



UK FCA Proposes Extending SDR to Portfolio Management

The UK Financial Conduct Authority (FCA) is consulting on extending Sustainability Disclosure Requirements (SDR) and investment labels regime to portfolio management services.

[Consultation Paper \(CP24/8\)](#) ‘Extending the Sustainability Disclosure Requirements (SDR) regime to Portfolio Management’ was published on 23 April 2024 and was open for comment until 14 June 2024.

What follows is a factual summary of the content of CP24/8, and any views expressed are those contained in that paper. The terms ‘firms’, ‘in-scope firms’ and ‘portfolio managers’ are used interchangeably in CP24/8.

The FCA says that CP24/8 will be of interest to firms providing portfolio management services – that is a service provided to a client which comprises either:

- Managing investments; or
- Private equity or other private market activities consisting of either advising on investments or managing investments on a recurring or ongoing basis in connection with an arrangement, the predominant purpose of which is investment in unlisted securities.

The FCA are proposing to extend the SDR and investment labels regime to all forms of portfolio management services, including where the portfolio management offering (the agreements or arrangements) is a model portfolio, a customised portfolio and/or bespoke portfolio management services (tailored to the clients’ needs and preferences).

The FCA estimates that its proposals will impact around 400 firms providing portfolio management services, consisting of a population of wealth managers, private banks, and asset managers (which collectively the FCA refer to as “firms” in CP24/8). All of which can operate different business models and different services. The FCA says that how the rules are to be applied, depends on the nature of the business model.

As the SDR and labelling regime has been developed primarily for retail investors (also referred to as ‘consumers’), the proposals to extend the regime are primarily aimed at wealth management services for individuals and model portfolios for retail investors.

Opting in

Firms offering portfolio management services to professional clients (or institutional investors), who the FCA refer to in the paper as ‘clients’, can also opt into the labelling regime. The FCA refers to ‘clients’ more broadly in the instrument (Appendix 1) to mean coverage of both retail and professional clients.

CP24/8 may also be of interest to other regulated firms including platform providers, financial advisers, and fund managers.

Outcomes being sought by the FCA

A causal chain in Annex 2 of CP24/8 sets out the FCA's interventions and the changes that in-scope firms will need to make to comply with the proposals being consulted on.

The FCA says that the result of the regime ensures that in-scope firms' sustainability claims are proportionate, provide further accessible information to consumers and label their products in line with the criteria proposed. The FCA states this should lead to:

- Minimised greenwashing and consumers protected from the associated harms.
- Increased provision of standardised sustainability information along the investment chain.
- Consumers using labels and disclosures to navigate the market and make informed decisions more effectively.

The FCA describe that this should also support other primary and secondary outcomes referred to in the paper.

The proposed rules

The FCA states that it considers it important that portfolio managers are held to the same standards as fund managers when making sustainability claims. The FCA is proposing that the regime would be applied as follows:



Client	Labels	Naming and marketing rules	Disclosure requirements
Retail	Can be used*	Apply	Apply where firms are using labels or sustainability-related terms. Firms must produce consumer-facing, pre-contractual and detailed product-level disclosures and either publish them or provide them to their clients. Entity-level disclosure rules also apply.
Professional	Can be used*	Do not apply	Apply where firms are using labels. Firms must produce pre-contractual and detailed product-level disclosures and either publish them or provide them to their clients. Entity-level disclosure rules also apply.

*If criteria and associated disclosure requirements are met.

Source: FCA CP24/8 – Extending the SDR regime to Portfolio management, paragraph 3.7, page 15.

Whilst the FCA says it appreciates that in some cases portfolio managers do not make disclosures publicly available, it is proposing that the portfolio manager must still prepare the disclosures and provide them to clients so that retail investors have a baseline of consistent information.

As part of CP24/8 the FCA states that it is not proposing that portfolio managers offering services to professional clients be subject to the specific naming and marketing requirements, as the FCA do not consider this to be proportionate at this stage. The final proposal though will be subject to responses to CP24/8, so this view could change.

The FCA also proposes that the anti-greenwashing rule will apply.

Investment labels

The FCA are proposing a broadly similar approach to labelling for portfolio managers as introduced for fund managers. That is an option to use four labels: 'Sustainability Impact', 'Sustainability Focus', 'Sustainability Improvers' and 'Sustainability Mixed Goals', along with the portfolio manager also meeting the associated general and specific criteria.¹

Whether a portfolio management offering invests in funds or directly in securities, the FCA says that those funds and securities will be treated as 'assets.'

The FCA also says that overseas funds remain out of scope of the regime and a label cannot be applied to an overseas fund, a portfolio management offering that is in scope of the regime may invest in assets that are either UK and/or overseas funds.

¹See FCA PS23/16 for further details: <https://www.fca.org.uk/publications/policy-statements/ps23-16-sustainability-disclosure-requirements-investment-labels>.

The portfolio manager however is responsible for assessing those assets and ensuring the labelling criteria are met if it wants to use a label for the portfolio.

The FCA says that portfolio managers must also meet the associated firm-level requirements. The FCA explains that this includes requirements around the use of the graphic for each label, record-keeping requirements, notifying the portfolio manager's clients and notifying the FCA of their use of a label through the online notification and application form that is being developed. The FCA says that details about the form will be published in due course.

In CP 24/8, Table 1 – application of labelling criteria to portfolio managers, beginning on page 18 and ending on page 23, provides full details of the requirements and their application to portfolio managers under the following areas and sub-categories:

- **Product requirements:** Sustainability objective; Investment policy and strategy; and Key Performance Indicators (KPIs).
- **Firm requirements:** Negative outcomes; Investment policy and strategy; Independent assessment; Assets that do not pursue the objective; KPIs; Escalation plan; Resources and governance; and Stewardship.
- **Meeting the requirements on an ongoing basis:** Ongoing requirements and review; and Use of data.

Naming and marketing

The FCA are proposing that these requirements only apply to portfolio management offerings that are marketed to retail investors.

Sustainability-related terms can be used in names and marketing if:

- The portfolio uses a label – provided that, where the 'sustainability focus', 'sustainability improvers' or 'sustainability mixed goals' labels are used, the word 'impact' is not used in the name of the offering; or
- It does not use a label but complies with the naming and marketing rules, as set out below.

Portfolio managers must comply with the following naming rules:

- The portfolio management offering must have sustainability characteristics and its name must accurately reflect those characteristics, but the terms 'sustainable', 'sustainability', 'impact' and any variation of those terms must not be used.
- Firms must produce the same types of disclosures as required for labelled products.
- Firms must also produce a statement to clarify that the offering does not have a label and the reason why, and either publish this information (on the relevant digital medium) or provide it to the retail investor.

Portfolio managers must comply with the following marketing rules:

- Firms must ensure that financial promotions relating to an offering are consistent with its label and associated disclosures, where relevant.

- Firms that are not using a label for a portfolio management offering but are using sustainability-related terms in financial promotions relating to them must produce the same types of disclosures and statement as those required under the naming rules.

The FCA says that where a portfolio does not use a label/s but invests in some funds that do have labels, the portfolio manager can explain in its marketing that some of the funds within the portfolio are labelled. However, the marketing and anti-greenwashing rules must be met, and the portfolio manager must not imply that the whole portfolio is 'sustainable.'





Disclosure requirements

Consumer-facing disclosures

The FCA are proposing that portfolio managers produce their own consumer-facing disclosures for retail investors because the FCA's updated proposals for labelling require them to assess the portfolio against the qualifying criteria themselves. The FCA are also proposing that portfolio managers produce their own disclosures when using sustainability-related terms in their product names and marketing.

The FCA also states that consumer-facing disclosures should summarise the key sustainability characteristics for both labelled portfolio management offerings and those that use sustainability-related terms in their names and marketing, and that the disclosure document must be provided in a new, standalone document, alongside other documents that provide key investor information.

Aligned with the approach for UK funds, the FCA is not proposing a specific template for the information. But to promote consistency the FCA has set out two categories of disclosures that firms would be required to make.

The disclosure must not exceed 2 pages (if printed) and must include the following:

- Either the sustainability objective and label, or a statement to clarify that the portfolio management offering does not have a label.
- The investment policy and strategy (including what the portfolio will and will not invest in).
- Relevant KPIs and/or metrics.
- Details of where a consumer can access other relevant sustainability and non-sustainability-related information.
- For the 'Sustainability Mixed Goals' label only, the proportion of assets invested in line with each of the other relevant labels.

The FCA says that disclosures must be reviewed and updated annually as appropriate. Disclosures for products with labels must, at a minimum, be updated to reflect progress towards achieving the sustainability objective.

Making disclosures available

The FCA proposes that the consumer-facing disclosures must be made available in a prominent place on the relevant digital medium (for example, the main product webpage or page on a mobile application) but recognise that not all portfolio managers make information related to portfolio management offerings publicly available.

Where this is the case, the FCA are proposing that the portfolio manager must provide the information required under these disclosures to their retail investors.

Where firms intend to publish the disclosure, the FCA propose that the same rules for funds should apply. Disclosures should be no more than 'one mouse click away' from where the label is presented. The FCA suggest that this could be a hyperlink next to or underneath the label.

When publishing the consumer-facing disclosure, the FCA says it should be easy for consumers to identify the portfolio management offering it relates to as well as the label, where relevant, and access links to other relevant product-level disclosures.

The FCA states that firms must also keep a copy of each published version for a minimum of five years and provide it to retail investors, or to the FCA, on request.

Detailed product-level disclosures

The FCA says that all portfolio management offerings using a label or using sustainability-related terms in their naming and/or marketing without a label must include sustainability information in:

- Pre-contractual disclosures by 2 December 2024 for products using terms without a label; and
- Ongoing product-level disclosures annually.

For portfolio management offerings using a label, the FCA state that information that must be disclosed is broadly associated with the qualifying criteria for the labels, and is the same information required under the FCA's rules for UK funds. This includes disclosing how the portfolio manager determines the assets the portfolio invests in, and the robust, evidence-based standard of sustainability that it uses.

For portfolio management offerings that are not using a label, the FCA says that the pre-contractual and ongoing product-level disclosures must, at a minimum, include information relating to the investment policy and strategy and any relevant metrics.

For the 'Sustainability Mixed Goals' label, the FCA states that disclosures must include the proportion of assets invested in line with each of the relevant labels, and information required for those labels.

Also, the FCA says that the requirements for making disclosures publicly available in a prominent place are reflective of those for consumer-facing disclosures.

One exception to the disclosure rules for fund managers, is that the FCA will not apply the on-demand regime to portfolio management disclosures.

Entity-level disclosures

Consistent with the Task Force on Climate-related Financial Disclosures (and the International Sustainability Standard Board's) four pillars, the FCA says that all firms with over £5 billion in AUM are required to disclose annually the following:

- Their governance around sustainability-related risks and opportunities.
- The actual and potential impacts of sustainability-related risks and opportunities on their business, strategy, and financial planning.
- How the firm identifies, assesses, and manages sustainability-related risks.
- The metrics and targets used to assess and manage relevant sustainability-related risks.

The FCA also says that if firms use labels or sustainability-related terms in the names and marketing of their portfolio management offerings, they must also include details on their resources, governance, and organisational arrangements for them.

The FCA states that firms will be able to cross-refer to disclosures made in a group, parent-level or other relevant report, provided the information is clearly signposted and other cross-referencing requirements are met.

Rules for distributors

The FCA propose that the requirements for distributors reflect the rules applied to UK funds as regards to communicating the labels and consumer-facing disclosures.

The FCA propose that distributors (e.g., financial advisers, platforms, etc.) must communicate the labels used for portfolio management offerings and provide access to the associated consumer-facing disclosures to retail investors, either on a relevant digital medium for the product or using the channel they would ordinarily use to communicate information.

The FCA says that it acknowledges that some firms providing portfolio management also carry out activities within scope of the definition of a 'distributor', so have clarified the types of portfolio management activity that it intends to capture under labelling, naming, and marketing and disclosure rules in the 'scope' section (Chapter 3) of CP24/8.

The FCA sets out that where a firm is carrying out 'sustainability in-scope business' i.e., providing 'portfolio management' in relation to a sustainability product², they fall under the FCA labelling, naming, and marketing and disclosure rules. Where that same firm might act as a 'distributor', as defined in the FCA Glossary, the FCA states that the distributor rules will apply.³

The FCA states that it has established an industry-led working group for financial advisers to support the industry in advising consumers on products making claims about sustainability. The FCA also say that consumer-facing disclosures should also help advisers to better understand the sustainability characteristics of investment products.

² Defined in the FCA Handbook Glossary.

³ The table at ESG 1.2.4G(2) (see ESG Sourcebook and Appendix 1) indicates which rules apply to firms in their capacity as 'distributors' and which apply to firms providing 'portfolio management'.

⁴ See <https://www.theia.org/sites/default/files/2024-06/Final%20-%20IA%20response%20-%20FCA%20CP%20on%20extending%20SDR%20to%20PMS.pdf>.

Other minor amendments and corrections introduced in CP24/8

The FCA also list out other minor amendments that they propose in CP24/8. For details of these see pages 31-32.

How will the FCA measure success?

The FCA says it will:

- Carry out its usual supervision processes, which may include challenging inappropriate use of labels, monitoring uptake of labels and acting on intelligence that indicates that firms may be in breach of SDR requirements.
- Assess the usefulness of labels and disclosures to consumers. For example, through the FCA Financial Lives Survey, other sources of consumer research and engagement with consumer representative groups such as the Financial Services Consumer Panel, FCA Consumer Network, Good with Money, and Which?.
- Monitor for signs of greenwashing, for example, complaints that the FCA may receive and broader supervisory intelligence.
- Carry out a post-implementation review of the SDR and labelling regime after three years.

Next steps

The FCA says that it will consider the feedback it receives and then plans to publish final rules in the second half of 2024.

It will be interesting to see where the proposals end up in relation to timing, as industry feedback has been that the rules should come into force 12 months after the final rules are published. This will give time for the rules to bed down for fund managers and give portfolio managers time for implementation.⁴

But as it stands, the FCA propose that the labelling and naming and marketing requirements, and the associated consumer-facing and pre-contractual disclosures come into force on **2 December 2024**.

The FCA states that firms will then need to start producing ongoing product-level disclosures from **2 December 2025**.

Firms with assets under management (AuM) greater than £50 billion will need to produce entity-level disclosures by **2 December 2025**.

Firms with AuM greater than £5 billion will need to start producing entity-level disclosures by **2 December 2026**.

The FCA says that apart from the start date for labelling and the associated disclosures, these dates are consistent with the measures for fund managers.

Also on 23 April 2023, the FCA published an update to its [Climate Change and Sustainable Finance webpage](#), providing an update on CP24/8, along with the publication of the FCA's [Final Guidance on anti-greenwashing](#).

As regards overseas funds remaining out of scope of the SDR and labelling regime, the FCA says that HM Treasury have announced their intention to consult on extending the regime to overseas recognised funds, and the FCA continues to engage with HMT to understand the options, but that any extension to overseas funds is a matter for HM Treasury.



Please contact for further details:

David Morrison

Global Head of Trustee and Fiduciary Services
david.m.morrison@citi.com
+44 (0) 20 7500 8021

Ann-Marie Roddie

Head of Product Development Fiduciary Services
annmarie.roddie@citi.com
+44 (1534) 60-8201

Amanda Hale

Head of Regulatory Services
amanda.jayne.hale@citi.com
+44 (0)20 7508 0178

Caroline Chan

APAC Head of Fiduciary Business
caroline.mary.chan@citi.com
+852 2868 7973

Shane Baily

EMEA Head of Trustee and Fiduciary Services
UK, Ireland and Luxembourg
shane.baily@citi.com
+353 (1) 622 6297

Jan-Olov Nord

EMEA Head of Fiduciary Services
Netherlands and Sweden
janolov.nord@citi.com
+31 20 651 4313

www.citibank.com/mss

The market, service, or other information is provided in this communication solely for your information and “AS IS” and “AS AVAILABLE”, without any representation or warranty as to accuracy, adequacy, completeness, timeliness or fitness for particular purpose. The user bears full responsibility for all use of such information. Citi may provide updates as further information becomes publicly available but will not be responsible for doing so. The terms, conditions and descriptions that appear are subject to change; provided, however, Citi has no responsibility for updating or correcting any information provided in this communication. No member of the Citi organization shall have any liability to any person receiving this communication for the quality, accuracy, timeliness or availability of any information contained in this communication or for any person’s use of or reliance on any of the information, including any loss to such person.

This communication is not intended to constitute legal, regulatory, tax, investment, accounting, financial or other advice by any member of the Citi organization. This communication should not be used or relied upon by any person for the purpose of making any legal, regulatory, tax, investment, accounting, financial or other decision or to provide advice on such matters to any other person. Recipients of this communication should obtain guidance and/or advice, based on their own particular circumstances, from their own legal, tax or other appropriate advisor.

Not all products and services that may be described in this communication are available in all geographic areas or to all persons. Your eligibility for particular products and services is subject to final determination by Citigroup and/or its affiliates.

The entitled recipient of this communication may make the provided information available to its employees or employees of its affiliates for internal use only but may not reproduce, modify, disclose, or distribute such information to any third parties (including any customers, prospective customers or vendors) or commercially exploit it without Citi’s express written consent in each instance. Unauthorized use of the provided information or misuse of any information is strictly prohibited.

Among Citi’s affiliates, (i) Citibank, N.A., London Branch, is regulated by Office of the Comptroller of the Currency (USA), authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority (together, the “UK Regulator”) and has its registered office at Citigroup Centre, Canada Square, London E14 5LB and (ii) Citibank Europe plc, is regulated by the Central Bank of Ireland, the European Central Bank and has its registered office at 1 North Wall Quay, Dublin 1, Ireland. This communication is directed at persons (i) who have been or can be classified by Citi as eligible counterparties or professional clients in line with the rules of the UK Regulator, (ii) who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and (iii) other persons to whom it may otherwise lawfully be communicated. No other person should act on the contents or access the products or transactions discussed in this communication. In particular, this communication is not intended for retail clients and Citi will not make such products or transactions available to retail clients. The information provided in this communication may relate to matters that are (i) not regulated by the UK Regulator and/or (ii) not subject to the protections of the United Kingdom’s Financial Services and Markets Act 2000 and/or the United Kingdom’s Financial Services Compensation Scheme.

© 2024 Citibank, N.A. (organized under the laws of USA with limited liability) and/or each applicable affiliate. All rights reserved by Citibank, N.A. and/or each applicable affiliate. Citi, Citi and Arc Design and other marks used herein are service marks of Citigroup Inc., used and registered throughout the world.

cbs38310 06/24