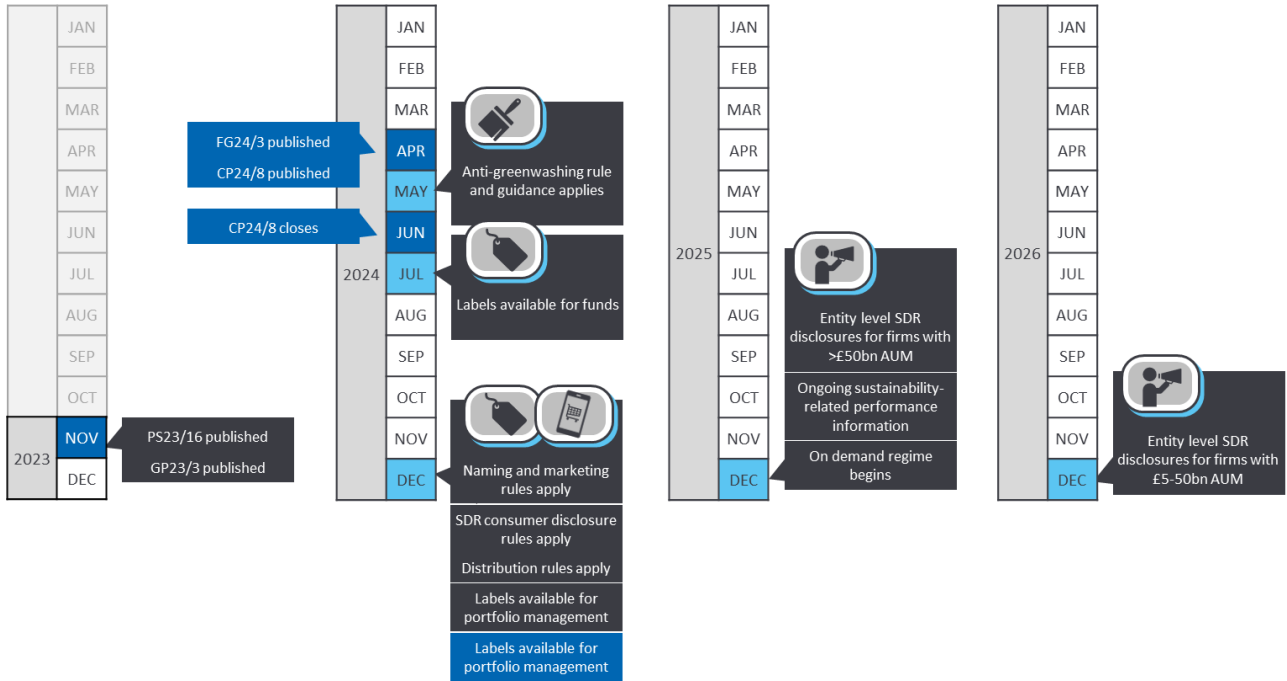
- There are four sustainability labels: Sustainability Improvers, Sustainability Focus, Sustainability Impact and Sustainability Mixed Goals.
 - Sustainability Improvers is the label for products investing in assets which may not be sustainable now but that has an aim to improve sustainability for people and/or planet over time.
 - Sustainability Focus is the label for products mainly investing in assets that are already sustainable for people and/or planet.
 - Sustainability Impact is the label for products mainly investing in solutions to problems affecting people or the planet. These products must have an explicit objective to achieve a positive, measurable contribution to sustainable outcomes.
 - Sustainability Mixed Goals is the label for products whose sustainability objective is to invest in accordance with two or more of the sustainability objectives as outlined above. It is primarily aimed at multi-asset strategies or fund of funds.
- Labels are for products seeking to achieve positive sustainability outcomes only. Labelled products must have a sustainability objective as part of their investment objectives. Products that only use ESG tilts, or exclusions, or only consider ESG for risk purposes, will not qualify for a label.
- The naming and marketing rules detail the restrictions on the use of certain terms (sustainable, sustainability, impact and any variation of these terms) in product names that don't have a sustainability label. The rules do allow for the use of a broader range of sustainability-related terms in names and factual statements under certain conditions, including having sustainability characteristics (without a label) and they too will be subject to the disclosure requirements and must produce a statement that they are not using a label.
- There are three levels of disclosure: consumer facing, product level and entity level. The combination of a label and consumer facing disclosure is intended to equip consumers with the information to identify products that meet their preferences; although the product level disclosure, which is aimed at institutions, may also be accessed by retail investors if they are interested.
- Distributors must communicate the labels, and by the end of 2024 will also be required to include a notice for existing overseas funds.

Further information can be found on the FCA website [Sustainability disclosure and labelling regime | FCA](#)

ESG Sourcebook reference

ESG 3.1 Application of ESG 4 [Sustainability labelling, naming and marketing] and ESG 5 [Disclosure of sustainability-related information].

Key Dates





2. Anti-greenwashing

ESG Sourcebook reference: ESG 4.3.1 Anti Greenwashing

Greenwashing is defined by the FCA as “making sustainability related claims about products and services that are exaggerated, misleading and do not stand up to scrutiny”.

Over the last few years, greenwashing has been a popular topic for scrutiny. A new regulation is raising the bar, both to address the media attention, and to help build trust across the financial services industry. The anti-greenwashing rule is effective from 31st May 2024 and is applicable to all authorised firms.

Who	All authorised firms.
What	<p>The rule requires firms to ensure that any reference to the sustainability characteristics of an investment product is consistent with the product’s sustainability profile and is clear, fair and not misleading.</p> <p>The anti-greenwashing rule applies when a firm:</p> <ul style="list-style-type: none">• communicates with clients in the UK in relation to a product or service, or• communicates a financial promotion (or approves a financial promotion for communication) to a person in the UK. <p>All communications including verbal, online and printed materials, must adhere to the “clear, fair and not misleading” financial promotions rules.</p>
Where	All manufacturers and distributors of financial services products and services within the UK.
When	The rule comes into effect on the 31 st May 2024.
Why	The rule aims to ensure retail investors are not misled into believing a product is more sustainable than it actually is.

It is also worth highlighting that the FCA non-handbook guidance explicitly mentions other legislation and guidance that applies to firms’ sustainability-related claims. This includes existing consumer protection law, which covers what firms say, how they present it and what they fail to say about the environmental impacts or credentials of their products, services, brands, and activities. The FCA has worked closely with the CMA and the Advertising Standards Authority (ASA) to ensure its anti-greenwashing rule and guidance is consistent with the CMA’s [guidance on environmental claims](#)¹ and the requirements of the ASA [guidance](#)².

Anti-greenwashing non-handbook guidance

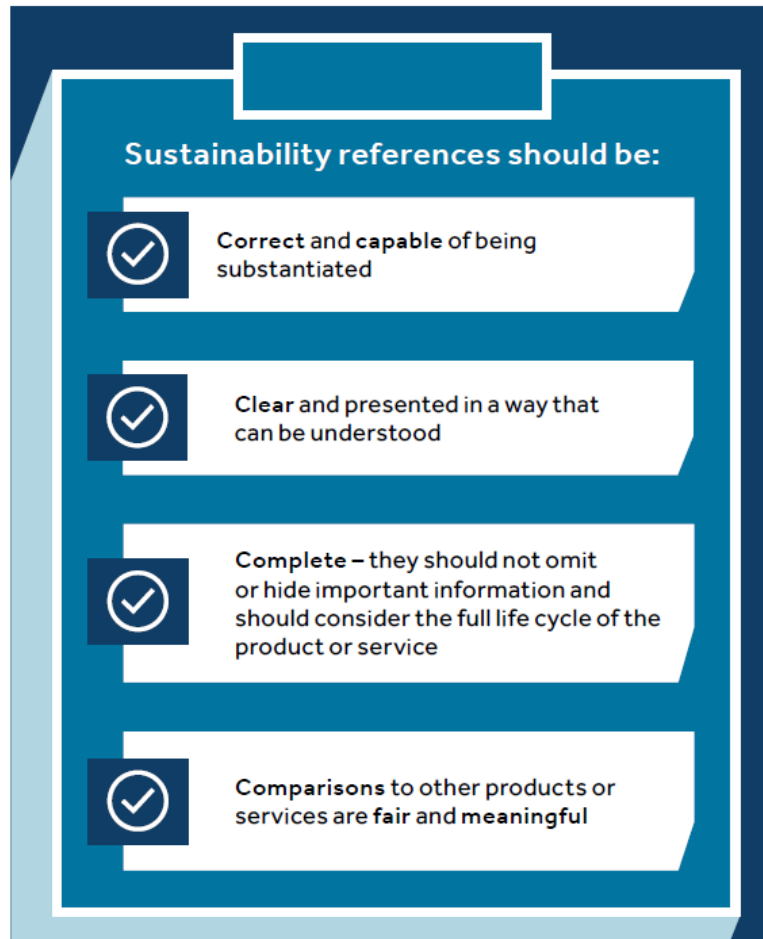
The FCA published [finalised non-handbook guidance on the Anti-Greenwashing Rule](#)³ in April 2024. The aim of the guidance is to help firms understand and implement the anti-greenwashing rule and the FCA’s expectations.

¹ [Environmental claims on goods and services \(publishing.service.gov.uk\)](#)

² [CAP-guidance-on-misleading-environmental-claims-and-social-responsibility.pdf \(asa.org.uk\)](#)

³ [FG24/3: Finalised non-handbook guidance on the anti-greenwashing rule | FCA](#)

In summary, the effect of the anti-greenwashing rule means the following:



How to comply: be careful of what you say *and* how you say it Firms need to be careful with the language used when speaking, writing, posting etc. about the ESG and sustainability credentials of investment funds, investment products and services and, more generally, how they do business.

Certain terms and phrases should be used with caution examples of which are in the ‘terminology watchlist’ below. These terms can still be used in communications, however, use them in the right context and ensure they are not misleading or exaggerating the claims you are making.



Terminology watchlist  Note this list is not exhaustive

- Green/Greener
- Planet
- Positive impact
- ESG (Environmental, Social, Governance)
- Climate/Climate change
- Sustainable/Sustainability
- Transition
- Net Zero
- Impact
- Responsible
- Sustainable Development Goals (SDGs)
- Paris-aligned

Making claims

Any statements, figures, and material you make or use to promote your investment proposition or talk about how you do business must be backed up with appropriate, recent, and valid evidence or sources. A statement may be truthful but could also create an unfair impression, and therefore could be considered as greenwashing.

Imagery

Using sustainability themed imagery such as pictures of nature, energy sources or even the colour green can be misleading if used in a certain context. This could make products or services seem more environmentally friendly or 'greener' than they really are.

For example, using a picture of a wind turbine next to wording about a responsible investment approach can be misleading as it implies the funds invest in or rely on solely renewable energy, which may not be the case. However, a similar image next to wording about net zero targets, carbon reduction plans or climate change policies for example, would be more appropriate as the image specifically relates to the key message of the content.

Greenwashing and social media

It's arguably easier to accidentally greenwash in social media posts given they tend to be much shorter than other forms of content such as reports, brochures, blog posts etc.



It's important to ensure that any statements, figures and claims made to promote the ESG and sustainability credentials of investment funds, proposition and general business practices are backed up.

Here are some guidelines on how to do this whilst creating short form content for social media:

- Be careful with the headlines you use (see terminology watchlist)
- Include links to your source such as reports, brochures etc. This will provide the reader with the opportunity to find more detail and evidence about what you've written about.

(Note that this won't work for in-print short-form marketing materials such as advertorials in magazines, newspapers etc.)

- Follow the greenwashing and imagery guidance to ensure that the pictures you use in social posts aren't misleading.

What do you need to do?

- Be mindful of greenwashing when drafting new communications.
- Review your existing material. If you identify any content you think may be at risk of greenwashing, you should update it.
- Use the FCA anti-greenwashing guidelines to ensure your communications always meet the regulators requirements and expectations.
- Regularly review claims and any evidence that supports them.

Remember:

Before publishing your content, you should go through your usual financial promotion approval process.

Financial Promotions approval isn't infinite. The frequency that documents will be reapproved will depend on the nature of the document and the potential risk. Make sure you are using the most recent version and are reviewing your communications and content regularly, in accordance with your in-house policies.

The FCA's non-handbook guidance helpfully contains some examples of good and bad practice which have been replicated here for convenience.

Examples of poor practice

Example 1

A firm makes a promotional statement that an investment fund is 'fossil fuel free'. However, the terms and conditions explain that the investment fund includes investments in companies involved in the production, selling, and distribution of fossil fuels where the company's revenue earned from those activities is below a certain threshold.

So, the companies within the investment fund are not 'fossil fuel free'. This statement is not factually correct and is not capable of being substantiated, which makes the claim misleading.

Example 2

In the promotions for a fund, an investment manager prominently displays a claim that all investments are reviewed for their sustainability characteristics. However, not all investments are systematically reviewed for their sustainability characteristics, and sustainability characteristics are not always factored into the investment manager's decisions.

There is a risk that the investment manager is overstating the extent to which they consider the sustainability characteristics of investments in the fund and that this claim cannot be substantiated. Should the investment manager wish to make this claim, all their investments should be consistently reviewed for their sustainability characteristics, and the investment manager should hold evidence to demonstrate how they do this and how the review is factored into their decision-making process. The investment manager may want to consider whether to make this information publicly available in an easily accessible way.

Example 3

A firm has a large image of a rainforest at the top of its webpage about its savings accounts, with an overlay of text that reads 'Sustainable Savings'. The webpage includes its 'Green Savings Account' alongside a list of other savings accounts. Its 'Green Savings Account' uses deposits to lend to companies to fund sustainable projects, while its other savings accounts do not.

In this case, the image of the rainforest on the savings account webpage coupled with the text that reads 'Sustainable Savings' may give its audience the impression that the firm will use deposits in all savings accounts to help create positive sustainability outcomes. If only the deposits in its 'Green Savings Account' are ringfenced to fund sustainable projects, the use of both words and images in this way is potentially misleading as it gives the impression that the bank uses deposits to finance sustainable projects through more of the savings accounts offered than it actually does.

If the firm wishes to use a sustainability-related image, they should use an image that is consistent with the sustainability characteristics of the product or service, and only use that image in relation to products and services with those characteristics. In this case, it should only use the image and text for the 'Green Savings Account', rather than all savings accounts.

Example 4

A bank promotes bonds and makes claims about their sustainability impact. The bonds are used to finance a range of sustainability projects including renewable energy and improving companies' energy efficiency. However, eligible activities also include projects to improve the efficiency of fossil fuel energy production and distribution – information which is not included in the promotional materials.

Omitting this information is potentially misleading for its audience as from the marketing materials consumers may not expect these bonds to include investments in projects related to fossil fuels. The firm should be transparent in its promotional materials about what the eligible activities might include. The firm could also explain how the projects can contribute to sustainability impact so that its consumers can better understand why they are eligible.

Example 5

A commonly tracked benchmark claims to be 'sustainable', by excluding companies with ESG ratings 'lower than 3'. The benchmark administrator does not specify what the rating aims to assess, for example, whether it assesses sustainability-related risks or impact. It also does not specify the scale the rating uses, which could be 1-10, and does not disclose the rationale for choosing an ESG score of 3 as the appropriate threshold. It could, in reality, not be a high bar, as standards may vary across markets. The benchmark administrator does not give its audience complete information and so does not make it clear whether and how the benchmark is representing sustainable objectives. This could result in users and ultimately end-investors being misled about the sustainability outcomes of the benchmark.

Example 6

A firm claims that by buying their investment bond, investors will 'reduce emissions' more than through buying other investment bonds on the market. However, the firm does not make it clear to its audience that this comparison refers only to Scope 1 emissions (as opposed to all emissions – Scope 1, 2 and 3) and was based on a limited sample at a particular date.

The firm has picked information that paints a better picture of its investment bond compared to others on the market. The claim does not make clear how the comparison is being made or its limitations. The firm should make the limitations of the comparative claim clear. In doing so, it should explain what is meant by Scope 1, 2 and 3 emissions, if this technical language is not widely understood by the intended audience, and the limitations of covering only Scope 1 emissions. It should clarify that the claim was based on a limited sample, explaining what the sample was and the date on which that sample was taken.

Examples of good practice

Example 7

A firm advertises a fund which makes social sustainability claims, including statements that it invests in companies that have good labour practices in line with international best practice. The fund manager establishes clear and robust standards for selecting investee companies – it has chosen to include fair wages, safe working conditions and other criteria that align with international frameworks and standards. It assesses and monitors the investments that it has selected, and seeks to address any issues that arise while holding the investment through appropriate escalation. Its marketing materials include a clear explanation of the investment objectives and strategy, including its standards for selecting investee companies and the types of holdings in the fund.

Example 8

A fund manager advertises its asset selection process as ‘focused on supporting carbon intensive companies with credible transition plans to finance their decarbonisation’. The fund promoted invests in Sustainability-Linked Bonds (SLBs). In its marketing materials to potential investors the manager highlights how it selects only those SLBs that meet criteria that are ‘in line with market standards for best practice’. To support this claim, the fund manager names the SLB framework it uses to assess potential investments within the marketing materials. The marketing materials also set out the qualities it looks for within SLBs to support compliance with this framework – which in this case includes clear, measurable, and ambitious performance indicators and sustainability performance targets linked to a company’s transition plan, and routine reporting against these metrics which will be independently verified.

3. Naming and marketing

Applicable Dates

Non-labelled products must comply with the criteria below or remove any sustainability-related terms from their name and/or marketing by 2 December 2024.

ESG Sourcebook reference

ESG 4.3 Naming and marketing

1. General rules

- 1.1. The naming and marketing rules relate to funds marketed to retail investors that include terms implying sustainability characteristics in the fund name and/or in financial promotions, whether or not the fund has one of the four sustainability labels.
- 1.2. The rules should also be considered together with the general anti-greenwashing rule (section 2 of this guide), which requires that any reference to sustainability characteristics is consistent, as well as being fair, clear and not misleading.
- 1.3. ESG 4.3.2R contains a non-exhaustive list of sustainability-related terms, together with the catch-all “any other term which implies that a *sustainability product* has *sustainability characteristics*”. These terms may not be used by non-labelled funds, either in their names or in their marketing, unless they satisfy the criteria set out below.
- 1.4. Particular restrictions apply to the words “sustainable” and “sustainability”, which may only be used by funds with a sustainability label, and “impact”, which may only be used by funds with the “sustainability impact” label.
- 1.5. The restrictions on the use of sustainability terms do not apply either to short factual statements about a fund or its management that are not promotions or when they are used in a context that does not relate directly to a fund and is not intended to imply a fund has particular characteristics. Example of the latter situation includes references to “financial impact” or the “economic climate”.
- 1.6. All funds that have a sustainability-related term in their name or in financial promotions, even if they have not adopted a label, must produce the consumer-facing, pre-contractual and ongoing product-level sustainability disclosures and publish these in the same way as for labelled funds. Further information on what is required in these is included in section 5.
- 1.7. A non-labelled fund with a sustainability-related term in its name or in its financial promotions must publish the following statements prominently on its web page (or other digital medium):
 - “Sustainable investment labels help investors find products that have a specific sustainability goal” or similar text, and
 - “This product does not have a UK sustainable investment label”, together with a brief explanation as to why not.
 - The FCA also suggests that the fund may choose to include a prominent link to its own web page, <https://www.fca.org.uk/consumers/identifying-sustainable-investments>



- 1.8 Exclusions based and/or ethical funds may not explicitly aim to achieve positive environmental and/or social outcomes and may therefore be ineligible for a sustainability label. However, if they have sustainability characteristics, it may be appropriate for them to align with the above criteria in order to continue using sustainability-related terms in their naming and/ or marketing.

2. Rules regarding fund names

- 2.1. A non-labelled fund may include a relevant sustainability-related term (subject to 1.4 above) in its name as long as it accurately reflects the fund's sustainability characteristics.
- 2.2. While a fund with a sustainability-related term in its name does not need to satisfy all the criteria for a label, such as having a sustainability objective, the sustainability characteristics must be "material". The guidance in ESG 4.3.6G is that at least 70% of the fund's assets should meet the characteristics implied by the term.
- 2.3. As they are material, an explanation of how the fund interprets and applies the sustainability characteristics is likely to be included in the objective, investment policy and/or strategy of the fund.
- 2.4. Annex II of the FCA's PS23/16 includes examples of where the fund name could reflect the investment approach but could still be unsuitable to include in the fund's name. For example, a fund may have a "responsible" investment approach, but the term should only be used if it results in at least 70% of the fund's assets having sustainability characteristics.
- 2.5. While benchmark administrators are in scope of the general anti-greenwashing rule, funds tracking an index should not use the benchmark name in the fund name if the manager does not believe that it satisfies the naming requirements.

3. Marketing rules

- 3.1. The restrictions on the use of sustainability-related terms in marketing relate to financial promotions to retail clients in the UK.
- 3.2. Any financial promotion must be consistent with the consumer-facing, pre-contractual and ongoing product-level disclosures.
- 3.3. The statements in 1.7 above also apply to non-labelled funds that use sustainability-related terms in financial promotions, whether or not they have one of the terms in their name.

4. Sustainability Labels

Date

Firms can begin to use sustainability labels with accompanying disclosures from 31 July 2024 (see also 6.2 below)

ESG Sourcebook references

ESG 4.1 Sustainability labels

ESG 4.2 Criteria for applying sustainability labels.

1. Summary

- 1.1 Managers may choose to adopt one of four sustainability labels for a fund, subject to satisfying the relevant criteria in section 2 below. There is no obligation to adopt a label, even if a fund meets all the qualifying criteria.
- 1.2 From the date on which a label is adopted by a fund, the manager must publish the label, using the prescribed graphic supplied by the FCA. This must be displayed prominently on the page of its website (or other digital medium it normally uses) on which the fund is offered.
- 1.3 The sustainability labels prescribed graphics supplied by the FCA are either white writing on a black background (see below) or black writing on a white background. These are the only versions that are allowed to be used. Coloured versions are not permitted.



- 1.4 The page must show where the consumer-facing disclosure can be found.
- 1.5 The graphic must also be included, as far as reasonably practicable, in the consumer-facing disclosure, the pre-contractual disclosure and the ongoing product-level disclosure.
- 1.6 The manager must keep a record of the reasons for adopting a label and this record must be retained for as long as the fund uses a label.

2. Sustainability label criteria

2.1 General criteria

- 2.1.1 All labelled funds must have a “clear, specific and measurable” sustainability objective that aligns with the relevant label, as part of its investment objective. The fund’s investment policy and strategy must be consistent with achieving this. So, qualification for a label is based on “intentionality”, i.e. the fund



is seeking positive sustainability outcomes. ESG integration or basic tilts are not sufficient to qualify for a sustainability label..

- 2.1.2 If pursuing the sustainability objective will (or is likely to) have a material negative effect on the financial returns the fund can achieve, this must be included in the objective. This is likely to be the case if, for example, the fund's objective places greater emphasis on the sustainability outcome than on the financial return or if the application of the sustainable investment strategy may lead to performance that will be different from those products that do not apply the same strategy.
- 2.1.3 At least 70% of the fund's value must be invested in line with the sustainability objective. Any other assets (i.e. up to 30%) should only fall outside the sustainability objective to the extent that they do not conflict with the fund's sustainability objective.
- 2.1.4 The manager must determine whether the fund, in aiming to achieve its sustainability objective, could lead to negative environmental and/or social outcomes, similar to the concept of "Do No Significant Harm" to other objectives under the EU's Sustainable Finance Disclosure Regulation (SFDR).
- 2.1.5 The assets chosen to meet the sustainability objective must adhere to "a robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability".
- 2.1.6 The manager must arrange for an independent assessment to confirm that the standard in 2.1.5 is appropriate to determine what assets the fund invests in. This assessment may be carried out internally or externally but must be independent of the investment process and carried out by suitably skilled persons.
- 2.1.7 The manager must have suitable resources and knowledge to achieve the sustainability objective, to understand the nature of the underlying assets in relation to that objective and to interpret any data used to inform investment decisions, e.g. third party ESG data.
- 2.1.8 All labelled funds must have an appropriate investor stewardship strategy, including the outcomes expected. This is particularly important for funds with a Sustainability Improvers label, as engagement is likely to play a large part in the achievement of that outcome.
- 2.1.9 There must be key performance indicators (KPIs) in place that demonstrate the fund's progress towards meeting the sustainability objective, and/or the progress of underlying assets towards meeting it.
- 2.1.10 The label must be reviewed at least once a year and prior to any proposed change to the fund, and a fund must cease to use the label "as soon as reasonably practicable" if it ceases to apply. A record of the review and the decision must be retained.
- 2.1.11 If a fund no longer adopts a label, or changes its label, the manager must write to investors in the fund and prominently publish on their website (or other digital medium) the fact and reason for the change.



2.2 Sustainability Focus label (ESG 4.2.13R)

2.2.1 The fund's sustainability objective must be consistent with investing in assets that are environmentally and/or socially sustainable.

2.3 Sustainability Improvers label (ESG 4.2.14R)

2.3.1 The fund's sustainability objective must be consistent with investing in assets with the potential to improve their environmental and/or social sustainability over time.

2.3.2 The period of time over which the fund or the assets are expected to meet the standard in 4.1.5 must be clear and there must be evidence that the assets have the potential to meet the standard over that time period (commensurate with the investment horizon of the product).

2.3.3 There must be interim targets over short- and medium-term, depending on the time period identified in 4.3.2.

2.4 Sustainability Impact label (ESG 4.2.16R)

2.4.1 The fund's sustainability objective must be consistent with achieving a pre-defined, positive, measurable impact in relation to an environmental and/or social outcome.

2.4.2 The impact may be targeted at the fund level or at the level of the underlying assets. In other words, it may be achieved by investing in primary or secondary markets.

2.4.3 The manager must set out a theory of change, describing how and why it expects to contribute to achieving a positive and measurable impact consistent with the standard in 2.1.3 by means of its investment process and the assets held in the fund. Firms have the flexibility to decide whether the theory of change is applied at product or asset level.

2.4.4 There must be a robust method of measuring the extent to which the fund and its assets are achieving the desired impact.

2.5 Sustainability Mixed Goals label (ESG 4.2.18R)

2.5.1 This label is for funds that aim to achieve a combination of two or more of the objectives that qualify for the other labels.

2.5.2 In common with the other labels, at least 70% of the fund's assets must meet the criteria to qualify for the label, divided between the sustainability objectives of the two or three other labels.

2.5.3 The manager must identify the proportion of the fund invested in accordance with each underlying label. This need not be a single percentage, but could indicate a range, provided that is not too broad and is "fair, clear and not misleading". For example, it could not simply state that the fund will invest at least 70% of its assets across the underlying labels.

2.5.4 In respect of the relevant proportion in 2.5.2, the specific criteria for each underlying label must also be met.



3. Ongoing maintenance of a label

- 3.1 As stated in 2.1.10, the qualification for a label must be reviewed at least annually. At all times, the independent assessment in 4.1.6 must be valid and the manager must ensure that the fund continues to be managed in line with the sustainability objective, with adequate resources.
- 3.2 The manager must continue to monitor whether the fund could lead to other negative outcomes that may not have been previously identified in 2.1.4.
- 3.3 If the fund tracks a sustainability index, any rebalance of that index will trigger a review to make sure that it continues to meet the criteria to qualify for a label.
- 3.4 To satisfy the requirements of the ESG Sourcebook for ongoing maintenance of a label, the manager must monitor the ongoing validity of
 - the investment policy, strategy and escalation plan
 - the independent assessment of the standard
 - the resources and governance available
 - the stewardship strategy
 - whether the fund could lead to negative environmental and/or social outcomes
 - whether the product meets the KPIs

The manager must demonstrate that they apply the escalation plan when necessary, taking action to bring the fund back in line with its sustainability objective if it ever fails to meet the criteria.

4. Points to note:

- 4.1 The different approaches and strategies covered by each label reflect different consumer preferences, and there is no hierarchy between them.
- 4.2 Even if a fund and manager meet all the general and specific criteria to qualify for a label, there is no obligation to adopt one. However, see section 3 of this best practice guide on “Naming and marketing” for the obligations on funds that are named or promoted as having sustainability-related characteristics without a label.
- 4.3 If a fund plans to adopt a label, it may do so at any time from 31 July 2024. While there is no deadline for this, it will need to publish the consumer-facing and pre-contractual disclosures by 2 December 2024 if it is promoted as sustainable or has a sustainability-related term in its name, even if it has not yet adopted a label.
- 4.4 Changes to a fund’s prospectus in respect of the objective, policy and/or investment strategy are likely to be at least “notifiable” (requiring existing investors to be given written notice) and possibly “significant” (requiring that notice to be 60 days in advance of the change date).
- 4.5 Changes to a fund’s objectives, policy, etc, to bring them into line with the criteria for a sustainability label or to remove references to sustainability to avoid being in scope of the naming and marketing rules (and to avoid producing the necessary disclosures) require FCA approval.



- 4.6 Funds that may take some time to become fully invested after launch, such as Long-Term Asset Funds (LTAFs), may not need to meet the 70% threshold for the relevant label until the portfolio is fully built up. Thereafter, it must consistently meet the threshold to retain the label.



5. Accompanying disclosures

Consumer-facing disclosures

ESG Sourcebook references

ESG 5.1 Preparation of Sustainability Disclosures

ESG 5.2 Consumer Facing Disclosures

Scope

The Consumer Facing Disclosures apply to:

- sustainability labelled products; and
- non-labelled products that use sustainability related terms in their naming and marketing.

Objective and purpose

Consumer-facing disclosures must summarise the product's key sustainability characteristics in a simple, consumer-friendly way.

Location and availability

They must be available in a prominent place on the product webpage, app or other digital medium and must not exceed two A4 pages or the digital equivalent. Hard copies must be made available on request to clients or the FCA for at least 5 years.

Applicable Dates

Consumer-facing disclosures must be available from 2 December 2024 and updated at least every 12 months. If a product changes its label, firms must publish the updated document as soon as reasonably possible (including the date and reason for revision).



Content of consumer-facing disclosures

The content of consumer-facing disclosures is dictated by whether or not it is a labelled product and the requirements are set out in the table below:

Consumer facing disclosure

Section header	Labelled products	Non-labelled products using sustainability-related terms in name or marketing	Requirements
Basic Information	✓	✓	<ul style="list-style-type: none"> • Firm and product name • ISIN or other unique identifier • Effective date
Label	✓		<ul style="list-style-type: none"> • Label and its descriptive language
Statement		✓	<ul style="list-style-type: none"> • A statement as to the purpose of the label, using the standard text “Sustainable investment labels help investors find products that have a specific sustainability goal” or similar. • A statement “This product does not have a UK sustainable investment label”. • A brief explanation as to why the product does not have a label. Potential explanations may include: <ul style="list-style-type: none"> ○ The fund is an ethical/ exclusions-based fund which does not explicitly aim to achieve positive environmental and/ or social outcomes but it promotes environmental and/or social characteristics through the application of negative screening. ○ The fund’s investment strategy is highly specialised and doesn’t neatly fit into any of the existing label categories
Sustainability Goal ¹	✓		<ul style="list-style-type: none"> • Prescribed section header • Summary of any actual or expected material effect on financial risk and return resulting from pursuit of the sustainability goal • Progress towards achieving the goal • Disclosure that pursuing the sustainability goal may result in material negative environmental and/or social outcomes, when this is the case
Sustainability Approach	✓	✓	<ul style="list-style-type: none"> • Prescribed section header • Key sustainability characteristics of the assets the product will and will not invest in • Types of assets held for reasons other than to pursue the sustainability objective and why • Summary of the investor stewardship approach • For mixed-goal products, the proportion of assets invested in accordance with each sustainable investment category
Sustainability Metrics	✓		<ul style="list-style-type: none"> • Prescribed section header • KPIs that demonstrate performance towards the objective, including contextual information



	✓	✓	<ul style="list-style-type: none"> Any other metrics a consumer might find useful in understanding the investment policy and strategy, including contextual information
For More Information	✓	✓	<ul style="list-style-type: none"> Where consumers can access pre-contractual disclosures, ongoing product-level disclosures, entity-level disclosures and non-sustainability-related information

¹ Please note that the consumer-facing disclosure contains the heading ‘Sustainability Goal’ whereas the pre-contractual disclosure contains the heading ‘Sustainability objective’ (see page 22 of this guide). This difference in terminology is consistent with the rules in PS23-16. Although the terms are different the purpose of that disclosure in each document is essentially similar.

Rules for distributors

- Distributors are required to communicate the consumer-facing disclosures (for both labelled and non-labelled products) to retail investors.
- They must also provide a notice on overseas products (recognised schemes, including ETFs), to clarify that they are not subject to the UK sustainability disclosure requirements and labelling regime. Such notice must be in a prominent place on the relevant digital medium along with hyperlink to the FCA webpage which indicates further information on the regime for retail consumers, or otherwise communicated via the distributor’s usual channel of communication.

Pre-contractual disclosures

ESG Sourcebook reference

ESG 5.3 Pre-Contractual Disclosures

Scope

The pre-contractual disclosures apply to:

- sustainability labelled products; and
- non-labelled products that use sustainability related terms in their naming and marketing.

Location and availability

Pre-contractual disclosures form part of a fund prospectus, prior information document, or "Part A" of a sustainability product report. They must be located in a prominent place and be easy to find within these materials, perhaps in a dedicated section.

Applicable Dates

Pre-contractual disclosures must start from 2 December 2024. They don't need yearly updates but must be revised promptly if there are any changes.

Content

The content of pre-contractual disclosures is dictated by whether or not it is a sustainability labelled product or it is a non-labelled product using sustainability-related terms in the fund name or marketing. The requirements are set out in the table below. Cross-references to information in other documents is allowed, such as to Stewardship Code reporting, provided that the information is relevant and clearly signposted.

Pre-contractual disclosure

Section header	Labelled	Non-labelled products using sustainability-related terms in name or marketing	Requirements
Label	✓		<ul style="list-style-type: none"> The label used
Statement		✓	<ul style="list-style-type: none"> Statement that the product does not have a label and why. Potential explanations may include: <ul style="list-style-type: none"> The fund is an ethical/ exclusions-based fund which does not explicitly aim to achieve positive environmental and/or social outcomes but it promotes environmental and/or social characteristics through the application of negative screening. The fund's investment strategy is highly specialised and doesn't neatly fit into any of the existing label categories
Sustainability objective	✓		<ul style="list-style-type: none"> Description of sustainability objective. Summary of any actual or expected material effect on financial risk and return resulting from pursuit of the sustainability objective Link between the objective and positive environmental and/or social outcome Further disclosure about how pursuing the sustainability goal may result in material negative environmental and/or social outcomes, when this is the case
Investment policy and strategy	✓	✓	<ul style="list-style-type: none"> Details of the investment policy and strategy, including how the manager determines the assets to invest in (the criteria it uses to determine sustainability characteristics)
	✓		<ul style="list-style-type: none"> Description of the robust, evidence-based standard of sustainability, including the basis on which the standard is considered appropriate and the function or third party that carried out the independent assessment (without naming individuals) Proportion of assets invested in accordance with the sustainability objective Types of assets that are held for other reasons, and why How the index providers' methodology aligns with the product's sustainability objective (where relevant)
Sustainability metrics	✓		<ul style="list-style-type: none"> Details of policies, procedures and KPIs, the firm will use to monitor and demonstrate performance towards the sustainability objective
		✓	<ul style="list-style-type: none"> Details of any other metrics a consumer may find useful in understanding the investment policy and strategy for the product
Investor Stewardship	✓		<ul style="list-style-type: none"> Details of the investor stewardship strategy and resources to support achievement of the sustainability objective, including how that strategy will be applied and, where relevant, whether the firm is a signatory to the UK Stewardship Code
Escalation plan)	✓		<ul style="list-style-type: none"> Description of the escalation plan



Category-specific disclosures	✓		Specific disclosures associated with the relevant labels: <ul style="list-style-type: none"> • Sustainability Improvers: expected timescales for improvement and the types of evidence relied on, or other comparable information • Sustainability Impact: the theory of change and method to measure and demonstrate impact, or other comparable information • Sustainability Mixed Goals: the proportion of assets invested in accordance with each sustainable investment category and the specific disclosures associated with each category, or other comparable information
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Ongoing product-level disclosures

Ongoing product-level disclosures must be made a maximum of 12 months after sustainability-related terms are first used, and annually thereafter. They must be made in a sustainability product report (part B), which builds on the TCFD product report (if in scope), or on demand. The content is as per the pre-contractual disclosures, with the addition of the date of the report.

Non-labelled products that do not use sustainability-related terms

Non-labelled products that do not use sustainability-related terms in their name and/or marketing are not required to produce consumer-facing disclosures, pre-contractual disclosures or ongoing product-level disclosures. However, in-scope firms may still need to produce entity-level sustainability disclosures which are not covered by this guide.

Firms providing these products also need to be aware of the anti-greenwashing rule, which states that all sustainability-related claims must be fair, clear, not misleading, and consistent with the sustainability profile of the product or service in question. This applies to all regulated firms from 31 May 2024.

Overseas funds

The SDR regime applies to UK firms and their UK-domiciled funds marketed in the UK, so overseas funds are currently ineligible to use a label. However, the FCA has signalled its ambition for all firms marketing their products in the UK to be subject to the same broad requirements, and it's working with the Treasury to try and achieve this.



6. Metrics for Retail Disclosures

ESG Sourcebook reference

ESG 4.2.4(3)

Purpose

In this section of the guide, we look at the requirements related to Metrics to support and evidence products' sustainability objectives. This encompasses the rules of use; examples of the types of metrics that managers might use; and how those might apply for each type of sustainability label as well as for non-labelled funds.

What are the guardrails?

At least 70% of a labelled product's assets must be selected with reference to a robust, evidence-based standard that is an absolute (as opposed to a 'relative') measure of environmental and/or social sustainability. No assets should conflict with the sustainability objective.

Beyond that, specific metrics are not prescribed, leaving firms flexibility to determine KPIs appropriate to each of their products. KPIs should provide a fair representation of progress and enable consumers to understand that progress with clear, useful information on progress towards the stated sustainability objectives. The FCA highlights that this is in line with their Anti-greenwashing guidance and Consumer Duty expectations. KPIs may measure either the performance of the product or individual assets towards achieving the objective.

Robust data and methodologies are expected. Firms must take reasonable steps to ensure data used for KPIs and metrics is accurate and complete and use the most up-to-date data available when the disclosure is prepared. Disclosures should explain any data gaps or limitations in case the manager has addressed those gaps by using proxy data or assumptions.

The policy encourages firms to use industry frameworks and best practices for determining appropriate KPIs, where relevant. The FCA plans to work with industry on developing best practices.

Firms can add any other sustainability-related metrics that would help consumers understand the sustainability characteristics and approach of the product and ensure contextual information is provided to help consumers interpret the metrics.

1. What type of approaches are available for firms to use?

Sustainability investing is multi-faceted, creating multiple approaches for firms to use and multiple themes that they may focus on.

Examples of sustainability investing approaches, some of which may not qualify for a label in their own right, include:

- **Exclusions** - Excludes certain issuers or sectors or activities based on ESG criteria, such as controversial products, activities, or corporate behaviours. This is also known as **negative screening**.
- **ESG Integration** - Uses qualitative and quantitative data (e.g. ESG ratings) to assess and manage financially material ESG risks as part of the overall risk assessment. May tilt portfolios away from higher ESG risk companies.



- **Positive Screening** including **Best-In-Class** - Identifies companies that are ESG leaders in their industry, that exhibit desirable ESG criteria or are improving their ESG practices.
- **Stewardship** - Seeks to improve ESG practices and outcomes through shareholder engagement, proxy voting, and other stewardship activities.
- **Thematic** - Invests in assets aligned with long-term sustainability trends like renewable energy, sustainable agriculture, or diversity and inclusion.
- **Impact Investing** - Considers the real-world environmental and/or social impacts of investments through impact assessments at the security or portfolio level. May focus on use-of-proceeds bonds or companies contributing to the UN Sustainable Development Goals.

Many firms will combine these approaches within a strategy. For example they may apply exclusions, integrate ESG and apply positive screening to meet different consumer needs and preferences,.

Examples of Themes include:

- Climate Change Mitigation
- Clean Technology
- Sustainable Agriculture
- Water Management
- Circular Economy
- Broad Social Impact
- Supply Chain Responsibility
- Healthcare innovation

Types of metrics available:

Product Involvement metrics, assess exposure to a range of controversial business activities such as Tobacco, Gambling, Pornography, Controversial Weapons and Animal Testing, to name a few.

ESG risk measures the potential negative impact that environmental, social and governance factors can have on performance and reputation. A number of providers provide ratings that measure this across companies, sovereigns, funds and portfolios.

Climate Data can include Scope 1,2,3 emissions that measure direct and indirect carbon emissions of a company and other metrics such as Implied Temperature Rise and a company's preparedness to transition to a low carbon economy.

Impact data can measure revenue aligned to broad impact themes such as climate change or more specific themes such as the UN SDGs.

Controversy data measures incidents that may negatively impact stakeholders, the environment or the company's operations.

UN Global Compact Data captures severe, systemic and structural violations of international norms as enshrined by the UN Global Compact Principles.



Shareholder engagement captures the ongoing dialogue between a company and its shareholders, focusing on various matters including ESG topics.

Proxy Voting data covers how shareholders vote on corporate proposals, including those related to ESG issues.

Further examples can be drawn from the regulatory data required under the EU's SFDR, including taxonomy alignment indicating a fund's investment in environmentally sustainable activities; principal adverse impact indicators; and Task Force on Climate-related Financial Disclosures reporting on carbon emissions, temperature rise, and climate risks.

2. What type of metrics might be used for sustainability Labelled funds?

Below are examples of types of approaches seen in funds, some of which may not qualify for a label in their own right, and types of data that could be used to illustrate the KPIs (please note these are examples and do not reflect a real fund, or holdings in a portfolio)

Sustainability Focus: "Invests mainly in assets that focus on sustainability for people or the planet"

KPIs should measure the sustainability of the individual assets or the portfolio as a whole.

ESG Investment Approach	Type of Metric	Example							
Choose high-quality companies focused on sustainable development	Top 10 holdings with revenues aligned to positive impact themes	Holding		% of Revenue Aligned to Food Security					
		Holding 1		100					
		Holding 2		98					
	Overall alignment of Fund to UN SDGs (where measurable)	SDG 2	SDG 3	SDG 4	SDG 5	SDG 6	SDG 7	SDG 8	SDG 9
		6.16	3.84	5.11	0	4.62	1.38	1.49	2.97
Investing in sustainability-themed funds.	Exposure to broad sustainable themes such as Climate Action or Human Basic Need, can illustrate at a fund level and show top holdings supporting themes.	Name	% of Portfolio Involved in Resource Security: efficient of water, timber, metals, minerals, and gases.	% of Portfolio Involved in Climate Action	% of Portfolio Involved in Basic Human needs: essentials like food, shelter, healthcare, clean water, and safety for lower-income individuals				
		Fund	37.79	58.26	8.86				
Target companies in sustainable energy or energy technology sectors.	Top 10 Holdings with revenues aligned to ensuring clean and affordable energy.	Holding		Portfolio Weighting %	% of Revenue Aligned to SDG 7 ensuring clean affordable energy				
		Holding 1		4.84	22.02				
		Holding 2		4.71	29.94				
		Holding 3		4.70	62.50				



<p>Avoiding or limiting investment in companies involved in controversial activities such as weapons, tobacco, and coal</p>	<p>Product involvement metrics based on company revenues aligned to controversial activities.</p>	<table border="1"> <thead> <tr> <th rowspan="2">Fund</th> <th colspan="4">Exposure to Products involved in:</th> </tr> <tr> <th>Tobacco</th> <th>Gambling</th> <th>Weapons</th> <th>Fossil Fuel</th> </tr> </thead> <tbody> <tr> <td></td> <td>0%</td> <td>0%</td> <td>0%</td> <td>0%</td> </tr> </tbody> </table>	Fund	Exposure to Products involved in:				Tobacco	Gambling	Weapons	Fossil Fuel		0%	0%	0%	0%
Fund	Exposure to Products involved in:															
	Tobacco	Gambling	Weapons	Fossil Fuel												
	0%	0%	0%	0%												
<p>Steering clear of companies that violate international norms on human rights and other important issues</p>	<p>Top 10 Holdings and # of Violations Overall % of Fund involved in UN Global Compact Violations</p>															
<p>Focusing on companies with low carbon emissions and those aligned with transitioning to a greener economy</p>	<p>Overall Emissions data Carbon Intensity Implied Temperature Rise and Management Rating of Transition to a Low Carbon Economy and/or Top 10 Companies</p>	<p><i>Implied Temperature Score is 1.75 degrees</i></p> <p><i>Management Score of companies in this fund to transition to a Low Carbon Economy is Strong</i></p>														

Sustainability Improvers: "Invests mainly in assets that may not be sustainable now, with an aim to improve their sustainability for people or the planet over time."

KPIs should measure the individual assets' or portfolio's sustainability improvements.

<p>ESG Investment Approach</p>	<p>Type of Metric</p>	<p>Example</p>														
<p>Apply exclusions and align to a net zero emissions target.</p>	<p>Product involvement metrics based on company revenues aligned to controversial activities.</p> <p>Implied Temperature Rise</p> <p>Management Rating of Transition to a Low Carbon for fund and Top 10 Holdings</p>	<table border="1"> <thead> <tr> <th rowspan="2">Fund</th> <th colspan="4">Exposure to Products involved in:</th> </tr> <tr> <th>Tobacco</th> <th>Gambling</th> <th>Weapons</th> <th>Fossil Fuel</th> </tr> </thead> <tbody> <tr> <td></td> <td>0%</td> <td>0%</td> <td>0%</td> <td>0%</td> </tr> </tbody> </table> <p><i>Implied Temperature Score is 1.75 degrees</i></p> <p><i>Management Score of companies in this fund to transition to a Low Carbon Economy is Strong</i></p>	Fund	Exposure to Products involved in:				Tobacco	Gambling	Weapons	Fossil Fuel		0%	0%	0%	0%
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	0%	0%	0%	0%												



Investing in companies that demonstrate improvements in ESG areas	ESG Risk Scores, Ranks and Momentum Scores	Name	Portfolio Weighting %	ESG Risk Rating Assessment	ESG Risk Rank versus similar companies	ESG Risk Rank Overall	ESG Risk Score trend
		Holding 1	1.61	Low	35/17	2790/15605	stable
		Holding 2	1.55	Medium	23/48	5732/15605	negative
		Holding 3	1.50	Low	23/431	1801/15605	stable

Sustainability Impact: "invests mainly in solutions to sustainability problems, with an aim to achieve a positive impact for people or the planet"

KPIs should measure the positive impact (both the impact of the assets and the investor's contribution)

ESG Investment Approach	Type of Metric	Example																						
Targets companies addressing major social and environmental challenges	Company revenues aligned to Impact themes such as Climate Action & Basic Needs and/or UN SDGs. Overall Fund revenues aligned to Impact Themes & UN SDGs	<table border="1"> <thead> <tr> <th>Holding</th> <th>% of Revenue Aligned to Food Security</th> </tr> </thead> <tbody> <tr> <td>Holding 1</td> <td>100</td> </tr> <tr> <td>Holding 2</td> <td>98</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th>SDG 2</th> <th>SDG 3</th> <th>SDG 4</th> <th>SDG 5</th> <th>SDG 6</th> <th>SDG 7</th> <th>SDG 8</th> <th>SDG 9</th> </tr> </thead> <tbody> <tr> <td>6.16</td> <td>3.84</td> <td>5.11</td> <td>0</td> <td>4.62</td> <td>1.38</td> <td>1.49</td> <td>2.97</td> </tr> </tbody> </table>	Holding	% of Revenue Aligned to Food Security	Holding 1	100	Holding 2	98	SDG 2	SDG 3	SDG 4	SDG 5	SDG 6	SDG 7	SDG 8	SDG 9	6.16	3.84	5.11	0	4.62	1.38	1.49	2.97
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6.16	3.84	5.11	0	4.62	1.38	1.49	2.97																	
Engagement with companies for conscious impact investing	% of portfolio fund is engaged with Total # of engagements Achievements Voting recommendations	<table border="1"> <thead> <tr> <th>Metric</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>Shareholder Sustainability</td> <td>20</td> </tr> <tr> <td>Net Zero Governance</td> <td>1</td> </tr> <tr> <td>Management Sustainability</td> <td>6</td> </tr> <tr> <td>Engagement Escalation</td> <td>9</td> </tr> <tr> <td>Diversity Research</td> <td>4</td> </tr> <tr> <td>Climate Research</td> <td>5</td> </tr> </tbody> </table>	Metric	Count	Shareholder Sustainability	20	Net Zero Governance	1	Management Sustainability	6	Engagement Escalation	9	Diversity Research	4	Climate Research	5								
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Climate Research	5																							



Sustainability Mixed Goals: "Invests in accordance with 2 or more of the sustainability objectives as outlined above."

KPIs should measure the sustainability and improvement of the assets or portfolio, and/or impact of both the assets and investor contribution.

As mixed goals will be made up of two or more of the investment approaches of the other labels, the metrics are likely to be a combination of the types of metrics illustrated for Sustainability Focus, Sustainability Improver and Sustainability Impact labels.



7. Sustainability and client preferences/suitability

Purpose

To date the FCA's focus has been on improving the level of sustainability disclosure within investment products thereby supporting distributors and aiding client understanding of the products they purchase. As the sustainability disclosure requirements become embedded for product manufacturers, the FCA are expected to shift their focus to distributors and the advice process. This section aims to provide some clarity on what is required.

The FCA established a working group to focus on enhancing sustainable finance capabilities within the financial advice sector and the expectation is that this group will publish findings and recommendations regarding this objective by Q4 2024. A link to the minutes of meetings of this group could be found here: [Advisers' Sustainability Group - PIMFA](#)

Consumer Duty

Understanding client needs, objectives and characteristics is part of consumer duty, and as such is an existing requirement. This must include everything that is important to the client, such as their tax status, investment experience, planned life changes, willingness to take risk and any sustainability preferences they have. It is also important for clients to understand the consequences of the choices they make. As an example, screening out some sectors (whether related to sustainability preferences or other things), geographies or asset classes will reduce the level of diversification, could lead to increased investment volatility and could impact financial return, including the yield of the portfolio.

Who this applies to

Whilst some clients may not have any sustainability preferences, the only real way to establish this is to ask the client, and to review their preferences, needs and objectives regularly.

Clients may also have different preferences for different elements of their investments, pension provision and/or savings. For instance, an individual may wish for money intended as an inheritance to take a stronger ethical or sustainability stance than cash savings. Equally, they may be less concerned with the sustainability credentials of their shorter-term investments compared with longer-term retirement provision.

Each person within a couple may also have different preferences that need to be incorporated into the recommendations made.

What options do clients have?

Clients typically do not consider their sustainability preferences in terms that match the incoming sustainability labels, nor are client expectations always realistic. They will often talk about environmental concerns such as biodiversity, climate change, social injustice, gender diversity and/or controversial practices. Equally, industry terms such as stewardship, ESG (Environmental, Social and Governance), tilts, best-in-class may or may not be familiar. Clients may not feel such terms relate to any sustainability preferences and values that they have.



The discussion should be core to the client; some clients may not wish to incorporate sustainability preferences at all, and they have a right to make that informed choice. Incorporating questions that test a client's priorities is also important. For example, questions around diversification versus concentrated funds and the consequences for price volatility.

Digital tools are available that can help with the conundrums mentioned above. Each tool has their own approach, but the responsibility for the advice given to a client remains with the adviser. As such, every adviser should satisfy themselves that:

- They understand any issues that the client feels passionately about;
- The client's attitude to risk, and their objectives and sustainability preferences are clear, appropriate and do not conflict with each other (e.g. a low-risk, high income, sustainability impact fund will be hard to find)
- The client has sufficient knowledge about the sustainability choices they are making. This should include factors such as:
 - Stewardship and engagement including proxy voting
 - ESG integration
 - ESG-related exclusions/Negative screening
 - Best in class/positive tilt
 - Impact and ESG-related thematic funds
 - Personal preferences and priorities
 - ESG scores
 - Carbon emissions or specific environmental considerations
 - Different social norms prevalent in different geographies
- The client has realistic expectations of their investments in light of the choices they make; and
- The client knows how, and with what frequency, the investment, its financial and sustainability performance and their needs will be assessed and reviewed in future

As with all advice, this should be client-centric, individual and any vulnerabilities should be identified and appropriately considered or mitigated against.

**START
HERE**

Determine attitude to risk

Determine if the client has any sustainability preferences. If so, what is the client's objectives and priorities.

Provide solutions according to all client objectives, priorities, attitude to risk and, if applicable, sustainability preferences.



<p>HIGHER RISK</p> <p>LOWER RISK</p>	<p>Identification of client's sustainable preferences, if applicable</p> <p>Knowledge How much does the client know about sustainability and sustainable investing? This should include the different aspects of sustainability, such as engagement, negative screening, best in class tilts, ESG scores etc.</p> <p>Expectations What does the client expect from their investment portfolio? Is this realistic, and are they aware of the potential consequences of these preferences?</p> <p>Capacity Is the client sufficiently engaged in the discussion? Do vulnerabilities or pressures mean they cannot make a decision at this time?</p> <p>Labels Does the client have any sustainability label preferences to incorporate?</p> <p>Appetite How much does the client care about sustainability relative to other factors?</p>	<p>Align client's needs and preferences to suitable products</p> <p>Evidence that the client:</p> <ul style="list-style-type: none"> Has been listened to and understood. Knows the options available to them Makes an active choice based on their own objectives Understands the potential consequences of their choices Solution(s) match(es) to their attitude to risk, time horizon and sustainability preferences Will have their servicing and reporting expectations met