

ESG Policy Team
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN



By email

10 June 2024

Dear Sir/ Madam,

CP24/8: Extending the Sustainability Disclosure Requirements (SDR) regime to Portfolio Management

The Panel generally supports the intention to extend the SDR regime to portfolio management services. Our broad observation is that given the different type of services and implementation models across the portfolio management sector a one size fits all approach is not necessarily appropriate and careful consideration needs to be given as to where the SDR and labelling regime should apply.

We have consistently raised concerns about the weight of the regulatory burden on smaller firms. Given the complexity of the SDR regime and expanded scope we recommend delaying implementation to allow firms more time to prepare. Delay will also enable valuable insight and lessons to be assimilated from the roll out of the regime to investment funds.

On the specific proposals our main concerns are:

- There is rationale for including standardised portfolio management offerings such as model portfolio services (MPS) and centralised investment propositions within the proposed scope as these offerings have similar characteristics as funds. However, bespoke customised portfolio management services, which are by their nature adapted to client requirements, are far less likely to be compatible with the proposed SDR regime.
- The application of the proposed SDR requirements for lower risk solutions across all portfolio management offerings poses significant challenge. These portfolios which require bond and cash allocations to satisfy their risk requirements will struggle to meet the proposed threshold of 70% of the gross value of the portfolio to be invested in accordance with the sustainability objective. The current proposals may unintentionally bias the SDR regime to higher risk equity solutions unless the thresholds are adapted by asset class of risk profile.
- We have previously highlighted the importance of minimising divergence of the rules, also being mindful of the importance of achieving consumer understanding, clarity and choice. More clarity is needed on the impact of the SDR rules on funds in scope with the EU's Sustainable Financial Disclosure Rules, how SDR and the naming and marketing rules interact with the UK Stewardship code, how they align with Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the interplay with other integrated ESG activities that firms are obliged to comply with as part of their everyday responsibilities.
- Given the complexity of adapting to this new regime we remain concerned that the cost benefit analysis does not adequately take into account the impact on

smaller firms or the significant challenges in scaling the different type of portfolio management activities.

- The proposals set out that advisers, distributors and intermediaries need to make available the disclosures as relevant for their conversations with clients but do not explain the liability on financial advisers/planners for advice given, particularly where a product drifts over a time and may no longer qualify under the criteria. Clarifying this accountability is vital to avoid the potential for large volumes of complaints by CMCs. It would be helpful to make clear how this issue is being explored by the financial adviser working group.

We would be happy to discuss any of these points further.

Yours faithfully,

[signed]

Andy Mielczarek
Chair, FCA Smaller Business Practitioner Panel