

UK Sustainability Disclosure Requirements and investment labels

This note provides an overview of the rules contained in PS23/16: Sustainability Disclosure Requirements (SDR) and investment labels.

What is it?

The SDR introduces a package of measures applicable to FCA authorised fund managers and distributors, to help investors navigate the market for sustainable investment products in the UK, including disclosure requirements (at entity and product level), naming and marketing rules and sustainability labels which may be used for products meeting the relevant qualifying criteria.

The SDR builds on existing requirements and expectations for UK fund managers, notably the FCA's Guiding Principles for ESG/sustainable investment funds¹.

The SDR also includes an anti-greenwashing rule which will require all FCA authorised firms to ensure that any reference to the sustainability characteristics of a product or service communicated in the UK is both (i) consistent with the sustainability characteristics of the product or service, and (ii) fair, clear and not misleading.

Impact on the industry

The SDR focuses FCA authorised firms' attention on the sustainability-related claims they make about their investment products and services, to ensure that such claims can be substantiated and are not misleading. FCA authorised firms will need to ensure they are considering the veracity of sustainability-related claims as part of their procedures for product/service design and approving communications and financial promotions. Whilst the FCA states that its anti-greenwashing rule is not a new requirement in practice², having a standalone anti-greenwashing rule in the FCA Handbook provides a clearer "hook" for the regulator to take action against FCA authorised firms making misleading sustainability-related claims.

The disclosure requirements are likely to increase the compliance burden on FCA authorised fund managers marketing or distributing ESG/sustainable investment products in the UK, adding to the existing burden for global firms that are also in scope of other ESG-related disclosure regimes (e.g. the EU SFDR). Whilst the use of labels is voluntary rather than mandated and primarily intended for the retail market, FCA authorised fund managers may face commercial pressure to ensure their products align with the relevant qualifying criteria for a label in order to attract investment and comply with (not just retail) investor expectations.

Application

The application of the rules will take a staged approach, with the anti-greenwashing rule coming into effect first on 31 May 2024. The remaining rules will come into force throughout 2024 to 2026. See the later section “Summary of the rules” for the full list of timings.

Scope

Aside from the anti-greenwashing rule (which applies to all FCA authorised firms in respect of all products and services), the SDR is primarily aimed at the following entities and products:

UK asset managers ("Managers")	UK UCITS management companies, ICVCs without a separate management company, full-scope UK AIFMs and small authorised UK AIFMs.
In respect of their UK products (a "sustainability product")³	UK authorised funds and unauthorised AIFs ⁴ including investment trusts.

The FCA proposes to extend the scope to portfolio management business. The regime would cover both institutional and retail portfolio management business, although the FCA states that it intends the requirements to cover wealth management services and model portfolios for individuals. The FCA's consultation on its proposals will close on 14 June 2024. If the FCA does extend the rules to portfolio management, the requirements would apply from 2 December 2024, with the same staggered implementation timeline for entity disclosures as applies to other in-scope firms.

However, the application of the rules under SDR depends on the following:

- **the type of sustainability product** – certain rules apply only to sustainability products which use a label or sustainability-related terms in the product name or marketing, and some rules apply differently to unauthorised “private” AIFs (i.e. those not listed on a recognised exchange); and
- **the target market** – certain rules apply only if marketing sustainability products to retail investors.

Additional rules apply to distributors of sustainability products and overseas funds marketed to UK retail investors (as further outlined below in “Summary of the rules”).

Next steps

Firms operating in the UK market should consider the rules set out on the following pages and begin preparing implementation plans to respond to the rules once they are in force. The first step should be scoping out the (potentially broad) impact of the anti-greenwashing rule.

In addition, Managers will need to:

- identify which of their sustainability products are likely to be caught by the naming and marketing rules and which may meet the qualifying criteria to use a label; and
- determine whether potential changes are required to their sustainability products in order to comply with the relevant qualifying criteria to use a label and/or continue to use sustainability-related terms in their naming and marketing, noting the associated disclosure requirements that will apply.

Finally, distributors will need to:

- prepare to make the labels and consumer-facing disclosures available to retail investors; and
- where relevant, add a notice to overseas fund documents to inform UK retail investors that the fund is not subject to the SDR regime.

Wealth managers should review the FCA's proposals in its consultation on portfolio management and consider:

- its products and services could achieve the qualifying criteria and should adopt a label; and
- the extent to which the firm and its business will be subject to the naming and marketing rules, and whether the firm must product consumer disclosures.



Summary of the rules

Rule: Anti-greenwashing rule

In-scope firms must ensure that any reference to the sustainability characteristics of an in-scope product or service is:

- consistent with the sustainability characteristics of the product or service; and
- fair, clear and not misleading.

This rule is subject to accompanying guidance⁵ which contains illustrative examples to assist with interpretation of this rule.

Application

In-scope firm

All FCA authorised firms which:

- communicate to a “client” in the UK in relation to a product or service; or
- communicate or approve a “financial promotion” (as defined in FSMA) to a person in the UK.

In-scope product

Any product or service

Investor type

Retail and professional



Timing

31 May 2024

Rule: Sustainability labels

In-scope firms may use a sustainability label for in-scope products⁶. See page 9 onwards for a summary of the qualifying criteria that apply to each of labels and rules that apply to Managers when using a label.

Otherwise, FCA authorised firms must not make use of the sustainability labels.

Application

In-scope firm

UK UCITS management companies, ICVCs without a separate management company, full-scope UK AIFMs and small authorised UK AIFMs (“Managers”)

In-scope product

Sustainability products that meet the relevant qualifying criteria

Investor type

Retail and professional



Timing

Available from 31 July 2024

Rule: Naming and marketing rules

In-scope firms are prohibited from using sustainability-related terms (ESG, impact, sustainable, green or SDG, etc)⁷ in the name of the in-scope product or in a “financial promotion” in relation to the sustainability characteristics of the in-scope product, unless either:

- the sustainability product uses a label; or
- the in-scope firm meets the following product name, disclosure and statement conditions:
 - **Name:** *The sustainability product has sustainability characteristics and a name which accurately reflects those characteristics. The name does not use the terms “sustainable”, “sustainability” or “impact” (or variations thereof) to refer to the sustainability characteristics of the sustainability product.*
 - **Disclosure:** *The Manager produces SDR product-level disclosures.*
 - **Statement:** *The Manager publishes an explanation as to the purpose of a label, a statement that the sustainability product does not use a label, and a brief explanation as to why the sustainability product does not use a label.*

Application

In-scope firm

Managers

In-scope product

Sustainability products for retail investors

Investor type

Retail



Timing

2 December 2024

Rule: Consumer-facing disclosure

In-scope firms must prepare and publish a max two-page summary of the in-scope product, including details of the sustainability-related features of the in-scope product.

The FCA prescribes a list of information which must be included in this disclosure but does not prescribe a template format for the disclosure.

Application

In-scope firm

Managers

In-scope product

Sustainability products (excluding feeder funds) which (i) either use a label or sustainability-related terms in the product name or marketing, and (ii) are for retail investors

Investor type

Retail



Timing

For Managers using a product label: **From the date the label is first used**

For Managers using sustainability-related terms without product labels:
2 December 2024

Pre-contractual disclosures

In-scope firms must prepare and publish certain pre-contractual information relating to the in-scope product, either:

- as part of the in-scope product's prospectus or information disclosed under FUND 3.2.2R; or
- where the in-scope product does not have prospectus or FUND 3.2.2R disclosure, in Part A of a public product-level sustainability report⁸.

The FCA prescribes a list of information which must be included in this disclosure but does not prescribe a template format for the disclosure.

Application

In-scope firm

Managers

In-scope product

Sustainability products (excluding feeder funds) which either use a label or sustainability-related terms in the product name or marketing

Investor type

Retail and professional



Timing

For Managers using a product label: **From the date the label is first used**

For Managers using sustainability-related terms without product labels:
2 December 2024

Rule: Ongoing product-level information

In-scope firms must prepare and publish certain ongoing performance-related information relating to the in-scope product, either:

- to be contained in Part B of the public product-level sustainability report⁸; or
- for private AIFs: provided on demand to eligible clients.

The FCA prescribes a list of information which must be included in this disclosure but does not prescribe a template format for the disclosure.

Application

In-scope firm

Managers

In-scope product

Sustainability products (excluding feeder funds) which either use a label or sustainability-related terms in the product name or marketing

Investor type

Retail and professional



Timing

From: **12 months after the label or sustainability-related terms are first used**

On demand regime from: **2 December 2025**

Rule: Sustainability entity report

In-scope firms will be required to produce a sustainability entity report setting out information relating to the in-scope firm's approach to and management of sustainability risks and opportunities (which follows the TCFD four pillar approach).

The FCA prescribes a list of information which must be included in this disclosure but does not prescribe a template format for the disclosure.

Application

In-scope firm

Managers with >£5bn AUM (based on a three-year rolling average)

In-scope product

Overall assets managed by the in-scope firm



Timing

>£50bn AUM Managers: **2 December 2025**

>£5bn AUM but <£50bn Managers: **2 December 2026**

Rule: Requirements for distributors

Distributors must comply with the following rules:

- **In-scope sustainability products:** ensure the product's label (if used) is displayed prominently, provide access to the consumer-facing disclosures, and keep its marketing communications up to date to reflect any changes to the product's sustainability-related disclosures.
- **In-scope overseas funds:** provide a prescribed statement that the fund is based overseas and is not subject to the UK sustainability labelling and disclosure requirements.

Application

In-scope firm

Distributors (including platforms and advisers)

In-scope product

The following products distributed to retail investors:

- sustainability products which use a label or sustainability-related terms in the product name or marketing; and
- overseas funds which use sustainability-related terms in the product name or related marketing.

Investor type

Retail



Timing

For products using a label: **From the date the label is first used**

For non-labelled products using sustainability-related terms/notice in respect of overseas funds: **2 December 2024**

How do the rules apply to my asset management firm and product offering?

The below table summarises the application of SDR to several common types of asset manager:

	UK UCITS management company or a full-scope or small authorised UK AIFM of a sustainability product marketed to retail investors e.g. UK ACD of a UK UCITS/NURS/LTAF	Full-scope or small authorised UK AIFM of a sustainability product marketed to professional investors only e.g. UK AIFM of a private fund structured as an English limited partnership	UK delegate portfolio manager of a non-UK based sustainability product (i.e. with a non-UK AIFM) marketed to professional investors only e.g. UK portfolio manager of a Lux AIF with a Lux AIFM	Non-UK management company of a non-UK product marketed to UK retail investors e.g. Irish UCITS with an Irish Manco marketed to UK retail investors under TMPR, s.272 or OFR	UK manager of discretionary managed portfolio on behalf of a UK retail investor ⁹ e.g. UK wealth manager with clients that are not elective professionals
Anti-greenwashing rule	✓	✓	✓	✗ (But will apply to any UK FCA authorised firm approving UK financial promotions, if relevant)	✓
Naming and marketing rules	✓	✗	✗	✗	✓
Sustainability labels	✓ (If the product meets the relevant qualifying criteria)	✓ (If the product meets the relevant qualifying criteria)	✗	✗	✓
Consumer-facing disclosure	✓ (If the product is not a feeder fund and either uses a label or sustainability-related terms in its name or marketing)	✗	✗	✗ (But distributor requirements will apply)	✓ (But not on demand disclosures if the service is provided directly to a client rather than the public)
Pre-contractual disclosure		✓			
Ongoing product-level information		(If the product is not a feeder fund and either uses a label or sustainability-related terms in its name or marketing; ongoing information provided on-demand)			
Sustainability entity report	✓ (If the firm exceeds the £5bn revenue threshold)	✓ (If the firm exceeds the £5bn revenue threshold)	✗	✗	✓ (If the firm exceeds the £5bn revenue threshold)

Sustainability labels

What are the sustainability labels and the qualifying criteria?

The SDR introduces four sustainability labels which can be used for sustainability products - these are listed on this page along with the specific qualifying criteria and some example strategies. There is no hierarchy between the sustainability labels: each is designed to deliver a different profile of assets and meet different investor preferences.

Sustainability focus



Specific qualifying criteria

The product aims to invest in assets that are environmentally and/or socially sustainable, determined using a robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability.

Example strategy

Tracking an index of companies that support the production of energy from renewable sources (e.g. wind and solar).

Sustainability improver



Specific qualifying criteria

The product aims to invest in assets that have the potential to improve environmental and/or social sustainability over time, determined by the potential of those assets to meet a robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability.

The Manager of the product must:

- identify the **period of time** by which the product and/or its underlying assets is expected to meet the robust, evidence-based standard;
- identify **short and medium-term targets** for improvements in the sustainability of the product and/or its underlying assets, commensurate with the product's investment horizon; and
- obtain **robust evidence** to satisfy itself that the underlying assets have the **potential to meet** the robust, evidence-based standard.

Example strategy

Investing in companies that are on a credible path to net zero by 2050. Assets are selected according to a net zero alignment framework, demonstrating their potential to decarbonise over time.

Sustainability impact



Specific qualifying criteria

The product aims to achieve a pre-defined, positive, measurable impact in relation to an environmental and/or a social outcome.

The Manager of the product must specify:

- a **theory of change** in line with the product's sustainability objective, describing how the Manager expects its investment activities and the product's assets to **contribute to achieving a positive and measurable impact**, in accordance with a robust, evidence-based standard where the Manager considers it appropriate; and
- a **robust method to measure and demonstrate** that the Manager's investment activities and the product's assets are **achieving a positive environmental and/or social impact**.

Example strategy

Investing in and owning socially positive real estate assets, including residential units let to organisations that support occupants classified as homeless to progress into self-sufficient living.

Sustainability mixed goals



Specific qualifying criteria

The product aims to invest in accordance with two or more of the other labels.

The Manager of the product must:

- **identify the proportion of assets** invested in accordance with each label; and
- **meet the relevant qualifying criteria** for each of the relevant labels.

Example strategy

A multi-asset fund investing in equities and bonds which support the transition to renewable energy, investing around 40% in assets that produce renewable energy and around 40% in assets supporting activities to increase renewable energy production.

In addition to the specific qualifying criteria that apply to each label as outlined on the previous page, the following **general criteria** must also be met in order to use a label:

Product requirements

The sustainability product must:

- have an **explicit sustainability objective** as part of its investment objective¹⁰ that (i) aligns with one of the labels, and (ii) is clear, specific and measurable;
- invest at least **70%** of its assets in accordance with its sustainability-related objective¹¹ and selected by reference to a robust, evidence-based standard that is an **absolute measure of environmental and/or social sustainability**¹². Invested assets that are not in accordance with the product's sustainability objective must not have attributes that conflict with that objective; and
- have robust and evidence-based **KPIs** that can demonstrate the product's progress towards meeting its sustainability objective.

Manager requirements

The Manager must:

- determine (i) whether the sustainability product's sustainability objective **could result in negative environmental and/or social outcomes**, and (ii) the product's **policy for achieving its sustainability objective**;
- **obtain or undertake an assessment of the robust evidence-based standard** to confirm that it is appropriate for determining asset selection, ensuring that (i) the assessment is independent from the Manager's investment process, and (ii) the individuals responsible for carrying out the assessment are appropriately skilled;
- **identify any assets** invested in by the sustainability product for reasons **other than to pursue its sustainability objective**;
- identify the **KPIs** that it will use to demonstrate the sustainability product's progress towards meeting its sustainability objective;
- have an **escalation plan** setting out the actions that it will take if any of the sustainability product's assets do not demonstrate sufficient performance against either the product's sustainability objective or its KPIs;
- ensure there are **appropriate resources, governance and organisational arrangements** to support delivery of the sustainability product's sustainability objective; and
- identify and disclose a **stewardship strategy** necessary to support delivery of the sustainability product's sustainability objective, including actions to be taken if there is insufficient progress.

Using a sustainability label

A Manager that intends to use a label for a sustainability product (which meets the relevant qualifying criteria) must comply with several rules, including the following.



Use of the relevant graphic: the relevant graphic¹³ must be used when (i) displaying the label on the relevant digital medium at which the product is offered (i.e. main product webpage or page on a mobile application), and (ii) disclosing the use of that label in the SDR product-level disclosure documents (e.g. consumer-facing disclosure).



Publication of the label: publish in a prominent location on the relevant digital medium at which the product is offered (i) that the label has been applied to the product, and (ii) details as to where the consumer-facing disclosure for that product can be easily accessed.



Record-keeping: prepare and retain a record as to the basis on which the label is used and keep that record for the duration of the label's use.



Reviewing use of the label: keep the use of the label under review both (i) prior to any proposed changes to the sustainability product, and (ii) at least every 12 months, in each case to determine whether the use of the label is appropriate and, if not, revising or ceasing the use of the label as appropriate as soon as reasonably practicable.



Notifying the FCA: notify the FCA that it intends to use, revise or cease use of a label using the FCA's online notification and application system, either before using, revising or ceasing the use of that label or as soon as reasonably practicable afterwards.



Notifying clients: where the Manager revises or ceases use of a label and as soon as reasonably practicable before the change takes effect: (i) give written notice to investors that the label has been revised or ceased and the reasons for that revision or cessation, (ii) publish the revised label (or the fact that use of the label has ceased) and the reasons for the revision or cessation in a prominent place on the relevant digital medium at which the product is offered, and (iii) ensure that the SDR product-level disclosure documents (e.g. consumer-facing disclosure) are updated.



Use of the label: not use the label in a way that is misleading, or claim in a public statement or to a client (either expressly or by implication) that the FCA has conferred or approved the use of the label by the product.

Contacts



Lora Froud

Partner

DD +44 (0)20 7849 2409
lora.froud@macfarlanes.com



Alex Cochrane

Senior Counsel

DD +44 (0)20 7849 2402
alexandra.cochrane@macfarlanes.com



Tiffany Cox

Senior Associate

DD +44 (0)20 7791 4178
tiffany.cox@macfarlanes.com



Sandeesh Shah

Associate

DD +44 (0)20 7849 2455
sandeesh.shah@macfarlanes.com

Footnotes

¹ fca.org.uk/publication/correspondence/dear-chair-letter-authorised-esg-sustainable-investment-funds.pdf

² For example, the anti-greenwashing rule is consistent with the existing fair, clear and not misleading rule which applies to financial promotions under COBS 4.2, the Consumer Duty, and existing guidance issued by the Competition & Markets Authority and the Advertising Standards Authority.

³ The SDR does not currently apply to overseas products, portfolio management services or pension products. The FCA is due to consult in early 2024 on the application of the SDR to portfolio management services, and in due course will consult on the application to pension products. The extension of the SDR to overseas products will be considered as part of the Overseas Funds Regime and is ultimately a decision to be made by HM Treasury.

⁴ Certain types of unauthorised AIFs (e.g., SEFs and RVECs) are excluded.

⁵ Following consultation, the FCA published its final guidance on 23 April 2024: fca.org.uk/publication/finalised-guidance/fg24-3.pdf. The guidance will come into force alongside the anti-greenwashing rule on 31 May 2024.

⁶ For feeder funds, the Manager may use a sustainability label only where certain conditions are met (e.g. the feeder fund uses the same label used by the master fund and the Manager ensures that feeder fund investors are provided with easy access to the SDR product level disclosures of the master fund).

⁷ A Manager may use such terms to make short factual statements which are not “financial promotions”, or to make statements in a context not intended to refer to/describe the sustainability characteristics of a sustainability product.

⁸ The “public product-level sustainability report” is produced in respect of (i) authorised funds, and (ii) unauthorised AIFs with a UK full-scope or small authorised AIFM which is listed on a recognised investment exchange.

⁹ FCA proposals under consultation.

¹⁰ The FCA is not prescriptive on whether the sustainability objective is the primary or secondary objective of the product, or equal to the product's financial objective.

¹¹ Certain exceptions apply, e.g. where the product is still to be fully invested as set out in the product's investment strategy (e.g. for LTAFs in a ramp up phase), or where the Manager is taking action to restore compliance with the qualifying criteria.

¹² Assets should be selected using a methodology which (i) is applied in a systematic way; and (ii) may be based on, or determined by, an authoritative body, industry practice or a proprietary methodology for determining the sustainability characteristics of a product's assets, and the ability of those assets to contribute to a positive environmental or social outcome.

¹³ The graphics for each of the labels are trademarked and can be accessed through the FCA's online notification and application system.

Macfarlanes LLP

20 Cursitor Street London EC4A 1LT

T +44 (0)20 7831 9222 | F +44 (0)20 7831 9607

DX 138 Chancery Lane | [macfarlanes.com](https://www.macfarlanes.com)

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