FINANCIAL CONDUCT AUTHORITY

# The Sustainability Disclosure Requirements (SDR) and investment labels: pre-contractual disclosure examples

November 2024

The Sustainability Disclosure Requirements (SDR) and investment labels regime enters into force on 2 December 2024 and firms have been able to use investment labels since 31 July 2024.

The SDR and investment labels is a new regime, without precedent and so naturally market practice is still evolving.

A key concept of the new regime is that to qualify for a label, specific criteria are required to be met and supported by disclosures.

Below are illustrative examples and approaches across a selection of labels to showcase how applicants can meet these disclosure requirements. Much of practice will be relevant across all investment labels. These examples are based on our experience of applications to date and are non-exhaustive but are intended to aid applicants as they prepare their documentation.

**Table 1 – Sustainability Focus label – good practice**

<table>
<tr><th>Rule</th><th>Requirement</th><th>Example 1 – good practice</th><th>Example 2 – good practice</th></tr>
<tr><td>4.2.4 R (1)(b)</td><td>Have an explicit sustainability objective as part of its investment objectives that is clear, specific and measurable</td><td rowspan="2">The fund’s objective is to address the pressing health and well-being challenges faced by populations, by investing in companies that provide solutions to:<br><br>• Poverty & Hunger: to ensure everyone has access to basic needs.<br>• Health and Medicine: quality healthcare to foster longer, healthier lives.<br>• Water, Sanitation & Clean Energy: access to clean water, sanitation, and affordable clean energy.<br>• Life Below Water & Life on Land: Protecting marine and terrestrial ecosystems to preserve biodiversity and support ecosystem services.</td><td rowspan="2">To invest in companies that create positive impacts on their workers, communities, and the environment through:<br><br>• Providing transparency and accountability to stakeholders.<br>• Minimising their environmental footprint and adopting sustainable practices.<br>• Supporting fair treatment of employees, suppliers, and communities.</td></tr>
<tr><td>5.3.3 R (2)(b)</td><td>A manager must include the link between the sustainability product’s sustainability objective and a positive environmental and/or social outcome</td></tr>
<tr><td>5.3.3R (3)(a)<br><br>5.3.3R (b)(i)</td><td>How the manager determines the assets the product invests in, including the criteria it applies in determining the sustainability</td><td>Asset allocation: we invest in assets that derive X% of revenue from activities that deliver against a subset of the UN’s Sustainable Development Goals:<br>• Poverty & Hunger: Goal 2: Zero Hunger<br>• Health and Medicine: Goal 3 Ensure healthy lives and promote well-being for all<br>• Water, Sanitation & Clean Energy: Goal 6 Ensure availability and sustainable management of water and sanitation for all</td><td>Standard - We invest in companies that meet or exceed the B-Corp Certification Standards, though the companies need not have obtained certification.<br><br>The manager has selected the B-Corp Certification Standards because it regards B Corp certification as an independent globally recognised assessment of high standards of social and environmental performance. The</td></tr>
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| | characteristics of those assets<br><br>The standard which the manager relies upon including: 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) | • **Life Below Water & Life on Land**: Goal 14 Conserve and sustainably use the oceans, seas, and marine resources for sustainable development.<br><br>The manager has determined the revenue percentage based on internal research, which identified that companies with X% revenue have sufficient management focus on the SDG-aligned area of their business which will allow them to consistently deliver in line with the fund's sustainability objective and continue to grow that area of the business.<br><br>The UN Sustainable Development Goals (SDGs) were chosen as the basis of the robust evidence-based standard as they directly target the areas specified in the objective and have been endorsed by all UN member states, where the fund conducts its operations and investments. | standards map to the fund's sustainability objective. The standards are regularly reviewed and updated to take into account changes and improvement in sustainable practices.<br><br>The manager will invest in assets that hold a B Corp certificate. The managers can also invest in companies that it has assessed to meet B Corp standards. |
| 5.3.3R (5)<br><br>4.2.4R (2a/c)<br><br>4.2.4R (2)(a)<br><br>4.2.4 (3)<br><br>4.2.9 (5) | Details of the manager's policies and procedures to monitor the performance of the sustainability product in achieving its | The manager monitors the revenue generated by the assets aligned with the targets and indicators for SDG goals 2, 3, 6, and 14.<br><br>Where data is available, the manager also monitors how effectively the companies deliver on the fund's objectives by monitoring the positive and negative outcomes on the indicators for SDG goals. For example, under SDG Goal 6: *Ensure availability and sustainable* | On an annual basis the manager reviews companies against the B Corp Certification standards.<br><br>Where an investee company holds a B Corp certificate, the company is deemed to meet the standard.<br><br>Where an investee company does not hold a B Corp certificate, the manager |

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| 5.3.3R (6) | sustainability objective<br><br>At least 70% of the gross value of the product's assets must be invested in accordance with its sustainability objective, except where:<br><br>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<br><br>A manager must, in addition to ensuring that a sustainability product meets the | *management of water and sanitation for all,* the manager will monitor:<br><br>• New safe and affordable drinking water supplied to communities previously without services (cubic meters per annum)<br>• Number of EPA category 1, 2, and 3 pollution incidents per annum.<br>• Water savings from product use (cubic meters per annum).<br>• Water-related ecosystems protected or restored ($KM^2$).<br><br>The manager will publish the following metrics:<br><br>• % gross value of the portfolio meeting the sustainability objective for each theme<br>• % of portfolio revenue aligned with the sustainability objective for each theme | undertakes an internal review to determine whether the company meets B Corp standards.<br><br>In addition, the manager monitors investee company disclosures to establish if key measures are progressing or not. Deterioration of metrics would represent a conflict that the manager would seek to address. Key metrics include:<br><br>• Greenhouse Gas Emissions (GHG): Total emissions measured in $CO_2$ equivalents, including Scope 1 (direct), Scope 2 (indirect from purchased energy), and where available, Scope 3 (all other indirect emissions) emissions.<br>• Energy Consumption: Total energy used by the company, broken down by source (renewable vs. non-renewable) and efficiency improvements over time.<br>• Water Usage: Total water consumed, including metrics on water recycling and conservation efforts.<br>• Waste Management: Amount of waste generated, including the percentage that is recycled, composted, or sent to landfill.<br>• Environmental Incidents: Number and severity of environmental |

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| | requirements set out: identify the KPIs that the manager will use that can demonstrate the product's progress towards meeting its sustainability objective<br><br>Details of the KPIs that the manager will use and/or other metrics a retail client may reasonably find useful in understanding the manager's investment policy and strategy for the product | | incidents, such as spills or accidental releases of pollutants.<br><br>The manager will publish the following metrics:<br><br>• % gross value of the portfolio meeting the sustainability objective for each theme<br>• Breakdown of B Corp standards met and B Corp standards exceeded |

### Table 2 – Sustainability Focus label – good practice

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<tr><th>Rule</th><th>Requirement</th><th>Example 3 – good practice</th></tr>
<tr><td>4.2.4 R (1)(b)</td><td>Have an explicit sustainability objective as part of its investment objectives that is clear, specific and measurable</td><td rowspan="2">To invest in assets that are sustainable for the planet.<br><br>Our focus is on investing in businesses that set and achieve ambitious environmental goals and are dedicated to reducing carbon emissions, implementing sustainable procurement and waste management practices.</td></tr>
<tr><td>5.3.3 R (2)(b)</td><td>A manager must include the link between the sustainability product’s sustainability objective and a positive environmental and/or social outcome</td></tr>
<tr><td>5.3.3R (3a)<br><br>5.3.3R (b)(i)</td><td>How the manager determines the assets the product invests in, including the criteria it applies in determining the sustainability characteristics of those assets</td><td>Standard – Only assets that score more than 300 on our proprietary scoring model will be considered for investment. Our model is based on in-depth internal research, which has included establishing the relevance of various factors to specific sustainability outcomes.<br><br>Below our threshold of 300, whilst some companies are making efforts, there is not sufficient evidence that these are resulting in outcomes that meet the sustainability objective. We calibrate our model on an annual basis using internal research to compare its scores with a detailed analysis of a sample of companies, to ensure they remain aligned with the score descriptors. Where we identify any discrepancies, we modify or recalibrate the model as required. This process ensures that the model remains a robust measure of the sustainability objective.</td></tr>
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<td>The standard which the manager relies upon including:<br>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)</td>
<td>The model corresponds with the following scale.
<table>
<tr><th>Score</th><th>Descriptor</th></tr>
<tr><td>400</td><td>This company is a leader in environmental sustainability, significantly reducing carbon emissions through extensive use of renewable energy and advanced energy efficiency measures. It has a robust sustainable procurement policy, ensuring its supply chain is free from deforestation and other harmful practices. The company excels in waste management, with comprehensive programs for reducing, reusing, and recycling. It sets ambitious environmental goals and transparently reports its progress, showcasing a strong commitment to accountability.</td></tr>
<tr><td>300</td><td>This company has made substantial strides in reducing carbon emissions by integrating renewable energy sources and improving energy efficiency. It implements sustainable procurement practices, though some minor supply chain issues persist. Waste management is a priority, with effective programs for reducing, reusing, and recycling. The company sets and reports on environmental goals, but with less transparency compared to market leaders.</td></tr>
<tr><td>200</td><td>This company is making efforts to reduce carbon emissions, primarily through energy efficiency improvements, with limited use of renewable energy. It has some sustainable procurement practices in place, but there are occasional lapses in supply chain oversight. Waste management practices are in place, focusing on recycling more than reducing and reusing. The company sets environmental goals but does not consistently or comprehensively report on progress.</td></tr>
<tr><td>100</td><td>This company has started to address carbon emissions, mainly through basic energy efficiency measures, with minimal use of renewable energy. Sustainable procurement practices are sporadic, and the supply chain often includes environmentally harmful activities. Waste management is basic, with some recycling efforts but little emphasis on reducing and reusing. Environmental goals are set but rarely achieved or reported on.</td></tr>
<tr><td>0</td><td>This company shows poor commitment to environmental sustainability, with negligible efforts to reduce carbon emissions and no use of renewable energy.</td></tr>
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| | | It lacks sustainable procurement practices, with a supply chain that has exposure to deforestation and other harmful activities. Waste management is minimal, with little to no focus on reducing, reusing, or recycling. The company does not set or report on environmental goals, demonstrating a lack of accountability. In addition, companies that score on the "Do No Significant Harm criteria" also receive 0. |
| 5.3.3R (5)<br><br>4.2.4R (2a/c)<br><br>4.2.4R (3)<br><br>4.2.9R (5)<br><br>5.3.3R (6) | Details of the manager's policies and procedures to monitor the performance of the sustainability product in achieving its sustainability objective<br><br>At least 70% of the gross value of the product's assets must be invested in accordance with its sustainability objective, except where:<br>where the product invests in assets that are not in accordance with its sustainability objective, those assets must not | The proprietary model runs on an ongoing basis and is updated with data as reporting is received. Examples of KPIs used in the model include:<br><br>• Percentage of revenue from sustainable activities<br>• Greenhouse gas emissions (tons of $CO_2$ equivalent)<br>• Energy Consumption (megawatt-hours)<br>• Total water withdrawal (cubic meters)<br>• Total waste generated (metric tons)<br>• Percentage of materials recycled<br>• Number and severity of accidents<br><br>The manager will publish the following metrics:<br><br>• % gross value of the portfolio meeting the sustainability objective for each theme<br>• Median score of assets in the portfolio |

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| | have attributes that conflict with that objective<br><br>A manager must, in addition to ensuring that a sustainability product meets the requirements set out: identify the KPIs that the manager will use that can demonstrate the product's progress towards meeting its sustainability objective<br><br>Details of the KPIs that the manager will use and/or other metrics a retail client may reasonably find useful in understanding the manager's investment policy and strategy for the product | |

**Table 3 – Sustainability Improver label – good practice**

| Rule | Requirement | Example 1 – good practice | Example 2 – good practice | Example 3 – good practice |
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| 4.2.4 R (1)(b) | Have an explicit sustainability objective as part of its investment objectives that is clear, specific and measurable | To invest in assets that reduce the carbon emissions caused by human activities, to support the mitigation of climate change.<br><br>Mitigating carbon emissions results in cleaner air, which can reduce respiratory illnesses and healthcare costs. It can help to preserve biodiversity, ensuring ecosystems remain balanced and resilient. Additionally, it may help to minimise the physical risks of climate change, such as extreme weather events, protecting communities from disasters and reducing economic losses. | The Fund aims to support sustainability by investing in assets that reduce their carbon emissions in accordance with the Paris Agreement.<br><br>Environmentally, this can help to mitigate the impacts of climate change, improve air quality, and protect ecosystems. Socially, it enhances public health, creates economic opportunities through green jobs, boosts corporate reputation, and supports regulatory compliance and risk management. | To invest in companies that mitigate climate change, by reducing GHG emissions associated with their operations.<br><br>Achieving net zero helps prevent the buildup of greenhouse gases, which in turn reduces the risk of both acute and chronic climate events such as extreme weather, sea-level rise, and disruptions to ecosystems. |
| 5.3.3 R (2)(b) | A manager must include the link between the sustainability product's sustainability objective and a positive environmental and/or social outcome | | | |
| 5.3.3R (3)(a)<br><br>5.3.3R (b)(i) | How the manager determines the assets the product invests in, including the criteria it applies in determining | Standard - Green financing bonds purchased in the primary or secondary market. Where use of proceeds is for new projects that are independently evaluated to align with the objective of restricting | Standard – assets are required to have made a commitment to net zero and be decarbonising at a rate of at least 7% on average per annum (scope 1 and 2 emissions). | Standard - Assets aligning or aligned to a Net Zero by 2050 trajectory.<br><br>Assets that have:<br>- an SBTi* validated net zero target and are |

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| | the sustainability characteristics of those assets<br><br>The standard which the manager relies upon including:<br>(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) | global temperature rise to 1.5°C above pre-industrial levels.<br><br>The Intergovernmental Panel on Climate Change (IPCC) has identified 1.5°C as an essential limit to curb global warming. The IPCC is a body consisting of governments from the United Nations or World Meteorological Organization (WMO) members, offering ongoing assessments of the scientific foundation of climate change.<br><br>Research has shown that decreases in company emissions are more pronounced when green bonds are for new financing and/or go through an external assessment. | The Intergovernmental Panel on Climate Change (IPCC) Special Report outlines pathways to limit global temperature rise to 1.5°C above pre-industrial levels. To achieve this, global carbon dioxide emissions need to decrease by about 45% from 2010 levels by 2030, reaching net zero around 2050. To meet these targets, an average annual reduction of approximately 7% in carbon intensity is required.<br><br>The IPCC is comprised of government representatives from United Nations members or World Meteorological Organization (WMO), providing continuous evaluations of the scientific basis for climate change. | meeting the reduction requirements.<br>- or have publicly committed to having an SBTi target within 24 months<br><br>Rationale:<br>SBTi ensures that corporate targets are in line with the latest climate science to meet the goals of the Paris Agreement, specifically limiting global warming to well below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C<br><br>* Or independent third parties with equivalent validation requirements |
| 5.3.6R (1a/1b) | The timescale identified in ESG 4.2.15R(1) and the short and medium-term targets identified in ESG 4.2.15R(2) | KPIs are set in relation to carbon reduction, in terms of scope 1, 2 and 3 (S1, S2 and S3), resulting from the activities supported by the proceeds of the bond issued. Short-, medium- and long-term targets are | • Short term target: A 7% annual reduction in Scope 1 and 2 emissions.<br>• Medium term Target: A 50%* reduction in Scope 1 and 2 emissions by 2030. | KPIs are set in relation to each company’s scope 1, 2 and 3 (S1, S2 and S3) emissions reduction pathway towards net zero 2050, relative to a given base year. |

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| | 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 relative to the outcomes of the funding / project.<br><br>Bond A: Green bond issued in 2022 with 2030 maturity.<br>S-T target 2025: S1 and S2 of -34% and S3 of -12%.<br>M-T target 2027: S1 and S2 of -42% and S3 of -18%.<br>L-T target 2030: S1 and S2 of -50% and S3 of -22%.<br><br>Bond B: Green bond issued in 2023 with 2033 maturity.<br>S-T target 2025: S1 and S2 of -44% and S3 of -20%.<br>M-T target 2028: S1 and S2 of -55% and S3 of -30%.<br>L-T target 2030: S1 and S2 of -80% and S3 of -50%.<br><br>Bond C: Green bond issued in 2019 with 2028 maturity.<br>S-T target 2024: S1 and S2 of -38% and S3 of -16%.<br>M-T target 2026: S1 and S2 of -48% and S3 of -28%.<br>L-T target 2028: S1 and S2 of -75% and S3 of -42%<br><br>Bond D: xxx<br><br>Bond E: xxx | • Long term Target: A 100%* reduction in Scope 1 and 2 by 2050.<br><br>*Compared to 2019 values<br><br>We have not included Scope 3 emissions due to insufficient data for the assets in our portfolio. Omitting Scope 3 emissions from reporting can result in an incomplete or inaccurate evaluation of a company's overall carbon footprint. We will continue to analyse the availability of such data with an aim to incorporate this measure when viable. | Company A:<br>Base year 2020<br>S-T target 2025: S1 and S2 of -32% and S3 of -14%.<br>M-T target 2030: S1 and S2 of -60% and S3 of -25%.<br>L-T target 2050: S1 and S2 of -90% and S3 of -90%.<br>Evidence - Targets are based upon SBTi validated target (2022) and progress.<br><br>Company B:<br>Base year 2021<br>S-T target 2025: S1, S2 and S3 of -20%.<br>M-T target 2030: S1, S2 and S3 of -45%.<br>L-T target 2040: S1, S2 and S3 of -90%.<br>Evidence - Targets are based upon SBTi Validated target (2024)<br><br>Company C:<br>S-T target 2025: develop targets.<br>M-T target 2026: obtain SBTi validation. |

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| | | Evidence for target – details of use proceeds and targets are identified from the independent assurance report. | | L-T target 2027: Implement target. Evidence - Targets based upon an SBTi commitment made.<br><br>Company D: xxx<br><br>Company E: xxx |
| 5.3.3R (5)<br><br>4.2.4R (2a/c)<br><br>4.2.4 (3)<br><br>4.2.9 (5)<br><br>5.3.3R (6) | Details of the manager's policies and procedures to monitor the performance of the sustainability product in achieving its sustainability objective<br><br>At least 70% of the gross value of the product's assets must be invested in accordance with its sustainability objective, except where: | The manager monitors post issuance reporting to identify whether the proceeds were used as intended. Typical KPIs include:<br><br>• Utilisation of funds as specified<br>• Greenhouse Gas (GHG) emissions avoided in (carbon dioxide equivalent (CO2e))<br>• Energy Savings (megawatt-hours (MWh)<br>• Renewable Energy Generated in MWh<br>• Carbon Intensity CO2e emissions per mWh.<br><br>The manager will publish the following metrics: | The manager reviews company reporting to monitor whether emissions reductions align with reduction targets.<br><br>• Absolute Greenhouse Gas (GHG) emissions (in carbon dioxide equivalent or CO2e)<br><br>The manager will publish the following metrics:<br><br>• % gross value of the portfolio meeting the sustainability objective<br>• % gross value of the portfolio on target | SBTi Commitment - the manager engages with portfolio firms to monitor and support progress on achieving validation.<br><br>SBTi Validated – the manager reviews company reporting to monitor whether reductions align with targets.<br><br>The manager will publish the following metrics:<br><br>• % gross value of the portfolio meeting the sustainability objective<br>• % gross value of the portfolio on target |

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| | 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<br><br>A manager must, in addition to ensuring that a sustainability product meets the requirements set out: identify the KPIs that the manager will use that can demonstrate the product's progress towards meeting its sustainability objective<br><br>Details of the KPIs that the manager will use and/or other | • % gross value of the portfolio meeting the sustainability objective<br>• % gross value of the portfolio on target | | • % gross value of the portfolio with commitments<br>• % gross value of the portfolio with validated net zero targets<br>• Annual scope 1,2 and 3 reduction |

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| | metrics a retail client may reasonably find useful in understanding the manager’s investment policy and strategy for the product | | | |

## Examples of poor disclosure practices that do not meet the SDR requirements:

- Disclosure of an asset selection process that does not link to the specified sustainability objective and aim of a product.
- The disclosed approach to asset selection does not include an explanation and evidence as to why the scoring or threshold is appropriate for defining sustainability.
- Failure to disclose a manager override for asset selection where it exists.
- For a Sustainability Improvers label:
  - Failure to disclose the types of evidence the manager relies upon to satisfy itself that assets have the potential to meet the robust, evidence-based standard.
  - Short-term and medium-term targets missing or inconsistent with the long-term horizon over which the assets are expected to meet the standard of sustainability.