Environmental, Social and Governance sourcebook

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Chapter 1

Purpose and application

1.1 Purpose and application

Purpose

1.1.1 G The ESG sourcebook sets out *rules* and *guidance* concerning a *firm's* approach to environmental, social and governance matters.

1.1.2 G ■ ESG 1A and ■ ESG 2 contain *rules* and *guidance* regarding the disclosure of climate-related financial information consistent with *TCFD Recommendations and Recommended Disclosures*.

1.1.3 G The disclosure requirements within ■ ESG 2 relate to either the assets that a *firm* manages or administers generally, published in a *TCFD entity report*, or assets relating or corresponding to particular financial products or services, disclosed via *TCFD product reports*.

1.1.3A G ■ ESG 3 applies to all *firms* and sets out the way in which the *rules* and *guidance* in ■ ESG 4 and ■ ESG 5 apply to different types of *firm*. Although most of the *rules* in ■ ESG 4 and ■ ESG 5 apply to *managers*, a number of *rules* apply to *distributors* and some also apply to *firms* more generally.

1.1.3B G ■ ESG 4 sets out 'anti-greenwashing' *rules* which apply to a *firm*, regardless of whether or not it is undertaking *sustainability in-scope business*, with respect to references the *firm* makes about the *sustainability characteristics* of a product or service.

1.1.3C G ■ ESG 4 also contains the *rules* and *guidance* which apply to a *manager* that is undertaking *sustainability in-scope business*, restricting the use of a *sustainability label* in relation to a *sustainability product* unless certain criteria are met and setting out naming and marketing conditions in relation to those products. In addition, ■ ESG 4 contains *rules* and *guidance* which apply to *distributors* that *distribute sustainability products* and *recognised schemes*, including *ETFs* that are *recognised schemes*, to *retail clients*.

1.1.3D G ■ ESG 5 contains the *rules* and *guidance* which apply to a *manager* undertaking *sustainability in-scope business* with respect to the *consumer-facing disclosure*, *pre-contractual disclosure*, *public product-level sustainability report* and (where applicable) *on-demand sustainability information* that the *manager* must produce in relation to a *sustainability product*, together with *rules* and *guidance* requiring a *manager* to produce an entity-level report.

1.1.4 G The TCFD-related disclosures are intended to help meet the information needs of market participants, including a *firm's* institutional *clients* (e.g. pension trustees, employers and corporate investors) and *consumers* of their products (e.g. pension scheme members and retail investors), in relation to the climate-related impact and risks of a *firm's TCFD in-scope business*.

1.1.4A G The sustainability-related *rules* and *guidance* in ESG 4 and ESG 5 are also intended to help meet the information needs of market participants, including a *firm's retail clients* and institutional *clients* in relation to the *sustainability characteristics* of a *sustainability product* and the sustainability-related risks and opportunities in relation to a *manager's sustainability in-scope business*.

1.1.5 G The *FCA* recognises that at least for a transitional period there may be data and methodological challenges. Nevertheless, we expect *firms* to provide sufficient information to *clients* and *consumers*. *Firms* should still disclose metrics and quantitative scenario analysis or examples in accordance with the *rules* in this sourcebook where such disclosure would remain fair, clear and not misleading. *Firms* should also appropriately explain any limitations on their ability to disclose and the steps being taken to address those limitations.

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1.2 General application

1.2.1 R [deleted]

1.2.2 R [deleted]

1.2.3 G The specific application of the *rules* and *guidance* in ■ ESG 2, ■ ESG 4 and ■ ESG 5 is set out in ■ ESG 1A and ■ ESG 3.

1.2.4 G (1) The table at ■ ESG 1.2.4G(2) provides a general overview as to how the *rules* in ■ ESG 2, ■ ESG 4 and ■ ESG 5 apply to *firms*.

(2) This table belongs to ■ ESG 1.2.4G(1).

Type of firm	Applicable provisions
All *firms*	ESG 4.1.1R(1); ESG 4.3.1R
Distributors	ESG 4.1.1R(1); ESG 4.1.16R to ESG 4.1.19R; ESG 4.3.1R.
Asset managers	
A *firm* managing a *UK UCITS* or an *AIF*, excluding: (a) a *firm* managing a *feeder fund*; or (b) a *full-scope UK AIFM* or a *small authorised UK AIFM* managing an *unauthorised AIF* not listed on a *recognised investment exchange*;	ESG 2 (except for ESG 2.3.5R to ESG 2.3.8R relating to *on-demand TCFD information*); ESG 4 (except for ESG 4.1.16R to ESG 4.1.19R relating to *distributors*) only in relation to *UK UCITS* and *UK AIFs*; ESG 5 (except for ESG 5.5.13R to ESG 5.5.15R relating to *on demand sustainability information*) only in relation to *UK UCITS* and *UK AIFs*.
A *firm* managing a *feeder fund*	ESG 4.1.2R to ESG 4.1.8R, ESG 4.1.13R and ESG 4.1.14R; ESG 4.3.1R to ESG 4.3.8R;

Type of firm	Applicable provisions
	ESG 5.6
A *firm* that is a *full-scope UK AIFM* or a *small authorised UK AIFM* managing an *unauthorised AIF* not listed on a *recognised investment exchange*	ESG 2 (except for ESG 2.3.1R to ESG 2.3.4R relating to a *public TCFD product report*); ESG 4 (except for ESG 4.1.16R to ESG 4.1.19R relating to *distributors*) only in relation to *UK AIFs*; ESG 5 (except in relation to the preparation of Part B of a *public product-level sustainability report*) only in relation to *UK AIFs*.
Asset owners	
A *firm* in table ESG 1A.1.1R(2), Part B	ESG 2 (except for ESG 2.3.5R to ESG 2.3.8R relating to *on-demand TCFD information*); ESG 4.1.1R(1); ESG 4.3.1R.

Chapter 1A

Application of ESG 2

1A

1A.1 Application of ESG 2

1A.1.1 **R**

(1) The rules in ESG 2 apply to a *firm* of a type listed in column 1 of the table at ESG 1A.1.1R(2) in relation to the *TCFD in-scope business* carried out from an establishment maintained by it in the *United Kingdom* as described in column 2.

(2) This table belongs to ESG 1A.1.1R(1).

Column 1: type of firm	Column 2: TCFD in-scope business
Part A: Asset managers	
Any *firm*	*Portfolio management*
UK UCITS management company	*Managing a UK UCITS*
ICVC that is a *UCITS scheme* without a separate management company	*Managing a UK UCITS*
Full-scope UK AIFM	*Managing an AIF*
Small authorised UK AIF	*Managing an AIF*
Part B: Asset owners	
Insurer or *pure reinsurer*	Providing *insurance-based investment products*
	Operating a *personal pension scheme* (excluding a *SIPP*) or *stakeholder pension scheme*
	Operating a *SIPP*, but only in relation to *SIPPs* containing *insurance-based investment products* provided by the *firm*
Other asset owners (other than *insurers* or *pure reinsurers*)	Operating a *personal pension scheme* (excluding a *SIPP*) or *stakeholder pension scheme*
	Operating a *SIPP*, but only in relation to *SIPPs* containing any of the following provided by the *firm*: (a) a *unit* (b) an interest in a *closed-ended investment fund* (c) a *pre-set investment portfolio*

1A.1.2 R A *firm* is exempt from the disclosure requirements under ESG 2 if and for as long as the assets under administration or management in relation to its *TCFD in-scope business* amount to less than £5bn calculated as a 3-year rolling average on an annual assessment.

Chapter 2

Disclosure of climate related financial information

2

2.1 Preparation of climate-related reports

Application

2.1.1 R (1) A *firm* (excluding an *OPS firm*) must prepare and publish its *TCFD entity report* and any *public TCFD product reports* by 30 June of each calendar year.

(2) If a *firm* (including an *OPS firm*) receives a request for *on-demand TCFD information* from a *person* who is entitled to make such request under ESG 2.3.5R, it must prepare and provide the *on-demand TCFD information* to the *person* within a reasonable period of time and in a format which the *firm*, acting reasonably, considers appropriate to meet the information needs of that *person*.

2.1.2 R (1) A *firm* must cover a reporting period of 12 *months* starting no earlier than 1 January of the previous calendar year in its *TCFD entity report*.

(2) The reporting period in (1) may be changed by the *firm* in subsequent yearly reports, but the *firm* must ensure there is no period of time after 1 January 2022 which is not covered by its *TCFD entity report*, issuing an interim report if necessary.

(3) A *firm* must adopt a calculation date within the 12-*month* reporting period covered by the *TCFD entity report* in calculating any metrics and targets either for inclusion in its *TCFD entity report* or its *TCFD product reports*.

Publication of climate-related reports

2.1.3 R A *firm* must take all reasonable steps to publish its *TCFD entity report* and its *public TCFD product reports* in a way that makes it easy for prospective readers to locate and access, including, as a minimum, by making the most recent of these reports available in a prominent place on the main website for the business of the *firm*.

2.1.4 G Prominence may be achieved by adding hyperlinks to the reports which are accessible via the landing page of the main website for the business of the *firm*.

Consistency with TCFD Recommendations and Recommended Disclosures when preparing climate-related reports

2.1.5 R A *firm* must ensure the climate-related financial disclosures in its *climate-related reports* are consistent with the *TCFD Recommendations and Recommended Disclosures*, unless otherwise specified by *rules* in this chapter.

2.1.6 R In complying with ■ ESG 2.1.5R, a *firm* must take reasonable steps to ensure its climate-related financial disclosures also reflect the following materials, to the extent they are relevant to the *firm's climate-related reports*:

(1) section C of the *TCFD Annex*, entitled "Guidance for All Sectors"; and, as applicable,

(2) part 3, section D of the *TCFD Annex*, entitled "Asset Owners"; or

(3) part 4, section D of the *TCFD Annex*, entitled "Asset Managers".

2.1.7 G The *FCA* considers that the following supplemental documents are also relevant in assessing whether climate-related financial disclosures are consistent with the *TCFD Recommendations and Recommended Disclosures*:

(1) the *TCFD Final Report* and the *TCFD Annex* to the extent not already referred to in this chapter;

(2) the *TCFD Technical Supplement*;

(3) the *TCFD Guidance on Risk Management Integration and Disclosure*; and

(4) the *TCFD Guidance on Metrics, Targets, and Transition Plans*.

Data considerations when preparing climate-related reports

2.1.8 R In satisfying its reporting and disclosure obligations under this chapter, a *firm* must, insofar as is reasonably practicable, use the most up to date information available.

2.1.9 R In preparing a *TCFD product report* or *underlying asset data*, a *firm* must select, from within the 12-*month* reporting period, the most recent calculation date for which up to date information is available.

2.1.10 R A *firm* must not disclose metrics or quantitative scenario analysis or examples where:

(1) there are gaps in underlying data or methodological challenges; and

(2) these data gaps or methodological challenges cannot be addressed using proxy data or assumptions without the resulting disclosure, in the reasonable opinion of the *firm*, being misleading.

2.1.11 G (1) The *FCA* expects a *firm* to make climate-related financial disclosures in its *climate-related reports* consistent with the *TCFD Recommendations* *and Recommended Disclosures* using proxy data or assumptions to address gaps in underlying data and methodological challenges, as appropriate, and should only omit disclosures in accordance with ESG 2.1.10R.

(2) The *FCA* expects such gaps in underlying data and methodological challenges to be transitional and considers that such gaps and challenges are only likely to arise in relation to certain asset classes, such as asset-backed securities and currencies, and are likely to narrow over time.

2.1.12 R In addition, a *firm* must ensure its *climate-related report* includes an adequate explanation of:

(1) any gaps in the underlying data relied upon to make climate-related financial disclosures consistent with the *TCFD Recommendations and Recommended Disclosures*;

(2) how the *firm* has addressed these gaps, for example, by using proxy data or assumptions and briefly setting out any methodologies used in doing so, providing relevant contextual information and explaining any limitations of the approach;

(3) any metrics or quantitative scenario analysis or examples that the *firm* has not been able to disclose, in accordance with ESG 2.1.10R; and

(4) in respect of (3),

(a) the gaps in underlying data or methodological challenges that have resulted in the *firm* being unable to make the relevant disclosure;

(b) why the *firm* has not been able to address those gaps or challenges using proxy data or assumptions; and

(c) what steps the *firm* will take to address those gaps or challenges in the future.

2.1.13 G In addition, a firm may include in its *climate-related report* an explanation of the proportion of each *TCFD product* for which data are verified, reported, estimated or unavailable.

Cross-referencing climate-related financial disclosures

2.1.14 R (1) A *firm* may include hyperlinks and cross-references to relevant climate-related financial disclosures contained in a third party's climate reporting, where such information enables the *firm* to make climate-related financial disclosures consistent with the *TCFD Recommendations and Recommended Disclosures*.

(2) The *firm* must set out the rationale for relying on these third party disclosures, and any deviations between the third party's approach and that of the *firm*, where relevant to the *TCFD Recommendations and Recommended Disclosures*.

(3) An *insurer* or *pure reinsurer* which operates *linked funds* which mirror funds operated by a third party (but which are not close-matched by

an *insurer's* or *pure reinsurer's* direct investment in that third party's fund) must consider the extent to which it is appropriate to rely wholly or partly on disclosures by that third party.

2.1.15 R Where relevant, a *firm* may also draw links and make reference to its *TCFD product report* from its *TCFD entity report* and vice versa.

2

2.2 TCFD entity report

Content of a TCFD entity report

2.2.1 R (1) Subject to ESG 2.2.5R and ESG 2.2.6R, a *firm* must include in its *TCFD entity report* climate-related financial disclosures regarding the overall assets managed or administered by the *firm* in relation to its *TCFD in-scope business* as defined under ESG 1A.1.1R.

(2) A *firm* must explain, either in its *TCFD entity report* or in a cross-referenced *TCFD product report*, where its approach to a particular investment strategy, asset class or product is materially different to its overall entity level approach to governance, strategy or risk management under the *TCFD Recommendations and Recommended Disclosures*.

(3) A *firm* must briefly explain in its *TCFD entity report* how the *firm's* strategy under the *TCFD Recommendations and Recommended Disclosures* has influenced the decision-making and process by which it delegates functions, selects delegates, and relies on services, strategies or products offered or employed by third parties, including delegates.

2.2.2 G Where making disclosures on transition plans as part of its strategy disclosures under the *TCFD Recommendations and Recommended Disclosures*, a *firm* that is headquartered in, or operates in, a country that has made a commitment to a net zero economy, such as the *UK's* commitment in the Climate Change Act 2008 (2050 Target Amendment) Order 2019, is encouraged to assess the extent to which it has considered that commitment in developing and disclosing its transition plan. Where it has not considered this commitment in developing and disclosing its transition plan, we encourage a *firm* to explain why it has not done so.

Approach to climate-related scenario analysis

2.2.3 R (1) When preparing information for a *TCFD entity report* in a manner consistent with recommended disclosure (c) under the strategy recommendation in the *TCFD Recommendations and Recommended Disclosures*, a *firm* must explain:

(a) its approach to climate-related scenario analysis; and

(b) how the *firm* applies climate-related scenario analysis in its investment and risk decision making process.

(2) Where reasonably practicable, a *firm* must provide quantitative examples to demonstrate its approach to climate-related scenario analysis.

Approach to targets and key performance indicators (KPIs)

2.2.4 R (1) In producing its *TCFD entity report* and considering recommended disclosure (c) under the metrics and targets recommendation in the *TCFD Recommendations and Recommended Disclosures*, a *firm* must describe any targets it has set to manage climate-related risks and opportunities, including the KPIs it uses to measure progress against these targets, in a manner consistent with the *TCFD Recommendations and Recommended Disclosures*.

(2) Where a *firm* has not yet set such targets, it must explain why in its *TCFD entity report*.

Approach to relevant climate-related financial disclosures contained in other reports at an entity-level

2.2.5 R (1) If a *firm* is a member of a *group*, it may rely on climate-related financial disclosures consistent with the *TCFD Recommendations and Recommended Disclosures* made by its *group* or a member of its *group* when producing its *TCFD entity report*, but only to the extent that those group disclosures are relevant to the *firm* and cover the assets the *firm* administers or manages as part of its *TCFD in-scope business*.

(2) If a *firm* does rely on such group disclosures, it must ensure that its *TCFD entity report*:

(a) includes cross-references, including hyperlinks, to any climate-related financial disclosure contained within the *group* or *group* member's report that relate to assets managed or administered by the *firm* in relation to its *TCFD in-scope business* on which the *firm* is relying to meet its disclosure obligations under this section; and

(b) sets out the rationale for relying on the disclosure made by its *group* or a member of its *group* and why the disclosure is relevant to the assets managed or administered by the *firm* in relation to its *TCFD in-scope business*.

(3) The *firm* must also ensure that any material deviations between its approach under the *TCFD Recommendations and Recommended Disclosures* and the climate-related financial disclosures contained within the *group* report are clearly explained, either in its *TCFD entity report* or in the report made by its *group* or a member of its *group*.

2.2.6 R (1) If a *firm* or a member of its *group* produces a document, other than its annual financial report, which includes climate-related financial disclosures consistent with the *TCFD Recommendations and Recommended Disclosures* in compliance with UKLR 6.6.6R(8) for its *TCFD in-scope business*, the *firm* may cross-refer to these disclosures in its *TCFD entity report* where this information is relevant to *clients* or a *person* who is an investor in an *unauthorised AIF* managed by a *UK*

AIFM, including hyperlinks to where the relevant disclosures are available.

(2) Where a *firm* so refers, it must explain in its *TCFD entity report* the rationale for relying on the disclosures in the supplementary document and how such disclosures are relevant to the *clients* or a *person* who is an investor in an *unauthorised AIF* managed by a *UK AIFM* of the *firm's TCFD in-scope business*.

Compliance statement

2.2.7 R A *firm's TCFD entity report* must include a statement, signed by a member of senior management of the *firm*, confirming that the disclosures in the report, including any third party or group disclosures cross-referenced in it, comply with the requirements under this chapter.

2.3 Product-level reporting

Public TCFD product reports

2.3.1 R In addition to the publishing obligation in ESG 2.1.3R, a *firm*, other than a *UK AIFM* to which ESG 2.3.2R applies, must include its *public TCFD product report*, or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in any one of the following communications which follow most closely after the annual reporting deadline of 30 June, as applicable:

(1) the annual report or half-yearly report of an *authorised fund* as required under COLL 4.5.3R, COLL 8.3.5R or COLL 15.5.2R, provided that its *public TCFD product report*, or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, is always included in the annual report;

(2) a periodic *client* report under COBS 16.3.1R, COBS 16.4.1R, COBS 16A.4.2AR or COBS 16A.5.1R;

(3) a report to *with-profits policyholders* under COBS 20.4.7R; or

(14) an annual pension benefit statement or an annual *drawdown pension* statement under COBS 16.6.8R.

2.3.2 R A *UK AIFM* that manages an *unauthorised AIF* listed on a *recognised investment exchange* must include its *public TCFD product report*, or an adequately contextualised and prominent cross-reference and hyperlink to this report, in its *TCFD entity report*.

2.3.3 R A *firm* is not required to prepare a *public TCFD product report* in respect of a product which is a wrapper, provided that it has issued *public TCFD product reports* for the *TCFD products* available within the relevant wrapper.

2.3.4 R A *firm* is not required to prepare a *TCFD product report* in respect of an *authorised fund*, or where the *authorised fund* is an *umbrella scheme* the relevant *sub-fund*, which is in the process of winding up or termination.

On-demand TCFD product reports and underlying data

2.3.5 R A *firm* must comply with ESG 2.1.1R(2) with respect to a request from a *client* who requires *on-demand TCFD information* in order to satisfy climate-related financial disclosure obligations, whether under this chapter or as a result of other legal or regulatory requirements.

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On receipt of a request from a *client* under (1), a *firm* must provide *on-demand TCFD information* as at a calculation date determined in accordance with ESG 2.1.9R or at an alternative calculation date where this has been agreed between the *client* and the *firm*.

The request by a *client* in (1) may be made no earlier than 1 July 2023 in respect of any reporting period of the *firm* under ESG 2.1.2R(1) which starts after 1 January 2022 or, if later, with effect from the reporting period in which the *client's* arrangements with the *firm* concerning the *TCFD product* commenced;

This *rule* also applies in respect of a *person* who is an investor in an *unauthorised AIF* managed by a *UK AIFM* which is not listed on a *recognised investment exchange*.

2.3.6 R The entitlement in ESG 2.3.5R(1) is limited to one request for an *on-demand TCFD product report* or *underlying asset data* or both in respect of each *TCFD product* in each of the *firm's* reporting periods under ESG 2.1.2R(1).

2.3.7 G A *firm* is encouraged to consider, where practicable, making available to a *client* disclosures broadly equivalent to an *on-demand TCFD product report* irrespective of the *client's* eligibility to request such report under ESG 2.3.5R.

2.3.8 R If a *person* in ESG 2.3.5R requests additional climate or carbon-related data which are reasonably required in order to satisfy climate-related financial disclosure obligations, a *firm* must provide the data if doing so is reasonably practicable and permitted under any contractual arrangements governing the *firm's* use of the data.

Content of TCFD product reports

2.3.9 R

(1) A *firm* must include in its *TCFD product report* for each *TCFD product* information according to the following metrics, using the calculations contained in the *TCFD Annex* and having regard to the *TCFD Guidance on Metrics, Targets, and Transition Plans*, as relevant:

(a) scope 1 and 2 greenhouse gas emissions;

(b) scope 3 greenhouse gas emissions;

(c) total carbon emissions;

(d) total carbon footprint; and

(e) weighted average carbon intensity.

(2) A *firm's TCFD product report* must also include:

(a) relevant contextual information such as explaining how the metrics should be interpreted and their associated limitations, for example, if particular assumptions or proxies have been used;

(b) historical annual calculations of the metrics in (1), after the first year of preparing a *TCFD product report*; and

(c) any disclosures under the Governance, Strategy and Risk Management recommendations under the *TCFD Recommendations and Recommended Disclosures*, where the *firm's* approach in relation to a *TCFD product* materially deviates from the *firm's* overarching approach disclosed in the *firm's TCFD entity report*.

2.3.10 R If a *firm* discloses material deviations under ESG 2.3.9R(2)(c), it may refer to the relevant sections of its *TCFD entity report*, and similarly its *TCFD entity report* may refer to these disclosures in the *TCFD product report*.

2.3.11 R

(1) Where a *TCFD product report* relates to a *TCFD product* that has concentrated exposures or high exposures to carbon intensive sectors, the *firm* must describe these and disclose:

(a) a qualitative summary of how climate change is likely to impact the assets underlying the relevant *TCFD product* under 'orderly transition', 'disorderly transition' and 'hothouse world' scenarios;

(b) a discussion of the most significant drivers of impact on that *TCFD product*; and

(c) a quantitative analysis of 'orderly transition', 'disorderly transition' and 'hothouse world' scenarios.

(2) Where a *firm* manages *TCFD products* that do not have concentrated exposures or high exposures to carbon intensive sectors, a *firm* must still make the disclosures under (1)(a) and 1(b).

(3) For the purposes of (1)(a) and 1(c):

(a) 'orderly transition' scenarios assume climate policies are introduced early and become gradually more stringent, reaching global net zero CO2 emissions around 2050 and likely limiting global warming to below 2 degrees Celsius on pre-industrial averages;

(b) 'disorderly transition' scenarios assume climate policies are delayed or divergent, requiring sharper emissions reductions achieved at a higher cost and with increased physical risks in order to limit temperature rise to below 2 degrees Celsius on pre-industrial averages; and

(c) 'hothouse world' scenarios assume only currently implemented policies are preserved, current commitments are not met and emissions continue to rise, with high physical risks and severe social and economic disruption and failure to limit temperature rise.

2.3.12 R

(1) Where a *firm* prepares a *public TCFD product report* in relation to a *default arrangement* or other fund in a *qualifying scheme* which uses life-styling or differing target retirement dates for different cohorts of members, a *firm* may calculate the information in ESG 2.3.9R to ESG 2.3.11R and, where relevant, ESG 2.3.13R, in relation to the most representative member profile in that *default arrangement* or fund.

(2) However, where relevant, the *firm* must include a qualitative explanation in its *public TCFD product report* of how this information might vary between cohorts.

Other elements of a TCFD product report

2.3.13 R When preparing a *TCFD product report*, a *firm* must, as far as reasonably practicable, also include the following calculations for each *TCFD product*:

(1) climate value-at-risk;

(2) metrics that show the climate warming scenario with which a *TCFD product* is aligned, such as using an implied temperature rise metric.

2.3.14 G A *firm* may also disclose in a *TCFD product report* any other metrics that the *firm* considers an investor will find useful when deciding whether to select a particular *TCFD product* (including metrics set out in the *TCFD Annex* and under ■ ESG 2.3.9R calculated in accordance with recognised alternative methodologies). However, to the extent that a *firm* chooses to disclose such metrics, it should clearly explain the methodology used in providing each relevant metric and ensure that the metrics calculated under ■ ESG 2.3.9R in accordance with the *TCFD Annex* are at least as prominently presented.

Chapter 3

Application of ESG 4 and ESG 5

3

3.1 Application of ESG 4 and ESG 5 to firms

Application

3.1.1 R This chapter applies to all *firms*.

Application of ESG 4 and ESG 5

3.1.2 R ESG 4 and ESG 5 apply as follows:

(1) ESG 4.1.1R(1) and ESG 4.3.1R apply to all *firms*.

(2) In addition to the *rules* set out at ESG 3.1.2R(1), ESG 4.1.16R to ESG 4.1.19R apply to a *distributor* who *distributes* a *sustainability product* or a *recognised scheme*, including an *ETF* that is a *recognised scheme*, to *retail clients*.

(3) Subject to ESG 3.1.3R, all the *rules* and *guidance* in ESG 4 and ESG 5 apply to a *manager* of a type listed in column 1 of the table at ESG 3.1.2R(4) in relation to the *sustainability in-scope business* described in column 2 which either:

(a) is carried out from an establishment maintained by the *manager* in the *United Kingdom*; or

(b) to the extent that it is not carried out from an establishment maintained by the *manager* in the *United Kingdom*, is carried on in relation to a *UK AIF*.

(4) This table belongs to ESG 3.1.2R(3).

Column 1: type of manager	Column 2: sustainability in-scope business
UK UCITS management company	Managing a *UK UCITS*
ICVC that is a *UCITS scheme* without a separate management company	Managing a *UK UCITS*
Full-scope UK AIFM	Managing an *AIF*
Small authorised UK AIFM	Managing an *AIF*

Exemption from ESG 5.6 for managers of assets below threshold

3.1.3 R A *manager* is exempt from the disclosure requirements under ESG 5.6 if and for as long as the assets under administration or management in relation to its *sustainability in-scope business* amount to less than £5bn calculated as a 3-year rolling average on an annual assessment.

Delegation of activities

3.1.4 R Where a *firm* delegates its activities to another *person*, that *firm* still remains responsible for ensuring compliance with the requirements of ESG 4 and ESG 5.

Meaning of assets in ESG 4 and ESG 5

3.1.5 R In ESG 4 to ESG 5, unless the context otherwise requires, a reference to the term 'assets' means:

(1) the *scheme property*, in relation to an *authorised fund*; or

(2) in relation to a *sustainability product* other than an *authorised fund,* the *investments* that the *sustainability product* makes.

Chapter 4

Sustainability labelling, naming and marketing

4

4.1 Sustainability labels

4.1.1 R (1) Subject to ESG 4.1.1R(2), a *firm* must not make use of the following *sustainability labels*:

() 'Sustainability focus';

() 'Sustainability improvers';

() 'Sustainability impact'; or

() 'Sustainability mixed goals'.

(2) A *manager* may, from 31 July 2024, make use of a *sustainability label* in ESG 4.1.1R(1) where the *manager* is undertaking *sustainability in-scope business* in relation to a *sustainability product*:

(a) that is not a *feeder fund* if it satisfies the requirements set out in ESG 4.2; or

(b) that is a *feeder fund* if it satisfies the requirements in ESG 4.1.2R.

4.1.2 R Where a *manager* is undertaking *sustainability in-scope business* in relation to a *sustainability product* that is a *feeder fund*, it may use a *sustainability label* in relation to that product where:

(1) the *feeder fund* uses the same label as that used by the relevant *master fund* which is a *sustainability product*;

(2) the *manager* ensures that its use of the label is kept updated in accordance with any changes that the relevant *master fund* makes; and

(3) the *manager* ensures that it provides *clients* with easy access (for example, by providing hyperlinks) to the *consumer-facing disclosure*, *pre-contractual disclosure* (or Part A of a *public product-level sustainability report* in circumstances where the *sustainability product* does not have *pre-contractual materials* that relate to it) and Part B of a *public product-level sustainability report* that has been produced by the relevant *master fund*.

4.1.3 R As far as reasonably practicable, a *manager* must, where it makes use of a *sustainability label*, use the relevant graphic prescribed by the *FCA*:

(1) when displaying that label in relation to a *sustainability product* on the *relevant digital medium* for the business of the *manager*; and

(2) when disclosing the use of that label in a *consumer-facing disclosure*, a *pre-contractual disclosure* and Part B of a *public product-level sustainability report*.

4.1.4 G For the purposes of ESG 4.1.3R, the relevant graphic can be accessed through the *FCA's online notification and application system*.

4.1.5 R A *manager* that uses a *sustainability label* must not:

(1) use a *sustainability label* in a way that is misleading;

(2) claim in a public statement or to a *client*, either expressly or by implication, that:

(a) the *FCA* has conferred or approved the use of a *sustainability label* in relation to a particular *sustainability product*; or

(b) the *manager's* use of a *sustainability label* indicates that a *sustainability product* has been approved or endorsed by the *FCA*; or

(3) publish information in relation to the use of, or descriptors pertaining to, a *sustainability label* which contradicts the information that has been published by the *FCA*.

Record keeping

4.1.6 R A *manager* that uses a *sustainability label* must:

(1) prepare and retain a record as to the basis on which the label has been used; and

(2) keep that record updated for the duration of the label's use (including where the use of the label changes, as set out under ESG 4.1.11R and ESG 4.1.14R).

Notifying the FCA

4.1.7 R A *manager* that intends to use a *sustainability label* in relation to a particular *sustainability product*, or to revise or cease the use of that label, must notify the *FCA* that it is doing so using the *FCA's online notification and application system*, either before using, revising or ceasing the use of that label or as soon as reasonably practicable afterwards.

Publication of sustainability labels

4.1.8 R (1) Where a *manager* uses a *sustainability label* in relation to a *sustainability product* and makes information about that product publicly available, it must publish on the *relevant digital medium* for the business of the *manager*:

(a) the label that has been applied to the relevant *sustainability product*; and

(b) details as to where the *consumer-facing disclosure* pertaining to that product can be easily accessed.

(2) A *manager* must locate the information at ■ ESG 4.1.8R(1) in a prominent place on the specific webpage or page on a mobile application or other digital medium at which the *sustainability product* is offered.

4.1.9 G In addition to the information required under ■ ESG 4.1.8R, a manager may choose to provide further information in relation to the *sustainability label* by including a hyperlink to the relevant webpage of the *FCA's* website on the *relevant digital medium* for the business of the *manager*. The hyperlink should be located at a prominent place on the specific webpage or page on a mobile application or other digital medium at which the *sustainability product* is offered.

4.1.10 G For the purposes of the *rules* and *guidance* in ■ ESG 4 and ■ ESG 5, a 'prominent place' should take account of the content, size and orientation of the information pertaining to the *sustainability product* (or, in the case of ■ ESG 4.1.19R, a *recognised scheme*, including an *ETF* that is a *recognised scheme*) on the relevant webpage or page of the mobile application or other digital medium as a whole.

Reviewing sustainability labels

4.1.11 R A *manager* that uses a *sustainability label* in relation to a *sustainability product* that is not a *feeder fund* must, in addition to the general ongoing requirements under ■ ESG 4.2.20R, keep the use of that label under review by taking appropriate steps as follows:

(1) A *manager* must review its use of a *sustainability label* prior to any proposed change to a *sustainability product* and if, as a result of those changes, the product will cease to meet the criteria for using that label under ■ ESG 4.2, revise or cease the use of the label as appropriate as soon as reasonably practicable;

(2) Notwithstanding ■ ESG 4.1.11R(1), a *manager* must:

(a) review its use of a *sustainability label* at least every 12 *months* to determine whether the use of the label continues to be appropriate, including in circumstances where the *manager* has taken steps under ■ ESG 4.2.22R; and

(b) where the *manager* determines that the continued use of the label is not appropriate, revise or cease the use of the label as appropriate as soon as reasonably practicable.

4.1.12 R A *manager* must prepare and retain a record of the fact that it has undertaken a review under ■ ESG 4.1.11R and the decision it has reached as a result of that review regarding whether the *sustainability label* it has used remains appropriate.

Notifying clients

4.1.13 R A *manager* must, where it is required to either revise the *sustainability label* that it uses or cease to use that label under ■ ESG 4.1.11R:

(1) give written notice to its *clients* who have invested in the *sustainability product* that the *sustainability label* has been revised or ceased and the reasons for that revision or cessation as soon as reasonably practicable;

(2) publish the revised *sustainability label* (or the fact that the *manager* has ceased to use a label) and the reasons for the revision or cessation on the *relevant digital medium* for the business of the *manager* in a prominent place on the specific webpage or page on a mobile application or other digital medium at which the *sustainability product* is offered, as soon as reasonably practicable before that change takes effect; and

(3) ensure that a *consumer-facing disclosure*, *pre-contractual disclosure* and reports prepared by the *manager* under ■ ESG 5.4 and ■ ESG 5.5 are updated as soon as reasonably practicable, in accordance with the requirements under ■ ESG 5.1.3R where relevant.

4.1.14 R If, in circumstances other than those set out in ■ ESG 4.1.11R, a *manager* is no longer able to meet the general or specific criteria for using a *sustainability label* and must revise or cease the use of the label, it must take the steps under ■ ESG 4.1.13R.

4.1.15 G For the purposes of ■ ESG 4.1.13R(1), *authorised fund managers* are reminded of their obligations under, as relevant, ■ COLL 4.3, ■ COLL 8.3 or ■ COLL 15.5, as a change in the use of a *sustainability label* is likely to require pre-event *unitholder* notification.

Distributors

4.1.16 R Where a *distributor distributes* to *retail clients* a *sustainability product* which uses a *sustainability label*, the *distributor* must:

(1) communicate to those *retail clients* the same label that the *manager* undertaking *sustainability in-scope business* is using in relation to that product by either:

(a) displaying the label on the *relevant digital medium* for the business of the *distributor* in a prominent place on the specific webpage or page on a mobile application or other digital medium at which the *sustainability product* is offered; or

(b) where the *distributor* does not use a *relevant digital medium*, using the same channel(s) that the *distributor* would ordinarily use to communicate information; and

(2) ensure that *retail clients* are provided with access to a *consumer-facing disclosure* which relates to that product.

4.1.17 R Where a *manager* does not use a *sustainability label* but uses one or more of the terms listed in ■ ESG 4.3.2R(2) in accordance with ■ ESG 4.3.2R(1) in the name or a *financial promotion* relating to a *sustainability product*, a *distributor* of that product must ensure that *retail clients* are provided with access to the *consumer-facing disclosure* which relates to that product.

4.1.18 R A *distributor* that *distributes* a *sustainability product* to *retail clients* must ensure that its *relevant digital medium*, or any other channel(s) that the *distributor* would ordinarily use to communicate information, and any *financial promotion* relating to that product are kept updated in accordance with any changes that are made to the relevant *sustainability label* or to the *consumer-facing disclosure* which relates to that product.

4.1.19 R A *distributor* that *distributes recognised schemes*, including *ETFs* that are *recognised schemes*, to *retail clients* must:

(1) where the terms set out in ESG 4.3.2R(2) are used in either the name of a *recognised scheme* or a *financial promotion* relating to that scheme, prepare a notice which includes the following text: 'This product is based overseas and is not subject to *UK* sustainable investment labelling and disclosure requirements'; and

(2) in relation to the *relevant digital medium* for the *distributor's* business:

(a) display the notice at ESG 4.1.19R(1) in a prominent place on the specific webpage or page on a mobile application or other digital medium at which the *recognised scheme* is offered; and

(b) include a hyperlink to the relevant webpage of the *FCA* website which sets out for *retail clients* further information in relation to the sustainability labelling and disclosure requirements under ESG 4 and ESG 5; and

(3) where relevant, in relation to any other channel(s) that the *distributor* would ordinarily use to communicate information, notify *retail clients* using that means of communication.

4.2 Criteria for applying sustainability labels

4.2.1 R A *manager* must, in order to use a *sustainability label* in relation to a *sustainability product* under ESG 4.1.1R(2)(a), ensure that both the general and specific criteria which relate to that particular label have been met and continue to be met on an ongoing basis.

4.2.2 G ESG 4.2 sets out the relevant general and specific criteria and the ongoing responsibilities of a *manager* with respect to meeting those criteria, and ESG 5 sets out the locations at which information associated with the criteria must be disclosed, either in a *consumer-facing disclosure*, a *pre-contractual disclosure*, Part B of a *public product-level sustainability report* or in a *sustainability entity report*.

4.2.3 G A *manager* is reminded of ESG 3.1.4R – namely, that where it delegates its activities to another person it still remains responsible for ensuring compliance with ESG 4.2.

General criteria: general features of a sustainability product using a sustainability label

4.2.4 R A *sustainability product* using a *sustainability label* must:

(1) have an explicit *sustainability objective* as part of its investment objectives that:

(a) aligns with one of the *sustainability labels* set out under ESG 4.1.1R (as detailed further under ESG 4.2.13R, ESG 4.2.14R, ESG 4.2.16R and ESG 4.2.18R); and

(b) is clear, specific and measurable;

(2) meet the following requirements:

(a) at least 70% of the gross value of the product's assets must be invested in accordance with its *sustainability objective*, except where:

(i) the product is still to be fully invested in assets, as set out in the product's investment strategy under ESG 4.2.9R(2)(b); or

(ii) the *manager* is taking steps under ESG 4.2.22R.

(b) the product's assets must be selected with reference to a robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability, as applicable under ESG 4.2.13R, ESG 4.2.14R and ESG 4.2.17R(1); and

(c) where the product invests in assets that are not in accordance with its *sustainability objective*, those assets must not have attributes that conflict with that objective; and

(3) have robust and evidence-based key performance indicators (KPIs) that can demonstrate the product's progress towards meeting its *sustainability objective*.

4.2.5 G A *manager* may, in determining the *sustainability objective* of a sustainability product, refer to the standards produced by the Sustainability Accounting Standards Board in order to help determine the topics that a *retail client* would reasonably associate with *sustainability characteristics*.

4.2.6 G In relation to ESG 4.2.4R(2)(a), not meeting the 70% threshold is only likely to be justified in relation to *sustainability products* that are designed to build their initial portfolio over time, such as may be in the case of an *LTAF*.

4.2.7 G In relation to ESG 4.2.4R(2)(b), assets should be selected using a methodology or approach which:

(1) is applied in a systematic way; and

(2) may be based on, or determined by, an authoritative body, industry practice or a proprietary methodology for determining:

(a) the *sustainability characteristics* of a product's assets; and

(b) the ability of those assets to contribute to a positive environmental or social outcome.

4.2.8 G The KPIs under ESG 4.2.4R(3) should measure the *sustainability product's* progress towards achieving its *sustainability objective* and/or the performance of individual assets towards achieving that objective.

General criteria: manager requirements in relation to the use of a sustainability label

4.2.9 R A *manager* must, in addition to ensuring that a *sustainability product* meets the requirements set out in ESG 4.2.4R:

(1) determine whether pursuing that product's *sustainability objective* could result in negative environmental and/or social outcomes;

(2) determine the *sustainability product's*:

(a) investment policy for achieving its *sustainability objective*; and

(b) investment strategy for meeting the requirements under ESG 4.2.4R(2), including, where appropriate, the timescales by which the product is expected to be fully invested in assets;

(3) obtain or undertake an assessment of the standard referred to under ESG 4.2.4R(2)(b) to confirm that it is appropriate for determining which assets the product invests in, ensuring that:

(a) the assessment, whether obtained from a third party or undertaken by the *manager*, is independent from the *manager's* investment process; and

(b) the individuals responsible for carrying out the assessment are appropriately skilled;

(4) identify any assets which the *sustainability product* invests in for reasons other than to pursue its *sustainability objective*;

(5) identify the KPIs that the *manager* will use for the purposes of ESG 4.2.4R(3);

(6) have an escalation plan setting out the actions that the *manager* will take if any of the *sustainability product's* assets do not demonstrate sufficient performance against either the product's *sustainability objective* or the KPIs under ESG 4.2.4R(3);

(7) in relation to the *manager's* governance and resources, ensure that:

(a) there are appropriate resources, governance and organisational arrangements in place, commensurate with enabling the *sustainability product* to achieve its *sustainability objective*;

(b) there is adequate knowledge and understanding of the assets in which the *sustainability product* is invested; and

(c) there is a high standard of diligence in the selection of any data or other information used (including when third-party ESG data or ratings providers are used) to inform investment decisions for the *sustainability product*; and

(8) in relation to investor stewardship:

(a) identify the investor stewardship strategy needed to support the achievement of the *sustainability product's sustainability objective*, including the activities which are expected to be undertaken and the outcomes which are expected to be achieved; and

(b) ensure that the investor stewardship strategy and appropriate resources are applied in order to support the achievement of the *sustainability objective*.

4.2.10 G In meeting the requirements of ESG 4.2.9R(6), a *manager* should, where possible, include in its escalation plan its anticipated timescales for addressing any matters that may result in insufficient performance by the *sustainability product's* assets against the product's *sustainability objective*.

4.2.11 R A *manager* must, with respect to a *sustainability product* that is an index-tracking product, only use an index that has a methodology which is aligned with the product's *sustainability objective* and the requirements in ESG 4.2.4R(2).

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Specific criteria

4.2.12 R A *manager* must, in addition to the general criteria under ESG 4.2.4R to ESG 4.2.11R, ensure that a *sustainability label* is only used in relation to a *sustainability product* if the product meets the specific criteria applicable to that label.

Specific criteria: sustainability focus

4.2.13 R A *manager* may only use the 'sustainability focus' label where the *sustainability product's sustainability objective* is consistent with the aim of investing in assets that are environmentally and/or socially sustainable, determined using the robust, evidence-based standard set out under ESG 4.2.4R(2)(b).

Specific criteria: sustainability improvers

4.2.14 R A *manager* may only use the 'sustainability improvers' label where the *sustainability product's sustainability objective* is consistent with the aim of investing in assets that have the potential to improve environmental and/or social sustainability over time, determined by the potential of those assets to meet the robust, evidence-based standard set out under ESG 4.2.4R(2)(b).

4.2.15 R A *manager* must, in relation to the use of the *sustainability label* 'sustainability improvers':

(1) identify the period of time by which the product and/or the assets in which the product invests is expected to meet the robust, evidence-based standard set out under ESG 4.2.4R(2)(b);

(2) identify short and medium-term targets for improvements in the sustainability of the product and/or the assets in which the product invests, commensurate with the investment horizon of the product; and

(3) obtain robust evidence to satisfy itself that the assets in which the product invests have the potential to meet the robust, evidence-based standard set out under ESG 4.2.4R(2)(b).

Specific criteria: sustainability impact

4.2.16 R A *manager* may only use the 'sustainability impact' label where the *sustainability product's sustainability objective* is consistent with the aim of achieving a pre-defined, positive, measurable impact in relation to an environmental and/or social outcome.

4.2.17 R A *manager* must, in relation to the use of the *sustainability label* 'sustainability impact':

(1) specify a *theory of change* in line with the product's *sustainability objective*, describing how the *manager* expects its investment activities and the product's assets to contribute to achieving a positive and measurable impact, in accordance with the robust, evidence-based standard set out under ESG 4.2.4R(2)(b) where the *manager* considers it appropriate; and

(2) specify a robust method to measure and demonstrate that the *manager's* investment activities and the product's assets are achieving a positive environmental and/or social impact.

Specific criteria: sustainability mixed goals

4.2.18 R A *manager* may only use the 'sustainability mixed goals' label where the *sustainability product's sustainability objective* is to invest in accordance with 2 or more of the *sustainability objectives* in ESG 4.2.13R, ESG 4.2.14R and ESG 4.2.16R.

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4.2.19 R A *manager* must, in relation to the use of the *sustainability label* 'sustainability mixed goals':

(1) identify the proportion of assets which are invested in accordance with each of the 2 or more *sustainability objectives* referred to in ESG 4.2.18R; and

(2) meet the requirements (as relevant) under ESG 4.2.15R and ESG 4.2.17R.

Manager requirements on an ongoing basis

4.2.20 R A *manager* must ensure that the general and specific criteria with respect to using a *sustainability label* are met on an ongoing basis, in particular:

(1) The *manager* must ensure that:

(a) the requirements in ESG 4.2.4R continue to be met;

(b) the *sustainability product's* investment policy, strategy and escalation plan under ESG 4.2.9R(2) and ESG 4.2.9R(6) are updated as appropriate;

(c) the independent assessment obtained under ESG 4.2.9R(3) remains valid;

(d) the *manager* continues to maintain appropriate governance and resources in accordance with the requirements under ESG 4.2.9R(7); and

(e) the *manager* continues to maintain an appropriate investor stewardship strategy and apply that strategy and its resources in accordance with the requirements under ESG 4.2.9R(8); and

(2) The *manager* must:

(a) monitor whether pursuing the *sustainability product's sustainability objective* could result in negative outcomes that have not already been identified under ESG 4.2.9R(1).

(b) monitor whether the *sustainability product* is investing in assets that pursue its *sustainability objective* and identify any new assets that have not already been identified under ESG 4.2.9R(4); and

(c) monitor the ongoing performance of the *sustainability product* in achieving its *sustainability objective*, measured against the product's KPIs set out under ESG 4.2.4R(3).

4.2.21 R A *manager* must, in relation to a *sustainability product* that is an index-tracking product, ensure that the index continues to meet the requirements of ESG 4.2.4R(2) when that index is rebalanced.

4.2.22 R

(1) A *manager* must, when ensuring the matters set out in ESG 4.2.20R are met:

(a) apply, as appropriate, its escalation plan under ESG 4.2.9R(6) where the product's assets do not demonstrate sufficient performance against the product's *sustainability objective* and/or the KPIs under ESG 4.2.4R(3); and

(b) subject to ESG 4.2.25R, ensure that, if a *sustainability product* ceases to meet the general or specific criteria with respect to using a *sustainability label*, it takes action to restore compliance as soon as reasonably practicable.

(2) A *manager* that is undertaking the steps set out in ESG 4.2.22R(1) will be complying with the general and specific criteria with respect to using a *sustainability label*.

4.2.23 G Where a *manager* is taking action under ESG 4.2.22R(1)(b) with respect to restoring compliance with ESG 4.2.4R(2)(a), the *FCA* would ordinarily expect only minimal deviations from the requirements under ESG 4.2.4R(2)(a).

4.2.24 G In relation to ESG 4.2.22R(2), a *manager* is reminded of its obligation under ESG 4.1.11R(2) to ensure that it reviews its use of a *sustainability label* at least every 12 *months* to determine whether the label continues to be appropriate.

4.2.25 R A *manager* must, where the steps taken under ESG 4.2.22R are not sufficient for ensuring ongoing compliance with the general and specific criteria:

(1) revise or cease the use of a *sustainability label* as soon as reasonably practicable; and

(2) take the steps set out under ESG 4.1.13R.

4.2.26 R Where a manager uses a *sustainability label* in relation to a *sustainability product*, it must take reasonable steps to ensure that the data it is relying upon in order to meet the requirements under ESG 4.2 is accurate and complete (including using proxies and assumptions where appropriate).

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4.3 Naming and marketing

Anti-greenwashing

4.3.1 R

(1) This *rule* applies to a *firm* (whether it is undertaking *sustainability in-scope business* or not) which:

(a) communicates with a *client* in the *United Kingdom* in relation to a product or service; or

(b) *communicates* a *financial promotion* to, or *approves* a *financial promotion* for communication to, a *person* in the *United Kingdom*, except where the *financial promotion* is:

(i) an *excluded communication*; or

(ii) a *third party prospectus*.

(2) A *firm* must ensure that any reference to the *sustainability characteristics* of a product or service is:

consistent with the *sustainability characteristics* of the product or service; and

fair, clear and not misleading.

Use of sustainability-related terms in relation to a sustainability product

4.3.2 R

(1) A *manager* that is undertaking *sustainability in-scope business* for *retail clients* in relation to a *sustainability product* must comply with the requirements in ESG 4.3.4R to ESG 4.3.8R where the *manager* uses the terms in ESG 4.3.2R(2) in either the *sustainability product's* name or in a *financial promotion* in relation to the *sustainability characteristics* of that product.

(2) For the purposes of ESG 4.3.2R(1), the relevant terms are:

(a) 'ESG' (or 'environmental, social and governance');

(b) 'environment', 'environmental' or 'environmentally';

(c) 'social' or 'socially';

(d) 'climate';

(e) 'sustainable' or 'sustainability';

(f) 'green';

(g) 'transition';

(h) 'net zero';

(i) 'impact';

(j) 'responsible';

(k) 'sustainable development goals' or 'SDG(s)';

(l) 'Paris-aligned'; and

(m) any other term which implies that a *sustainability product* has *sustainability characteristics*.

(3) A *manager* may use the terms in ESG 4.3.2R(2):

(a) to make short factual statements which are not *financial promotions*; or

(b) to make statements in a context not intended to refer to, or describe, the *sustainability characteristics* of a *sustainability product*.

4.3.3 G Examples of circumstances which may fall within ESG 4.3.2R(3) include references to 'financial impact' or 'economic climate', or a statement about who is 'responsible' for providing services in relation to a *sustainability product*.

Use of sustainability-related terms in the name of a sustainability product

4.3.4 R (1) A *manager* that uses a *sustainability label* in relation to a *sustainability product* (other than a *feeder fund*) may use the terms set out in ESG 4.3.2R(2) in the product's name provided that the *manager* complies with ESG 4.3.4R(2).

(2) Where a *manager* is using a 'sustainability focus', 'sustainability improvers' or 'sustainability mixed goals' *sustainability label*, the *manager* must not use the word 'impact' in the product's name.

4.3.5 R A *manager* that is undertaking *sustainability in-scope business* and does not use a *sustainability label* in relation to a *sustainability product* (other than a *feeder fund*) may use the terms set out in ESG 4.3.2R(2) in the product's name provided that the following conditions are met:

(1) The *sustainability product* must:

(a) have *sustainability characteristics* and a name which accurately reflects those characteristics; and

(b) not, in its name, use the terms 'sustainable', 'sustainability' or 'impact' or any other variation of those terms to refer to the *sustainability characteristics* of the product.

(2) The *manager* must produce:

(a) a *consumer-facing disclosure*;

(b) a *pre-contractual disclosure* (or Part A of a *public product-level sustainability report* in circumstances where the product does not have *pre-contractual materials* that relate to it); and

(c) Part B of a *public product-level sustainability report*.

(3) The *manager* must publish the following information on the *relevant digital medium* for the business of the *manager* in a prominent place

on the specific webpage or page on a mobile application or other digital medium at which the *sustainability product* is offered:

(a) an explanation as to the purpose of a *sustainability label*, using either the standard text – 'Sustainable investment labels help investors find products that have a specific sustainability goal' – or alternative text which reflects the substance of the standard text;

(b) a statement as to the fact that the product does not use a *sustainability label*, using the text: 'This product does not have a UK sustainable investment label'; and

(c) a brief explanation as to why the product does not use a *sustainability label*.

4.3.6 G In relation to ESG 4.3.5R:

(1) In relation to ESG 4.3.5R(1)(a), the *sustainability characteristics* of a *sustainability product* should be material to that product – for example, at least 70% of its assets should have *sustainability characteristics*.

(2) In relation to ESG 4.3.5R(3)(a), a *manager* may choose to provide further information regarding the *sustainability label* by including a hyperlink to the relevant webpage of the *FCA's* website on the *relevant digital medium* for the business of the *manager*. The hyperlink should be in a prominent place on the specific webpage or page on a mobile application or other digital medium at which the *sustainability product* is offered.

4.3.7 R A *manager* that is undertaking *sustainability in-scope business* in relation to a *sustainability product* that is a *feeder fund* must, where it intends to use the terms in ESG 4.3.2R(2) in the product's name, ensure that:

(1) the *feeder fund* uses only terms that are consistent with those used by the relevant *master fund* which is a *sustainability product*;

(2) the *manager* provides *clients* with easy access (for example, by providing hyperlinks) to the information set out under ESG 4.3.5R(2), produced by the relevant *master fund*; and

(3) the *manager* complies with the requirements of ESG 4.3.5R(3) where it is not using a *sustainability label*.

Use of sustainability-related terms in financial promotions relating to a sustainability product

4.3.8 R (1) This *rule* applies to a *manager* which *communicates* a *financial promotion* to a *retail client* in the *United Kingdom*.

(2) A *manager* must ensure that any *financial promotion* relating to a *sustainability product* is consistent with (if any) the *sustainability label*, *consumer-facing disclosure*, *pre-contractual disclosure* and Part B of a *public product-level sustainability report* relating to that product.

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(3) Where a *manager* is not using a *sustainability label* in relation to a *sustainability product* but *communicates* the terms in ESG 4.3.2R(2) in a *financial promotion* relating to that product, it must:

(a) in relation to a *sustainability product* which is not a *feeder fund*, comply with the requirements in ESG 4.3.5R(2) and ESG 4.3.5R(3); and

(b) in relation to a *sustainability product* which is a *feeder fund*, comply with the requirements of ESG 4.3.7R(1) to ESG 4.3.7R(3).

4.3.9 G The requirements in ESG 4.3.8R are without prejudice to the need to ensure that the relevant *financial promotion* is fair, clear and not misleading.

4.3.10 G Where a *manager* is not using a *relevant digital medium* to communicate the terms in ESG 4.3.2R(2) in the name of a *sustainability product* or a *financial promotion*, the *manager* should take reasonable steps to ensure the content required in ESG 4.3.5R(2) and ESG 4.3.5R(3) is communicated to *retail clients* as appropriate.

Chapter 5

Disclosure of sustainability-related information

5

5.1 Preparation of sustainability disclosures

5.1.1 R

(1) A *manager* must prepare the disclosures in ■ ESG 5.1.1R(2) in accordance with this chapter where it:

(a) is undertaking *sustainability in-scope business* in relation to a *sustainability product* that is not a *feeder fund*; and

(b) uses either a *sustainability label* or one or more of the terms in ■ ESG 4.3.2R(2) in accordance with ■ ESG 4.3.2R(1) in relation to that product.

(2) The disclosures are:

(a) a *consumer-facing disclosure* for *retail clients* as set out under ■ ESG 5.2; and

(b) a *pre-contractual disclosure* as set out under ■ ESG 5.3.

Reviewing consumer-facing disclosures and pre-contractual disclosures

5.1.2 R

(1) A *manager* must ensure that the *consumer-facing disclosure* and the *pre-contractual disclosure* for the *sustainability product* remain consistent with the *sustainability label* or the terms set out in ■ ESG 4.3.2R(2) that are used in accordance with ■ ESG 4.3.2R(1) in relation to the product.

(2) A *manager* must keep a *consumer-facing disclosure* and a *pre-contractual disclosure* under review, as follows:

(a) in relation to a *consumer-facing disclosure*, a *manager* must, at least every 12 *months*, review the disclosure and provide any updates as appropriate to ensure it accurately reflects the *sustainability product* – in particular:

(i) the *manager* must, where it uses a *sustainability label*, at a minimum provide an update on the progress of the *sustainability product* in achieving its *sustainability objective*; and

(ii) in providing any updates, the *manager* must ensure that up-to-date metrics and information are used;

(b) in relation to a *consumer-facing disclosure* and a *pre-contractual disclosure*, a *manager* must review the disclosure prior to any proposed change to a *sustainability product* and make any updates as appropriate to ensure that it continues to reflect the *sustainability product* accurately.

5.1.3 **R**

(1) This *rule* applies where a *manager* has revised a *consumer-facing disclosure* or a *pre-contractual disclosure* when either ceasing or revising the use of a *sustainability label* in relation to a *sustainability product*.

(2) The *manager* must publish, as soon as reasonably practicable, the information specified in ESG 5.1.3R(3) on the *relevant digital medium* for the business of the *manager*, in a prominent place on the specific webpage or page on a mobile application or other digital medium at which the *sustainability product* is offered.

(3) The information which must be published in accordance with ESG 5.1.3R(2) is:

(a) the revised *consumer-facing disclosure* or *pre-contractual disclosure*;

(b) the reasons for the revision; and

(c) in the case of a *consumer facing disclosure*, the date of the revised disclosure.

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5.2 Consumer-facing disclosures

5.2.1 R A *manager* that is required to prepare and publish a *consumer-facing disclosure* under ESG 5.1.1R must include in the *consumer-facing disclosure* for the relevant product:

(1) where it uses a *sustainability label* in relation to a *sustainability product*, the information in ESG 5.2.2R; or

(2) where it does not use a *sustainability label* in relation to a *sustainability product*, but uses one or more of the terms in ESG 4.3.2R(2) in accordance with ESG 4.3.2R(1), the information set out at:

(a) ESG 5.2.2R(1) to ESG 5.2.2R(4), ESG 5.2.2R(7)(a) and (b), ESG 5.2.2R(8)(b) and (c) and ESG 5.2.2(9); and

(b) ESG 4.3.5R(3)(a) to (c).

5.2.2 R For the purposes of ESG 5.2.1R, a *manager* must include the following information in the *consumer facing disclosure* which relates to a *sustainability product*:

(1) the *manager's* name;

(2) the name of the *sustainability product* to which the *consumer-facing disclosure* relates;

(3) the date of the disclosure;

(4) the *International Securities Identification Number (ISIN)* or other unique identifier (if any) for that *sustainability product*;

(5) the *sustainability product's sustainability objective*, clearly signposted as the 'sustainability goal' for that product, including a summary of:

(a) any material effect (including expected effect) on the financial risk and return of the product as a result of the investment strategy the *manager* has adopted to pursue the product's *sustainability objective*;

(b) the product's progress towards achieving its *sustainability objective*; and

any material negative environmental and/or social outcomes that may arise when pursuing the product's *sustainability objective*, as identified under ESG 4.2.9R(1);

(6) the *sustainability label* which the *manager* is using in relation to that *sustainability product*, together with the relevant descriptor for that label, as follows:

(a) for the *sustainability label* 'sustainability focus', the relevant descriptor is: 'invests mainly in assets that focus on sustainability for people or the planet';

(b) for the *sustainability label* 'sustainability improvers', the relevant descriptor is: 'invests mainly in assets that may not be sustainable now, with an aim to improve their sustainability for people or the planet over time';

(c) for the *sustainability label* 'sustainability impact', the relevant descriptor is: 'invests mainly in solutions to sustainability problems, with an aim to achieve a positive impact for people or the planet'; and

(d) for the *sustainability label* 'sustainability mixed goals', the relevant descriptor is: 'invests mainly in a mix of assets that either focus on sustainability, aim to improve their sustainability over time, or aim to achieve a positive impact for people or the planet' as appropriate;

(7) a summary of the *manager's* investment policy and strategy in relation to the *sustainability product's sustainability characteristics* (including, where relevant, the *sustainability product's sustainability objective*) which uses plain English language to describe the policy and strategy effectively and accurately to *retail clients* and which:

(a) is clearly signposted as the *manager's* 'sustainability approach';

(b) sets out the key *sustainability characteristics* of assets in which that *sustainability product* will and will not invest;

(c) details any types of asset that the product invests in for reasons other than to pursue its *sustainability objective* and why the product invests in those assets; and

(d) summarises the *manager's* approach to investor stewardship in supporting the achievement of the *sustainability product's sustainability objective*;

(8) a summary of the relevant metrics in relation to that *sustainability product*, calculated using the most up-to-date data available as at the time of preparing the *consumer-facing disclosure*, which is clearly signposted as the *manager's* 'sustainability metrics' and sets out:

(a) the product's progress towards achieving the product's *sustainability objective*, measured against the KPIs that the *manager* uses under ■ ESG 4.2.4R(3);

(b) any other metrics that a *retail client* might reasonably find useful in understanding the *sustainability characteristics* of the product; and

(c) any relevant contextual information, such as an explanation of how the metrics in ■ ESG 5.2.2R(8)(a) and (b) should be interpreted;

(9) details (including, as appropriate, hyperlinks) as to where a *retail client* can easily access the following information:

(a) the relevant *pre-contractual disclosure* in relation to the *sustainability product*, including, where applicable, Part A of the *public product-level sustainability report* in relation to that product;

(b) Part B of the *public product-level sustainability report* in relation to the product;

(c) the *manager's sustainability entity report*; and

(d) other non-sustainability related information in relation to a *sustainability product* – for example, costs and charges that are associated with that product; and

(10) for a *manager* that uses the 'sustainability mixed goals' *sustainability label*, details as to the proportion of the *sustainability product's* assets which are invested in accordance with each of the 2 or more *sustainability objectives* referred to in ESG 4.2.18R.

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5.2.3 G In relation to ESG 5.2.1R(2)(a), a *manager* may choose to disclose any further information in ESG 5.2.2R that it considers appropriate to include in a *consumer-facing disclosure*.

5.2.4 R A *manager* must ensure that the information at either ESG 5.2.1R(2)(b) or ESG 5.2.2R(5) (as applicable), together with the information at ESG 5.2.2R(6), is located in a prominent place at the front of the *consumer-facing disclosure*.

5.2.5 G Where applicable, a *manager* may, for the purposes of ESG 5.2.2R(9)(d), choose to refer to documents such as the *key information document*, the *key investor information document* or the *NURS-KII document* in relation to the particular *sustainability product*.

5.2.6 R A *manager* must ensure that a *consumer-facing disclosure* is clear, concise and can be easily read and understood by *retail clients* and that it does not exceed 2 pages of printed A4 paper in length.

5.2.7 G In relation to ESG 5.2.6R, a *manager* is reminded of its obligations under PRIN 2A.5.8R to PRIN 2A.5.12R in tailoring a *consumer disclosure* appropriately to the needs of its *retail clients*.

5.2.8 R A *manager* must ensure it keeps a copy of each version of its published *consumer-facing disclosure* for a minimum of 5 years and provides a copy to a *retail client* or the *FCA* on request.

Publication of a consumer-facing disclosure

5.2.9 R (1) A *manager* must publish a *consumer-facing disclosure* on the *relevant digital medium* for the business of the *manager* in a prominent place on the specific webpage or page on a mobile application or other digital medium at which the *sustainability product* is offered.

(2) A *manager* must ensure that, in publishing a *consumer-facing disclosure*, it is easy for *retail clients* (including prospective *retail clients*) and *distributors* to:

(a) identify the particular *sustainability product* to which the *consumer-facing disclosure* relates;

(b) identify the relevant *sustainability label* (if any); and

(c) access the information set out at ESG 5.2.2R(9).

5.2.10 G If a *manager* chooses to use a hyperlink in order to comply with ESG 5.2.9R(2), it should ensure that the *consumer-facing disclosure* is available at no more than one mouse click away from the specific webpage at which the relevant *sustainability label* (if any) is located.

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5.3 Pre-contractual disclosures

5.3.1 R A *manager* that is required to prepare a *pre-contractual disclosure* under ESG 5.1.1R must do so in a clear and accessible way and include that disclosure in either:

(1) the *pre-contractual materials* for the particular *sustainability product*; or

(2) where that product does not have *pre-contractual materials*, Part A of the *public product-level sustainability report* relating to that product, as set out under ESG 5.5.1R to ESG 5.5.4R.

5.3.2 R (1) A *manager* must, where it uses a *sustainability label* in relation to a *sustainability product*, include in the pre-contractual disclosure for that product the information in ESG 5.3.3R and ESG 5.3.6R.

(2) A *manager* must, where it does not use a *sustainability label* in relation to a *sustainability product*, but uses one or more of the terms in ESG 4.3.2R(2) in accordance with ESG 4.3.2R(1), include in the *pre-contractual disclosure* for that product:

(a) the information at ESG 5.3.3R(3)(a) and ESG 5.3.3R(6); and

(b) the information set out under ESG 4.3.5R(3)(a) to (c).

5.3.3 R For the purposes of ESG 5.3.2R, a *manager* must include the following information in the *pre-contractual disclosure* which relates to a *sustainability product*:

(1) the *sustainability label* that the *manager* is using in relation to the *sustainability product*;

(2) the *sustainability product's sustainability objective*, as part of its *investment* objectives, including details as to:

(a) any material effect (including expected effect), on the financial risk and return of the product as a result of the investment strategy the *manager* has adopted to pursue the product's *sustainability objective*;

(b) the link between the *sustainability product's sustainability objective* and a positive environmental and/or social outcome; and

(c) any material negative environmental and/or social outcomes that may arise when pursuing the product's *sustainability objective*, as identified under ESG 4.2.9R(1);

(3) details of the *manager's* investment policy and strategy – in particular:

(a) how the *manager* determines the assets the product invests in, including the criteria it applies in determining the *sustainability characteristics* of those assets;

(b) the standard which the *manager* relies upon under ESG 4.2.4R(2)(b) including:

(i) the basis on which that standard is considered to be appropriate for the purposes of determining the assets the product invests in (in accordance with its *sustainability objective*); and

(ii) the name of either the specific function within the *manager's* business or the third party that carried out the assessment; and

(c) the proportion of assets (which may be expressed as an approximate figure or range) that are invested in accordance with the *sustainability product's sustainability objective*, as well as the types of assets that are not invested in accordance with that objective, and the reason(s) for that;

(4) where the *sustainability product* is an index-tracking product, how the index provider's methodology for index-construction aligns with the product's *sustainability objective*;

(5) details of the *manager's* policies and procedures to monitor the performance of the *sustainability product* in achieving its *sustainability objective*;

(6) details of the KPIs that the *manager* will use under ESG 4.2.4R(3) (if using a *sustainability label*) and any metrics a *retail client* may reasonably find useful in understanding the *manager's* investment policy and strategy for the product;

(7) details of the *manager's* investor stewardship strategy and resources in relation to supporting the achievement of the product's *sustainability objective*, including:

(a) where relevant, whether the *manager* is a signatory of the UK Stewardship Code 2020, published by the Financial Reporting Council; and

(b) how the *manager* will apply its strategy and resources in a manner consistent with achieving the *sustainability product's sustainability objective*; and

(8) details of the actions the *manager* will take in accordance with the requirements of ESG 4.2.9R(6).

5.3.4 G In relation to ESG 5.3.2R(2)(a), a *manager* may choose to disclose any further information in ESG 5.3.3R that it considers appropriate to include in a *pre-contractual disclosure*.

5.3.5 G In relation to ■ ESG 5.3.3R(3)(a), a *manager* may consider disclosing the following information:

(1) the proportion of the product's assets that have *sustainability characteristics*;

(2) any screening criteria (either positive or negative) that apply; and

(3) the application of any index it uses.

5.3.6 R In addition to the information set out in ■ ESG 5.3.3R, a *manager* must also include the following information in the *pre-contractual disclosure* for a *sustainability product*:

(1) where the *manager* uses the *sustainability label* 'sustainability improvers', it must include the following information:

(a) the timescale identified in ■ ESG 4.2.15R(1) and the short and medium-term targets identified in ■ ESG 4.2.15R(2); and

(b) a summary of the types of evidence the *manager* has relied upon to satisfy itself that the assets in which the product invests have the potential to meet the robust, evidence-based standard set out under ■ ESG 4.2.4R(2)(b);

(2) where the *manager* uses the *sustainability label* 'sustainability impact', it must include the following information:

(a) the *manager's theory of change*, with clear examples that emphasise how the *manager* expects its investment activities and the product's assets to contribute to achieving a positive environmental and/or social impact; and

(b) a summary of the method used to measure and demonstrate that the *manager's investment* activities and the *sustainability product's* assets are achieving a positive environmental and/or social impact; and

(3) where the *manager* uses the *sustainability label* 'sustainability mixed goals', it must include the following information:

(a) details as to the proportion of the *sustainability product's* assets which are invested in accordance with each of the *sustainability objectives* referred to in ■ ESG 4.2.18R; and

(b) in relation to the proportion invested in accordance with

(i) the requirements for using the *sustainability label* 'sustainability improvers' under ■ ESG 4.2.15R, the information set out under ■ ESG 5.3.6R(1); and

(ii) the requirements for using the *sustainability label* 'sustainability impact' under ■ ESG 4.2.17R, the information set out under ■ ESG 5.3.6(2)R.

5.3.7 R A *manager* must, in order to meet the requirements of ■ ESG 5.3.3R and ■ ESG 5.3.6R, set out the required information so that it is clearly identifiable in the *pre-contractual materials* relating to the particular *sustainability product* (unless that information is otherwise being included in Part A of the relevant *public product-level sustainability report* for that *sustainability product* in accordance with ESG 5.5.1R to ESG 5.5.4R).

5.3.8 G In meeting the requirements of ESG 5.3.7R, a *manager* may, for example, choose to include the required information in a dedicated section of the *pre-contractual materials*.

5.3.9 R A *manager* must ensure that the information at either ESG 5.3.2R(2)(b) or ESG 5.3.3R(1) (as applicable), together with the information at ESG 5.3.3R(2), is located in a prominent place in the *pre-contractual disclosure* for the *sustainability product*.

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5.4 Preparation of sustainability reports

5.4.1 R

(1) A *manager* must prepare the reports in ESG 5.4.1R(2) in accordance with this chapter where it:

(a) is undertaking *sustainability in-scope business* in relation to a *sustainability product* that is not a *feeder fund*; and

(b) uses either a *sustainability label* or one or more of the terms in ESG 4.3.2R(2) in accordance with ESG 4.3.2R(1) in relation to that product.

(2) The reports are:

(a) Part A of a *public product-level sustainability report*, in circumstances where a *sustainability product* does not have *pre-contractual materials* that relate to it; and

(b) Part B of a *public product-level sustainability report* in accordance with ESG 5.5.5R to ESG 5.5.12R.

5.4.2 R

A *manager* that is undertaking *sustainability in-scope business* in relation to a *sustainability product* must, subject to ESG 3.1.3R, prepare a *sustainability entity report*, regardless of whether it uses a *sustainability label* or one or more of the terms in ESG 4.3.2R(2) in accordance with ESG 4.3.2R(1) in relation to that product.

5.4.3 R

A *manager* must meet the following requirements in relation to the timing and publication of Part B of a *public product-level sustainability report* and a *sustainability entity report*:

(1) A *manager* must produce and publish Part B of a *public product-level sustainability report* annually, covering a reporting period of 12 *months*, and must publish the first report within 16 *months* after the manager first starts to use a *sustainability label* or uses one or more of the terms listed in ESG 4.3.2R(2) in accordance with ESG 4.3.2R(1) in relation to a *sustainability product*.

(2) A *manager* must produce and publish a *sustainability entity report* annually, covering a reporting period of 12 *months* and, in relation to the first report:

(a) where a *manager* meets the requirements of an *enhanced SMCR firm* pursuant to SYSC 23 Annex 1 8.2R paragraph 1 in relation to *sustainability in-scope business*, the first report must be produced and published by 2 December 2025; and

(b) where a *manager* does not meet the requirements of an *enhanced SMCR firm* pursuant to SYSC 23 Annex 1 8.2R paragraph 1 but has assets under management in relation to *sustainability in-scope business* of £5bn or more calculated as a 3-year rolling average on annual assessment, the first report must be produced and published by 2 December 2026.

(3) A *manager* may change the reporting dates in ESG 5.4.3R(1) and ESG 5.4.3R(2) for subsequent reports following the first report, but the *manager* must ensure that there is no period of time which is not covered by Part B of a *public product-level sustainability report* or a *sustainability entity report* and must issue an interim report if necessary.

(4) A *manager* must take reasonable steps to publish Part B of a *public product-level sustainability report* and a *sustainability entity report* in a way that makes it easy for *clients* to locate and access, including, at a minimum, by making the most recent edition of those reports available in a prominent place on the main website for the business of the *manager*.

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5.4.4 R A *manager* must, where it is required to prepare a *public TCFD product report*, include the contents of that report (or a hyperlink to it) in Part B of a *public product-level sustainability report*, making clear that the *public TCFD product report* forms part of the *manager's* overall Part B of a *public product-level sustainability report* with respect to climate-related disclosures.

5.4.5 R A *manager* must, where it is required to prepare a *TCFD entity report*, include the contents of that report (or a hyperlink to it) in its *sustainability entity report*, making clear that the *TCFD entity report* forms part of the *manager's* overall *sustainability entity report* with respect to climate-related disclosures.

Data considerations when preparing sustainability reports

5.4.6 R A *manager* must comply with ESG 5.4.7R to ESG 5.4.10R in relation to preparing Part B of a *public product-level sustainability report* or a *sustainability entity report*.

5.4.7 R In satisfying its reporting and disclosure obligations under ESG 5.4 and ESG 5.5, a *manager* must, insofar as is reasonably practicable, use the most up to date information available.

5.4.8 R In preparing Part B of a *public product-level sustainability report*, a *manager* must select, from within the 12-*month* reporting period, the most recent calculation date for which up-to-date information is available.

5.4.9 R A *manager* must not disclose metrics where:

(1) there are gaps in underlying data or methodological challenges; and

(2) these data gaps or methodological challenges cannot be addressed using proxy data or assumptions without the resulting disclosure, in the reasonable opinion of the *manager*, being misleading.

5.4.10 R A *manager* must ensure that Part B of a *public product-level sustainability report* and a *sustainability entity report* include an adequate explanation of:

(1) any gaps in the underlying data relied upon to make sustainability-related disclosures;

(2) how the *manager* has addressed these gaps, for example, by using proxy data or assumptions and briefly setting out any methodologies used in doing so, providing relevant contextual information and explaining any limitations of the approach;

(3) any metrics that the *manager* has not been able to disclose, on the basis that ESG 5.4.9R applies; and

(4) in respect of ESG 5.4.10R(3):

(a) the gaps in underlying data or methodological challenges that have resulted in the *manager* being unable to make the relevant disclosure;

(b) why the *manager* has not been able to address those gaps or challenges using proxy data or assumptions; and

(c) what steps the *manager* will take to address those gaps or challenges in the future.

5.4.11 G In addition, a *manager* may include in Part B of a *public product-level sustainability report* or its *sustainability entity report* an explanation of the proportion of assets in which each *sustainability product* invests for which data are verified, reported, estimated or unavailable.

Cross-referencing third-party sustainability-related disclosures

5.4.12 R ESG 5.4.13R to ESG 5.4.15R apply to a *manager* in relation to preparing Part B of a *public product-level sustainability report* or a *sustainability entity report*.

5.4.13 R A *manager* may include hyperlinks and cross-references to relevant sustainability-related disclosures contained in a third party's sustainability reporting where such information enables the *manager* to prepare Part B of a *public product-level sustainability report* or a *sustainability entity report*.

5.4.14 R The *manager* must set out the rationale for relying on any third-party sustainability disclosures, and any deviations between the third party's approach and that of the *manager*.

5.4.15 R Where relevant, a *manager* may also draw links and refer to Part B of its *public product-level sustainability report* from its *sustainability entity report* and vice versa.

5.5 Sustainability product-level reporting

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Form and content of Part A of a public product-level sustainability report

5.5.1 R A *manager* must prepare Part A of a *public product-level sustainability report* in circumstances where a *sustainability product* does not have *pre-contractual materials* that relate to it.

5.5.2 R A *manager* must ensure that Part A of a *public product-level sustainability report*:

(1) contains the information set out in ESG 5.3.3R and ESG 5.3.6R; and

(2) is made available to *clients* before they invest in a *sustainability product*.

5.5.3 R A *manager* must publish Part A of a *public product-level sustainability report* on the *relevant digital medium* for the business of the *manager* in a prominent place on the specific webpage or page on a mobile application or other digital medium at which the *sustainability product* is offered.

5.5.4 R A *manager* must ensure that it keeps the information set out in Part A of a *public product-level sustainability report* under review in accordance with ESG 5.1.2R.

Form and content of Part B of a public product-level sustainability report

5.5.5 R (1) ESG 2.3.1R to ESG 2.3.4R apply for the purposes of a *manager* preparing Part B of a *public product-level sustainability report*, where the reference to '*public TCFD product report*' is substituted with the reference to '*public product-level sustainability report*'.

(2) A *manager* must:

(a) where a *manager* uses a *sustainability label* in relation to a *sustainability product*, include in Part B of its *public product-level sustainability report* the information set out under ESG 5.5.6R; or

(b) where a *manager* does not use a *sustainability label* in relation to a *sustainability product* but uses one or more of the terms in ESG 4.3.2R(2) in accordance with ESG 4.3.2R(1), include in Part B of its *public product-level sustainability report* the information at:

(i) ESG 5.5.6R(3);

(ii) ESG 5.5.6R(5);

(iii) ESG 5.5.6R(8) (in relation to the *manager's* investment policy and strategy);

(iv) ESG 5.5.6R(9); and

(v) ESG 5.5.6R(10)

5.5.6 R In addition to the requirements at ESG 5.4.4R, a *manager* must include the following information in relation to a *sustainability product* in Part B of a *public product-level sustainability report*:

(1) the *sustainability label* that the *manager* is using in relation to the *sustainability product*;

(2) details of the product's *sustainability objective*;

(3) the date of the report;

(4) details as to the product's progress towards achieving its *sustainability objective*;

(5) details as to how the product invests in accordance with the *manager's investment* policy and strategy for that product on an ongoing basis;

(6) the proportion of assets (which may be expressed as an approximate figure or range) that are invested in accordance with the product's *sustainability objective*, as well as the types of assets that are not invested in accordance with that objective and the reason(s) for that;

(7) details of the *sustainability product's* performance against the KPIs under ESG 4.2.4R(3);

(8) details of the relevant metrics (other than those set out in ESG 5.5.6R(7)) that a *retail client* might reasonably find useful in understanding the product's *sustainability objective* and/or the *manager's* investment policy and strategy for that product:

(9) details of the following information, where this is relevant to a *retail client's* understanding of the metrics set out at ESG 5.5.6R(7) and ESG 5.5.6R(8):

(a) relevant contextual information such as how the metrics should be interpreted and their associated limitations – for example, if particular assumptions or proxies have been used; and

(b) historical annual calculations of the metrics in ESG 5.5.6R(7) and ESG 5.5.6R(8) after the first year of preparing Part B of a *public product-level sustainability report* in relation to the product that enable *clients* to compare the product's sustainability performance year-on-year in a way that is easy to understand and is not misleading;

(10) details (if any) of how the *manager's* approach in relation to the product deviates materially from the *manager's* overarching approach disclosed in the *manager's sustainability entity report*;

(11) details of how the *manager's* investor stewardship strategy has been applied in relation to the *sustainability product*, including the activities undertaken and the outcomes the *manager* has achieved or expects to achieve; and

(12) details of the matters escalated (if any) in accordance with the *manager's* escalation plan under ESG 4.2.9R(6).

5.5.7 R In addition to the information set out in ESG 5.5.6R, where a *manager* uses the *sustainability label* 'sustainability impact', it must also include in Part B of a *public product-level sustainability report* details of the progress that the *sustainability product's* assets are making towards achieving a positive environmental and/or social impact, as measured in accordance with the method set out under ESG 4.2.17R(2).

5.5.8 G In relation to ESG 5.5.5R(2)(b), a *manager* may choose to disclose any further information in ESG 5.5.6R that it considers appropriate to include in Part B of a *public product-level sustainability report*.

5.5.9 G To the extent that a *manager* discloses the information referred to at ESG 5.5.6R(9):

(1) the *manager* should clearly explain the methodology used in providing each relevant metric and ensure that the metrics calculated under ESG 5.5.6R(7) and ESG 5.5.6R(8) are at least as prominently presented; and

(2) the metrics referred to in ESG 5.5.6R(8) may include (for example) KPIs that are not linked specifically to the *sustainability objective* of the *sustainability product*, but which may be common metrics within a particular sector.

5.5.10 G If a *manager* discloses material deviations under ESG 5.5.6R(10), it may refer to the relevant sections of its *sustainability entity report*, and similarly its *sustainability entity report* may refer to these disclosures in Part B of its *public product-level sustainability report*.

5.5.11 G A *manager* may, for the purposes of ESG 5.5.6R(11), choose to cross-reference and include a hyperlink in its *public product-level sustainability report* to a report that it has published for the purposes of demonstrating its compliance with the UK Stewardship Code 2020, published by the Financial Reporting Council; if doing so, it should clearly signpost the information which is relevant to the *sustainability product*.

Reviewing Part B of a public product-level sustainability report

5.5.12 R A *manager* must ensure that Part B of a *public product-level sustainability report* remains consistent with the *sustainability label* that is used in relation to a *sustainability product*, as well as the disclosures required under ESG 5.2 and ESG 5.3 in relation to that product.

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On-demand product-level sustainability information

5.5.13 **R**

(1) A *manager* must prepare and provide the specified information in ESG 5.5.13R(2) ('*on-demand sustainability information*') to a *person* who requests it in order to satisfy sustainability-related disclosure obligations, whether under this chapter or as a result of other legal or regulatory requirements.

(1A) The *on-demand sustainability information* must be provided to the *person*:

(a) within a reasonable period of time; and

(b) in a format which the *manager*, acting reasonably, considers appropriate to meet the information needs of that *person*.

(2) In ESG 5.5.13R(1), the specified information is the information under ESG 5.4.4R, ESG 5.5.1R to ESG 5.5.4R (as applicable) and ESG 5.5.5R to ESG 5.5.7R in relation to assets under management in an *unauthorised AIF* in which the *person* is an investor, but only in respect of an *unauthorised AIF* which is a *UK AIF* which is not listed on a *recognised investment exchange* and which is managed by a *full-scope UK AIFM* or a *small authorised UK AIFM*.

5.5.14 **R**

(1) On receipt of a request from a *person* under ESG 5.5.13R(1), a *manager* must provide *on-demand sustainability information* as at a calculation date determined in accordance with ESG 5.4.8R or at an alternative calculation date where this has been agreed between the *person* and the *manager*.

(2) A *manager* is not required to comply with a request made under ESG 5.5.13R(1) before 2 April 2026.

5.5.15 **R**

The entitlement in ESG 5.5.13R(1) is limited to one request for *on-demand product-level sustainability information* in respect of each *sustainability product* in each of the *manager's* 12-*month* reporting periods under ESG 5.4.8R.

5.5.16 **G**

A *manager* is encouraged to consider, where practicable, making available to a *person* the information under ESG 5.5.13R(2) irrespective of the *person's* eligibility to request such information under ESG 5.5.13R(1).

5.6 Sustainability entity report

Content of a sustainability entity report

5.6.1 R In addition to the requirements at ESG 5.4.5R, a *manager* must, in relation to the overall assets it manages within its *sustainability in-scope business*:

(1) set out the following information relating to:

(a) the *manager's* approach to governance, with respect to managing sustainability risks and opportunities;

(b) the actual and potential impacts of any material sustainability-related risks and opportunities on the *manager's* businesses, strategy and financial planning;

(c) how the *manager* identifies, assesses and manages sustainability-related risks; and

(d) the metrics and targets used by the *manager* to assess and manage relevant material sustainability-related risks;

(2) explain, either in its *sustainability entity report* or in a cross-referenced *public product-level sustainability report*, where its approach to a particular *investment* strategy, asset class or product is materially different to its overall entity-level approach to governance, strategy, risk management or targets and metrics; and

(3) where relevant, briefly explain in its *sustainability entity report* how the *manager's* strategy has influenced the decision-making and process by which it delegates functions, selects delegates, and relies on services, strategies or products offered or employed by third parties, including delegates.

5.6.2 G The *FCA* considers the following documents relevant in relation to a *manager* determining the content of disclosures under ESG 5.6.1R(1):

(1) the *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* with respect to the *manager's* disclosures on sustainability-related risks and opportunities;

(2) the Sustainability Accounting Standards Board standards with respect to relevant sector-specific matters; and

(3) the *Global Reporting Initiative Standards* with respect to disclosing the impacts of the manager on the environment and/or society.

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5.6.3 G A *manager* should, in meeting the requirements of ESG 5.6.1R(1):

(1) consider disclosing sustainability-related topics that it has prioritised in its governance, strategy and risk management, and the rationale for doing so;

(2) consider disclosing the impact of the *manager* on the environment and/or society, having regard to the *Global Reporting Initiative Standards*; and

(3) refer to part 4, section D of the *TCFD Annex*, entitled 'Asset managers' in determining how to make disclosures required under ESG 5.6.1R(1) with respect to assets managed on behalf of *clients*.

5.6.4 R Where a *manager* uses either a *sustainability label* or one or more of the terms in ESG 4.3.2R(2) in accordance with ESG 4.3.2R(1) in relation to a *sustainability product*, it must, to the extent relevant to the particular product, include the following information in a clear and accessible way in a *sustainability entity report*:

(1) a description of the resources, governance and organisational arrangements the *manager* has in place, commensurate with the achievement of the product's *sustainability objective* and/or the *manager's* investment policy and strategy for the product; and

(2) a description of the processes in place to ensure that there is a high standard of diligence in the selection of any data or other information used (including when third-party ESG data or ratings providers are used) to inform investment decisions for the *sustainability product*.

Approach to relevant sustainability-related disclosures contained in other reports at an entity-level

5.6.5 R (1) If a *manager* is a member of a *group*, it may rely on disclosures consistent with those of the *group* or a member of its *group* when producing its *sustainability entity report*, but only to the extent that those *group* disclosures are relevant to the manager and cover the assets the *manager* manages as part of its *sustainability in-scope business*.

(2) If a *manager* relies on such *group* disclosures, it must ensure that its *sustainability entity report*:

(a) includes cross-references, including hyperlinks, to any disclosures contained within the *group* or *group* member's report that relate to assets managed by the *manager* in relation to its *sustainability in-scope business* on which the *manager* is relying to meet its disclosure obligations under this section; and

(b) sets out the rationale for relying on the disclosure made by its *group* or a member of its *group* and why the disclosure is relevant to the assets managed by the *manager* in relation to its sustainability in-scope business.

5.6.6 R A *manager* must also ensure that any material deviations between its approach to governance, strategy, risk management or targets and metrics disclosed under ESG 5.6.1R(1) and the disclosures contained within the *group* report are clearly explained, either in its *sustainability entity report* or in the report made by its *group* or a member of its *group*.

5.6.7 R

(1) If a *manager* or a member of its *group* produces a document, other than its annual financial report, which includes disclosures relating to *sustainability characteristics*, the *manager* may cross-refer to these disclosures in its *sustainability entity report* where this information is relevant to *clients* or a *person* who is an investor in an unauthorised *UK AIF* managed by a *full-scope UK AIFM* or a *small authorised UK AIFM*, including hyperlinks to where the relevant disclosures are available.

(2) Where a *manager* cross-refers to disclosures made by a member of its *group* in accordance with ESG 5.6.7R(1), it must explain in its *sustainability entity report* the rationale for relying on the disclosures in the supplementary document and how such disclosures are relevant to the *clients* or a *person* who is an investor in an *unauthorised AIF* which is a *UK AIF* managed by a *full-scope UK AIFM* or a *small authorised UK AIFM* of the *manager's sustainability in-scope business*.

Compliance statement

5.6.8 R ESG 2.2.7R applies in relation to the preparation of a compliance statement for the purposes of a *sustainability entity report* as if the reference to a *manager's TCFD entity report* has been substituted by the reference to a *manager's sustainability entity report*.

Environmental, Social and Governance sourcebook

ESG TP 1
Transitional provisions

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
1.1	ESG 2 as it applies to *firms* falling within Part A (asset managers) of the table in ESG 1A.1.1R(2)	R	ESG 2 is disapplied where a *firm* does not meet the requirements of an *enhanced scope SMCR firm* pursuant to SYSC 23 Annex 1 8.2R paragraph 1.	From 1 January 2022 to 31 December 2022	Effective date of instrument
1.2	ESG 2 as it applies to *firms* falling within Part B (asset owners) of the table in ESG 1A.1.1R(2)	R	ESG 2 is disapplied where a *firm* has assets under management or administration in relation to *TCFD in-scope business* of less than £25bn calculated as a 3-year rolling average on an annual assessment.	From 1 January 2022 to 31 December 2022	Effective date of instrument
1.3	ESG 2.1.1R(1)	R	(1) For a *firm* to whom the disapplication in ESG TP 1.1 or ESG TP 1.2 is available, the first publication deadline for a *TCFD entity report* and a *public TCFD product report* is 30 June 2024. (2) For other *firms*, the first publication deadline for these reports is 30 June 2023.	From 1 January 2022	Effective date of instrument
1.4	ESG 2.1.2R(2)	R	For a *firm* to whom the disapplication in ESG TP 1.1 or ESG TP 1.2 is available, the reporting period that must be covered by one or more *TCFD entity reports* is to commence from 1 January 2023.	From 1 January 2022	Effective date of instrument
1.5	ESG 2.3.5R(3)	R	For a *firm* to whom the disapplication in ESG TP 1.1 or ESG TP 1.2 is available, (a) the earliest reporting period for which a *person* can	From 1 January 2022	Effective date of instrument

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
			request *on-demand TCFD information* is to commence from 1 January 2023, and (b) the earliest a *person* can request *on-demand TCFD information* is 1 July 2024.		
1.6	ESG 2.3.9R(1)(b)	R	The first reporting deadline for scope 3 greenhouse gas emissions is 30 June 2024.	From 1 January 2022	Effective date of instrument
1.7	ESG 4.1.16R to ESG 4.1.19R	R	A *distributor* is not required to comply with the *rules* specified in column 2 until: (1) in relation to ESG 4.1.16R to ESG 4.1.18R, 31 July 2024; and (2) in relation to ESG 4.1.19R, 2 December 2024	From 31 July 2024 in relation to a *distributor* in paragraph (1) of column 4; and from 2 December 2024 in relation to a *distributor* in paragraph (2) of column 4.	28 November 2023
1.8	ESG 4.3.1R	R	The *rule* in column 2 applies from 31 May 2024.	From 31 May 2024	28 November 2023
1.9	ESG 4.3.2R to ESG 4.3.8R	R	A *manager* is not required to comply with the *rules* specified in column 2 until either: (1) the date on which a *sustainability label* is first used in relation to a *sustainability product*; or (2) 2 December 2024.	From either the date on which a *sustainability label* is first used in relation to a *sustainability product* or 2 December 2024.	28 November 2023
1.10	ESG 5.1 to ESG 5.3; ESG 5.4 insofar as it relates to the preparation of Part A of a *public product-level sustainability report*; and ESG 5.5.1R to ESG 5.5.4R	R	A *manager* is not required to comply with the *rules* specified in column 2 until either: (1) the date on which a *sustainability label* is first used in relation to a *sustainability product*; or (2) 2 December 2024.	From either the date on which a *sustainability label* is first used in relation to a *sustainability product* or 2 December 2024.	28 November 2023