

Sustainability Disclosure Requirements (SDR) and investment labels regime (Qualitative Research)

Executive summary | 24.11.2023

Introduction

This document presents the high-level findings of research commissioned by the Financial Conduct Authority (FCA) on sustainability disclosures.

The market for sustainable investments is complex and consumers can find it difficult to identify products that meet their sustainability preferences.

The FCA is **seeking to support consumers in navigating the sustainable investment market, helping them to make better informed decisions, improving trust, and preventing greenwashing through the Sustainability Disclosure Requirements (SDR) and investment labels regime**. This regime aims to advance the FCA objectives to protect consumers, enhance market integrity and promote competition.

This research explores the **extent to which consumers understand and support the sustainability labels and disclosure information**. This follows on from previous consumer research with 15,000 participants which was used to assess consumer understanding of potential product classification and factsheets.

The research took a phased, iterative approach. First, we engaged 25 consumers with differing levels of investing experience in a three-day online community to explore the proposed sustainability labelling.¹ We then conducted four one-hour-long focus groups with a further 20 consumers to explore the regime in more depth, including revisions that had been made to the new mixed label and non-labelled disclosures based on the feedback from the online community.²

Consumers saw a set of four labels which could be used as part of the regime, as well as drafts of accompanying factsheets, which would provide additional information on each products' key sustainability features, and disclosures to explain circumstances in which products may not have a label.

¹ Of the 25 consumers engaged in the online community, six had not yet started investing, five began investing in the last year, seven had been investing for up to 9 years and seven had been investing for over 9 years.

² The four focus groups of five participants each were split according to levels of experience, including consumers who had been investing for over 5 years, consumers who had been investing for up to 5 years, and consumers who were seeking to begin investing or had done so in the past year.

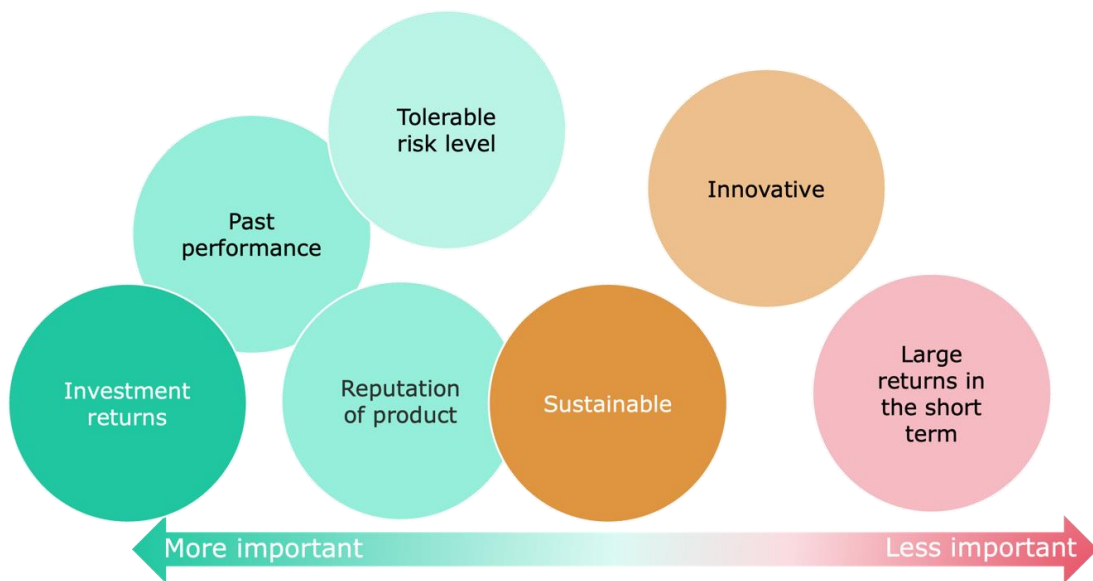
This document provides a summary of the key research findings. This includes an [overview of the consumers' response](#) to the SDR investment label regime, their responses to the [labels](#), [factsheets](#), as well as [non-labelled disclosures](#). This document also includes considerations for anyone developing consumer-facing factsheets and/or disclosures.

The content included in this Executive Summary represents the views and opinions of participants who took part in the research. Analysis was conducted by Thinks Insight & Strategy based on this data.

Summary of findings

Current consumer perceptions of sustainable investing

Sustainability is one of many factors that consumers consider when considering investments. This is shown in the figure below which sets out how the consumers rank the different factors considered when researching.



However, consumers feel uncertain about what sustainability means:

- There is no single agreed definition of what a sustainable or ESG investment is.
- For those starting out in investing, there is a lot of information to take in and understand.
- At a minimum some consumers abide by a 'do no harm' policy when searching for investment e.g., avoiding tobacco companies, aligned with their individual ethics or values.

- In general, consumers agreed that sustainable investing is associated with positive impact and investments that aim to do good for people and/or the planet.

"[Sustainable investing] is important to me but I'm not really sure what I should be looking for at this starting stage."

- Not yet started investing

"The stocks need to do good for the communities or the planet that gives a good return."

- 9+ years investing

Consumers feel the information currently provided on sustainable investing can be confusing:

- Across all levels of experience consumers felt that some of the current sustainable investment information lacked **conciseness**, was **untrustworthy** and contained **jargon**.

"[The information is] not great. A bit wordy and needs shorter, clearer labelling."

- 9 years+ investing

"This looks like greenwashing / smoke and mirrors / marketing. Nothing tangible here."

- Began investing in the last year

Consumer response to the labelling regime

Within this context, the FCA's proposed sustainability regime is well received. After viewing the labels and factsheets, consumers feel:

- **A label would give them confidence in a products' sustainability claims.** As the FCA is perceived as reliable and trustworthy, the labels would increase confidence in a product's claims.
- **The concept of labels is relatable, as consumers are used to labels in positive everyday contexts.** Adoption would therefore feel natural to consumers, who are used to other everyday labels.
- **A clear labelling system would make gathering the sustainability information of a product easier.** Consumers recognise that sustainability information is difficult to find, and they welcome a well-researched and evidenced framework.

- **Widespread label adoption could lead to a new, higher standard of investing across the sector.** Some consumers are surprised this type of initiative is not already in place. They see this new regime as paving the way for good practice.

"[Sustainable labels are better] than companies just saying their products are sustainable with no evidence, almost makes it proven and appears more factual."

- Not yet started investing

"It's too much to dig into the ins and outs of each investment as to whether you agree with the criteria or screening set or not. Having a way of distinguishing them is useful."

- Began investing in the last year

However, consumer information on the regulation of the regime, including how labels are self-assessed by firms, will be important in ensuring its success:

- **Consumers welcome a regulatory body in this space.** As consumers trust the FCA, the labelling initiative gains trust by extension.
- **Consumers were unlikely to mention self-certification and instead presumed the FCA would be awarding the labels.** When providing information about the use of labels, education around how firms will ensure compliance with the labelling criteria will help build credibility. Distributors (including advisers) have an important role to play in communicating sustainability-related information.

"Definitely coming from one trusted source such as the FCA... The FCA need to audit the products to make sure businesses are not being fast and loose with the labels."

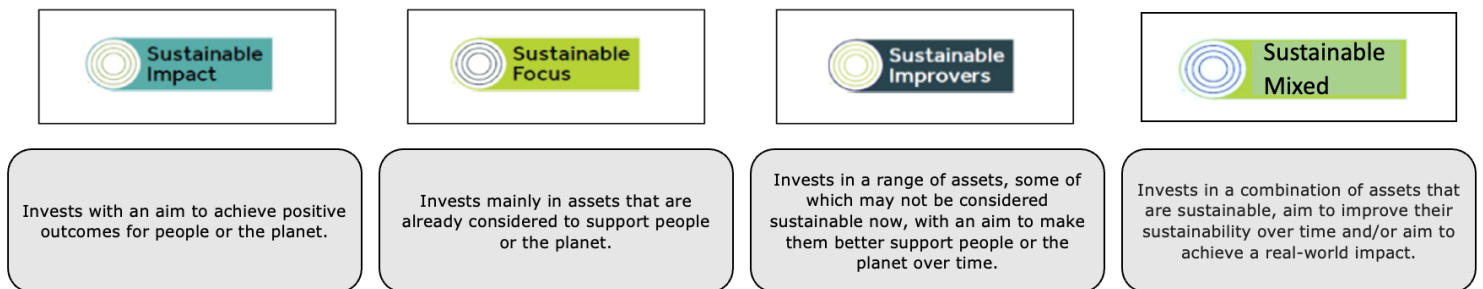
- 9+ years investing

Initial reactions to the initiative are consistent with our understanding of consumers' behaviours:

- Those with less investment experience are more likely to feel positively towards the labels and welcome any information to help them make their investment decision.
- Those with more investment experience were more comfortable with assessing detailed information about investments themselves and more sceptical of the regime and the truthfulness of sustainability claims.

Understanding of the labels within the regime

Consumers were presented with a four-label SDR regime:



Overall, consumers responded positively to the labels. The idea behind the labels is clear, however consumers are looking for an explanation as to *why* a product is sustainable. At this stage, only the label names and descriptions were shared, with the further information on the factsheets covered in the following section.

Label names

- **'Sustainable Impact' is the most positively received of the labels.** *Impact* is seen as more action oriented than others and is therefore seen as the strongest label name.

"I like impact as the language used makes you feel like you are going to make a real difference to someone's, or a subsection of people's lives."

- Not yet started investing

- Most consumers see the explicit *focus* in **'Sustainable Focus' as positive and action oriented** and it was received well

"I like sustainability focus as it says exactly what it does."

- 1-9 years investing

- **'Sustainable Improvers' is felt to be the least clear of the other labels.** Most consumers interpret the name 'improve' as working to improve which assets the fund invests in, rather than the assets themselves working to improve their sustainable goals.

"Focus and Impact seem more positive than improvers as that seems more looking into the future rather than making an impact immediately."

- Not yet started investing

- Consumers assume **'Sustainable Mixed'** indicates a fund that **includes a mix of sustainable and unsustainable products**. Consumers preferred alternative names which include 'Goals' (such as 'Sustainable Multiple Goals or Sustainable Mixed Goals), which denote an aspirational tone. Consumers felt this was clearer and highlighted that the label denotes a product which encompasses more than one sustainable goal.

"Mixed with what? This does not assure me that the fund is fully sustainable. Could it be mixed with things I don't care to invest in?"

- Over 5 years investing

"[I like] multiple of mixed goals. It shows the label is a coverall. I like the use of 'goals' because we're talking about their goals and aims."

- Over 5 years investing

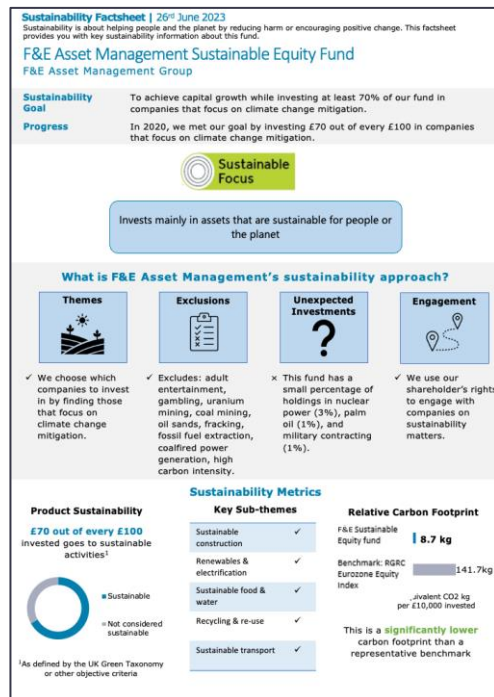
Label descriptions:

- Most consumers liked the **explicit focus on people** in the description of **'Sustainable Impact'**.
- In describing **'Sustainable Focus'**, the use of the word 'mainly', makes **some feel that not all relevant information is being disclosed**.
- Consumers feel the description of **'Sustainable Mixed'** does **not make it entirely clear that it denotes products that meet the criteria for more than one label**. Consumers are looking for further clarity in the description for this label. They seek professional and aspirational language.
- The labels and their **accompanying descriptions on their own can be open to interpretation**. If taken without the context of the fact sheet consumers struggle to understand what the labels mean.

"I don't fully understand them all. I don't know the difference between focus, impact, improvers or mixed without the explanation."

- 5 years investing

Response to the labels on factsheets



Alongside the sustainability labels, funds will typically have a factsheet to explain to consumers the key sustainability features of the product.

Consumers see these factsheets as a useful and authoritative resource, but the language and visuals used in each section should be carefully chosen to avoid confusion.

Figure 1. Example fact sheet shown to participants to prompt discussion and feedback, leading to the considerations explored in considerations section. This is an illustrative document, used for the purposes of consumer testing.

Strengths of the factsheets:

- ✓ The **clear layout** makes the factsheets easy to read and understand.
- ✓ Consumers welcome the **transparency of 'exclusions' and 'unexpected investments'** sections.
- ✓ Consumers like that the factsheets have all the **key information in one place** and information is concise.
- ✓ The information provided **fills a gap** in what consumers have been looking for to understand sustainable investments.

"I quite like [the factsheet]. It begins to explain what we'd already see. It tries to explain what is excluded and this is what has typically been missing until now. I've been looking for (and failing to find) this kind of information."

- 9 years+ investing

Areas to improve and to avoid:

- × Consumers would welcome **the same detailed measurements** across each section and further explanations for terminology they consider jargon.
- × Including **'unexpected investments' increases transparency but the language requires further refining** to have clarity at a glance.
- × As the factsheets are seen as an authoritative source of information, any **visuals must be carefully curated** to avoid misinterpretation.

- × Consumers would be reassured of the robustness of the regime if **clear signposting of where to find more information** is included.

Considerations for designing consumer-friendly factsheets:

1. Provide a clear outline of each product's sustainability goal and progress towards this goal.

- a. Consumers felt it was key to have this outline at the top of the factsheet.

2. Avoid jargon, excess text, and use plain English where possible.

- a. Where terms like this 'relative carbon footprint' or 'benchmark' are included, consider adding supporting information to encourage engagement.
- b. Using relatable figures where possible will help consumers to understand larger numbers.

3. Be transparent.

- a. Consumers are realistic about what a fund can and cannot achieve and appreciate disclosures of investments that do not meet the fund's sustainability goal.
- b. Consider showing the percentage of holdings alongside investments which do not meet the fund's sustainability goal.

Response and feedback on statements

Some funds will not meet the criteria and therefore cannot use a label. Other funds may meet the criteria but choose not to use the label as the labels are voluntary. Products which do not have a label but use sustainability-related terms will have to include a short statement explaining why they do not have a label. For overseas funds, distributors will have to include a statement explaining that they are not subject to the UK disclosure regulation and therefore don't have a label.

Overall, the disclosures of non-labelled products using sustainability-related terms are working:

- ✓ **Consumers feel it is important for these funds to have a disclosure if they are not using a label.** For many, this may lead them to disregard the product.
- ✓ Consumers appreciate **clear explanations** of why a product is not labelled. They feel this **increases transparency** and **informs their choices**.

However, **they raised some questions to be further considered:**

- ? Consumers wonder **how required disclosure statements on non-labelled products will be monitored.**
- ? Some consumers expect the FCA will award, as well as monitor these labels. **Consumer education and information will be key to ensuring a clear understanding of the use of labels and the FCA's oversight.** Distributors (including advisers) have a key role to play in communicating sustainability-related information to consumers.
- ? Consumers also wonder **why a fund would choose not to have a label if it met the criteria.** Consumer information will therefore need to build confidence in the regime and ensure consumers are confident on the regime's credibility.

"Why would they choose not to do it? The labels are a positive thing."

- Up to 5 years investing

The disclosures for overseas products outside of the scope of the regime landed well with consumers:

- ✓ Consumers **understood the rationale behind these products not having a label**, due to the additional information provided. Consumers are therefore less likely to automatically discount the fund.
- ✓ Some also **wondered whether overseas funds will be offered the choice to use the label** if they would like to. Consumers feel this would lead to an easier selection of products.

"I think the wording is spot on. It is clear why the products cannot be labelled but that's not to say it's not a sustainable investment and I would not rule it out on the basis that it does not have a label."

-1-9 years investing

Considerations for designing consumer-friendly disclosures

1. Indicate *why* a fund does not have a label – keep it short and concise.

- a. Consumers welcomed the opportunity to read more about the firm's sustainability approach even if it doesn't have a label.
- b. Funds who qualify for a label but choose not to use one will also need to disclose and communicate this to consumers.

2. Avoid vague language.

- a. Consumers seek clarity on the difference between a 'sustainable objective', 'sustainable approach' and 'sustainable features'.

About Thinks Insight & Strategy

We are an international insight and strategy consultancy, focused on providing our clients with the insight they need to make better decisions. We do this by putting the people who matter most to our clients' organisation at the heart of their thinking.

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