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25 January 2023

SDR and labels policy
Financial Conduct Authority
12 Endeavour Square
London E20 1JN
United Kingdom
Submitted electronically to: cp22-20@fca.org.uk

RE: FCA Sustainability Disclosure Requirements (SDR) and investment labels

Dear Sir or Madam,

The Investment Company Institute (ICI) and ICI Global[1] appreciate the opportunity to provide feedback on the Financial Conduct Authority (FCA) consultation on Sustainability Disclosure Requirements (SDR) and investment labels ("Consultation Paper").[2] ICI's mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. ICI Global members invest on behalf of millions of retail investors around the world choosing funds to save for retirement, education, and other important financial goals, and have a significant interest in regulatory requirements for funds that incorporate environmental, social, and governance (ESG) considerations into the investment process.

ICI Global welcomes the holistic approach taken by the FCA in its consultation, which considers product labels for sustainability-related investment funds alongside rules for disclosure, marketing, and distribution of these products for retail investors. We agree with the FCA's objective of helping retail investors navigate the complex landscape of ESG- and sustainability-related investment products that are evolving to meet investors' financial goals and sustainability preferences.

With that objective in mind, the FCA should carefully consider the practical implications of orienting strict naming and marketing restrictions around labels that could exclude a large number of sustainable investment products currently on the market. We think that the rules as proposed could potentially confuse retail investors rather than promote their understanding. In addition, the proposed naming and marketing restrictions for unlabeled sustainable investment products may have unintended consequences. Due to the narrow definitions and

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[1] ICI Global carries out the international work of the Investment Company Institute, the leading association representing regulated investment funds. With total assets of $36.6 trillion, ICI's membership includes mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and UCITS and similar funds offered to investors in Europe, Asia and other jurisdictions. ICI's mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. ICI Global has offices in Brussels, London, Hong Kong, and Washington, DC.

[2] CP 22/20: Sustainability Disclosure Requirements (SDR) and investment labels ("Consultation Paper"), available at https://www.fca.org.uk/publication/consultation/cp22-20.pdf.

stringent criteria proposed for the labels, the labeled funds could be less diversified, and in some cases may be ill-suited for retail investors.

To better serve the retail investors who could benefit most from the labeling and disclosure regime, we offer concrete recommendations for modifying the rules. Specifically, we recommend the FCA amend the rules in two significant ways:

- The FCA should allow funds to rely on the sustainability objective of their products to determine which label should be applied, rather than base that determination on a combination of the objective and the channels used to achieve the objective. We agree that it is important for products to disclose how they intend to meet the sustainability objectives, but we strongly believe the FCA should not prescribe which channels must be used for each product.

- The FCA should avoid narrowly restricting the use of names and terms by unlabeled products. The use of such names and terms, through consistent and clear use, will advance retail investors' knowledge and understanding of sustainable investing practices and ensure that retail investors are not discouraged from products that would otherwise meet their financial goals and sustainability-related preferences. The use of voluntary labels should be a distinguishing factor among sustainable investment funds that helps retail investors identify products offering those specific objectives, and not a limiting factor that could deter retail investors from accessing a diversity of sustainable investing strategies that meet their investment goals.

I. Sustainable investment labels

ICI Global supports the development of voluntary labels that will help consumers navigate the landscape of sustainable investment products. One of the most significant recent global financial trends is the increasing investor interest in sustainable investing. The fund industry is responding to this increased interest by, among other things, creating funds that explicitly tailor their investments to a broad range of ESG criteria. Continued innovation in the fund industry reflects the diversity of clients' sustainable investing preferences. Regulatory requirements in this space should seek to promote retail investor understanding of the variety of sustainable investing strategies and empower investor choice.

Recommendation 1: The FCA should allow firms to rely on the sustainability objective of their products to determine which label to apply, rather than a combination of the objective and the channels used to achieve the objective.

In ICI Global's view, the primary and secondary channels used to achieve positive sustainability outcomes should not be limiting factors for the use of sustainable investment labels. The proposed labeling regime distinguishes between different types of sustainable products – sustainable focus, sustainable improvers and sustainable impact – "according to the nature of the objective *and* the primary channel by which each can plausibly achieve or encourage positive sustainability outcomes."[3] Rather than require labeling to be dependent on the primary channel, we recommend that the FCA allow firms to rely solely on the product's objective to determine which label to apply and to disclose how the selected channels (*i.e.*,

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[3] Consultation Paper, *supra* note 2 at p.6, Chapter 1.24 (emphasis added).

investment selection, asset allocation, and stewardship) are used to achieve the product's sustainability objective.

This approach would result in better retail investor understanding of the labels, ensure that labeled products can invest across multiple asset classes, and facilitate comparable disclosures for investors within and among labeled products.

Clear understanding of the labels is key. Linking each label to a different primary channel adds unnecessary complexity that would undermine the FCA's goal of helping retail investors navigate these complex products. The FCA has sufficiently distinguished the labels by sustainability objective in a way that retail investors will easily understand, without the predetermined primary channel:

- **Sustainable focus** products invest primarily in assets that are "sustainable" in accordance with a credible standard or in alignment with a specific theme.
- **Sustainable improvers** products invest in assets that, while not currently sustainable, are selected for their potential to become more sustainable over time.
- **Sustainable impact** products invest in assets that provide solutions to sustainability problems.

The labels should work with all asset classes. The FCA has set out detailed criteria to determine eligibility for the labels, which when combined with the predetermined primary channels, would result in exclusion of certain asset classes for certain labeled products. Fund managers are best placed to determine the appropriate channels to use to achieve the objectives of the fund, which may differ on an investment-by-investment basis, or by asset class. An unintended consequence of the proposed approach would be that it impedes fund managers' ability to build diversified, multi-asset portfolios for use with the sustainable investment labels.

For example, because sustainable improvers products would be expected to use stewardship as a primary channel, these products may be limited to investing in equities, as other asset classes (*e.g.*, fixed income, real estate, infrastructure) would not support a primary channel of stewardship. By focusing too narrowly on the fund manager's ability to drive sustainable improvements through stewardship activities, the proposed approach would limit asset classes for the product and diminish the important role fund managers play in selecting investments that are likely to improve on measurable sustainability characteristics. We note the importance KPIs will play in ensuring that the improvement objectives are being met via the channels selected by the fund manager.

Similarly, the Consultation Paper's description of the primary channel for sustainable impact products gives the impression that products using this label would be limited to investing in new capital when it is widely accepted and encouraged market practice for impact funds to invest in listed equities.[4] We are concerned that the FCA's approach to impact investing

[4] The Global Impact Investing Network (GIIN) has challenged the assumption that investors' contribution is visible when injecting new capital, stating that "a finance ecosystem that only includes private markets is incomplete, and public markets are an important part of the life cycle of companies that aspire to reach a certain scale." GIIN Listed Equities Working Group, Guidance for Public Consultation, June 2022, at p.3, available at https://thegiin.org/assets/Draft%20for%20Public%20Consultation_July.pdf.

focuses on a narrow interpretation of investment contribution to positive outcomes. This approach could result in a niche subset of labeled impact funds that are concentrated, illiquid, and unsuitable for retail investors.

Another unintended consequence of the FCA's proposed approach to prescribing specific channels would be the exclusion of certain products from the label categories altogether, despite those products having similar objectives and potential to achieve those objectives as labeled products. This, too, would undermine the FCA's goal of helping retail investors navigate the complex landscape of sustainability products.

Disclosures should be meaningful and comparable. It is important that the labels themselves are clear, and that associated disclosures are meaningful for retail investors. Once the limiting factors of primary and secondary channels are stripped away, we can see the opportunity for streamlined disclosures that enable retail investors to make meaningful comparisons of funds within a label category and across labels.

Decoupling predetermined primary channels from product labels will, to a certain extent, reduce the need for different disclosure metrics for different labels – especially as they relate to stewardship activities – resulting in disclosures for labeled products that enable retail investors to compare products within a label and across labels. The Consultation Paper notes that FCA consumer testing revealed the term "stewardship" is "not always intuitively understood" by retail investors.[5] In our view, this highlights the critical need to reduce variables in disclosure around stewardship activities.

<u>Recommendation 2: The FCA should clarify that a credible standard may be independently assessed by internal functions.</u>

With respect to the sustainable focus label, ICI Global welcomes the flexible approach taken by the FCA to permit the use of proprietary or third-party credible standards for sustainable investment. However, we note an inconsistency between the criteria for credible standards in the proposed rules (robust, independently assessed, evidence-based and transparent) and implementing guidance (credible, consistent, rigorous and evidence-based). This leaves an open question regarding whether the FCA expects an independent assessment. If the FCA mandates independent assessment of the credible standard used to meet the sustainable focus label, it should clarify that the independent assessment can be performed by firms' internal compliance or audit function provided that the team performing the assessment is independent of the investment decision-making function.

We are concerned that a requirement to seek external assessment would only generate unnecessary costs and additional reliance on third party providers, with no real benefits to investors. The FCA should take into account the lack of consistent, reliable standards for independent auditors or assurance providers to use to perform this type of assessment, the range of providers qualified to perform this task, and the considerable costs for investors.

In our view, the Consultation Paper proposes sufficient disclosure requirements around the credible standard used to enable a retail investor to make informed decisions about whether a standard would meet their sustainability preferences.

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[5] Consultation Paper, *supra* note 2 at p.14. Box 2: Behavioural research – exploratory analysis, online experiments and qualitative research.

<u>Recommendation 3: The FCA should clarify that the 'sustainable focus' label can apply to both thematic funds and funds with a broader sustainability focus.</u>

Based on the examples provided in the Consultation Paper of products that would fit into the sustainable focus category, it is clear the FCA intends to capture products with specific themes or sustainability goals (the examples focus on education and water/waste, respectively). We strongly encourage the FCA to clarify that the sustainable focus label will also capture products that have broad sustainability goals,[6] as well as certain 'best-in-class' products that otherwise meet the requirements for the sustainable focus label. These products are consistent with a sustainable focus objective of maintaining a high standard of sustainability in the profile of assets.

<u>Recommendation 4: The FCA should not require products using the 'sustainable focus' label to have a stewardship strategy that aims "to achieve *continuous improvement* in the environmental and/or the social sustainability of the product's assets".</u>

We find this requirement ("continuous improvement"[7]) to be at odds with the overarching objective of sustainable focus products ("to maintain a high standard of sustainability in the profile of assets"[8]). The proposed rules would require products with the sustainable focus label to use KPIs to demonstrate ongoing alignment of the product's assets with a target environmental and/or social sustainability profile. Given the product would already be invested in assets that are aligned with the targeted environmental and/or social sustainability profile, we believe requiring demonstration of continuous improvement of sustainability performance is inconsistent and unrealistic.

<u>Recommendation 5: The FCA should entirely avoid requiring firms to demonstrate the extent to which improvements in the sustainability of a product have been achieved over time through investor stewardship.</u>

As previously stated, we strongly encourage the FCA to move away from using primary channels as limiting factors to meet label requirements. However, should the FCA decide to move forward with this approach, we recommend that the FCA permit stewardship to be one possible channel rather than a strict requirement to meet the sustainable improvers label. The FCA should also remove requirements for funds using any of the three labels to make disclosures claiming that their stewardship activities led directly to improvements in the sustainability profile of assets.

Stewardship activities can take several forms – voting proxies of a portfolio company; engaging with portfolio companies; communicating with clients; and engaging with policymakers on matters affecting (or potentially affecting) the interests or investment activities of clients. Engagement between an investor and a portfolio company can take the form of meetings, calls, and written communications, and can generally relate to better understanding the company's business purpose, objectives, risks and opportunities, as well as

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[6] A common example of a fund with broad sustainability goals is one that invests relative to one or more of the UN Sustainable Development Goals (UN SDGs).

[7] Consultation Paper, *supra* note 2 at p.153. Appendix 1: Draft Handbook text, Annex D: Environmental, Social and Governance sourcebook (ESG) 4.5.8R(1)(b)(i), page 36 of 54.

[8] Consultation Paper, *supra* note 2 at p.31. Table 2: Proposed sustainable investment label descriptions and objectives.

sustainability considerations. In reality, companies communicate in myriad ways, on myriad topics, with myriad investors, stakeholders, and policymakers.

It is therefore problematic to require firms to claim they have driven specific improvements in sustainability performance of their investments. It is equally difficult to prove that an improvement would not have happened without the stewardship activity of a particular firm. ICI Global strongly believes that proving outcomes from specific engagements should not be a regulatory requirement.

To illustrate the challenge, we can draw an analogy to ICI Global's current engagement with the FCA on the Consultation Paper in the form of this letter. If the FCA were to amend its proposed rules in a way that reflects issues or suggestions raised by ICI Global, it is not clear whether ICI Global could claim credit for that outcome or whether other factors contributed to it, such as similar suggestions made by other commenters or the evolution of the FCA staff's thinking.

Recommendation 6: The FCA should clarify that 'sustainable impact' products may invest in listed equities to achieve the product's sustainability objective.

As previously stated, we strongly encourage the FCA to move away from using prescribed primary channels as limiting factors to meet label requirements. However, should the FCA decide to move forward with this approach, we recommend that the FCA amend the primary channel for impact funds to include investing in listed equities for companies actively solving real-world environmental and social problems, in addition to "directing typically new capital to projects and activities."[9]

While, historically, impact investing has largely meant investing in private markets, the last few years have shown rapid evolution and innovation employed to leverage secondary trading in public markets as a means to address environmental and social problems. We are concerned that the FCA's narrow approach to impact investing could lead to confusion among investors and significant inconsistencies between the UK and global standard setters.[10]

The FCA should facilitate application of the sustainable impact label to products investing in listed equities by ensuring that the requirements related to the product's theory of change take into account unique characteristics of listed equities as an asset class. In the context of listed equities, designing a theory of change at a product level would place impractical constraints on investment opportunities. Firms should be permitted to have theories of change specific to each investment.

II. Naming & marketing rules

The Consultation Paper notes that "[p]roduct names may be one of the first things a retail investor reads or hears about a product, and marketing is key to their understanding of the

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[9] Consultation Paper, *supra* note 2 at p.37, Chapter 4.43.

[10] In 2020, the Global Impact Investing Network (GIIN) convened a Listed Equities Working Group to pool global experience to explore bringing impact investing to listed equities. In June 2022, the GIIN Working Group published guidance for public consultation on practices for an equity fund portfolio pursuing positive impacts. The consultation paper is available at https://thegiin.org/assets/Draft%20for%20Public%20Consultation_Final.pdf

product's features, so it is important that these are accurate and not misleading."[11] ICI Global strongly supports naming and marketing rules that promote investor understanding about important product characteristics. Prohibiting the use of certain terms[12] in fund names or marketing materials for products that do not use sustainable investment labels may undermine the FCA's objectives, as such materials would not be able to provide a fair description of the key sustainability features of a product. This could lead to retail investors making uninformed investment decisions.

Moreover, the restrictions are unnecessary, given the requirements for marketing communications to be "fair, clear and not misleading."[13] These existing requirements provide a sufficient toolkit for the FCA to address any investor protection concerns.

Recommendation 7: The FCA should not impose restrictions on the use of certain terms in fund names and marketing materials in light of the likelihood that the restrictions would hinder, rather than enhance, investor understanding of investment products and existing investor protections.

Restricting the use of certain terms in names and marketing materials would have the negative consequence of hindering retail investors' exposure to and understanding of ESG integration practices and sustainable investment strategies by investment products not seeking to use a sustainable investment label. Rather than restrict the use of terms, the FCA should permit the use of these terms in names and marketing materials, as long as they are used appropriately and in a proportionate way in describing the ESG integration process or sustainability characteristics of the investment strategy. Investor education about these topics should be top of mind for regulators.

The Consultation Paper accurately notes that "some consumers' ESG preferences fall short of influencing positive environmental or social outcomes – for instance, they may seek certain exclusions to align with their individual ethics or values. It is important that consumers are able to identify and access such products."[14] We agree, but the proposed labeling framework does not accommodate such investors, and the proposed naming and marketing rules would restrict such funds from informing investors about their relevant ESG- or sustainability-related features. This runs contrary to the FCA's stated goal of helping investors navigate the increasingly complex investment product landscape. Removing the ability to name and market unlabeled products pursuing ESG or sustainable investing strategies in line with their investment approach will be unnecessarily restrictive and could significantly reduce consumer choice.

We also find it striking that under this proposal, unlabeled funds would *only* be permitted to use the terms in disclosure documents, even where those funds have adopted "sustainability-related investment policies and strategies that are integral to their investment policy and

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[11] Consultation Paper, *supra* note 2 at p.74, Chapter 6.11.

[12] Consultation Paper, *supra* note 2 at 138. Appendix 1, Annex D, ESG 3.3.2R(2)(a) 'ESG' (or 'environmental', 'social' or 'governance'); (b) 'climate'; (c) 'sustainable' or 'sustainability'; (d) 'green'; (e) 'transition'; (f) 'net zero'; (g) 'impact'; (h) 'responsible'; (i) 'sustainable development goals' or 'SDG'; (j) 'Paris-aligned'; and (h) any other term which implies that a sustainability product has sustainability characteristics.

[13] FCA Handbook, COBS 4.2 Fair, clear and not misleading communications, available at https://www.handbook.fca.org.uk/handbook/COBS/4/2.html.

[14] Consultation Paper, *supra* note 2 at p.6, Chapter 1.26.

strategy."[15] This approach seems to be at odds with the FCA's own research on retail investor behavior and its current efforts to examine the retail investor disclosure framework more broadly.[16] If fewer than 3% of retail investors are reading pre-contractual fund disclosure documents, it is imperative that relevant information on funds' ESG features and sustainability-related investment strategies is not limited to these documents.

Moreover, prohibiting funds from using certain terms to describe their strategies in marketing materials could, in some circumstances, conflict with current FCA guidance on financial promotions that "when communicating information, a firm should consider whether omission of any relevant fact will result in the information being insufficient, unclear, unfair or misleading."[17]

ICI Global strongly prefers that the FCA reconsider the proposed term restrictions in fund names and marketing materials for products not using sustainable investment labels. If, however, the FCA is concerned about potential investor confusion, an alternative approach is to require a disclaimer[18] for all unlabeled products that use terms listed in the proposal in marketing or other communications.

We further note that broad restrictions on the use of ESG-related terminology in names and marketing materials would lead to additional fragmentation across regulatory regimes. ICI Global strongly encourages the FCA to work together with US, European and other global counterparts to reduce inconsistencies among regulatory approaches and to solve for real challenges such as investor education. We believe investor education can happen on a global scale with consistent regulatory approaches focused on meaningful disclosure.

III. Disclosures

ICI Global believes that clear and meaningful disclosures are important to achieving the FCA's policy objectives. Disclosures should complement fund names and marketing materials by providing key information about how these products incorporate ESG and sustainability considerations into investment processes.

Recommendation 8: The FCA should reconsider introducing a new standalone disclosure document (the "consumer facing disclosure") at this time given its efforts to holistically redesign a future disclosure framework for retail investors.

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[15] Consultation Paper, *supra* note 2, at p.75, Chapter 6.15.

[16] FCA Asset Management Market Study (MS15/2.3), Chapter 4 at p.26. "Under 3% look at documents (including the KID)." June 2017. Available at https://www.fca.org.uk/publication/market-studies/ms15-2-3.pdf. *See also* FCA Discussion Paper: Future Disclosure Framework (DP22/6), at p.3. "Our 2017 Asset Management Market Study found that under 3% of retail investors read regulated pre-contractual fund disclosure documents. This indicates that the existing retail investment disclosure framework is not supporting good consumer outcomes." December 2022. Available at https://www.fca.org.uk/publication/discussion/dp22-6.pdf.

[17] FCA Handbook COBS 4.5A Communicating with clients (including past, simulated past and future performance) (MiFID provisions), available at https://www.handbook.fca.org.uk/handbook/COBS/4/5A.html.

[18] For example, a disclaimer could note that the product is not subject to FCA sustainable investment labeling and disclosure requirements, similar to the notice proposed as a temporary measure for overseas products. *See* Consultation Paper, *supra* note 2 at p.77, Chapter 7.12.

ICI Global strongly supports the FCA's parallel efforts to ensure the future disclosure framework in the UK is designed with retail investors in mind.[19] Given the early stage of that work, we are concerned that introducing a new standalone consumer facing disclosure document relating to the sustainability features of products could result in unnecessary costs, as well as changes to sustainability disclosures over time that could be confusing for investors.[20] We recommend that the proposed consumer facing disclosure be reconsidered alongside other changes in the UK's disclosure regime that will improve the overall disclosure framework.

Should the FCA nevertheless decide to move forward with requiring the consumer facing disclosure, we would encourage the FCA to only require the document for products using sustainable investment labels. While we welcome the FCA's decision to encourage a market-led initiative to develop a template for future use, we note that the proposed content of the consumer facing disclosure document is primarily focused on information for labeled products. For example, most of the content relates back to products with sustainability objectives. Even a well-designed template could result in disclosure that is not useful for investors in unlabeled products.

Recommendation 9: The FCA should not require firms to disclose unexpected investments.

The Consultation Paper proposes that products disclose unexpected investments – which it describes as "holdings that the firm would reasonably expect consumers of the product to find 'surprising'" – in both the consumer-facing disclosures (for retail investors) and pre-contractual disclosures (for retail and institutional investors). [21] This type of disclosure would be challenging to provide because it would require anticipating consumer expectations regarding the types of investments that may or not be held in a portfolio – a speculative and possibly subjective assessment. It could also be confusing to investors if disclosures highlight certain investments as being "unexpected," even though those investments are consistent with the fund's investment objectives and strategies. For these reasons, we recommend that this required disclosure be removed from any final rules.

Recommendation 10: The FCA should remove the implementing guidance to disclose whether "pursuit of the sustainability objective could result in any trade-offs or adverse environmental or social impacts, including a clear articulation of any financial trade-offs that may arise."

ICI Global strongly encourages the FCA to consider the purpose, costs, and utility of disclosure of: (i) any trade-offs; (ii) any adverse environmental or social impacts; and (iii)

[19] FCA Discussion Paper: Future Disclosure Framework (DP22/6), December 2022. Available at https://www.fca.org.uk/publication/discussion/dp22-6.pdf.

[20] *Id*. at p.10. "We will continue to examine how [the SDR] fits into the wider disclosure framework, *rather than as a discrete standalone document*." (Emphasis added.)

[21] Consultation Paper, *supra* note 2 at 57, Chapter 5.38. *See also* Appendix 1, Annex D, ESG 4.2.2R(7), page 25 of 54.

any financial trade-offs that may arise, in relation to the articulation of the link between the sustainability product's objective and an environmental and/or social outcome.[22]

With respect to trade-offs, it is unclear from the guidance what information firms might use to assess and determine "any trade-offs", or how these are distinct from "any financial trade-offs that may arise." To the extent it would be material to investors, we believe this type of information can be communicated qualitatively through existing risk-based disclosures as we understand the financial trade-offs of sustainable investing are more akin to financial risks.

With respect to disclosure of adverse environmental or social impacts, we note how disclosure of *any* adverse impacts is at odds with the FCA's decision to not require disclosure of principal adverse impacts.[23] We understand the universe of any adverse environmental or social impacts to be much broader than the EU concept of principal adverse impacts, which have been defined and set out by the Sustainable Finance Disclosure Regulation (SFDR).[24] Disclosure of principal adverse impacts in the EU continues to present significant challenges and costs for financial market participants for a number of reasons, including the absence of available data from companies globally.

Recommendation 11: For overseas products that choose not to use the FCA's sustainable investment labels, the FCA should defer to foreign disclosure, naming, and marketing regimes.

ICI Global notes the FCA's intention to follow with a separate consultation in due course on how the proposals in the Consultation Paper may be applied in respect of overseas funds.[25] We caution the FCA against extending the proposed disclosure, naming, and marketing rules to overseas funds marketed in the UK. Instead, we recommend that the FCA defer to foreign regulatory frameworks for overseas sustainable investment products that are compliant with a broadly comparable regulatory approach. Not only would this reduce regulatory fragmentation across jurisdictions, but it would ensure retail investors in the UK are able to access a wide-ranging set of investment products from different jurisdictions, a stated policy objective of HM Treasury.[26]

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[22] We note this requirement only exists in the proposed Implementing Guidance to the general criteria, in relation to what firms should disclose in accordance with ESG 3.2.3R(1)(b) and ESG 4.3.1R(4) in specifying details of the plausible, purposeful and credible link between the sustainability product's sustainability objective and an environmental and/or social outcome. *See* Consultation Paper, *supra* note 2, Appendix 2: Non-Handbook Guidance: Implementing Guidance, at p.118.

[23] Consultation Paper, *supra* note 2, at p.70. "For example, we are not proposing to require disclosure of principle [sic] adverse impacts."

[24] Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector, 27 November 2019, Article 4. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32019R2088&from=EN#d1e980-1-1

[25] Consultation Paper, *supra* note 2 at p.4, Chapter 1.12.

[26] *See* HM Treasury, PRIIPs and UK Retail Disclosure: A consultation, at p.17. "Given the government's commitment to fair and open capital markets, a key ambition in this area will be to continue improving choice of investment products for retail investors, particularly with respect to popular international investment products such as US-based ETFs." (December 2022), available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1128533/Consultation_PRIIPs.pdf

In particular, market participants providing EU-domiciled fund products to EU and UK investors should not be required to provide two different sets of disclosures, under EU SFDR and UK SDR. Extending the proposed SDR to overseas funds could result in fewer funds being marketed in the UK, thus limiting investor choice and ultimately leading to less competition and innovation in the UK market. This approach could also impact the range of diversified investment products available to UK institutional investors, including pension funds and insurance companies, which invest globally.

Global asset managers often seek to replicate an investment strategy across jurisdictions, including with their UK domiciled sustainable investment products. These products are likely to be designed with multiple regulatory frameworks in mind, not purely the FCA's approach. This increases the possibility of such funds not qualifying for one of the FCA's proposed labels (*e.g*., a funds that includes both 'focus' and 'improver'-type assets). Different disclosure and naming rules could result in the need to create a separate UK vehicle for funds, which ultimately raises costs for UK investors.

We encourage the FCA to seek equivalence of other regimes where possible,[27] and in the absence of an equivalence determination we would suggest minimizing divergence as far as possible for overseas funds.

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Thank you again for the opportunity to provide feedback on the Consultation Paper. We welcome continuing this dialogue with you. If you have any questions, please contact us at Michael.Pedroni@ici.org or Elizabeth.Lance@ici.org.

Sincerely,
/s/ Michael Pedroni

Michael N. Pedroni
Chief Global Affairs Officer and Head of ICI Global
Investment Company Institute

[27] We are hopeful in this regard given the FCA's efforts to map its proposal against the EU SFDR and the US SEC's proposed disclosure and naming rules. *See* Consultation Paper, *supra* note 2, Annex 1.