UKSIF Response: Discussion Paper DP21/4, Sustainability Disclosure Requirements (SDR) and investment labels

Introduction

The UK Sustainable Investment and Finance Association (UKSIF) is the membership organisation for those in financial services committed to the growth of a more sustainable and inclusive financial system that works for the benefit of the environment and wider society. UKSIF represents a diverse range of financial services firms committed to these aims, and our 270+ members include investment managers, pension funds, banks, financial advisers, research providers, NGOs, among others.

UKSIF and our members have played a prominent role in integrating sustainability in UK policymaking over recent years. Most recently, through our membership of the Green Technical Advisory Group (GTAG) advising on the UK's 'green taxonomy,' we look forward to helping ensure the taxonomy can set the highest standard possible for green investment for the rest of the world to follow and address the serious risks posed by 'greenwashing'.

We welcome the opportunity to respond to the FCA's Discussion Paper on the UK's Sustainability Disclosure Requirements (SDR) framework and investment labels, and we are pleased to be actively contributing to this work through our membership of the Disclosures and Labels Advisory Group (DLAG). On the DLAG, UKSIF will be seeking to reflect our members' views while advocating policy positions that align with our mission for the UK to move much more quickly towards meeting its net-zero ambitions and advancing at pace progress towards the UN's Sustainable Development Goals.

UKSIF strongly supports the direction of travel outlined in the FCA's proposals on SDR and investment labels. We hope they will help create and drive the positive systems change that we wish to see across the financial services sector, and for clients and savers significantly enhance their understanding and confidence in their investment decisions and in turn the sector. In our response, we highlight some areas for further consideration by the FCA and members of the DLAG over the coming months ahead of the regulator's formal consultation this year.

The areas we identify include: the possibility of developing a harmonised set of disclosures for all client groups; the use of the UK's 'green taxonomy' as the primary sustainability-related criteria and its sequencing with SDR; how 'transitioning funds' should be treated in certain scenarios as underlying investments successfully transition; the need for the labelling system to incorporate wider sustainability issues beyond climate change; how biodiversity and nature could be integrated within SDR; the importance of building a robust regime in the UK that draws on the experience of other jurisdictions such as Europe, among other areas.

Our response draws on the views and expertise of our membership, who we consulted towards the end of last year in a private roundtable discussion held under Chatham House Rule to consider some of the main themes in the Discussion Paper.

Q1: What are your views on the tiered approach set out in Figure 2? We welcome views on any concerns and/or practical challenges.

We are broadly supportive of the FCA's tiered approach outlined in the Discussion Paper with the two proposed layers of disclosures for consumers and more sophisticated institutional clients, believing it largely recognises the different information needs, and understanding, of these respective groups. We agree with the proposed information to be included in the consumer-facing and detailed disclosures, which appears to be the suitable level of information for each audience.

We would welcome further work however from the FCA to explore whether a single, harmonised set of disclosures for both groups could be feasible in practice, which would look to provide all client groups with the option of having the same level of disclosures should they wish to have this opportunity. One way to achieve this could be consideration of a 'layering' or 'stacking' approach whereby firms provide detailed disclosures in a single source with clients presented the option of having more granular detail (for example not just the product disclosures). If firms will already be providing detailed disclosures to institutional clients, there is the question of whether this could be made readily available for consumers in an accessible way, potentially through digital solutions that facilitate 'layering' or 'stacking.' We recognise there may be challenges with this approach and therefore this could be a longer-term objective.

No particular group would be provided with an obvious advantage, while challenging the preconceived notion that all retail savers have a very limited understanding of sustainability issues and would not value additional disclosures. There could be some types of information that savers would find valuable that are currently foreseen only for the second layer of disclosures for sophisticated clients, such as further supporting contextual narrative which could reduce the risks of 'greenwashing'. We know savers are increasingly keen to understand the impact their investments are having on the environment and society, making a 'layering' or 'stacking' approach worth exploring further. For firms, this could allow them to back up their sustainability credentials through more substantiated information (e.g. on their approach to stewardship), which could help distinguish the true leaders in the sector. **If pursued, this alternative model, which may turn out to be a more effective and equitable approach than the proposed tiered system, should be very heavily informed by rigorous consumer testing**.

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

Design principles

On the key design principles identified in the Discussion paper, we strongly agree with the FCA's recognition of the importance of 'objective' labels as opposed to 'subjective'. **The regulator has rightly recognised that the proposed product labels do not, and should not, indicate that a particular product is necessarily better than another,** but instead are intended to be objective and reflect clients' very diverse sustainability preferences.

Each product label will indicate a different approach to sustainability and we are pleased the UK has learned from Europe's Sustainable Finance Disclosure Regulation (SFDR), which seemingly frames Article 9 as the very highest bar that investors should seek to meet in their funds. A hierarchical approach akin to SFDR would increase the risks of 'greenwashing' for clients and savers.

On the second design principle relating to using the UK's 'green taxonomy' to determine the sustainability criteria of the product labels and assess the proportion of underlying investments allocated to sustainable projects and activities, **very careful consideration should be given to ensuring the UK taxonomy's effective operation before SDR and the labelling system come into force**. The SDR regime should not look to 'front-run' the UK's taxonomy, and at a minimum this means awaiting the implementation of the Technical Screening Criteria (TSC) for the taxonomy's climate change mitigation and adaptation objectives which we understand will be legislated for by the end of this year.

There is the lack of clarity we see with the development of the UK's taxonomy and a possibility of delays in implementation, which could heavily impact firms' ability to report against SDR. The FCA should keep in mind that firms may not have a full picture to report their taxonomy-alignment against. The prospect of delays is very possible, with the process for finalising the taxonomy's TSC undoubtedly taking some time, particularly with government only committing to basing the TSC for the climate change mitigation and adaptation objectives on those of the EU, with extensive consultation needed for the TSC of the remaining four objectives. **This scenario of delays is a real likelihood and the implications this could have for SDR's smooth implementation needs to be seriously considered**.

Separately, there is the issue of which 'green taxonomy' firms would report against. This is a particular issue for funds investing in assets around the world, many of which we expect will display different levels of 'taxonomy alignment' due to the need to align to different jurisdictions' local taxonomies. We do not believe this is a settled question in the UK, with uncertainty over how in future investors with assets in different jurisdictions covered by different taxonomies would report; for example, would reporting against every jurisdiction's taxonomy be required and what picture might be presented to clients should some countries' taxonomies might be very different in nature (e.g. if they have a 'transitional taxonomy').

There are also ongoing, well-recognised issues with the EU's taxonomy, which will need to be addressed by the UK, such as the prescriptive criteria for determining 'green' activities and more recently the likely inclusion of natural gas and nuclear. The rigid interpretation of 'green' in the EU's taxonomy, if carried forward in the UK's taxonomy, will have important implications for determining the thresholds and minimum criteria for each of the product categories. Its use will work most effectively as the criteria for a very small portion of very concentrated funds looking to deliver sustainability objectives, but arguably less well for the broader range of funds that will incorporate a more diverse approach to generate returns for clients.

These concerns lead us to the view that the FCA and members of the DLAG should explore further the suitability and effectiveness of the UK's taxonomy as the main criteria to determine the portion of products' assets allocated to sustainable activities, **and how the SDR and labelling regime and UK's taxonomy can be appropriately sequenced.** Following further consideration, the regulator may want to explore the possibility of using the taxonomy as one of a series of sustainability criteria for the product labelling system, rather than as the sole criteria alone.

Any additional set of sustainability criteria the FCA and DLAG come up with would need to be very robust and objective. We would urge the GTAG and DLAG to co-operate very closely with one another going forward, given the significant inter-links between SDR and the 'green taxonomy.'

Mapping to SFDR

On the indicative mapping exercise against the EU's SFDR conducted by the FCA, we welcome the efforts made to conduct this exercise, which should be valuable for financial services firms marketing and selling products across markets in Europe and the UK.

There will inherently be challenges with the UK's efforts to map its labelling system against SFDR due to the continuing confusion over SFDR's classifications, and the very differing interpretations of these from investors and Member States' regulators. This is especially prevalent with 'Article 8,' which remains too broad in our view by including too many funds in its scope.

The inherent challenges also stem from the fact that SFDR was originally envisaged as a disclosures framework, before becoming a 'de-facto' product labelling system. **The UK should be very alert to the possibility of 'baking in' some of the errors of SFDR into SDR through the mapping exercise**. For example, the regulator will need to be cautious in automatically granting 'equivalence' for all of the EU's Article 8 funds in order to secure any of the three 'Sustainable' labels in the UK. This is necessary to ensure the integrity of the UK's system; for instance, so that Article 8 funds at the much lower end of the sustainability spectrum are not mis-categorised for clients and savers here at home.

In terms of issues we see with the initial mapping exercise, the 'Not promoted as sustainable label' has been mapped against SFDR's 'Article 6,' which we think is arguably not accurate given ESG integration forms part of the criteria for 'Article 6,' but not for the minimum criteria for the 'Not promoted as sustainable label' which states, according to the Discussion Paper, that sustainability risks have not been integrated into investments as well as no specific sustainability goals being set. Very significant conflict between the two regimes would not be helpful; for example, the 'Sustainable Transitioning' and 'Sustainable Aligned' categories are effectively providing much more clarity on those funds that would be generally classified under Article 8 and they should not fall out of this classification.

Overall, mapping will need to be an important consideration for the FCA, reflecting also how the EU's SFDR categories could be mapped to SDR, but the mapping exercise should be done without damaging the credibility of the UK's system.

Further considerations and challenges

Within each of the three sustainable categories, we will need to collectively ensure clients and savers do not feel misled by the over-arching 'Sustainable label' in all three categories and that they do not see these all as merged together from their perspective. Getting the underlying definitions right for the three categories (and indeed all the categories) is hugely important, and we would like to see consumer testing take place to gauge their views on the underlying definitions and criteria for each of the categories.

Across all product categories, we see the proposed labels as potentially neglecting social and governance issues and this would make it hard to identify where investors' socially targeted funds and investments focusing on social objectives could sit in the UK's labelling system. The 'Sustainable Transitioning' and 'Sustainable Aligned' categories work more neatly for climate change, but will need considering further to incorporate other sustainability issues. Some products with very strong sustainability characteristics may not be captured in the labelling system at present, or at least for some years, particularly with the UK's taxonomy being proposed as a key benchmark and not planning to include social issues in the near future.

There is the question of how the UK's new labelling system would apply to existing funds in the market already deemed sustainable and marketed as such. We support the position that legacy funds classified as sustainable would need to meet the new required minimum criteria in the UK's system, and if not satisfying these should have to remove their sustainable labels and not rely on the concept of 'grandfathering' to qualify for any of the 'Sustainable' categories.

To help facilitate the classifications of funds in the UK's new system, **the FCA should work closely together with industry and through the DLAG to create a non-exhaustive list of examples of funds that would sit under each classification**. This could assure some firms which have concerns over several of their strategies which may possess high ambition but do not necessarily fit neatly into the proposed system as it stands, such as funds tracking a climate benchmark. Other firms have anecdotally indicated their uncertainty over where exclusion-based approaches or thematic funds could sit.

Overall, we see four to five labels maximum in the UK's system as the appropriate number to have and see a lot of value in the objective, unranked approach taken rather than a tiered, hierarchical approach. Finally, we should recognise no single system will perhaps ever neatly account for the huge diversity of products in the market.

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

We see some merits in introducing 'entry-level' criteria at the entity level before funds can be considered 'Responsible' or 'Sustainable,' which could drive up standards and encourage a much more competitive, healthy dynamic across the sector.

The potential criteria that would need to be met by firms could be an entity being a signatory of the UN PRI or the UK's Stewardship Code, or membership of the Net-Zero Asset Managers Initiative or equivalent net-zero initiatives. If entry-level criteria are introduced, they should be proportionate and avoid a negative scenario where recognised leaders in the sector, with a long track-record of offering sustainable funds and culture firmly embedded with their business, are penalised should they not achieve 'entry-level' criteria from one year to the next (e.g. a specific PRI rating) that present 'fast moving' targets for firms. The FCA should be attuned to the possibility of some managers, particularly very sustainability-focused boutiques, falling out of scope given the requirements of both standards and what the consequences should be for firms in this scenario (e.g. how could this be communicated to clients and savers, reflected in fund documentation, and what the implications would be for investors in a product should a firm not achieve a certain entry-level criteria).

We strongly support the proposed SDR entity-level disclosures, building off the TCFD entity-level disclosures, and we hope as these become more robust over time that they would achieve a similarly positive objective to the 'entry-level' criteria (particularly if they include details of whether firms are signed up to the Stewardship Code).

Q7: Do you agree with these high-level features of impact investing? If not, why not?

On the 'Sustainable – Impact' category, the regulator could more clearly distinguish that this should relate to funds that have a non-financial objective as one of the two main formal investment objectives, rather than being part of their investment strategy.

The term could be misleading, with some savers reflecting, and desiring, all their funds to deliver some form of 'impact', though overall we do think it is the appropriate term to use for this category. **Within the industry at least, it is a well understood area of sustainability and we agree with the FCA's high-level features identified for impact investing including the principles of intentionality, return expectations, additionality and impact measurement.** We see return expectations and additionality as particularly key differentiating criteria within this category compared with the 'Sustainable Aligned' category, and for the latter this will need to be evidenced not just through investor stewardship but also through demonstrating that capital has been provided that would not otherwise be available from markets.

A more precise definition of minimum criteria for investor stewardship in this category would need to be considered, which we see having a positive impact on all companies when exercised actively and therefore not specifically sufficient on its own to merit an 'impact' label.

Q8: What are your views on our treatment of transitioning assets for: a: the inclusion of a sub-category of 'Transitioning' funds under the 'Sustainable' label? b: possible minimum criteria, including minimum allocation thresholds, for 'Sustainable' funds in either sub-category?

We strongly welcome the 'Sustainable – Transitioning' category, which reflects an important learning from the EU's SFDR which has not accounted sufficiently for transitioning investments. Its inclusion recognises that many, many businesses will need to transition to more sustainable practices in the decades ahead and that this will be absolutely critical for the UK to meet its net-zero objective. The sector's role in encouraging the successful transition of the real economy, of which a very small part today is sustainable, will be considerable with investor stewardship playing a prominent part.

We do believe further consideration should be given to the minimum criteria here. Namely, the current minimum criteria indicates the expectation that the proportion of underlying assets meeting sustainability criteria should rise over time. Some of our members' investment strategies focus on investing in companies with the aim of improving their sustainability strategies and contribution to progress against benchmarks like the UN's SDGs, before selling these companies once they successfully transition and reinvesting in other businesses with the potential to transition. This naturally means the allocation of underlying investments towards sustainability criteria could fluctuate in some years due to their reallocation, and we may not necessarily see a continual increase over time towards meeting sustainability criteria as the regulator has envisaged.

The regulator will need to clarify that those funds continually investing in companies with strong 'transition potential' and not necessarily increasing the proportion of sustainable assets over a long period (i.e. a transition fund remaining a transition fund indefinitely as new underlying companies are targeted) may still be considered within the 'Transitioning category' on a case-by-case basis. This nuance will need to be carefully communicated to consumers too, who will need to be aware some funds may remain purely focused on transitioning companies indefinitely while others will perhaps evolve to focus on investments which meet the 'Aligned' category.

To guard against 'greenwashing', we will need to be attuned to the possibility of some funds in the 'Transitioning category' not fully committing to active stewardship and indefinitely claiming a 'transitioning' status without backing this up in practice (i.e. demonstrating no real-world contribution or impact). This means **further consideration needs to be given to what is a reasonable timeframe for a fund to transition successfully and also to minimum criteria to assess the 'Paris-alignment potential' of a fund** (the PAII's Net-Zero Investment Framework could be one tool to use in this respect), so that investors can determine whether transitioning assets are taking the necessary action in support of the UK's 2050 net-zero objective.

Given the hugely important role that stewardship will play in relation to funds forming part of this category, we believe the minimum criteria in this category should on a mandatory basis include the entity's stewardship approach as applied to the product, rather than make this one of a series of options as currently proposed in the Discussion Paper.

It would be useful for the regulator to set out greater clarity in this category what outcomes funds are, or should, be transitioning towards and as mentioned how this can applied to a broader sustainability focus, beyond climate change (for example, how would this apply to boardroom diversity and what would constitute a successful 'transition' in this respect). Clarity should also be offered in cases where funds have reached the limit of their capacity to transition or the end of their transitioning pathway, but have not necessarily reached the stage of being regarded as aligned.

Separately, there is the question of whether the UK pursues a 'transitional taxonomy,' as opposed to purely a 'green taxonomy,' and how this might impact this product category, noting that both have an environmental focus and do not cover social and governance considerations. Consistency between both sets of rules would be important should the UK choose to implement a 'transitional taxonomy' in future. The regulator could consider how funds which are looking to finance and promote a 'Just Transition' could be captured within this category, which the 'green taxonomy' would not be able to measure.

Finally, **there is the question of whether the overarching 'Sustainable' label for this category could be misleading for some consumers and the regulator may wish to simply reclassify this category as 'Transitioning' alone**, as transitioning funds, at that time, may include many unsustainable investments (e.g. oil and gas) and give a false impression to savers if labelled 'Sustainable' from the onset. Overall, the inclusion of this category is hugely positive and should help savers in considering products that are looking to become 'green' over time.

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

We believe further clarification is needed for the 'Responsible' category and the FCA may wish to reconsider this category entirely. In part, this is because in our view this term is less commonly referred to and we have seen the following terms, in sequential order, used most frequently by firms over time: ethical, ESG, responsible and now sustainable.

The term 'Responsible' could inappropriately raise expectations and over-promise what it could deliver for clients and savers, with this term implying higher sustainability attributes than what it possesses in reality (namely ESG integration), according to the regulator's classification criteria set out. While ESG integration is generally seen as synonymous with responsible investment within the industry, **the wider public could understand responsible investment as incorporating a greater focus on sustainable investing and this gap in understanding will need to be addressed.** This could lead to risks of 'greenwashing' in this labelling category, with savers seemingly unaware that this is very light-touch in considering sustainability issues. There could be merit in having one category alone capturing both products not having specific sustainability goals or only engaging in ESG integration.

ESG integration alone should not qualify a fund for a sustainable or responsible investment label, as we believe it is not a sufficiently robust minimum standard for any fund marketed in this way, given the seriousness of the challenges we face, and should the 'Responsible' category be maintained by the regulator then stricter minimum criteria should be in place. This would differentiate it far more from the 'Not promoted as sustainable' category.

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

The inclusion of the 'Not promoted as sustainable' is positive and we think will be clear to most savers. Our hope is that this label would ultimately become defunct in the decades ahead. **We think the 'Not promoted as**

sustainable' category should create an expectation on firms to explain and disclose why their products are not integrating sustainability risks into investment decisions in any way.

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

An important consideration for the FCA will be how firms' disclosure requirements against TCFD and SDR can be as streamlined as possible and effectively sequenced, which will help ensure a smoother implementation of SDR by our members. In line with the government's over-arching objective for SDR to be a single, coherent framework encompassing all sustainability disclosures, firms' disclosures against both sets of rules should be as integrated as possible and kept together to include climate risks and opportunities, alongside impact, at the entity and product level.

More specifically on the issue of sequencing of disclosure requirements, this needs to be very carefully considered with TCFD disclosures not yet applying to many parts of the economy. This roll-out needs to be implemented effectively and in a way that does not lead to swiftly changing disclosure requirements for firms, particularly for client-facing disclosures. Rather than a question of 'regulatory fatigue' for firms, there is a question of how the transition from TCFD reporting to reporting against the SDR framework in future will practically work without duplicative requirements emerging.

We have found it complex to envisage how SDR will integrate various sustainability disclosures together, as envisaged by the UK, and work in practice; for instance, would disclosures in a TCFD report be replicated across all other sustainability issues over time and could a similar model to TCFD be neatly applied to these other issues necessarily. **On biodiversity and nature**, **we would like to see consideration given to incorporating disclosures against the Task Force on Nature-related Financial Disclosures (TNFD) framework following its launch in 2023**, and at this point consultation take place with the sector on how nature could be integrated within SDR.

How clients and savers can effectively interpret firms' SDR disclosures so soon after being presented with TCFD disclosures should be reflected on further, and the regulator should maintain a flexible, but still as ambitious as possible, timeframe for SDR's roll-out across the economy. As mentioned above, the sequencing of the UK's 'green taxonomy' with SDR appears very unclear and the former will need to be properly embedded and functioning effectively before SDR comes into force.

On the sequencing of requirements for different parts of the economy, it is positive to see the UK see the importance of applying SDR disclosures to corporates ahead of investors, which is an important lesson learned from Europe, and using TCFD as a key component for the SDR regime. Finally, **we would welcome much greater clarity from government and the FCA on the timings for the envisaged roll-out of SDR across different parts of the economy**, including for the primary legislation to introduce requirements.

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

In principle, we are supportive of an 'ESG factsheet' or 'ESG Key Information Document' for consumers containing the most decision-useful disclosures and content for this group. This should not seek to be overly prescriptive and instead be much more 'investor friendly' and less legalistic than traditional documentation, such as the Key Investor Information Document (KIID) which continues to be relatively neglected by many clients due to its inaccessibility and length.

A very short 'ESG factsheet' or 'ESG Key Information Document', comprised of up to several pages, could sit alongside the KIID and firms would need to have flexibility in this document to provide relevant contextual qualitative analysis for consumers. Some flexibility, and ability to provide an analytical narrative for funds to accompany mandatory quantitative data would be useful for firms and help to avoid a 'tick boxing' approach to meet sustainability criteria and rules. This flexibility is not currently offered in the prescriptive templates under the EU's SFDR, which has made it difficult to communicate to retail savers the various nuances of sustainability and for example why certain funds' taxonomy-alignment levels are low at a certain point in time.

Making the document as 'user-friendly' as possible should be a core consideration for the regulator, and there is an opportunity for the UK to learn from the experience of the EU's SFDR templates in this area. A tightly defined, prescriptive template will not necessarily account for, and neatly fit, the vast spectrum of different funds. The document could sit on firms' websites and be interactive for clients, and this should be encouraged by the regulator.

We agree with the regulator's proposed list of areas for inclusion in the consumer-facing disclosures, and the regulator will need to make sure we can condense these different components into a single document to allow for as much comparison as possible between different funds. We should recognise many savers may not necessarily comprehend the meaning of many of the product labels in the UK's new system, making an 'ESG factsheet' or 'ESG Key Information Document' to explain further details of labels very, very important. Consumer testing will be hugely important to assess what retail savers will actually read and digest in terms of fund documentation, and the most useful format for information to be presented in. It could show for example that consumers would better understand the concept and meaning of a 'Sustainability factsheet' or 'Sustainability Key Information Document' rather than an 'ESG factsheet/ESG Key Information Document.'

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

Broadly speaking, **we would like to see as much consistency as is possible between the UK's SDR regime and labelling system and the EU's SFDR**, **while implementing a robust classification system in the UK that signals global ambition.** Some consistency would help our members repurpose disclosures against SFDR for the UK's requirements and ensure clients in both the UK and EU markets receive broadly similar disclosures, but we will need to learn from the implementation challenges in the EU.

With some of our members' funds subject to both EU and UK rules, reporting against SDR and SFDR will be necessary for these funds and this could cause confusion in terms of the disclosures presented to clients in different countries. Retaining as many of the positive aspects of SFDR as possible would be a good aspiration for the FCA, such as the Principal Adverse Impact indicators and metrics and the requirement to identify sustainability indicators. For SDR and SFDR, we expect many firms will have the necessary data to meet both sets of requirements, with the challenges lying in presenting this in different formats that could require additional resources (e.g. support from lawyers and sustainability teams).

There is the issue of how clients based in Europe and other jurisdictions will interpret and understand the UK's product labels, given their specific design for the UK market, making some consistency with SFDR and other commonly recognised global frameworks important. With that said, **we recognise there are significant issues with the operation of SFDR in its current form and the FCA should see the UK's labelling regime as an opportunity to remedy some of SFDR's flaws, in particular the looseness in the definition of Article 8 funds**.

On the ISSB, we very much welcome consistency with their planned standards, though we should recognise these could be minimalistic and may not add much value in the UK context. They should be viewed primarily as very 'base-level' reporting standards that will be more useful for emerging markets where disclosures are far weaker. They do not yet include double materiality, which we very strongly support and would like to see given serious consideration within SDR.

How the ISSB's standards will be implemented into SDR and sequenced alongside other rules forming part of SDR will need to be made very clear by policymakers. There would be significant complexities should SDR come into effect before the ISSB's standards are finalised (for example, ISSB standards will be very useful in further enabling proper assurance of data disclosed under SDR).

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

We are sceptical over mandatory third-party verification for disclosures and product labels, but we do see value in the regulator ensuring very robust assurance mechanisms.

On third-party verification, there is the possibility of this having a disproportionate negative impact on smaller asset managers and asset owners, which are less well placed to have resources to spend on verification, and there is the question of whether verification is required should the FCA play a prominent role in setting and clarifying robust and objective rules going forward. One possible risk we see is that larger, and better resourced, firms are able to markedly increase their funds' sustainability attributes through third-party verification, while smaller firms are not able to do this to the same extent, due to costs incurred by verification.

The FCA should play a key role as a verifier in ensuring the highest possible standards and the effective implementation across the industry; for example, through its fund authorisation work and ongoing supervision and dialogue with firms. The regulator should continue to question investors on how their funds are described and labelled, and take appropriate action on authorising funds where necessary.

Which body could be well placed to oversee verification of disclosures and products is an important consideration, and we see a lack of suitable third-party verifiers with good experience and understanding of investment issues that could be well suited to carry out this role.

Anecdotally, some of our members have encountered issues in identifying effective third-party verifiers to assess their impact funds (we see its current scope as quite limited to impact products and green bonds to assess how proceeds have been used). This approach could increase the likelihood that the UK's labelling system shifts away from using objective criteria and much more towards subjective criteria. Finally, the potential use of third-party verification is complicated by the fact we do not yet have a common, collective understanding for various sustainable investment approaches in our sector, beyond arguably impact investing.

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

A final comment we have is that we believe the introduction of sustainability-related requirements for financial advisers from policymakers will need to be neatly synced to the delivery of the SDR and labelling system, and we would welcome further details on timings from the regulator on rules for this group. This will help bring clarity to financial advisers, and aid them in preparing to further integrate sustainability into their advice processes; their role is important to address as key 'gatekeepers' to sustainable investment solutions and helping redirect capital to these solutions.