



FCA Sets New Standards: Introducing Stringent Anti- Greenwashing and Sustainability Disclosure Rules for Portfolio Managers

The UK's Financial Conduct Authority (FCA) has made significant strides in refining its Sustainability Disclosure Requirements (SDR), proposing enhanced rules to bolster investor evaluation of investment product sustainability and mitigate greenwashing in portfolio management.

The FCA has solidified its Anti-Greenwashing Rule, set to be enforced by end May 2024.

This mandates that all UK financial services firms provide substantiated and comprehensive sustainability information in their communications about financial products or services.

Sacha Sadan, the FCA's Director of Environmental, Social, and Governance, emphasized the significance of these developments: ***"The introduction of new anti-greenwashing guidance, alongside our expanded Sustainability Disclosure Requirements and investment labels regime, represents key advancements in upholding the UK's leadership in sustainable investment. Our examples of both commendable and problematic practices will aid firms in appropriately marketing their products."***

The FCA mandates that sustainability claims must be verifiable and accurate at the time of assertion, placing an ongoing responsibility on firms to maintain rigorous proof of their sustainability assertions.

To underscore these expectations, the FCA delineated examples of prevalent greenwashing tactics:

- **Systematic Sustainability Reviews:** If an investment manager claims that all investments are subject to sustainability reviews, this process must be uniform and systematic across their portfolio. Managers are also required to demonstrate how these reviews impact their investment decisions with clear, tangible evidence.
- **Accuracy in Sustainability Benchmarks:** For a benchmark to be labelled 'sustainable', it must transparently define the metrics and criteria of ESG ratings and justify the selection of particular ESG scores as the sustainability threshold.

Impact

- The enforcement of these rules is poised to significantly reshape the industry. Investment managers, who often produce detailed quarterly ESG reports, will now need to explicitly show how these evaluations influence their investment strategies.
- This regulatory update compels firms to either enhance their processes to robustly support claims of sustainable investing or to reconsider such claims altogether.
- This extends not just to promotional materials but also to private reports provided to existing UK clients, underlining the necessity for stringent compliance with these new standards.

Ultimately, the FCA's initiative is set to profoundly impact the investment management sector, driving firms toward elevated levels of sustainability practices and transparency, and fostering a more reliable and authentically sustainable investment landscape.