



Sub-Committee on Financial Services Regulations

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Nikhil Rathi
Chief Executive
Financial Conduct Authority

Via email

20 December 2022

Dear Nikhil,

CP 22/20 - Sustainability Disclosure Requirements (SDR) and investment labels

The Treasury Sub-Committee on Financial Services Regulations recently met to discuss the FCA's consultation on 'Sustainability Disclosure Requirements (SDR) and investment labels' (CP 22/20).

The Treasury Committee's report on ['Net Zero and the Futures of Green Finance'](#) published in April 2021 made the following recommendations in this area:

124. The financial services industry broadly accepts that 'greenwashing' is detrimental to good consumer outcomes and to the achievement of the net zero goal. The Treasury must work with the FCA to ensure that the regulator has the appropriate remit, powers and priorities, and uses its powers, to prevent 'greenwashing' of financial products available to consumers.
130. Financial products should be clearly labelled to allow consumers to assess the relative climate impacts of products and to make choices accordingly. However, allowing every firm to create its own consumer sustainability labels may lead to inconsistencies and consumer confusion. The Treasury and the Financial Conduct Authority should consult on the merits of making climate or carbon labels for consumer financial products mandatory, as a means to encourage innovation. The FCA should consult on how best to make such labels readily and widely understood.


The Sub-Committee would be grateful for answers to the following questions regarding the implementation of the consultation proposals:

1. How does the FCA intend to monitor and enforce these new rules? Does the FCA have sufficient expertise in this area?
2. How has the FCA sought to balance the benefits of introducing sustainability disclosures and investment labels against the potential risk of reducing consumer choice in this sector?
3. What market distortions does the FCA anticipate could be created as a result of these measures? How will those distortions be mitigated?
4. The consultation suggests two thirds of the 450 UK funds currently claiming to operate sustainable funds will change their marketing as a result of these measures. What is the basis for this assumption and how much uncertainty is there around this figure?
5. To what extent do the two thirds of UK funds, that are not expected to meet the proposed sustainability criteria, currently offer some level of sustainable investing?

- a. What does the FCA expect will happen to any sustainable investments currently held by these two thirds of firms? Does the FCA expect the overall level of sustainable investing by these two thirds of firms to decline following the introduction of these rules?
 - b. In the short and medium term, does the FCA expect the net effect of these proposals will increase or reduce total sustainable investment in the UK?
6. Does the FCA expect that these measures will lead to an increase in fees charged by: (a) funds and (b) distributors of sustainable products? If yes, does the FCA have any concerns that this could reduce the competitiveness of these products?
7. What can the FCA do with its proposed 'anti-greenwashing' rule that it could not previously do with its existing financial promotions rules? Are there circumstances where this new rule would apply but existing rules would not?
 - a. Are there any additional powers, outside of the FCA's current remit, that would be helpful for reducing misleading sustainable promotions?
8. How will the FCA treat funds that meet sustainable labelling and investment disclosure requirements in the EU, US or other jurisdictions?
9. Will these proposals limit UK investors' ability to invest in funds managed outside of the UK?

In line with the Committee's usual practice, I will be placing this letter and your response in the public domain. I would be grateful for a reply by 9 January 2023.

With best wishes,



Harriett Baldwin MP
Chair of the Treasury Sub-Committee on Financial Services Regulations