MSCI

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SDR and Labels Policy
Financial Conduct Authority
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By email: cp22-20@fca.org.uk

Consultation Paper on Sustainability Disclosure Requirements ('SDR') and Investment Labels (CP22/20) ('Consultation Paper')

MSCI[1] welcomes the opportunity to comment on the Consultation Paper. We are a leading provider of indexes; analytics; and environmental, social, and governance ('ESG') data and ratings to the global investment community.

We broadly support the initiatives proposed in the Consultation Paper that will help provide a common initial foundation and introduce additional levels of transparency to the market. Below we set out our main observations on the Consultation Paper and in the attached Annex we offer more detailed comments.

The proposal risks excluding a significant portion of total assets under management in the UK

There is a high likelihood that index-linked funds would not qualify to use certain labels proposed in the Consultation Paper because a number of the requirements would be unmanageable for index-linked funds. For example, the requirement to make measurable improvements in the sustainability profile of its invested assets through investor stewardship activities would be unmanageable for index-linked funds.

Furthermore, the Consultation Paper focuses heavily on impact investing and excludes other common approaches of sustainable investing, such as values-based investing and ESG integration.[2] By excluding established investment strategies from the labelling criteria, the regime would introduce an overly narrow definition of what constitutes sustainable investing that would reduce the number of investment options available to investors.

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1 MSCI ESG Ratings, research and data are produced by MSCI ESG Research LLC. MSCI Limited is an authorised benchmark administrator, regulated by the Financial Conduct Authority in the UK. This submission incorporates views from both MSCI ESG Research LLC and MSCI Limited.

2 *See e.g.*, paragraph 4.24 of the Consultation Paper ('products without a sustainability objective, but which may use strategies such as 'ESG integration', would not qualify for a sustainable investment label').

Based on an analysis of the 20 largest ESG ETFs[3] linked to MSCI indexes and the top 20 climate ETFs[4] linked to MSCI indexes listed in Europe by assets under management ('AUM') (£ 82 billion as of January 2023), 55% (£54 billion) of funds would not qualify under the proposed labelling regime because the investment strategy is values-based and/or ESG integration. Assuming that 45% (£28 billion) of the remaining funds fall in the scope of 'Sustainable Improvers', they may fail the stewardship requirements because of the nature of index-linked funds. A similar analysis on the top 20 ESG ETFs linked to MSCI indexes and top 13 climate ETFs linked to MSCI indexes listed in the UK by AUM (£54 billion as of January 2023) shows 61% (£38 billion) of the funds to be out of scope, and 39% (£16 billion) that may fail the stewardship requirements.[5]

Considering the size of the index-linked fund market in the UK[6] and the important contribution that investors in these funds can make to the UK's sustainability goals, we request that the Financial Conduct Authority ('FCA'):

- revisits the labeling requirement to ensure that index-linked funds are appropriately included in the regime; and
- reintroduces the 'responsible' label which would provide more investment options for investors.[7] The category of 'responsible' introduced in the FCA's November 2021 Discussion Paper[8] would provide a framework to embed ESG and climate strategies that are rigorous in their approach while also providing disclosure of the investor's contribution to a positive environmental and/or social sustainability outcome. The 'responsible' label represents a balanced approach that meets the underlying objectives of the labelling regime while supporting a broader range of sustainable investments.

Prohibited terms are overly restrictive

The prohibition of terms set out in the Consultation Paper[9] is overly restrictive and unnecessary to support the underlying objectives of the proposal. Given the proposed narrow scope of 'sustainable investments', product owners whose products fall outside the scope of the specific labels will face challenges in describing their strategies even though they embed ESG and climate strategies. These terms should be allowed with adequate disclosures to reflect and enable different approaches to sustainable investing.

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[3] Underlying data sourced from Refinitiv.

[4] Underlying data sourced from Refinitiv.

[5] Conversion rate: 1USD=0.808 GBP.

[6] The passively managed assets under management (Tracker Funds and Responsible Investment Funds) in Q3-2022 comprises 20.4% (£270,776m) of the entire industry total (Summary Statistics – The Investment Association | October 2022).

[7] Sustainability Disclosure Requirements (SDR) and investment labels (FCA | November 2021).

[8] Sustainability Disclosure Requirements (SDR) and investment labels (FCA | November 2021).

[9] *See* paragraph 6.12 of the Consultation Paper ('ESG' (or 'environmental', 'social' or 'governance'), 'climate', 'impact', 'sustainable' or 'sustainability', 'responsible', 'green', 'SDG' (sustainable development goals), 'Paris-aligned' or 'net zero').

Implied Temperature Rise and Total Portfolio Footprinting serve as important product key performance indicators ('KPIs') to measure sustainability

We understand that the FCA is requiring firms to set, monitor and report on product KPIs to capture sustainability improvements over time. Although a prescribed list of relevant KPIs has not been provided, metrics such as the ones listed below would be helpful:

- Portfolio alignment metrics such as Implied Temperature Rise ('ITR'). This gives a forward-looking perspective of the alignment of companies, portfolios and funds with global temperature goals. The Glasgow Financial Alliance for Net Zero ('GFANZ') describes the benefits of using and reporting KPIs based on ITR metrics in its recent report.[10]
- Financed emissions metrics, such as Total Portfolio Footprinting, provides investors with visibility over the emissions of an investment product's total portfolio across all assets. By using this KPI, firms can benchmark climate progress against their own targets and end investors can use it to compare performance across difference products.[11]

MSCI would like to thank the FCA for its consideration of our submission. Should you have any questions, please do not hesitate to contact me through neil.acres@msci.com.
Yours sincerely,

/s
Neil Acres
Managing Director
Global Head of Government and Regulatory Affairs
MSCI Limited

10 Measuring Portfolio Alignment, GFANZ, Aug 2022.

11 Total Portfolio Footprinting - MSCI.

Annex: Responses to the Consultation Paper on Sustainability Disclosure Requirements and Investment Labels

Q1: Do you agree with the proposed scope of firms, products and distributors under our regime? If not, what alternative scope would you prefer, and why?

The proposed classification system could create an artificial or regulatory-mandated narrow investment strategy which may limit the funding flow to a small component of the UK economy because the investable universe for impact-related securities is very small.[12] We therefore propose that the FCA reintroduce the 'responsible' label, as considered in the FCA's November 2021 Discussion Paper,[13] which would give an additional investment avenue for investors and widen the potential funding flow to sustainable initiatives, thereby assisting a broader range of UK companies with their transition programmes.

Q2: Do you agree with the proposed implementation timeline? If not, what alternative timeline would you prefer, and why?

The labelling regime will be effective one year after the policy statement is published by the FCA, whereas the anti-greenwashing policy will be applicable with immediate effect once the policy statement is published. The anti-greenwashing policy requires that firms ensure that the naming and marketing of financial products and services is clear, fair and not misleading, and consistent with the sustainability profile of the product. This will require reasonable time for fund managers to complete an assessment of the impacted new and existing products, including engaging with various service providers. Therefore, to facilitate a smooth transition for the market, it would be preferable that the application dates for greenwashing and labelling proposals are aligned to 30 June 2024.

We understand that large parts of the SDR and labelling regime will be dependent on the UK Green Taxonomy. We are aware that the UK Green Taxonomy has been delayed.[14] To avoid any potential data gaps, we would encourage the FCA to correlate the implementation timeline of the relevant SDR and labelling requirements with the implementation timeline of the UK Green Taxonomy.

Q3: Do you agree with the proposed cost-benefit analysis set out in Annex 2. If not, we welcome feedback in relation to the one-off and ongoing costs you expect to incur and the potential benefits you envisage.

No comment.

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[12] As per MSCI ESG Research, using the economic activity test identifying constituents with 20% or more Sustainable Impact Revenue, the aggregated index weight for the MSCI ACWI Index was 20.6% (as of April 2022). The MSCI Sustainable Impact Solutions metric measures revenue from economic activities with a positive impact on society and environment, and those which reduce negative impacts (in the case of pollution prevention).

[13] Sustainability Disclosure Requirements (SDR) and investment labels (FCA | November 2021).

[14] Andrew Griffith – 2022 Statement on UK Green Taxonomy.

Q4: Do you agree with our characterisation of what constitutes a sustainable investment, and our description of the channels by which positive sustainability outcomes may be pursued? If not, what alternatives do you suggest and why.

We would encourage the FCA to adopt a broader lens in its assessment of what qualifies as sustainable or responsible investment. The table below shows three common ESG and climate strategies used by investors: values-based, impact, and ESG integration.[15] Although all three strategies will have distinct objectives, they should not be considered mutually exclusive, and investors typically blend elements of each approach. By excluding established investment strategies such as ESG integration and values-based investments from the labelling criteria and disclosure requirements, we believe that the FCA may be adopting an overly narrow scope and definition of what constitutes sustainable investing, by specifically focusing on impact, rendering the majority of the sustainable and/or ESG funds universe out of scope. The scope further narrows when the economic activity test is applied in the UK context.[16]

Table I: The MSCI Principles of Sustainable Investing

Values-based investing	**Impact investing**	**ESG integration**
Aims to align investments with an organisation's or individual's ethical values by expressing preferences for what industries and companies they invest in. These preferences may take the form of values-driven exclusions, whereby these investors avoid companies involved in business activities that conflict with their ethical, religious, environmental, social or other values-based convictions. Values-driven exclusions are not implemented for financial reasons.	Aims to generate positive social or environmental impacts in line with the investor's views or mission. These strategies sometimes put the positive impact at par or ahead of financial returns and, therefore, may not seek to provide superior risk-adjusted returns.	Aims to assess long-term financial risks and opportunities related to ESG issues as a core component of building a resilient and sustainable portfolio for the specific purpose of enhancing long-term risk-adjusted returns.

A broader approach is also supported by industry bodies such as the UK Sustainable Investment Forum ('UKSIF'), which defines sustainable investment as 'wide ranging', taking into account different strategies including ESG integration, negative/positive screening and responsible

15 The MSCI Principles of Sustainable Investing,

16 As per MSCI ESG Research, using the economic activity test identifying constituents with 20% or more Sustainable Impact Revenue, the aggregated index weight for the MSCI UK Index was 23.1% (as of December 2022). The MSCI Sustainable Impact Solutions metric measures revenue from economic activities with a positive impact on society and environment, and those which reduce negative impacts (in the case of pollution prevention).

investment.[17] Likewise, the CFA Institute takes a broader perspective of what constitutes sustainable investing with 'ESG considerations' being one of the critical components.[18] Regulators in other major markets are also adopting a broader approach in their fund classification regimes. For example, the U.S. Securities and Exchange Commission has included 'ESG integration' alongside 'ESG Impact' and 'ESG Focused' as part of its proposed fund disclosure rule.[19]

Q5: Do you agree with the proposed approach to the labelling and classification of sustainable investment products, in particular the emphasis on intentionality? If not, what alternatives do you suggest and why?

Yes, however one noticeable challenge lies in the lack of clarity regarding the acceptable 'credible standards' of sustainability, where only the UK Green Taxonomy is referenced as an acceptable standard. In the absence of the UK Green Taxonomy, MSCI considered the implications of such an approach by using MSCI ESG Research's Clean Tech Revenue data as a proxy for environmentally sustainable economic activities, which forms the basis of a 'credible standard.' In particular, the Joint Research Centre's Technical report on the development of EU Ecolabel criteria for retail financial products considers 'green revenue', which recognize the use of Clean Tech revenue as a proxy. MSCI ESG Research's Clean Tech data set measures the revenue of a covered business activity of an entity that is in line with activities that are considered environmentally sustainable economic activities of an entity, in line with the EU Taxonomy. We found that only a small number of MSCI ACWI and UK Index constituents would be eligible[20] at varying thresholds.

Table II: Constituents of MSCI ACWI Index meeting the Clean Tech Revenue threshold

Clean Tech Revenue threshold	MSCI ACWI Index[21]				
	Count	% of ACWI	% of ACWI Lost	Index Weight	Index Weight Lost
> 0%	980	34.00%	66.00%	36.89%	63.11%
≥ 5%	521	18.08%	81.92%	20.00%	80.00%
≥ 25%	181	6.28%	93.72%	4.41%	95.59%
≥ 50%	93	3.23%	96.77%	1.59%	98.41%
= 100%	11	0.38%	99.62%	0.21%	99.79%

[17] UKSIF, Sustainable Investing Strategies – UKSIF, December 2022.

[18] CFA Institute, What is Sustainable Investing? | CFA Institute, December 2022.

[19] U.S. Securities and Exchange Commission, Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices, May 2022.

[20] The Clean Tech Revenue threshold is computed under the MSCI EU Taxonomy Methodology. The revenue is computed for a covered business activity within MSCI Sustainable Impact solutions. This is similar to the green revenue derived from the environmentally sustainable economic activities of an entity referenced in the Joint Research Centre(JRC) Technical Reports – Development of EU Ecolabel criteria for Retail Financial Products.

[21] As of the January 2023 snapshot for MSCI ACWI (2,882 constituents), which comprises large- and mid-cap securities in developed and emerging markets, and based on a proxy for the first two environmental objectives viz., climate change mitigation and climate change adaptation of the EU Taxonomy using MSCI ESG Research's Sustainable Impact Metrics (excluding DNSH and minimum safeguards).

Table III: Constituents of MSCI UK Index meeting the Clean Tech Revenue threshold

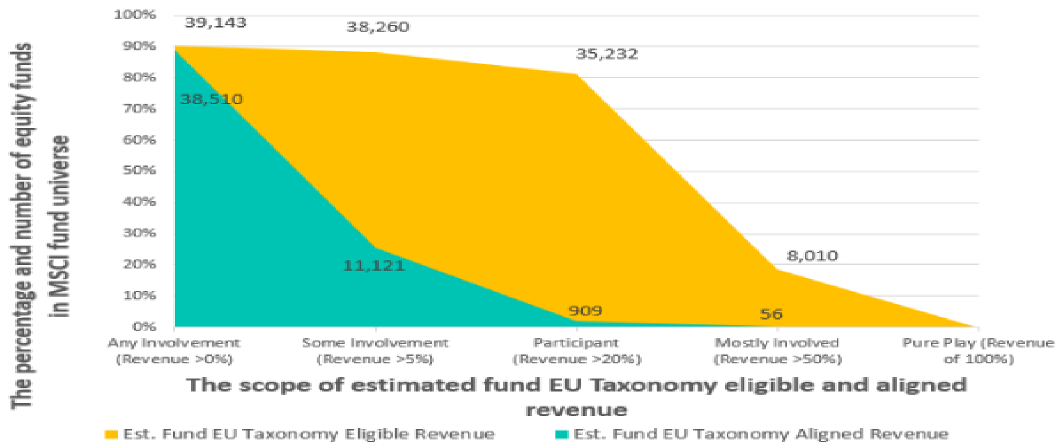
Clean Tech Revenue threshold	MSCI UK Index[22]				
	Count	% of UK Index	% of UK Index Lost	Index Weight	Index Weight Lost
> 0%	23	28.75%	71.25%	27.05%	72.95%
≥ 5%	14	17.50%	82.50%	18.94%	81.06%
≥ 25%	5	6.25%	93.75%	1.62%	98.38%
≥ 50%	3	3.75%	96.25%	0.84%	99.16%
= 100%	0	0.00%	100.00%	0.00%	100.00%

On the extreme end, the approach could be stricter than the EU Ecolabel which requires that funds must invest certain minimum percentages of assets under management in 'environmentally sustainable economic activities', i.e., those qualifying as such under the EU Taxonomy for Sustainable Activities ('EU Taxonomy').[23]

Further guidance on what constitutes a 'credible standard' of sustainability is critical especially because firms will need to describe which 'credible standard' they have used as part of their pre-contractual disclosures. For example, can a 'credible standard' include sustainable labels used in other jurisdictions or green taxonomies being developed in other markets and, if so, which?

Exhibit 1 below shows the proportion of equity (43,276 total) funds in the MSCI ESG Fund Ratings universe that are estimated to have EU Taxonomy *eligible* ('could be green') and *aligned* ('are green') revenue.

Exhibit 1: Percentage of equity funds in the MSCI ESG Fund Ratings universe with involvement in EU Taxonomy eligible and aligned activities



Source: MSCI ESG Research as of June 14, 2022, for funds in the MSCI ESG Fund Ratings universe, which covers index-based and active equity funds for which an MSCI ESG Fund Rating is calculated.

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22 As of the January 2023 snapshot for MSCI UK Index (80 constituents), which comprises large- and mid-cap securities in the UK and based on a proxy for the first two environmental objectives viz., climate change mitigation and climate change adaptation of the EU Taxonomy using MSCI ESG Research's Sustainable Impact Metrics (excluding DNSH and minimum safeguards).

23 The fourth report by the Joint Research Centre (JRC). JRC Technical Reports - Development of EU Ecolabel criteria for Retail Financial Products. MSCI is part of the sub-group of the JRC created by the European Commission to develop a voluntary EU green label for green themed funds.

As of June 13, 2022, only 32% of MSCI ACWI Index constituents had any EU Taxonomy-aligned revenue (revenue >0%) while less than 1% of constituents were fully aligned (100% of revenue), based on our estimations. Consequently, at the fund level, a low percentage of funds (26% for equity) had weighted average EU Taxonomy-aligned revenue above 5%.

In a recently published report, ESMA tested three key Ecolabel criteria on a sample of 3,000 sustainability-oriented UCITS equity funds with EUR 1 trillion in assets under management.[24] Using fund portfolio holdings and proxy data, it found that only 16 funds (0.5 % of the sample) met the proposed minimum portfolio greenness threshold of 50 % and exclusion requirements.

These findings highlight the trade-off between the stringency and feasibility of the Ecolabel requirements. The article further illustrates the impact of different threshold calibrations on the number of eligible funds and potential volumes of green finance channeled through Ecolabel funds. As the scope of the EU Taxonomy expands to more environmental objectives / economic activities and a growing number of companies start transitioning to more low-carbon activities, the share of aligned activities will increase over time. This will make tighter requirements easier to meet in the future while mirroring changes in investor preference for greener investments. As a parallel, the sustainable focus category (and de facto sustainable impact category), which appears to be stricter than the EU Ecolabel, could yield an even smaller percentage of securities.

In light of the above, we suggest that the FCA keeps the requirements less restrictive and phases in the alignment of the labelling criteria with the UK Green Taxonomy over a period of time.

Q6: Do you agree with the proposed distinguishing features, and likely product profiles and strategies, for each category? If not, what alternatives do you suggest and why? In particular, we welcome your views on:

a. Sustainable Focus: whether at least 70% of a 'sustainable focus' product's assets must meet a credible standard of environmental and/or social sustainability, or align with a specified environmental and/or social sustainability theme?

Please see our response to Question 5 regarding the need for additional guidance on what constitutes a 'credible standard'.

Although we understand that minimum thresholds on both the scope of assets covered or the constituent-level exposure are necessary, such an approach also presents challenges. Depending on the stringency of the constituent-level test, a high threshold of 70% of product's assets may be challenging to achieve.

The final rules would benefit from further consideration of the scenario when a product is eligible for a label and in a short space of time becomes ineligible. The FCA may wish to consider introducing a tolerance level to avoid any frequent changes to products qualifying under the relevant labels.

[24] TRV Risk Analysis - EU Ecolabel: Calibrating green criteria for retail funds (ESMA | 21 December 2022).

b. Sustainable Improvers: the extent to which investor stewardship should be a key feature; and whether you consider the distinction between Sustainable Improvers and Sustainable Impact to be sufficiently clear?

As noted in our cover letter, the proposal would preclude index-linked funds from qualifying under this label. Moreover, given the stringency of the stewardship rules in the Consultation Paper, only a few actively managed funds with very few constituents would likely qualify. Although the Consultation Paper states that this label may be invested broadly across sectors, the requirement for improvements in the sustainability profile[25] of assets appears to still mean a level of selectivity and restriction. Such an approach could overlook the merits of transitioning to a broader pool of securities (which is more representative of the real-world economy).

Stewardship practices may also differ depending on the underlying asset class. For example, in fixed income, formal voting and record driven engagement is not possible. In view of this, it would be beneficial to include guidance in the final rules on what constitutes effective engagement on a per asset class basis.

c. Sustainable Impact: whether 'impact' is the right term for this category or whether should we consider others such as 'solutions'; and the extent to which financial additionality should be a key feature?

Products in this category are required to invest in line with a clearly articulated theory of change and show how they select assets that align with the rule while also seeking to avoid unintended negative environmental or social impacts. Such a rule would preclude index-linked funds which track an index based on specific rules as set out in the index methodology, given that additionality may be difficult to measure with absolute certainty, especially at present, until the point when corporate reporting requirements are in place. Please also refer to our cover letter.

Q7: Do you agree with our proposal to only introduce labels for sustainable investment products (ie to not require a label for 'non-sustainable' investment products)? If not, what alternative do you suggest and why?

We propose that the FCA reintroduces the 'responsible' label which would give an additional investment avenue. The FCA may also consider delineating between strategies.

Please also refer to our responses to Q1.

Q8: Do you agree with our proposed qualifying criteria? If not, what alternatives do you suggest and why? In your response, please consider:

- **whether the criteria strike the right balance between principles and prescription**
- **the different components to the criteria (including the implementing guidance in Appendix 2)**

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25 To illustrate, we looked at MSCI ACWI Index constituents' (2,885 stocks as of December 2022) track record of carbon reduction using their reported Scope 1-2 carbon intensity, averaged over the last 3 years. Our analysis indicates that only 33% reduced its reported Scope 1-2 carbon intensity.

- **whether they sufficiently delineate the different label categories, and;**
- **whether terms such as 'assets' are understood in this context?**

No comment.

Q9: Do you agree with the category-specific criteria for:

- **The 'Sustainable focus' category, including the 70% threshold?**
- **The 'Sustainable improvers' category? Is the role of the firm in promoting positive change appropriately reflected in the criteria?**
- **The 'Sustainable impact' category, including expectations around the measurement of the product's environmental or social impact?**

Please consider whether there any other important aspects that we should consider adding.

The inclusion of stringent criteria under the labelling regime could create challenges for the investor and create confusion in the market. As observed with the EU Sustainable Finance Disclosure Regulation ('SFDR'), products that were initially promoted as Article 9 have subsequently been reclassified to Article 8 products. This was largely due to the different interpretations of some of the key criteria underlying the interpretation of the regulation which developed over time. It is not in the best interest of investors for the products they invest in to change labels on a frequent basis. Therefore, the final rules would benefit from introducing the necessary buffers to prevent constant reclassification of funds.

Please also refer to our responses to Q5 and Q6.

Q10: Does our approach to firm requirements around categorisation and displaying labels, including not requiring independent verification at this stage, seem appropriate? If not, what alternative do you suggest and why?

We agree with the FCA's approach.

Q11: Do you agree with our proposed approach to disclosures, including the tiered structure and the division of information to be disclosed in the consumer-facing and detailed disclosures as set out in Figure 7?

We broadly agree with the disclosures set out in Figure 7 of the Consultation Paper. The following aspects of the proposed disclosures should be considered further:

- **Unexpected investments** – Disclosing the list of investments that are inconsistent with the sustainability objective presents a number of practical challenges, including inconsistent interpretations of what may be considered 'in conflict' with the sustainability objective of the product. This approach also cannot be adopted for index-linked products which are based on consistent rules and publicly disclosed methodologies. Therefore, we suggest this requirement be exempted for an index-linked product.

- **Sustainability metrics** – The FCA has currently not prescribed any templates or metrics for investor-facing disclosures, and there is high likelihood that disclosures will be subject to data availability and vary across asset managers. The proposed disclosure framework is applicable to FCA regulated entities while products distributed by foreign asset managers are not in scope. This creates a risk of inconsistent disclosures for similar products, and in turn, would make it difficult for an investor to compare information across similar products.
- **Product KPIs:** We understand that the FCA is requiring firms to set, monitor and report on product KPIs to capture sustainability improvements over time. Although a prescribed list of relevant KPIs has not been provided, metrics such as the ones listed below would be helpful:
  - Portfolio alignment metrics such as Implied Temperature Rise ('ITR'). This gives a forward-looking perspective of the alignment of companies, portfolios and funds with global temperature goals. The Glasgow Financial Alliance for Net Zero ('GRANZ') describes the benefits of using and reporting KPIs based on ITR metrics in its recent report.[26]
  - Financed emissions metrics, such as Total Portfolio Footprinting, provides investors with visibility over the emissions of an investment product's total portfolio across all assets. By using this KPI, firms can benchmark climate progress against their own targets and end investors can use it to compare performance across difference products.[27]

Q12: Do you agree with our proposal to build from our TCFD-aligned disclosure rules in the first instance, evolving the disclosure requirements over time in line with the development of future ISSB standards?

Yes, we agree with the proposal to build on the TCFD-aligned disclosures that are already applicable to FCA regulated entities from January 2022. Whilst appreciating the challenges with continually evolving standards, we would welcome recognition of the ISSB standards[28] by leading economies, standard setters and financial supervisors and a commitment to integrate and adopt the emerging ISSB framework. The FCA should not wait for the ISSB exposure drafts to be finalised, but build the disclosure requirements in such a way as to allow for the most effective and least burdensome way of integrating the ISSB standards.

Q13: Do you agree with our proposals for consumer-facing disclosures, including location, scope, content and frequency of disclosure and updates? If not, what alternatives do you suggest and why?

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26 Measuring Portfolio Alignment, GFANZ, Aug 2022.

27 *See* Total Portfolio Footprinting - MSCI.

28 ISSB delivers proposals that create comprehensive global baseline of sustainability disclosures (IFRS | March 2022).

No comment.

Q14: Do you agree with the proposal that we should not mandate use of a template at this stage, but that industry may develop one if useful? If not, what alternative do you suggest and why?

Issuer disclosures, transition plan disclosures and the UK Green Taxonomy are under development which means that the availability of data for template-based disclosures would be a challenge. Disclosure templates that are aligned with a widely adopted disclosure framework will be welcomed by market participants.

Q15: Do you agree with our proposals for pre-contractual disclosures? If not, what alternatives do you suggest and why. Please comment specifically on the scope, format, location, content and frequency of disclosure and updates.

We broadly agree with the proposals for pre-contractual disclosures. The disclosure requirements of unexpected investments should exclude index-linked funds from its scope.

Q16: Do you agree with our proposals for ongoing sustainability-related performance disclosures in the sustainability product report? If not, what alternative do you suggest and why? In your response, please comment on our proposed scope, location, format, content and frequency of disclosure updates.

For institutional investors to track the ongoing performance of a sustainable investment product over time, frequent and timely disclosure of relevant data and metrics is important. We understand that the FCA will require firms to monitor and report on credible, rigorous and evidence-based metrics that measure a sustainable investment product’s ongoing performance towards achieving its sustainability objective.

The ongoing work by the UK Transition Plan Taskforce (‘TPT’) to develop a transition plan disclosure framework, the UK Green Taxonomy disclosures and sustainability disclosures under a global framework such as the ISSB’s exposure drafts, could result in the availability of more relevant sustainability data. Unless, and until, the disclosure frameworks are in effect, it will be difficult to gauge the utility and success of such disclosures for investors. Therefore, a robust sustainability disclosure framework at the investee company level is a prerequisite for a successful product level reporting. Until then, a high-level principle-based reporting rather than a highly prescriptive reporting regime would be supported.

Q17: Do you agree with our proposals for an ‘on demand’ regime, including the types of products that would be subject to this regime? If not, what alternative do you suggest and why?

No comment.

Q18: Do you agree with our proposals for sustainability entity report disclosures? If not, what alternatives do you suggest and why? In your response, please comment on our proposed scope, location, format, content, frequency of disclosures and updates.

Yes, we agree with the proposals for sustainability entity report disclosures.

Q19: Do you agree with how our proposals reflect the ISSB's standards, including referencing UK-adopted IFRS S1 in our Handbook Guidance once finalised? If not, please explain why?

We agree with the adoption of ISSB standards, once finalised, including IFRS S1. Accordingly, we agree with the FCA amending the Handbook Guidance to reference the need for UK firms to meet the ISSB standards.

Q20: Do you agree with our proposed general 'anti-greenwashing' rule? If not, what alternative do you suggest and why?

See response in Q2 on the implementation timeline.

Q21: Do you agree with our proposed product naming rule and prohibited terms we have identified? If not, what alternative do you suggest and why?

The prohibited terms appear overly restrictive and product owners whose products would not qualify for the three specific labels would face challenges in describing their strategies within their names. Please also refer to our response to Q4 and Q9.

The FCA may also wish to consider:

- **Aligning the timelines for greenwashing and labeling.** Please refer to Q2 and our cover letter.
- **A more thorough analysis of existing funds**. It is important to view potential greenwashing within the context of the product or funds entire ecosystem of investor policy, naming, documents, methodology and marketing materials.
- **Clarifying the use of ESG-related terms.** We suggest that the use of certain terms such as 'ESG', 'climate' and 'responsible' should be allowed with adequate pre-contractual disclosures. In addition, a threshold of 90% could be challenging to achieve. This may lead to unintended consequences including reducing the investment choices for the end investor and possibly restricting the development of the sustainable investing. The FCA may therefore further elaborate on the criteria to be met to qualify for the 90% of the value of the products (i.e., whether 90% of the products in the portfolio are put to the test of meeting the sustainability label criteria or 90% of the products needs to have a significant amount of impact revenue).
- **Reintroducing the 'responsible' label.** Please refer our response to Q1 and cover note.
- **Considering fund naming rules in other jurisdictions.** UK investors invest in EU domiciled funds that are distributed in the UK. The EU has recently released a

consultation paper on fund names using ESG or sustainability-related terms.[29] Multiple naming rules may create confusion for fund managers operating/distributing across jurisdictions,[30] as well as investors in funds domiciled in jurisdictions outside of the UK.

Q22: Do you agree with the proposed marketing rule? If not, what alternative do you suggest and why?

No comment.

Q23: Are there additional approaches to marketing not covered by our proposals that could lead to greenwashing if unaddressed?

No comment.

Q24: Do you agree with our proposals for distributors? If not, what alternatives do you suggest and why?

No comment.

Q25: What are your views on how labels should be applied to pension products? What would be an appropriate threshold for the overarching product to qualify for a label and why? How should we treat changes in the composition of the product over time?

No comment.

Q26: Do you consider the proposed naming and marketing rules set out in Chapter 6 to be appropriate for pension products (subject to a potentially lower threshold of constituent funds qualifying for a label). If not, why? What would be an appropriate threshold for the naming and marketing exemption to apply?

No comment.

Q27: Are there challenges or practical considerations that we should take into account in developing a coherent regime for pension products, irrespective of whether they are offered by providers subject to our or DWP's requirements?

No comment.

Q28: To what extent would the disclosures outlined in Chapter 5 be appropriate for pension providers ie do you foresee any challenges or concerns in making consumer-facing disclosures, pre-contractual disclosures and building from the TCFD product and entity-level reports?

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29 Consultation On Guidelines on Funds' Names Using ESG Or Sustainability-Related Terms (ESMA | 18 November 2022).

30 *See e.g.*, U.S. Securities and Exchange Commission Proposed Amendments to the Fund 'Names Rules' (SEC | 25 May 2022).

No comment.

Q29: Do you agree that the approach under our TCFD-aligned product-level disclosure rules should not apply to products qualifying for a sustainable investment label and accompanying disclosures? Would it be appropriate to introduce this approach for disclosure of a baseline of sustainability-related metrics for all products in time?

No comment.

Q30: What other considerations or practical challenges should we take into account when expanding the labelling and disclosures regime to pension products?

No comment.

Q31: Would the proposals set out in Chapters 4-7 of this CP be appropriate for other investment products marketed to retail investors such as IBIPs and ETPs. In your response, please include the type of product, challenges with the proposals, and suggest an alternative approach.

No comment.