

UK Sustainability Disclosure Requirements (SDR)

Introduction

In October 2022, the Financial Conduct Authority (FCA) published a consultation paper on a regime of UK sustainability disclosure requirements (UK SDR) and investment labels. The objective of the UK SDR regime is to standardise sustainability disclosures to assist asset owners and retail clients in understanding, monitoring, and comparing the sustainability characteristics of investment products. In so doing, the FCA aims to make the UK 'a trusted centre for sustainable investment and place the UK at the forefront of sustainable investment internationally'.¹

The FCA consultation paper follows the introduction of the European Union's Sustainable Finance Disclosure Regulation (EU SFDR) which came into effect in March 2021. The EU SFDR produced an Article labelling system assessing the degree of sustainability of a fund ranging from non-sustainable (Article 6) to impact (Article 9).

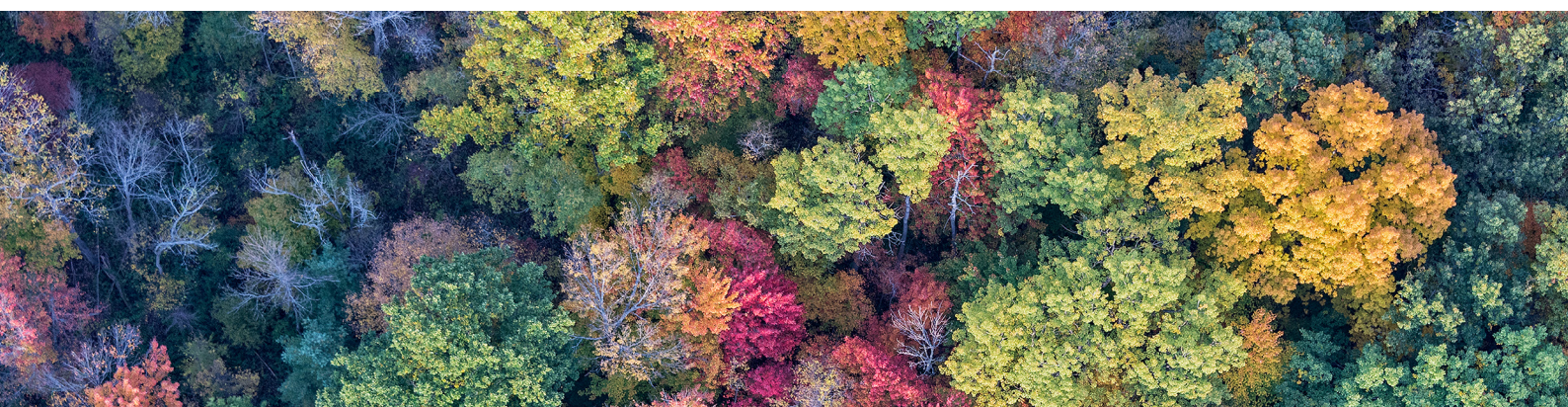
Sustainable Investment Labels

The UK SDR proposes a similar consumer-focused classification of investment products although, unlike the EU SFDR, the UK SDR labelling system is non-hierarchical. Rather, each type of product is designed to invest in a different profile of assets, meeting different consumer demands. These are detailed below:

SDR Classification ¹	Definition
Sustainable Focus	invests in assets that are environmentally and/or socially sustainable
Sustainable Improvers	invests to improve the environmental and/or social sustainability of assets over time, including in response to the stewardship influence of the firm
Sustainable Impact	invests in solutions to environmental or social problems, to achieve positive, real-world impact

EU SFDR Article 6 products will not be eligible for an SDR sustainable label, whereas Article 8 or 9 products may be eligible for one of the three UK SDR sustainable labels.

¹ Financial Conduct Authority (2022), Consultation Paper, "Sustainability Disclosure Requirements (SDR) and investment labels"



Disclosures

In addition, the UK SDR stipulates the following disclosure requirements:

Requirement ²	Relates to	Aim
Product-level disclosures for consumers	Products with or without a sustainable investment label	To help consumers understand the key sustainability-related features of an investment product
More detailed disclosures at both product and entity-level for professionals	Products – both with a sustainable investment label and without a label but which have sustainability-related features which are integral to their investment strategy – and entities	To provide more granular disclosures, targeted at a broader range of stakeholders, including institutional investors

The UK SDR also contains naming and marketing rules, such as a general 'anti-greenwashing' rule, as well as the requirement for distributors of investment products to make all sustainable consumer-facing disclosures readily available to investors.

Implications for Financial Advisers and their Clients

The UK SDR can be viewed as an extension to present disclosures and practices required by financial market participants and financial advisers. In principle, the SDR is intended to create greater clarity around and instil trust in sustainable investment products by clamping down on any potential 'greenwashing'. The introduction of the UK SDR regime will serve to facilitate client conversations about ESG by providing a framework and vocabulary within which to situate a client's ESG preferences. Financial advisers can use the labelling regime to guide investment decisions and inform clients about the investment products available to them and the ESG mandate of such products. At the same time, advisers will need to 'walk the walk', ensuring that their own business is incorporating sustainability into its strategy and processes.

The consultation closed on 25 January 2023 and the FCA is considering responses received. The FCA intends to publish the final rules and guidance in a policy statement in 2023 with final rules not expected to come into effect until 30 June 2024 at the earliest.

² KPMG (2022), "UK Sustainability Disclosure Requirements"

Risk Warnings This document has been prepared based on our understanding of current UK law and HM Revenue and Customs practice as at 1 January 2023, both of which may be the subject of change in the future. The opinions expressed herein are those of Cantab Asset Management Ltd and should not be construed as investment advice. Cantab Asset Management Ltd is authorised and regulated by the Financial Conduct Authority. As with all equity-based and bond-based investments, the value and the income therefrom can fall as well as rise and you may not get back all the money that you invested. The value of overseas securities will be influenced by the exchange rate used to convert these to sterling. Investments in stocks and shares should therefore be viewed as a medium to long-term investment. Past performance is not a guide to the future. It is important to note that in selecting ESG investments, a screening out process has taken place which eliminates many investments potentially providing good financial returns. By reducing the universe of possible investments, the investment performance of ESG portfolios might be less than that potentially produced by selecting from the larger unscreened universe.

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