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SDR and labels policy
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Submitted by e-mail to cp22-20@fca.org.uk

For the attention of the FCA's team regarding Consultation Paper CP22/20

Leadenhall Capital Partners' response to the FCA regarding the open consultation on 'Sustainability Disclosure Requirements (SDR) and investment labels'

Leadenhall Capital Partners LLP ('Leadenhall') is pleased to provide its response to the important consultation paper on how UK regulated investment managers and funds should disclose and label their sustainability characteristics. Our detailed responses to this consultation can be found appended.

Our responses to the consultation questions aim to highlight issues that are relevant to the managers of alternative assets, in particular the managers of Insurance Linked Strategies ('ILS'). London is a global centre for the insurance and reinsurance industry. The global reinsurance industry is approximately $600bn in size, of which around $100bn is transferred to the capital markets and held by investors, often in ILS fund structures. This type of alternative asset, and likely other alternative asset classes, require more clarification in the proposed Sustainability Disclosure Requirements as to how they can label and market themselves in terms of sustainability.

Much of the consultation's proposals are well intentioned. However there are some issues with the SDR proposals in the current draft that we suggest are further addressed. These are:

- Sustainability reporting, disclosures and labels build on TCFD product and entity reporting. This reporting is assumed to already exist or be possible for managers of traditional investment products. However this often not the case for managers who only manage alternative assets, such as ILS, where the carbon emissions associated with these assets are not yet defined by regulations or guidance. There is a lack of methodology or data to calculate carbon emissions for a number of asset classes including government bonds, money market instruments, many private assets, securitizations and Insurance Linked Strategies. #under current rules a company's financed carbon emissions are attributed into the debt and equity instruments issued by that company and allocated to their holders. In the case of an insurer or reinsurer no financed emissions are allocated under these rules to insurance related risks that are transferred to off balance to ILS in the form of Special Purpose Vehicles (SPVs).

- ILS managers such as Leadenhall Capital Partners require clarification in the disclosure requirements that the logical consequence of the current TCFD carbon

emission accounting rules that for ILS investments a (re)insurer's emissions are allocated across the equity and debt in their capital structure, with no other instruments having emissions attributable to them as this would represent double counting. In particular ILS managers such as Leadenhall invest in insurance linked investments issued by an SPV and in insurance and reinsurance risk profiles. As it is our understanding that under the current rules insurance and reinsurance contracts are not allocated emissions from an operating company we believe it should be clear that the apportionment to an alternative investment referencing such a risk profile is zero unless otherwise stated by the regulations. Furthermore when SPVs are created to transact in the insurance linked space we would like to seek positive confirmation that the emissions of SPVs used in transacting alternative investments (i.e. in all cases in which the SPV is not an operating company with its own staff) the SPVs' emissions are zero.

- Managers with AUM of under £5bn are currently not mandated to produce TCFD reports. However TCFD reporting may be required to be produced with sustainability reports for products to be marketed and labelled under SDR. Given that this may cause a disproportionate burden for smaller managers we propose that they should not have to produce both sustainability and TCFD reports. We propose that TCFD reports are made optional in this case. If this is not the case there could be a disproportionate burden on smaller alternative asset managers.

- It is proposed that anti-greenwashing regulations commence in 2023. However sustainability labels for funds are proposed to be introduced in 2024. Under the anti-greenwashing rule is not clear how funds can use terms in their marketing material including 'ESG', 'social', 'climate' and 'SDG' from June 2023 before funds can be labelled as sustainable in June 2024. It would be helpful to clarify how this timeline may work in practice and be enforced.

- Whilst most of the example fund profiles in the consultation are global equity funds which take various ESG approaches alternative asset funds should be able to use the SDR sustainable labels. In particular Insurance Linked Strategies should be able to adopt the proposed sustainability labels. They should be able to adopt a 'sustainable focus' label due to a certain amount of a fund's assets meeting a social metric such as providing social resilience from meteorological events, including climate events. They should also be able to adopt a 'sustainable impact' label by providing capital to an underserved market to help close the insurance protection gap.

Please find our detailed responses to the consultation's 31 questions appended. Should you have any questions or points of clarification regarding this letter or our responses to the questions, do not hesitate to contact us.

Yours sincerely,

The ESG Committee
Leadenhall Capital Partners LLP

Responses to Consultation Questions

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?

We agree with the proposed scope of firms, products and distributors. 3.8 mentions that overseas products are not included in scope of this consultation. However if a firm regulated by the FCA has an AUM of £5bn or more then they are required to make a sustainability entity report. In practice if a smaller asset manager wishes to use sustainable investment labels we presume that the manager would then be required to produce sustainability and TCFD reports. It would be helpful to provide more clarity around this as producing both reports could create a disproportionate burden for smaller managers. We propose smaller managers are only required to produce sustainability reports.

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

We agree with the overall proposed timeline. However it is not clear how the individual timescales align. For example anti-greenwashing requirements are introduced in June 2023 and sustainable fund labels are introduced in June 2024. It is not clear how terms can be used in product marketing material such as 'ESG', 'social', ''climate', 'SDG', etc. from June 2023 with sustainable fund labels only coming in from June 2024. More clarity would be helpful about how this would work and be enforced in practice, or instead the timescales aligned.

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.

We do not agree that costs scale as indicated with the size of the asset managers' businesses. Costs are shown to increase relating to small, medium and large asset management businesses. If an asset manager chooses to adopt SDR labels for their funds then fixed fees are likely be incurred for legal, IT and consultancy costs which are significant for a small asset manager. The small size of the costs shown for small asset managers imply that external legal, IT and consultancy advice is not taken. In practice this advice and costs are likely to be incurred.

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.

We agree that sustainable investments should have a link to creating a positive link for the environment and/or society, noting that the G aspects of ESG have been de-emphasised in the proposed regulations. We also note that where examples of sustainable investment strategies have been given in the consultation they tend to reference investments in global equities.

We would caution against framing potential sustainable investment strategies from the perspective of just one asset class. For instance Leadenhall manage Insurance Linked Strategies (ILS) which transfers (re)insurance risks to the capital markets with regular (re)insurance premiums supporting ILS income. This type of investment could also be given as an example of a sustainable investment as it helps narrow the insurance protection gap by supplying capital to an 'underserved market'. This capital helps provide social resilience to societies by rebuilding them when natural catastrophes occur (such as hurricanes, earthquakes, floods and fires). ILS also helps protect residents and small-mid sized businesses allowing them to operate with more financial certainty.

We therefore recommend that alternative asset managers are given sufficient flexibility to be able to report the positive social and environmental effects that their investments have, such as for ILS, and that their characteristics are recognised by the SDR's sustainable investment labels.

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?

We agree with the proposed labelling and classification of sustainable investment products. Whilst the FCA has opted for different labels to those of the EU's SFDR comparisons will likely be made between 'Sustainable Focus' and 'Article 8' funds, and between 'Sustainable Impact' and 'Article 9' funds. We view this as a good outcome for smaller asset managers with more constrained resources. There should be enough flexibility in the regulations for funds to be able to adopt both SDR and SFDR labels.

We agree with the concept of intentionality and the sustainability objectives of the fund labels. However we suggest that the definitions of primary and secondary channels for sustainability outcomes are dropped or broadened. This is because different asset classes may have different methods for delivering their outcomes. For instance Insurance Linked Strategies help provide (re)insurance. They provide protection for societies and companies that may not otherwise be able to access it, rather than reducing the relative cost of capital as is defined for 'Sustainable focus' funds.

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? In particular, we welcome your views on:

a. Sustainable Focus: whether at least 70% of a 'sustainable focus' product's assets must meet a credible standard of environmental and/or social sustainability, or align with a specified environmental and/or social sustainability theme?

70% is a plausible amount of a 'Sustainable Focus' fund's assets to be recognised as being environmentally or socially sustainable. However quantitative backing is not given as to the relevance of this figure. A figure of 50% would enable a product to market itself as having a majority of its assets invested in sustainable assets, and so we have preference for this figure.

The example product profiles given for this label are exclusively for global equity strategies. The rules should be defined so that other alternative asset classes can use this label and examples given for alternative asset strategies as well. For example Insurance Linked Strategies should be shown as an eligible asset class for reasons such as:

- At least X% of the assets provides societies with protection from meteorological risks, including from risks related to climate.

- At least X% of the assets protect residential and small commercial businesses from natural catastrophe risks to ensure their protection from adverse financial risks.

- The Fund contributes to supporting social resilience and narrowing the insurance protection gap by holding at least X% of assets providing (re)insurance-linked protection.

b. Sustainable Improvers: the extent to which investor stewardship should be a key feature; and whether you consider the distinction between Sustainable Improvers and Sustainable Impact to be sufficiently clear?

We believe that the difference between Sustainable Improvers and Sustainable Impact is sufficiently clear.

c. Sustainable Impact: whether 'impact' is the right term for this category or whether should we consider others such as 'solutions'; and the extent to which financial additionality should be a key feature?

We believe that Sustainable Impact is an appropriate term for this category as the objective of this strategy is to have a greater effect than meeting a credible standard in the Sustainable Focus category.

Our view is that Insurance Linked Strategies should be able to be classified as an alternative asset strategy within this category in addition to global equity strategies shown in the profiles. Insurance Linked Strategies help direct capital to an underserved market. When there are natural disasters such as hurricanes, earthquakes, floods and fires economic losses are often much higher than insured losses. ILS helps bridge this insurance protection gap by providing capital to societies to recover and providing financial certainty to residents and small-mid sized businesses.

We do not believe that additionality should be a key feature in Sustainable Impact products. Voting and engagement are often used as ways to evidence stewardship. However voting and engagement with companies is often only formally permitted through holdings of equity assets, rather than through alternative assets. Consequently additionality is more relevant to Sustainable Improver products. To enable alternative asset types to be classified as Sustainable Impact we suggest that references to additionality are removed.

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?

We agree not to have a label for non-sustainable products. This may negatively message a product to investors that do not have a view regarding sustainability considerations.

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

- **whether the criteria strike the right balance between principles and prescription**
- **the different components to the criteria (including the implementing guidance in Appendix 2)**
- **whether they sufficiently delineate the different label categories, and;**
- **whether terms such as 'assets' are understood in this context?**

We agree with most of the qualifying criteria principles. However we believe that principles 3 and 5 should be amended.

Under Principle 5 we recommend not explicitly linking to the FRC's Stewardship Code. Whilst there is a lot to commend about the Stewardship Code 2020 and there are now many signatories who are managers of equity and fixed income assets there is a lack of managers of alternative assets including those of infrastructure, property, securitized and private assets as well as Insurance Linked Strategies. Stewardship is well defined for public equity and fixed income assets where asset holders vote at board meetings and have direct communication with company directors. However this is not the case for the holders of many other alternative assets. An explicit link to the Stewardship Code 2020 could potentially exclude alternative asset managers from using SDR sustainable investment labels. Many alternative asset managers have their own different types of stewardship policies that they have adopted to best suit their asset class in the absence of other guidance.

Consequently we recommend that Principle 5 applies to products with the Sustainable Improvers label, or just refers to an individual firm's Stewardship Policy that the manager deems most appropriate for their asset class.

Principle 3 doesn't suggest example Key Performance Indicators for alternative asset classes or for social metrics. However for Insurance Linked Strategies metrics that would be relevant for Sustainable Focus funds are social metrics such as:
- At least X% of the assets provides societies with protection from meteorological risks, including from risks related to climate.
- At least X% of the assets protect residential and small commercial businesses from natural catastrophe risks to ensure their protection from adverse financial risks.
- The Fund contributes to supporting social resilience and narrowing the insurance protection gap by holding at least X% of assets providing (re)insurance-linked protection.

For Sustainable Impact funds it is mentioned that a firm must apply enhanced impact measurement and reporting based on industry best practices. We suggest that ILS funds can disclose their (re)insurance 'limit' or how much they close the insurance protection gap by providing capital to an 'underserved market'.

Q9: Do you agree with the category-specific criteria for:
- **The 'Sustainable focus' category, including the 70% threshold?**

As in the answer to Q6a 70% seems a plausible amount of a ‘Sustainable Focus’ fund’s assets to be recognised as being environmentally or socially sustainable. However quantitative backing is not given as to the relevance of this figure. A figure of 50% would enable a product to market itself as having a majority of its assets invested in sustainable assets, and so we have preference for this figure.

• The ‘Sustainable improvers’ category? Is the role of the firm in promoting positive change appropriately reflected in the criteria?

We believe that this is suitably reflected.

• The ‘Sustainable impact’ category, including expectations around the measurement of the product's environmental or social impact?

Please consider whether there any other important aspects that we should consider adding.

The category-specific criteria for ‘Sustainable impact’ products is defined to be reasonably wide-ranging. We believe that this is right as it allows managers of alternative assets to use Key Performance Indicators that are relevant to their particular investment strategy. For example for Insurance Linked Strategies a metric could be by how much a product provides capital, risk coverage or limit to the underserved (re)insurance industry to help close the insurance protection gap.

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?

This seems appropriate. As mentioned requiring independent verification may increase costs and burdens disproportionally for smaller firms.

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?

We agree with the general structure of the proposed approach. However we suggest that care is taken in the specification of stewardship disclosures. Whilst the activities of voting at shareholder meetings and engaging with company boards is well practised for the holders of corporate equities and debt stewardship activities are not well defined for the holders of alternative assets. This is why there is a lack of alternative managers who have signed up to the FRC’s Stewardship Code, including infrastructure, property, private asset, securitised and insurance-linked asset managers. So that the managers of alternative assets can use SDR labels we propose that they are not required to make disclosures around stewardship activities, or they that are given the flexibility to disclose their different approach to stewardship that is relevant to their asset class.

As noted in this section on consumer-facing disclosures there is a reasonable degree of commonly accepted environmental metrics that are now accepted across the investment market. However this is not the case with regards to social metrics. Firms should therefore be given the flexibility to define social metrics that are relevant to their asset class. In the bottom right of Figure 7 it isn't clear which metrics and targets should go into an entity level sustainability report. Our view is hat managers should be given the flexibility to define metrics that are most relevant to their firm and assets managed.

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?

We **do not** believe that the managers of alternative assets, particularly solely of alternative assets such as Insurance Linked Strategies, should build their sustainability disclosures from TCFD-aligned disclosure rules.

TCFD reporting is assumed to already exist or be possible for managers of traditional investment products. However this is often not the case for managers who only manage alternative assets, such as ILS, where the carbon emissions associated with these assets are not yet defined by regulations or guidance. There is a lack of methodology or data to calculate carbon emissions for government bonds, money market instruments, many private assets, securitizations and Insurance Linked Strategies. In the case of ILS a company's financed carbon emissions are attributed into the debt and equity instruments issued by that company and allocated to the holders of these investments. In the case of an insurer or reinsurer no financed emissions are allocated to insurance related risks that are transferred to off balance sheet ILS in the form of SPVs.

ILS managers such as Leadenhall Capital Partners require clarification in the disclosure requirements that the logical consequence of the current TCFD carbon emission reporting requirements for ILS investments is that a (re)insurer's emissions are allocated across the equity and debt in their capital structure, with no other instruments having emissions attributable to them as this would represent double counting. In particular ILS managers such as Leadenhall invest in insurance linked investments issued by an SPV and in insurance and reinsurance risk profiles. As it is our understanding that under the current rules insurance and reinsurance contracts are not allocated emissions from an operating company we believe it should be clear that the apportionment to an alternative investment referencing such a risk profile is zero unless otherwise stated by the regulations. Furthermore when SPVs are created to transact in the insurance linked space we would like to seek positive confirmation that the emissions of SPVs used in transacting alternative investments (i.e. in all cases in which the SPV is not an operating company with its own staff) that the SPVs' emissions are zero. If rules or guidance are not provided around the financed emissions of these investments then ILS managers are not able to produce TCFD reports, upon which sustainability reports are dependant in the current proposals.

TCFD carbon emissions rules and metrics are environmental metrics. SDR permits products to be sustainable based on environmental or social metrics. Building on TCFD-aligned disclosure rules could exclude products that have social characteristics. For example Insurance Linked Strategies provide social resilience to societies and communities.

They provide societies with the ability to be rebuilt after a disaster as well as providing residents and small businesses with financial certainty. Building on environmental TCFD-aligned disclosure rules could exclude these types of socially positive products from using SDR labels as the carbon emissions associated with alternative assets are not currently defined.

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?

We agree with the proposals, particularly giving asset managers the flexibility to produce content and metrics that are relevant to their particular investment strategy. This would allow alternative asset managers to use the SDR product labels rather than exclude them from using labels.

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?

As per our answer to question 13 we agree with the proposals not mandating the use of a template. This should give asset managers the flexibility to produce content and metrics that are relevant to their particular investment strategy. This would allow alternative asset managers to use the SDR product labels and prevent them from being excluded.

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.

We agree with the proposals for pre-contractual disclosures noting as in Q13 that managers of alternative assets should have the flexibility to produce disclosures that are relevant to their particular investment strategy.

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.

We **do not** agree with the proposals for ongoing sustainability-related performance disclosures in the sustainability product report. In particular we do not agree on building on existing TCFD disclosures in the case of alternative assets. TCFD metrics and data are only currently defined for traditional asset classes such as for corporate equity, corporate credit and property assets. As rules are not defined for many alternative asset types such as for Insurance Linked Strategies calculations are often not able to be made. For example securitised and insurance linked investments often remove assets from corporate balance sheets. Under current carbon accounting rules a corporate’s carbon emissions are attributed by balance sheet assets. Consequently logic follows that TCFD financed emission metrics are zero for insurance linked and many securitised investments as described further in our answer to Q12.

When corporate assets are moved off balance sheet to SPVs (as happens in the insurance linked space) we would like to seek positive confirmation that the financed emissions of SPVs used in transacting alternative investments (i.e. in all cases in which the SPV is not an operating company with its own staff) that SPVs' emissions are zero. If rules or guidance are not provided around the financed emissions of these investments then ILS managers are not able to produce TCFD reports.

TCFD metrics are environmental metrics. Requiring investments that have social characteristics to report on TCFD environmental metrics may mean that they are excluded from being able to use SDR labels and market themselves as being sustainable. This is the case for Insurance Linked Strategies and so further clarification is required by the proposed regulations for alternative assets.

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?

We agree with on demand reporting proposals. However if a product is sustainable for social characteristics it should only report on social metrics that are relevant to its strategy, rather than having to report TCFD metrics that may not be defined for its alternative asset class.

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.

We do not agree that a sustainability entity report should be built on a pre-existing TCFD report, and that a sustainability entity report should either incorporate disclosures required under the TCFD rules, or include a hyperlink to the TCFD entity report. This requirement discriminates against managers who solely manage alternative assets, such as Insurance Linked Strategies managers. As described in answers to Q12 and Q16 the lack of TCFD rules and guidance for these assets means that the production of TCFD reports by these managers is not currently possible.

Also small asset managers with under £5bn AUM who currently don't produce TCFD reports may wish to use SDR product labels. These types of small asset managers would be disproportionally hit by burden and cost if they wish to make sustainability disclosures and use sustainable product labels. Small managers wishing to use SDR product labels should have the option to produce TCFD product and entity reports, when producing their sustainability disclosures.

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?

We agree with referencing TCFD's four pillars for governance, strategy, risk management, and metrics and targets as this is helpful in providing a framework for making sustainability disclosures.

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

We agree with the concept of 'anti-greenwashing' and that the sustainability characteristics of products should be clear, fair and not misleading. However care should be taken in the implementation of this concept. Sustainable products are defined as having environmental **or** socially positive characteristics. However the current proposals require managers to make TCFD **and** sustainability reports. This is not appropriate for alternative asset managers whose investments have socially positive characteristics. Because TCFD metrics may not be defined for the alternative assets managers who solely manage these types of assets cannot produce TCFD reports. This potentially means that under the proposed rules sustainability labels may not be used for assets with social characteristics because TCFD metrics cannot be calculated for them.

To prevent this unintended consequence we propose that alternative asset managers who have socially positive products but who can't produce TCFD reports only need to produce sustainability reports (without TCFD metrics) to demonstrate their products' social characteristics. Insurance Linked Strategy managers are an example of managers affected by this potential unintended consequence.

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?

We agree with the naming rule but have concerns with the marketing rule for Insurance Linked Strategy funds.

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

We have concerns with the marketing rule. London is a global centre for the insurance and reinsurance industry. Some reinsurance (c.$100bn of the c.$600m market) is transferred to the capital markets in the form of insurance linked securities and private placements. Many investors invest in these assets through ILS funds.

These funds provide **'social'** resilience to societies and communities by rebuilding them when there are **'climate'** disasters such as hurricanes, floods, fires, earthquakes, etc. Providing **'social'** resilience meets a number of **'Sustainable Development Goals'** or **'SDGs'** by reducing the adverse effects of natural disasters, building resilience and providing universal access to insurance in developing countries.

As shown above a number of ESG terms are often used by ILS funds to describe the operation of their investments. However as most ILS managers can't produce TCFD reports (as described in the answers to Q12 and Q16) they may not be able to build on these to produce sustainability reports. Consequently they may not be able to label and market their

products as being sustainable despite having socially positive characteristics. It is likely an unintended consequence of the proposed regulations that ILS funds, and potentially other socially positive asset classes, can no longer describe the genuine operation and social characteristics of their asset class.

We therefore propose that the requirements for ILS managers to produce TCFD reports is removed until a carbon emissions accounting methodology is specified for the ILS asset class. If this is not the case an unintended consequence is that an industry with a significant presence in London won't be able to describe the genuine operation of their businesses. This is also likely to be an issue for the managers of other alternative asset classes.

ILS funds are generally marketed to institutional investors rather than retail. Nevertheless we feel that the above is an unintended consequence that has not been considered by the SDR proposals and that this should be rectified.

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

No

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

We agree with the proposal, although it is not ideal for a different approach to be taken for UK and overseas funds for a period of time.

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?

Most defined contribution pension products de-risk to cash and government bonds as savers mature and their risk aversion increases. These low risk asset types do not have environmental or socially positive characteristics as only a small subset of these instruments specifically finance green or sustainable projects. Instead most focus should be on the accumulation phase of savers' assets where the bulk of assets are today. Labels should be able to be applied to alternative assets with positive E or S characteristics which also diversify equity risk where most savers' risks are currently concentrated.

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?

Pension products, especially default funds used in DC pension saving, usually mix a number of underlying funds to provide an appropriate level of diversification and risk reduction for savers. Many DC offerings aim to offer sustainable investment strategies. It is therefore highly likely that a number of underlying funds will be blended together with

different investment and sustainability approaches. These could be equity funds, alternative funds (eg. ILS funds) and bond funds with sustainable focus, improving and impact approaches. Consequently we suggest that multi-asset fund of funds are able to just be labelled as being sustainable if the underlying funds have different E and S characteristics and have different sustainability labels.

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?

As in Q26 if multi-asset fund of funds invest in a range of different sustainable funds with different E and S characteristics they should be permitted to just market or name their fund as being sustainable if the underlying funds use a range of sustainable focus, improving and impact labels.

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?

Consumer-facing disclosures would likely be appropriate for end DC pension scheme savers who may not be familiar with investment concepts. Consumer-facing disclosures would likely not be appropriate for DB pension schemes where there is less interest in investment arrangements by the underlying membership.

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?

We agree that the approach for TCFD-aligned product-level disclosure rules should **not** apply to products qualifying for a sustainable investment label and accompanying disclosures. TCFD E metrics are very different to S metrics and so a common approach should not be taken.

We also do **not** think that baseline sustainability-related metrics should be produced for all products in time. Many different ESG approaches can be taken by investment funds. Insurance Linked Strategies may for example focus on providing social resilience, equity strategies may focus on biodiversity and green bonds may focus on reducing carbon emissions. Sustainable funds that underly multi-asset strategies can take very different sustainability approaches and so common sustainability metrics should not be mandated across different sustainability strategies.

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

SDR requirements should allow and encourage alternative asset managers to be able to use sustainable labels. Much of the example strategies given in the consultation are sustainable equity strategies. However alternative assets provide savers with welcome asset class diversification and can provide society with further alternative sustainability benefits. For example Insurance Linked Strategies (such as those with a presence in London) provide society with social resilience from climate effects while also providing savers with attractive yields and diversification benefits.

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.

As mentioned in answers to previous questions, while well intentioned, one of the main difficulties with the current proposals is the requirement is to build on TCFD product and entity reporting which is assumed to already exist or be possible. This may not be the case for the managers of alternative investment products where no carbon accounting methodologies or data are available. This includes cash, government bonds, many private assets, securitizations and Insurance Linked Strategies.

Our view is therefore that TCFD reports should not be mandated on managers taking sustainable investment approaches, in particular socially positive approaches such as for Insurance Linked Strategies. It is fair for TCFD reports to be required for managers of products accounting for their carbon emissions and setting net zero plans. Sustainability reports should be mandated for managers wishing to offer and market sustainable investment products. Requiring both reports for managers wishing to offer sustainable products creates unintended consequences, such as socially positive alternative assets without carbon emissions rules not being able to market themselves as being sustainable. This would have a significantly negative unintended consequence on Insurance Linked Strategies, many of which have a presence in London, due to London being a global centre for the insurance and reinsurance industries.