

“Cross-Cutting and Category-Specific SDR labelling”

In our previous post discussing the SDR sustainable labelling (21st November, SFDR vs SDR Sustainable Fund Classifications – Mapping the Differences), we showed the high-level FCA diagram on how to determine the appropriate label. This highlighted two sets of criteria central to determining the right label. These were “Cross-Cutting”, and “Category-Specific”. So what is meant by these terms and how do they relate to each other?

Unfortunately, the complexity is such that it can’t be condensed into a short post like this, but essentially, these are the high-level characteristics:-

Cross-Cutting – refers to five key principles under the following themes which apply to products and firms:-

1. **Sustainability Objective** - A sustainable investment product must have an explicit environmental and/or social sustainability objective
2. **Investment Policy & Strategy** - A firm’s investment policy and strategy for the sustainable investment product must be aligned with its sustainability objective
3. **Key Performance Indicators** - A firm must specify credible, rigorous and evidence-based KPIs that measure a sustainable investment product’s ongoing performance towards achieving its sustainability objective
4. **Resources & Governance** - A firm must apply and maintain appropriate resources, governance, and organisational arrangements commensurate with the delivery of the sustainable investment product’s sustainability objective.
5. **Stewardship** - A firm must maintain its active investor stewardship strategy and resources (at firm-level or product-level) in a manner consistent with the sustainable investment product’s sustainability objective

Category Specific - underlying and interacting with each of the Cross-Cutting principles are detailed descriptions for the three sustainable labels that are:-

- a. **Sustainable Focus** – a product is invested in assets that are environmentally and/or socially sustainable
- b. **Sustainable Improvers** – a product invested to improve the environmental and/or social sustainability of assets over time, including in response to the stewardship influence of the firm
- c. **Sustainable Impact** – a product invested in solutions to environmental or social problems, to achieve positive, real-world impact

Each label has a detailed set of guidelines, and how they relate to the Cross-Cutting principles, that must be followed in determining the correct label for the product under the SDR regime. This information is contained in the **FCA Paper CP22/20**. Any firm looking to assign sustainable labels to its product will need to follow the guidance laid out carefully. Furthermore, the guidelines make it clear that any firm claiming a sustainable label for a product must have a robust process and framework for determining and justifying that label, not just at initial assessment, but also on an ongoing basis. This is not just a one-time exercise!

If you wish to understand more about SDR product labelling, please get in touch with @Jonathan Boswell to discuss how Investment Solutions Consultants (ISC) Ltd can help you