

# FCA ISSUES GUIDANCE TO AUTHORISED FUND MANAGERS IN RELATION TO ESG AND SUSTAINABLE INVESTMENT FUNDS

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Legal Briefings

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FCA issues guidance on improving quality and clarity in the design, delivery and disclosure of funds proposing to make sustainable investments.

It did not take long for the FCA to issue its first serious intervention connected to greenwashing and poor ESG product governance standards in the funds space.

In a letter addressed to the chairmen of authorised fund managers (“AFMs”), published on 19 July 2021, the FCA states that it is “essential that funds marketed with a sustainability and ESG focus describe their investment strategies clearly and any assertions made about their goals are reasonable and substantiated”. To many, this may seem obvious. But it is not, the FCA says, reflected in many of the applications for fund authorisations that it receives.

The FCA states that “As the ESG and sustainable investment market grows, we have a role as the regulator to build trust in this segment of the market. We expect firms to play their part in this too; we want them to be putting consumers at the heart of their businesses, offering products and services that are fit for purpose and which they know represent fair value”. This language aligns with recent output by the FCA, which is currently consulting on the repositioning of consumer outcomes at the heart of its approach to regulation. See here our recent post on the FCA’s consultation on a new consumer duty of care.

The FCA seeks to remedy the shortcomings it has observed in applications for fund authorisations and precipitate better consumer outcomes by providing guidance in the form of an overarching principle and 3 supporting principles. Each principle is accompanied by a set of 'key considerations' and examples.

The FCA recognises that UK funds may need also to comply with the EU's Sustainable Finance Disclosure Regulation ("SFDR") (which would be the case where they are distributed in the EEA). The principles are intended to be complementary to the SFDR. They are in some respects more explicit and direct than the directions embedded in the SFDR, and to some, this directness may underscore the shortcomings of the SFDR.

[Download our briefing](#) for further information:

- Who does the guidance apply to and in respect of which funds?
- Does the guidance only apply to new fund launches?
- Does the guidance apply in relation to funds that do no more than integrate ESG considerations into investment processes?
- What principles does the guidance set out?
- Do these guidelines represent the FCA's final output on ESG in the funds context?



# KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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