



FIA EPTA response to the Financial Conduct Authority's (FCA) Consultation Paper on Sustainability Disclosure Requirements (SDR) and investment labels

25 January 2023

The European Principal Traders Association ([FIA EPTA](#)) welcomes the opportunity to respond to the Financial Conduct Authority (FCA) [Consultation Paper](#) on Sustainability Disclosure Requirements (SDR) and investment labels (CP22/20***).

FIA EPTA represents 24 independent European Principal Trading Firms (PTFs) which deal on own account, using their own money for their own risk, to provide liquidity and immediate risk transfer in exchange-traded and centrally-cleared markets for a wide range of financial instruments, including shares, options, futures, bonds and ETFs. FIA EPTA's members are based in the Czech Republic, Germany, Ireland, The Netherlands, and the UK (~70% of our members have been licensed by the FCA).

Our members are independent market makers and providers of liquidity and risk transfer on trading venues and to end-investors across Europe. Market making and liquidity provision (also referred to as principal trading or dealing on own account) is a distinct activity that is undertaken by non-systemic investment firms rather than banks, in a highly dispersed and varied ecosystem of independent Principal Trading Firms. These firms operate in an innovative and competitive fashion leading to a vibrant, dynamic and diverse ecosystem which massively reduces interconnectedness and increases substitutability. This fundamentally reduces systemic risk whilst improving market quality and lowering costs for retail and institutional investors alike.

FIA EPTA is committed to supporting policymakers and regulators in ensuring the success of the sustainable finance project at all levels of the capital market ecosystem. We would welcome the opportunity to provide further background to the FCA on the issues raised in our response.

3. Overview, scope and timings

Q1: Do you agree with the proposed scope of firms, products and distributors under our regime? If not, what alternative scope would you prefer, and why?

FIA EPTA members agree with the proposed scope of firms, products and distributors, and want to highlight the importance of transparency in the trust in the transition. That being said, FIA EPTA members believe that the focus should remain on firms that have direct exposure to end investors or hold client money as the trust of investors in sustainable products relies on the disclosures and data. This would exclude firms like FIA EPTA members that act as Market Makers and Liquidity provers; making sure that there is always a buyer and seller for products, reducing cost and helping with risk management.

Q2: Do you agree with the proposed implementation timeline? If not, what alternative timeline would you prefer, and why?

FIA EPTA members agree with the proposed timeline.

Q3: Do you agree with the proposed cost-benefit analysis set out in Annex 2. If not, we welcome feedback in relation to the one-off and ongoing costs you expect to incur and the potential benefits you envisage.

FIA EPTA decided not to respond to this question.

4 Classification and labelling

Q4: Do you agree with our characterisation of what constitutes a sustainable investment, and our description of the channels by which positive sustainability outcomes may be pursued? If not, what alternatives do you suggest and why.

FIA EPTA decided not to respond to this question.

Q5: Do you agree with the proposed approach to the labelling and classification of sustainable investment products, in particular the emphasis on intentionality? If not, what alternatives do you suggest and why?

FIA EPTA decided not to respond to this question.

Q6: Do you agree with the proposed distinguishing features, and likely product profiles and strategies, for each category? If not, what alternatives do you suggest and why?

FIA EPTA decided not to respond to this question.

Q7: Do you agree with our proposal to only introduce labels for sustainable investment products (ie to not require a label for 'non-sustainable' investment products)? If not, what alternative do you suggest and why?

FIA EPTA members agree with the FCA proposal to only introduce labels for sustainable investment labels.

Q8: Do you agree with our proposed qualifying criteria? If not, what alternatives do you suggest and why?

FIA EPTA decided not to respond to this question.

Q9: Do you agree with the category-specific criteria for: 1) The 'Sustainable focus' category, including the 70% threshold? 2) The 'Sustainable improvers' category? Is the role of the firm in promoting positive change appropriately reflected in the criteria? 3) The 'Sustainable impact' category, including expectations around the measurement of the product's environmental or social impact?

FIA EPTA decided not to respond to this question.

5 Disclosures

Q10: Does our approach to firm requirements around categorisation and displaying labels, including not requiring independent verification at this stage, seem appropriate? If not, what alternative do you suggest and why?

FIA EPTA members agree with the approach set out by the FCA and believe it is the right approach taken by the FCA to not overburden firms with more regulation but to try and keep close to other international regulators like the EU (SFDR), SEC and IOSCO and making regulation fit for purpose in the UK. For the transition to succeed and to have all market stakeholders involved, regulation should be alignment between jurisdictions. This creates a strong base on which companies/firms need to operate and limits the possibility of companies/firms not complying with the international standards and regulations around sustainability. FIA EPTA members believe that for the success of the transition, sustainability data needs to be regulated and standardised, this creates transparent and trustworthy data that firms and end investors can use to make investment decisions.

Q11: Do you agree with our proposed approach to disclosures, including the tiered structure and the division of information to be disclosed in the consumer-facing and detailed disclosures as set out in Figure 7?

FIA EPTA decided not to respond to this question.

Q12: Do you agree with our proposal to build from our TCFD-aligned disclosure rules in the first instance, evolving the disclosure requirements over time in line with the development of future ISSB standards?

FIA EPTA decided not to respond to this question.

Q13: Do you agree with our proposals for consumer-facing disclosures, including location, scope, content and frequency of disclosure and updates? If not, what alternatives do you suggest and why?

FIA EPTA decided not to respond to this question.

Q14: Do you agree with the proposal that we should not mandate use of a template at this stage, but that industry may develop one if useful? If not, what alternative do you suggest and why?

FIA EPTA decided not to respond to this question.

Q15: Do you agree with our proposals for pre-contractual disclosures? If not, what alternatives do you suggest and why. Please comment specifically on the scope, format, location, content and frequency of disclosure and updates.

FIA EPTA decided not to respond to this question.

Q16: Do you agree with our proposals for ongoing sustainability-related performance disclosures in the sustainability product report? If not, what alternative do you suggest and why? In your response, please comment on our proposed scope, location, format, content and frequency of disclosure updates.

FIA EPTA decided not to respond to this question.

Q17: Do you agree with our proposals for an 'on demand' regime, including the types of products that would be subject to this regime? If not, what alternative do you suggest and why?

FIA EPTA decided not to respond to this question.

Q18: Do you agree with our proposals for sustainability entity report disclosures? If not, what alternatives do you suggest and why? In your response, please comment on our proposed scope, location, format, content, frequency of disclosures and updates.

FIA EPTA decided not to respond to this question.

Q19: Do you agree with how our proposals reflect the ISSB's standards, including referencing UK-adopted IFRS S1 in our Handbook Guidance once finalised? If not, please explain why?

FIA EPTA decided not to respond to this question.

6 Naming and marketing

Q20: Do you agree with our proposed general 'anti-greenwashing' rule? If not, what alternative do you suggest and why?

FIA EPTA members agree with the general 'anti-greenwashing' rule set out by the FCA and we share the hope that this will help to create a transparent, clear, fair and not misleading, and consistent with the sustainability profile of the product or service i.e. proportionate and not exaggerated. This would be an important step to create more trust in sustainable products. FIA EPTA members believe that for the transition to succeed, greenwashing should be avoided at all costs as it would undermine the trust in sustainable products and in that regard, the update of the products.

Q21: Do you agree with our proposed product naming rule and prohibited terms we have identified? If not, what alternative do you suggest and why?

FIA EPTA decided not to respond to this question.

Q22: Do you agree with the proposed marketing rule? If not, what alternative do you suggest and why?

FIA EPTA decided not to respond to this question.

Q23: Are there additional approaches to marketing not covered by our proposals that could lead to greenwashing if unaddressed?

FIA EPTA decided not to respond to this question.

7 Distributors

Q24: Do you agree with our proposals for distributors? If not, what alternatives do you suggest and why?

FIA EPTA decided not to respond to this question.

8. Next steps

Q25: What are your views on how labels should be applied to pension products? What would be an appropriate threshold for the overarching product to qualify for a label and why? How should we treat changes in the composition of the product over time?

FIA EPTA decided not to respond to this question.

Q26: Do you consider the proposed naming and marketing rules set out in Chapter 6 to be appropriate for pension products (subject to a potentially lower threshold of constituent funds qualifying for a label). If not, why? What would be an appropriate threshold for the naming and marketing exemption to apply?

FIA EPTA decided not to respond to this question.

Q27: Are there challenges or practical considerations that we should take into account in developing a coherent regime for pension products, irrespective of whether they are offered by providers subject to our or DWP's requirements?

FIA EPTA decided not to respond to this question.

Q28: To what extent would the disclosures outlined in Chapter 5 be appropriate for pension providers ie do you foresee any challenges or concerns in making consumer-facing disclosures, pre-contractual disclosures and building from the TCFD product and entity-level reports?

FIA EPTA decided not to respond to this question.

Q29: Do you agree that the approach under our TCFD-aligned product-level disclosure rules should not apply to products qualifying for a sustainable investment label and accompanying disclosures? Would it be appropriate to introduce this approach for disclosure of a baseline of sustainability-related metrics for all products in time?

FIA EPTA decided not to respond to this question.

Q30: What other considerations or practical challenges should we take into account when expanding the labelling and disclosures regime to pension products?

FIA EPTA decided not to respond to this question.

Q31: Would the proposals set out in Chapters 4-7 of this CP be appropriate for other investment products marketed to retail investors such as IBIPs and ETPs. In your response, please include the type of product, challenges with the proposals, and suggest an alternative approach.

FIA EPTA decided not to respond to this question.