

ESG in 3D: Environment

The FCA's anti-greenwash proposals

11 November 2022

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Digest:

- The FCA has published its own Sustainability Disclosure Requirements (SDR) and investment labels consultation paper.
- In it, the FCA has set out its intentions to produce a fund-labelling framework, which will mean that funds must meet a number of performance thresholds in order to call themselves an ESG fund.
- If the consultation paper takes effect, any finalised rules and policy statement will be published by the end of June 2023.

Source/Context:

The Financial Conduct Authority (FCA) has published its own Sustainability Disclosure Requirements ([SDR](#)) and investment labels [consultation paper](#), which aims to reduce and eliminate greenwashing within the [financial services sector](#).

In it, the FCA has set out its intentions to produce a fund-labelling framework, which will mean that funds must meet a number of performance thresholds in order to call themselves an ESG fund. A “sustainable focus” label would mean that 70 per cent of fund assets meet a credible environmental or social standard which would be aligned to a particular theme. A “sustainable improver” label would cover funds where assets have the “potential to deliver improvements in sustainability”. Finally, a “sustainable impact” fund would aim to achieve a positive and measurable contribution to sustainability outcomes and those firms managing such funds would need to report against key performance indicators and also evidence and measure any additional investments where it involves new capital. The draft rulebook, published last month, proposes new requirements for any ESG funds sold in the UK in order to eliminate “exaggerated, misleading or unsubstantiated sustainability-related claims”.

What does this mean for the FS and other industries?

If the consultation paper takes effect, any finalised rules and policy statement will be published by the end of June 2023. Financial services firms should be aware of the proposed ban of specific terms from funds marketed to retail investors where the firm does not qualify for one of the three labels proposed. As such, firms may wish to review their current use of terms which include “ESG”, “net zero”, “sustainable”, “responsible”, “green” and “Paris-aligned” – all of which fall under the proposed prohibited terms outlined in the FCA document. Fund managers should also prepare to disclose category specific ESG information on individual products, including investment objectives and information on the extent to which ESG objectives have been met. Whilst the FCA has not made independent verification mandatory, it expects firms to use “credible and transparent” reference points. Requirements are expected to “evolve” to incorporate alignment to the UK taxonomy and global sustainability disclosure reviews by the International Sustainability Standards Board. The proposals are likely to enhance a more general anti-greenwashing rule for all regulated firms next year.

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