


UK SDR guide for Asset Managers

 January 2024

This document is tailored to Asset Managers distributing financial products in the UK market. Here, you will find a summary of the main requirements established by the UK SDR and some comprehensive directions that will prepare you to comply with the new regulation in 2024.

In Q4 2023, the final rules from the UK Sustainability Disclosure Requirements were made public and they address specifically the financial sector (sustainability disclosure standards for companies based on the ISSB are expected to be issued later in 2024). The first set of rules already starts entering into effect in May, despite the many lingering uncertainties about the requirements.

That is why Datia's team took on the challenge of distilling the best available information so far. We hope that after reading this guide, you have enough confidence to start putting together a plan for disclosing sustainability metrics of your financial products distributed in the UK.

The information presented here was extracted from the regulation, which can be found [here](#). If you have questions, do not hesitate to reach to to us at hello@datia.app

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Overview of SDR rules

RULE	REQUIREMENTS	ENTRY INTO FORCE	WHAT ASSET MANAGERS CAN DO
Anti-greenwashing rule	All FCA-authorized firms must ensure that sustainability-related claims are fair, clear, and not misleading. The rule will apply to all communications about financial products or services which refer to the environmental or social characteristics of those products or services.	31 May 2024	<ul style="list-style-type: none">• Adjust external communication about your products to reflect how sustainability is driving the investment strategy.
Fund labeling regime	The labeling regime will allow firms to use one of four labels for their products if they meet certain qualifying criteria. The labels are: <ol style="list-style-type: none">1) Sustainability Impact2) Sustainability Focus3) Sustainability Improvers4) Sustainability Mixed Goals	31 July 2024	<ul style="list-style-type: none">• Select KPIs. For example: Alignment with established green taxonomies, net zero pathways, green revenue streams, etc.• Gather the relevant data about investee companies and calculate impact on your portfolio• Present the data in the external communication about product
Naming and marketing rules	The FCA proposed to prevent firms which offer non-labeled products to retail investors from using terms such as “ESG,” “green,” or “sustainable.” This received broadly negative feedback in the latest consultation. Consequently, the FCA will allow firms to use sustainability-related terms for non-labeled products if they make certain disclosures, as well as publish a statement to clarify why they do not use a label.	2 December 2024	<ul style="list-style-type: none">• Select KPIs and gather data of your investments that can justify the use of sustainability-related terms• Integrate screening for sustainability risks and opportunities

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Overview of the fund labeling regime

Disclosure requirements

The investment policy and strategy should provide sufficient information to enable clients and consumers to understand how the product is invested. This includes enabling clients and consumers to distinguish between different investment approaches that may be used to pursue sustainability objectives. For example: what the screening process looks like, whether there are thematic approaches in place, etc.

Some key aspects under the fund labeling rule are listed below:

- Firms must obtain or undertake an **independent assessment** of the robust, evidence-based standard for sustainability to confirm that it is appropriate for selecting the product's assets. The assessment can be obtained from a **third party or undertaken by the firm**, provided that it is independent from the investment process, and in either case, that the individuals responsible for carrying out the assessment are appropriately skilled.
- Firms will need to ensure the criteria are met on an ongoing basis (**minimum 70% of assets aligned with the label criteria**), and review the use of their label at least once a year.
- Firms must determine and disclose whether any **material negative environmental and/or social outcomes** may arise in pursuing the sustainability objective.

Label: Sustainability Impact

Overview

This label applies to financial products investing in solutions to environmental or social problems. **At least 70% of the assets** must meet pre-defined criteria for positive, measurable, impact in relation to an environmental and/or social outcome. Firms must be able to stand behind any claims they make regarding a product's objective to deliver a positive impact. They must be able to measure both the impact the product's assets may make as well as the investor contribution.

In other words, the sustainability objective must be consistent with an aim to achieve a pre-defined positive measurable impact in relation to an environmental and/or social outcome.

CHECKLIST

- Firms must specify a theory of change setting out how they expect their investment activities and the product's assets to achieve a positive impact
- Firms must specify a robust method for measuring and demonstrating the positive impact of both the assets the product invests in and the firms' investment activities
- As with all labels, firms must have and carry out an escalation plan in cases where assets are not demonstrating sufficient progress towards the sustainability objective

Examples

“ABC Global Climate Impact Investment Trust”

The fund aims to provide capital growth over a longer time horizon by investing in companies and projects that focus on the increased provision of climate change solutions – such as renewable energy generation and infrastructure. Investments will include both listed assets, and unlisted assets and projects that aim to increase access to renewable energy in specified areas. The impact of investments and the firm's contribution will be measured and reported at least annually.

“ABC Social Impact Real Estate Fund”

The fund aims to provide capital and income growth through investing in and owning socially positive real estate assets. The fund will own residential units and let them to organisations that support occupants classified as homeless to progress into self-sufficient living, with the rent financed by local housing authorities. ABC will review and report on its contribution and the contribution of investments in achieving positive social impact relating to the fight against homelessness.

Label: Sustainability Focus

Overview

This label applies to products investing in assets that a “reasonable investor” would consider sustainable. At least 70% of the assets of a “sustainable focus product” must meet a “robust, evidence-based standard that is an absolute measure of sustainability”. Firms will need to determine a standard that aligns with their product’s sustainability objectives, and select assets that meet the standard, based on a methodology or approach that is determined by industry practice, an authoritative body or proprietary standards. The standard may be based on general environmental and/or social criteria such as the percentage of revenue associated with sustainability matters; reference an authoritative taxonomy such as the EU taxonomy or forthcoming UK Green Taxonomy; or set a minimum threshold of greenhouse gas (GHG) emissions for assets. It must however be robust (stand up to scrutiny), and evidence-based (derived from or informed by an objective and relevant body of data or other evidence).

CHECKLIST

- The sustainability objective must be consistent with an aim to invest in assets that are environmentally and/or socially sustainable, determined using a robust, evidence-based standard that is an absolute measure of sustainability

- For all labels, independent assessment to confirm the standard is fit for purpose may be obtained via either internal processes or third parties, provided that the chosen method is independent from the manager’s investment process

- The product may invest according to themes, provided that the requirements above are met

Label: Sustainability Focus (continued)

Examples

“ABC Global Renewables Index Fund”

The objective of the fund is to track an index that is designed to reflect the performance of a global range of companies that produce or provide activities or services to support the production of energy from solar, wind, hydrogen and other renewable sources. The index is designed to reflect the performance of a global range of those companies, and comprises equity securities of companies that are positioned to benefit from the increased demand for clean energy. Those companies must derive a minimum percentage of revenues from the types of activities or services listed above.

“ABC Green Future Emerging and Frontier Market LTAF”

The fund aims to achieve capital growth over the long term and a positive environmental impact by investing in climate themes that contribute towards the mitigation of climate change and adaptation of society to negative impacts of climate change. This may include renewable energy infrastructure, forestry assets, climate insurance provision and resilient real estate. Investments will be selected according to the percentage of expenditure on operations, capital or research and development associated with those climate themes.

Label: Sustainability Improvers

Overview

Applies to products investing to improve the sustainability of assets. At least 70% of the assets of a “sustainable improvers product” must have **potential to become more environmentally or socially sustainable over time**. Such potential need to be demonstrated by a robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability. A requirement is that the firm must develop **short and medium-term targets for improvements**, and that these should be consistent with the investment horizon for the product.

CHECKLIST

- Firms will need to identify the period of time by which the product and/or its assets are expected to meet the standard, including short and medium-term targets. They must also obtain robust evidence to satisfy themselves that the assets have the potential to meet the standard

- Firms’ investor stewardship strategy should support delivery of the objective and help to accelerate improvements in sustainability over time

- KPIs must be relevant to the product’s sustainability objective and are therefore not prescribed. As with all labels, KPIs can demonstrate progress of the product or individual assets towards the sustainability objective

Label: Sustainability Improvers (continued)

Examples

“ABC Emerging Markets Social Advancement Fixed Income Fund”

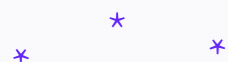
The fund aims to provide capital growth over the long term by investing in the bonds of companies in emerging markets that have committed to improving their business practices in line with key global social standards, in relation to human rights, working conditions and local community impact. These companies have:

- Published their strategies to improve business practices in line with global social standards;
- Specified timelines for meeting their targets; and
- Met the firms range exclusions criteria.

In line with ABC’s stewardship strategy, ABC will support these companies in meeting global social standards.

“ABC XYZ Global Net Zero Improvers Index Fund”

The investment objective of the fund is to track the index. The sustainability objective is to invest in companies that are on a credible path to net zero by 2050. The index is constructed by selecting assets according to a net zero alignment framework, demonstrating their potential to decarbonise over time, and that meet XYZ’s sustainability exclusions criteria. Assets in the fund will be subject to ABC’s stewardship strategy.



Label: Sustainability Mixed Goals

Overview

This label applies to products with a sustainability objective to invest at least 70% in accordance with a **combination of the sustainability objectives** for the other labels. Firms must identify (and disclose) the proportion of assets invested in accordance with any combination of the other labels. However, requirements for each of the other labels must be met.

Examples

“ABC Sustainable Multi-asset Allocation”

The fund aims to provide capital growth through investment in funds that purposefully set out to invest in companies that provide solutions to challenges posed by the transition to a more sustainable future, on both people and planet. These funds may include both labeled and unlabeled funds that the investment manager considers to meet, or demonstrate the potential to meet, sustainability criteria.

“ABC Multi-asset Green Energy Fund ”

This fund intends to provide capital growth by investing in a range of equities and bonds that support and catalyse the transition to renewable energy in the wider economy. This product intends to invest around 30%-40% of assets in equities and bonds focused on companies already predominantly producing renewable energy and around 40%-50% of assets in equities and bonds supporting activities to increase renewable energy production.

Disclosure requirements

Firms using sustainability-related terms in product names and marketing for products without a label must produce the same types of disclosures as for labeled products (consumer-facing, pre-contractual, and ongoing product-level disclosures) so that consumers have consistent information across all products that use sustainability related terms.

Firms need to disclose how they are **managing sustainability-related risks and opportunities** in relation to products managed, on behalf of clients and consumers, and enable those clients and consumers to take sustainability matters into account when granting mandates or selecting product providers.

The disclosures must be made **annually in a Sustainability Entity Report**, which builds from the TCFD Entity Report. For asset managers with AUM over £50bn, the deadline for the first annual report is December 2nd, 2025. And for asset managers with AUM over £5bn, the deadline is December 2nd, 2026.

Consistent with the TCFD's (and ISSB's) 4 pillars, firms are required to include details of their **governance, strategy, risk management, as well as metrics and targets** in relation to managing sustainability-related risks and opportunities. In doing so, firms may consider disclosing the sustainability topics they prioritize, their impact on the environment and/or society (having regard to GRI standards) and referring to the TCFD's supplementary guidance for asset managers. They may also find the IFRS sustainability disclosure standard (IFRS S1), and the SASB standards relevant to help determine what information to disclose.

Glossary:

TCFD: Task Force on Climate-Related Financial Disclosures

ISSB: International Sustainability Standards Board

GRI: Global Reporting Initiative

IFRS: International Financial Reporting Standards

SASB: Sustainability Accounting Standards Board

Disclosure requirements for products

PRE-CONTRACTUAL DISCLOSURES SHALL INCLUDE (NOT A COMPLETE LIST):

- The label used, or a statement clarifying why the product does not have a label (for all products)
- The sustainability objective (for products seeking labels)
- Standard for assessing sustainability (for products seeking labels)
- Proportion of assets invested aligned with sustainability objective (for products seeking labels)
- Details of the policies and procedures (as well as the relevant KPIs) that the firm will use to monitor and demonstrate performance towards the sustainability objective (for products seeking labels)
- Stewardship strategy and resources to support sustainability objective of the product (for products seeking labels)

ONGOING DISCLOSURES SHALL INCLUDE (NOT A COMPLETE LIST):

- The label used, or a statement clarifying why the product does not have a label (for all products)
- The sustainability objective (for products seeking labels)
- Investment policy and strategy (for all products)
- Performance against KPIs and sustainability metrics, including contextual and historic information (for products seeking labels)
- Proportion of assets invested aligned with sustainability objective (for products seeking labels)
- Details as to how investor stewardship has been applied, including activities undertaken and outcomes achieved, or expected to be achieved (for products seeking labels)
- Sustainability Impact. For example, progress that the product is making towards achieving a positive impact (for products seeking labels)

SDR vs. SFDR

	SDR	SFDR
Products	Sustainability objective that is clear, specific and measurable.	Some products may have a sustainability objective (e.g. funds under Article 9).
	At least 70% of assets invested are in accordance with a robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability.	Proportion of investments with a sustainability objective/promoting sustainability characteristics. However, there is no specific link to a robust, evidence-based standard.
	Robust and evidence-based KPIs to measure performance against the sustainability objective.	Measure the attainment of the sustainable investment characteristics and/or objective through sustainability indicators.
Firms	Identify material negative environmental and/or social outcomes that may arise in pursuing the sustainability objective.	Disclosure of principal adverse impacts.
	Identify assets held for reasons other than to pursue the sustainability objective.	Disclosure of the proportion of investments with a sustainability objective/promoting sustainability characteristics.
	Monitor performance of the product in achieving the sustainability objective.	Measure the attainment of the sustainable investment characteristics and/or objective through sustainability indicators.
	Have an investment policy for achieving the sustainability objective and investment strategy for what the product invests in.	Disclosure of investment strategy, monitoring, etc.
	Have an escalation plan in setting out the actions to be taken if the assets do not demonstrate sufficient performance against the sustainability objective.	Disclosure of engagement policies (firms currently following SFDR may need to expand on this to set out an escalation plan under SDR).

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SDR vs. SFDR (continued)

	SDR	SFDR
Firms	Obtain independent assessment of the standard for sustainability to confirm that it's appropriate for asset selection/fit for purpose.	Disclosures on whether assurance is provided under SFDR. However, "independent assessment" in SDR is only limited to the sustainability standard (which can be via internal processes).
	Ensure there are appropriate resources, governance and organizational arrangements, commensurate with the delivery of the sustainability objective.	No specific requirement under SFDR.
	Identify and apply the investor stewardship strategy needed to deliver the sustainability objective, including the expected activities and outcomes.	Disclosure of engagement policies (firms currently following SFDR may need to expand on this requirement in order to comply with SDR. For example, by establishing other forms of stewardship).
	Where a product tracks an index, firms must only select an index that aligns with the general and specific criteria.	No specific requirement under SFDR.
	Ensuring the labeling criteria are met on an ongoing basis.	Monitoring requirements (firms currently following SFDR may need to expand to capture all SDR requirements).

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About Datia

We are trusted by some of the most reputable institutions in Europe

Datia is a climate fintech company on a mission to empower investors' transition to sustainable finance, serving asset managers, management companies, asset owners, wealth advisors, and tech platforms. Headquartered in Stockholm, Sweden, Datia has a customer network with over €200 Billion AUM. Our solutions include:

- ESG scores & Business involvements
- SDGs contributions
- Temperature Score
- SFDR's PAI indicators
- Screening solutions for Sustainable Investments under SFDR and product labeling under UK SDR
- 200+ KPIs of 36,000+ companies, 210,000+ funds, and 210+ sovereign nations
- Look-through solution to identify metrics of assets within fund-of-funds

Do you want to find out more? Schedule a meeting with our team of experts.

[Get started](#)

