



UK Sustainability Disclosure Requirements (SDR) and Investment Labels

What is it?

The UK Financial Conduct Authority (FCA) released its policy statement (PS23/16) in November 2023 that sets out the final rules for Sustainability Disclosure Requirements (SDRs) and investment labels.

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What are the requirements?

The SDR regime includes:

- **Anti-greenwashing rule** for all FCA authorised firms to reinforce that sustainability-related claims must be fair, clear and not misleading.
 - **Four labels** to help consumers navigate the investment product landscape and enhance consumer trust.
 - » Products looking to use any of the four labels must meet a set of general criteria (applicable for all labels) and some specific criteria (applicable only to a specific label).
 - » At least 70% of the assets held by a product using any of the four labels must be invested in accordance with its sustainability objective, with reference to a robust, evidence-based standard. These labels are:
 - 1) Sustainability Focus** - Invests in assets that are environmentally or socially sustainable determined by a robust, evidence-based standard of sustainability.
 - 2) Sustainability Improvers** - Invests in assets that have the potential to become more sustainable over time.
 - 3) Sustainability Impact** - Invests in assets that achieve a predefined, positive, measurable environmental and/or social impact.
 - 4) Sustainability Mixed Goals** - Invests across different sustainability objectives and strategies aligned with the other label categories.
 - » For passive and index-based products, asset managers must use an index aligning with label criteria. Asset managers are ultimately responsible for ensuring index-based products meet label's sustainability requirements.
 - **Naming and marketing rules** for investment products to ensure the use of sustainability-related terms is accurate.
 - » Firms can use sustainability-related terms in product names and marketing materials for in-scope retail funds if the product either uses a sustainability label or, if no such label is used, meets certain naming restrictions and disclosure/reporting requirements.
- » In-scope funds sold to retail investors can only use "impact" in their name if they qualify for the "Sustainability Impact" label, and funds without a label cannot use "sustainable," "sustainability," or "impact" in their name and must only use ESG terms that accurately reflect the fund's sustainability characteristics.
 - » Firms must produce and prominently publish a statement (on the relevant digital medium for the product and in the product-level disclosures) to clarify that the product does not have a label and the reasons why.
- **Disclosures and Reporting Obligations:**
 - » Consumer-facing information to provide consumers with better, more accessible information to help them understand the key sustainability features of a product. This includes clear and concise disclosure for both labeled and unlabeled products, which should be prominently located on relevant digital platforms. The information should cover sustainability objectives, investment policy, metrics, and access details, with an annual review and updates required for labeled products
 - » Product-level disclosures require that all products, whether labeled or unlabeled, disclose sustainability information. This includes pre-contractual and annual disclosures for all products. Labeled products must align with their respective label criteria, while unlabeled products need to disclose minimum information on policy, strategy, and metrics.
 - » Entity-level disclosures require firms with over £5 billion AUM to annually disclose governance, strategy, and risk metrics. Firms must provide details on resources, governance, and organizational arrangements for labeled products. Cross-referencing is allowed for group or parent-level reports, provided they meet signposting requirements.
 - **Requirements for distributors** to ensure that product-level information (including the labels) is made available to consumers.



Who does this affect?

The SDR framework is applicable solely to FCA-authorized firms and their UK-domiciled products marketed in the UK, with overseas funds and firms excluded from its scope.

What are the implementation timelines?

Rule	Timing
Effective date for compliance with Anti-greenwashing rule	31 May 2024
Firms can begin to use labels	31 July 2024
Implementation of Naming and marketing rules	2 December 2024
Deadline for Ongoing product-level and entity-level disclosures for firms with AUM greater than £50 billion	2 December 2025
Deadline for Product-level and Entity-level disclosures for firms with AUM between £5 billion and £50 billion	2 December 2026

How can MSCI help?

- **Data:** we have identified a core list of ~700 ESG and climate datapoints that could be potentially used to align with SDR investment labels. We plan to provide SDR labels for any applicable funds in our Fund Rating universe (69k funds).
- **Indicative Mapping** to illustrate how MSCI data points could be potentially used to align with SDR investment labels.

What are the relevant MSCI Datasets?

- **Sustainable Impact Metrics:** provides data on revenues from products or services with positive outcome on the environment or society as well Sustainable Development Goals (SDGs) alignment data for ~10,000 companies.¹
- **Climate Change Metrics:** MSCI's Climate Change Metrics database provides access to 900+ climate-related data points including Scope 1, 2 and 3 emissions for 10,000 issuers and fossil fuel exposure data.¹
- **Climate Value-at-Risk:** dataset provides forward-looking metrics on climate scenarios as well as implied temperature Rise metrics that shows temperature alignment of companies and portfolios with global climate goals.
- **Business Involvement Screening Research (BISR):** provides data on companies' involvement in activities associated with adverse environmental or social impacts that includes activities such as the production of controversial weapons and tobacco products.
- **ESG Controversies:** designed to offer timely and consistent assessments of company involvement in ESG controversies, as well as aligning with international norms and principles (such as the UN Global Compact and ILO Core Conventions) for ~12,000 issuers.¹
- **ESG Ratings:** provides an opinion of companies' management of financially relevant ESG risks and opportunities that considers company's exposure to potentially material ESG risks, the quality of management systems and governance structures to mitigate potential ESG risks for ~10,000 issuers.¹
- **EU Sustainable Finance:** provides data on SFDR Adverse Impacts (both mandatory and optional), EU Taxonomy, green bonds, and metrics on MSCI SFDR Article 2(17) Sustainable Investment methodology.

¹ As of December 2023

Where can I get more information?

[PS23/16 Sustainability Disclosure Requirements \(SDR\) and investment labels Risks from Climate Change - December 2023](#)



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