FCA DP21/4 – Sustainability Disclosure Requirements (SDR) and investment labels – SIFMA AMG responses

Introduction

The Asset Management Group of the Securities Industry and Financial Markets Association ("**SIFMA AMG**") brings the asset management community together to provide views on U.S. and global policy and to create industry best practices. SIFMA AMG's members represent U.S. and global asset management firms whose combined assets under management exceed $45 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds. For more information, visit http://www.SIFMA AMG.org/amg.

Our members are active participants in the sustainability journey, and have first hand experience of implementing sustainability related practices and disclosures within the asset management sector – including most recently the EU Sustainable Finance Disclosure Regulation ("**SFDR**") regime. SIFMA AMG welcomes the opportunity to provide feedback on the FCA's Discussion paper on the SDR and investment labels.

1) **What are your views on the tiered approach set out in Figure 2? We welcome views on any concerns and/or practical challenges.**

   SIFMA AMG generally supports the tiered approach set out in Figure 2 for products that are marketed to and targeted at UK retail investors, but not for products that are marketed to and targeted solely at professional investors or where the product is not domiciled in the UK (though it is managed in the UK) or marketed to and targeted at investors in the UK. For SIFMA AMG's views on the general scope of the regime, please see the subsequent response to Question 2.

   However, we are concerned that labelling could be an issue for retail products when these retail products are also marketed in multiple other jurisdictions. SIFMA AMG notes that the proposed labels (e.g. particularly the "sustainable" and "responsible" labels) do not map to the EU SFDR categories as set out in the Discussion paper, and this could lead to clashes with the EU SFDR regime. Please see our response to Question 4 for detailed thoughts on this issue.

2) **Which firms and products should be in scope of requirements for labels and disclosures? We particularly welcome views on whether labels would be more appropriate for certain types of product than for others, please provide examples.**

   In terms of products, SIFMA AMG does not believe it would be appropriate to apply the regime to (i) separate accounts and funds that are only offered to professional investors; and (ii) funds that are managed in the UK but domiciled and solely distributed in foreign markets. Additionally, we would recommend that in the case of passively managed funds, responsibility for compliance with the relevant requirements should also bite on the benchmark administrator, given the funds will in most cases just simply track their benchmark.

   With respect to separate accounts, these are generally bespoke products, where the client has the opportunity to determine and/or provide input on the strategy and features of the products. Clients who request separate accounts tend to be more sophisticated and do not necessarily rely on labels or other more retail-focussed pre-contractual disclosures in order to understand the product's objective, strategy, and other features. In addition, from an operational perspective, the industry's experience with having to produce disclosures for separate accounts under the EU SFDR rules has been challenging, given the difficulties of applying the rules appropriately to large numbers of tailored products with nuanced differences in their features. Hence, SIFMA AMG would suggest excluding separate accounts from scope entirely. In any event, SIFMA AMG suggests excluding at least separate accounts for professional clients.

SIFMA AMG also feels that "disclosure layer 1" (i.e. the consumer facing summary disclosure) and the "product labels" are not appropriate for (i) funds that are small in size (as measured by, for instance, AUM) and (ii) funds targeted at professional investors (i.e. not retail), regardless of size.

- For small funds, the requirement to produce multiple layers of disclosures and labels would add to the regulatory cost of compliance, which would in turn be passed on to the end consumers. It would be harder to ensure these costs are proportionate with small funds.
- For funds targeted at professional investors, professionals are sophisticated enough to engage with "disclosure layer 2" (i.e. the detailed disclosures) which should provide all of the decision useful information they need, and hence will not derive significant benefit from "disclosure layer 1" or "product labels" when choosing funds.

If the FCA decides to adopt a tiered approach to all funds regardless of size or target investor, SIFMA AMG suggests setting a threshold where funds or products offered to investors which are below a certain size (as measured by, for instance, AUM) would only need to produce "disclosure layer 2".

In any event, SIFMA AMG takes the view that funds targeted at professional investors should only be required to produce "disclosure layer 2" for the reasons set out above. If the FCA decides to also adopt a tiered approach to professional investors, the suggestion above to exclude funds based on size applies as well.

SIFMA AMG also thinks it would be preferable for the disclosure obligations to not apply to delegated portfolio management where a product is not domiciled in the UK or marketed or targeted at investors in the UK. These delegation scenarios would not involve a product that could benefit from SDR disclosures. Notably, such delegations will often happen intragroup, and therefore mandatory disclosures to other group companies (who should have access to the information on shared systems and/or will be involved in the product design) would create unnecessary costs without any meaningful benefits.

From a geographical scope perspective, we appreciate that the FCA (in conjunction with the forthcoming overseas funds regime) may feel it is appropriate to apply SDR-style disclosures to overseas funds marketed to retail clients in the UK. However, it would be useful if the FCA could consider an equivalency or "mapping" regime for overseas funds marketing into the UK, particularly if these already comply with other ESG regulatory frameworks (e.g. EU SFDR and Taxonomy Regulation). This would avoid requiring such funds, that are already subject to regulatory regimes that offer equivalent investor protections, from having to start from scratch and produce potentially duplicative UK-facing disclosures. For instance, the FCA could consider whether it would be appropriate to map certain EU SFDR categories to particular UK SDR product labels on a formal basis (e.g. a fund which "complies" with Article 6 of EU SFDR and therefore considers sustainability risks, could potentially map to being a "responsible" product under the proposed labelling regime).

If the FCA did wish to apply “disclosure layer 1” and the “product labels” to funds marketed to professionals, SIFMA AMG believes that such mapping or equivalency would be helpful in that scenario as well.

Additionally, as noted above, with passively managed funds, we consider that responsibility for compliance with the relevant requirements (including the proposed SDR disclosure requirements) should sit with the benchmark administrators as well as the fund manager. Unless a fund references a very bespoke benchmark, the fund manager will have limited input on the methodology or standards applied by the benchmark administrator, and the fund portfolio will also in most cases simply track that benchmark. In the context of SFDR, many firms struggled to get benchmark administrators to comply, or assist them in complying, with the SFDR requirements at the index portfolio level with the SFDR Article 8/9 disclosure and investment eligibility requirements, and we expect the same would happen under the SDR.

Lastly, SIFMA AMG would be grateful if the FCA could explicitly clarify that the regime should not apply to funds that are closed to new business / further subscriptions as of the date the measures come into force (we assume this would be the intention, but it would be helpful if it was made explicit).

3) **Which aspects of these initiatives, or any others, would be particularly useful to consider (for example in defining terms such as responsible, sustainable and impact) and how best should we engage with them?**

SIFMA AMG already supports the stated intention of the UK SDR which is to base disclosures on the key international standards in this area (TCFD recommendations and ISSB standards). SIFMA AMG also thinks it would be useful to consider the IOSCO recommendations. In particular, the practical examples and explanations provided by IOSCO regarding greenwashing were generally helpful to SIFMA AMG members.

SIFMA AMG does not consider the CFA Institute’s ESG standards to be useful, noting that some of the CFA recommendations conflict with the EU SFDR (a major international standard).

Outside of voluntary frameworks, we feel it is particularly important that the FCA carefully considers how the UK SDR will interact with the compulsory regulatory requirements of other jurisdictions, and in particular the EU SFDR.

4) **Do you agree with the labelling and classification system set out in Figure 3, including the design principles we have considered and mapping to SFDR? We welcome views on further considerations and/or challenges.**

SIFMA AMG is supportive of the proposed labels in principle. However, we have a few specific concerns:

- As noted in our response to Question 2 above, we do not think it would be appropriate to use the product labels for separate accounts, funds marketed only to professional investors or accounts and funds managed under a delegation arrangement.
- We note that some challenges could also arise from applying labels and interactions with other sustainability disclosure regimes. Firstly, if FCA labels were to be applied to products which were also marketed in other jurisdictions, the application of “sustainable” and “responsible” labels could raise concerns for the classification of

products under those regimes. Notably, under EU SFDR, a product can be considered to fall within Article 8 only if it incorporates binding criteria relating to the consideration of environmental or social characteristics. The application of an FCA label to general disclosures could potentially give this impression for products that may not otherwise be considered to fall within Article 8 of EU SFDR. On this point, we do not agree with the mapping to EU SFDR provided in the Discussion paper, as we note that the proposed definition and minimum criteria for a “responsible” product appears to map to an Article 6 product under the EU SFDR rather than an Article 8 product. Specifically, ESG integration (from a risk perspective) and stewardship are not generally regarded as binding environmental / social characteristics that qualify for an Article 8 product. We question whether it would be appropriate to require the labelling of products employing an integration approach as 'responsible' under SDR, when such products do not meet the criteria under Article 8 of SFDR and therefore are not marketed in the EU as incorporating enhanced ESG attributes. We would recommend avoiding clashes with the EU SFDR regime where possible.

- We query the usefulness of specifying high Taxonomy-alignment as a requirement for “aligned” products given the expectation is (at least initially) that very few products would be highly Taxonomy-aligned. In particular, whilst we note that it is the intention of the UK SDR that corporates should be subject to Taxonomy disclosure requirements before investment products, applying the UK Taxonomy to companies outside the UK (and EU which applies its own Taxonomy) is difficult. In addition, SIFMA AMG members’ experience with the EU Taxonomy is that many economic activities are not even Taxonomy-eligible (not because they are “unsustainable”, but because they do not have a significant sustainability impact, or because of gaps in the Taxonomy criteria for specific economic activities), let alone aligned. While we understand the goal behind the proposal, it would be a while before there would be a meaningful number of portfolio companies that can be assessed for Taxonomy-alignment, and hence we would encourage the FCA to consider the threshold for Taxonomy-alignment for this category in light of these issues.

- Finally, SIFMA AMG feels the “not promoted as sustainable” category should not be applied as a “label”. Please see our response to Question 10 for more detail, but SIFMA AMG is of the view that there are a large range of products that legitimately have no specific sustainability goals. Actively applying a label to these products which draws specific attention to sustainability not being promoted could give the misleading impression to consumers that these products are “unsustainable”. If this label was applied as a negative screen or filter by consumers (or intermediaries), it could lead to consumers’ portfolios being misallocated or insufficiently diversified even when this is not actually justified on the basis of sustainability.

5) **What are your views on ‘entry-level’ criteria, set at the relevant entity level, before products can be considered ‘Responsible’ or ‘Sustainable’? We welcome views on what the potential criteria could be and whether a higher entity-level standard should be applied for ‘Sustainable’ products. We also welcome feedback on potential challenges with this approach.**

SIFMA AMG does not consider that ‘entry-level’ criteria at entity level, in addition to criteria that must be met at product level, will be useful. For instance, the suggestion to assess whether a firm is a signatory to the UK Stewardship Code might be problematic for international entities. More generally (and also relevant to the suggestion that PRI ratings could be considered), we also question why voluntary subscription or assessments should be included as a mandatory criterion under regulations.

From a practical perspective, if a product's label was dependent on criteria being met at an entity-level, it could raise significant issues in cases where the thresholds for such entity-level criteria are crossed. For example, if a firm was not accepted as a signatory to the UK Stewardship Code for a particular year (having previously been accepted), would this result in products that were previously labelled as sustainable changing their classification? Similarly, would products that were not previously labelled as sustainable suddenly become sustainable when a firm is accepted as a UK Stewardship Code signatory?

From an investor perspective, when investing a particular product, the information most useful to decision-making is information that relates to the specific product itself. Hence, SIFMA AMG believes it is appropriate to focus the relevant criteria on the design and approach of the product itself.

We therefore think that 'entry-level' criteria at entity level should be removed. To the extent that entity-level practices are considered potentially useful to investors, we think it would be better to have these included in entity-level disclosures (which we note are also proposed under the UK SDR), as this would then provide information to the investors who felt entity-level information was relevant without potentially problematic impacts on product classification.

6) **What do you consider to be the appropriate balance between principles and prescription in defining the criteria for sustainable product classification? We welcome examples of quantifiable, measurable thresholds and criteria.**

SIFMA AMG is generally supportive of having clear and objective thresholds for product classification under a "labelling" regime, as the intention of such a regime is to ensure that it is clear to consumers (and product providers) what standards need to be met by particular products. We note our earlier responses to Questions 2 and 4 that we do not consider such labels useful for products marketed to professionals.

However, any prescription must be clearly defined and should not be mixed with subjective standards. Notably, if there were a combination of prescriptive and principles-based criteria for particular labels, this would leave their meaning open to interpretation and potentially result in products with very different sustainability features being included under one category. For instance, SIFMA AMG observes that under the EU SFDR, it is a requirement for Article 9 products to have sustainable investment as their objective, but the concept of a "sustainable investment" is subject to partially subjective criteria. This then makes the Article 9 concept less useful for classification.

When it comes to disclosures themselves, however, SIFMA AMG prefers a principles-based approach. Please see our responses to Questions 14 and 15.

7) **Do you agree with these high-level features of impact investing? If not, why not? Please explain, with reference to the following characteristics:**

- **intentionality**
- **return expectations**
- **impact measurement**
- **additionality**
- **other characteristics that an impact product should have**

SIFMA AMG agrees with these features. We think another potential feature of impact funds would be the inclusion of KPIs that must be achieved over a certain period of time, i.e. that the impact is clearly measurable. We also think consideration should be given as to whether a do no significant harm test (or similar concept) should be applied to impact funds (given an investor in such a product may generally expect that it does not harm other sustainability concerns).

8) **What are your views on our treatment of transitioning assets for:**

   a. **the inclusion of a sub-category of 'Transitioning' funds under the 'Sustainable' label?**

   SIFMA AMG supports the inclusion of a sub-category for transitioning funds under the sustainable label.

   b. **possible minimum criteria, including minimum allocation thresholds, for 'Sustainable' funds in either sub-category?**

   SIFMA AMG thinks it is better to not have minimum allocation thresholds for transitioning funds, noting that most of these would be thematic and it would be difficult to set minimum criteria when the types of funds will vary.

9) **What are your views on potential criteria for 'Responsible' investment products?**

Please see SIFMA AMG's response to Question 4 above, noting the issues that might arise from using the 'Responsible' label for products that map more appropriately to Article 6 products under the EU SFDR.

10) **Do you agree that there are types of products for which sustainability factors, objectives and characteristics may not be relevant or considered? If not, why not? How would you describe or label such products?**

SIFMA AMG agrees that there are many types of products that for legitimate reasons do not consider sustainability factors or have sustainability objectives and characteristics. For instance, certain derivatives strategies or short duration strategies will not necessarily have any relevant sustainability considerations. Equally many commodities strategies will not have a clear sustainability impact or objective (e.g. most of the gold in the world has already been extracted and the only real world impact is the holding of such gold in warehouses). Similarly, currency funds that employ a FX strategy will by their nature not have any sustainability considerations. SIFMA AMG agrees with the description of this category as not having specific sustainable goals or integrating sustainability risks into investment decisions.

Additionally, it is worth noting that in practice, even 'mainstream' strategies (e.g. equities or debt strategies) may struggle to apply sustainable approaches/criteria due to the lack of reliable and/or available data in certain regions, sectors or areas – for e.g. any emerging markets focused strategy is probably not going to meet any prescriptive labelling criteria (even if ESG considerations are incorporated as part of the strategy) because the data is currently so sparse. It would be unhelpful for such strategies to then be labelled as "not promoted as sustainable", because such labels are likely to dissuade clients from investing in such strategies – when in fact such strategies often play a very import role in client allocation.

However, SIFMA AMG reiterates the view expressed in the earlier response to Question 4 that the “not promoted as sustainable” category should not be applied as a “label”. Applying a “not promoted as sustainable” category product label to such products might have the consequence of implying that these products are “unsustainable” and hence diverting capital flow away from these products. Such a diversion of capital flows could create the risk of investors being over-exposed to particular strategies and sectors, and discourage diversification. In addition, requiring a label for these products (the population which could be quite large), will result in unnecessary administrative burdens and costs for industry participants (e.g. they may need to reopen fund documents to specifically include information on the labels).

11) **How do you consider products tracking Climate Transition and Paris-aligned benchmarks should be classified?**

SIFMA AMG notes that the Climate Transition and Paris-aligned benchmarks were developed and finalised before the SDR regime was conceived, and were not designed with categorisations under this regime in mind. We think these benchmarks could be used as part of the criteria for classifying products, if the criteria are exactly aligned to the benchmarks (i.e. it was clarified that tracking a particular type of low carbon benchmark meant a product automatically fell into one of the SDR categories), but if additional criteria outside of the benchmarks’ own criteria were required to be met, then this could simply create confusion and unnecessary complexity around categorisation. However, if the FCA does not wish to create categories which are fully aligned with the low carbon benchmarks, then it would actually be ideal to align the benchmark criteria with the FCA categories (however, SIFMA AMG appreciates that these aspects of the BMR regime are not currently within the FCA’s remit to amend).

Additionally, as noted in the response to Question 2 above, we would recommend that in the case of passively managed funds, responsibility for compliance with the relevant requirements should also bite on the benchmark administrator.

12) **What do you consider the role of derivatives, shortselling and securities lending to be in sustainable investing? Please explain your views.**

SIFMA AMG notes that derivatives, shortselling and securities lending play different roles in portfolio management. Traditionally and typically, these are used as tools to improve the efficiency of portfolio management (e.g. using derivatives for hedging or securities lending to reduce costs and increase returns). On this view, derivatives, shortselling and securities lending play a neutral (or agnostic) role in sustainable investing, and are not green assets in themselves.

However, SIFMA AMG notes that this is an area of potential innovation, and the industry is still considering the role of derivatives, shortselling and securities lending in sustainable investing. For instance, we have started to see the creation of new derivatives that are linked to sustainability or ESG. Sustainability-linked derivatives may build on conventional hedging products with ESG pricing components. Some sustainability-linked derivatives might even incentivise improved ESG performance by reducing a counterparty's payments on the achievement of certain sustainability related targets. Shortselling is also an area of development in this space. Certain investors might prefer to have no exposures to less sustainable investments even through short positions, whereas others may feel that adopting short positions can be part of a strategy to incentivise sustainability related improvements amongst issuers.

SIFMA AMG takes the view that there are a variety of valid views and approaches to the use of derivatives, shortselling and securities lending in portfolio management, and the UK SDR regime should not be prescriptive in this area when market approaches are still under development. For instance, preventing certain types of sustainable products from using derivatives, shortselling and/or securities lending would potentially stifle innovation in this area. Similarly, SIFMA AMG also believes that it would be appropriate for the FCA to specifically consider whether its SDR rules could create issues when applied to derivatives, shortselling and securities lending (e.g. if limits on "exposures" to particular sectors for sustainable products were not clarified to only be limits on long exposures, or if sufficient allowance was not made for the use of hedging instruments in the composition of sustainable products), so that implicit or unintended barriers to the use of such tools are not created.

13) **What are your views on streamlining disclosure requirements under TCFD and SDR, and are there any jurisdictional or other limitations we should consider?**

SIFMA AMG agrees with streamlining disclosure requirements under TCFD and SDR, noting that other major financial centres such as Singapore and Hong Kong also use or intend to use the TCFD standard, and it is already readily accepted as the major international standard on climate related disclosures. This will have the benefit of promoting some degree of uniformity in disclosures internationally, assuming that the SDR rules do not conflict with the TCFD.

One limitation to consider is how the FCA proposes to implement the streamlining. SIFMA AMG suggests that having a TCFD report provided separately from the SDR disclosures (noting the proposed tiered system), on top of general regulatory disclosures (e.g. PRIIPs KIDs) may make it difficult for investors, particularly retail investors, to assess what information is important to them, resulting in less rather than more understanding of the product.

One suggestion is for the FCA to consider how to incorporate information collected for TCFD reporting into disclosures under the SDR. If the TCFD metrics are used in the SDR regime, this would be helpful as industry participants who are already collecting data for the TCFD can also use this in the disclosures. Please also see our response to Question 14 below for our views on incorporating sustainability related disclosures into general disclosure requirements.

14) **What are your views on consumer-facing disclosures, including the content and any considerations on location, format (eg an 'ESG factsheet') and scope?**

SIFMA AMG does not think a separate 'ESG factsheet' should be required, though there can be the option to produce one if a product provider wants to do so. Generally, SIFMA AMG takes the view that the most useful place to include consumer-facing disclosures will be the product factsheet, or in the main periodic report of the product. This is for several reasons.

- If a separate ESG document is produced, there is the risk that consumers that have a more sophisticated understanding of ESG issues but less so of financial issues might only review the ESG document and not the financial one (e.g. risk/return, sector allocation). The same applies in reverse (i.e. a consumer might review the financial document not the ESG one). Some products may consider ESG issues but only in a limited capacity in comparison to their overall investment objectives, and for these products a separate ‘ESG factsheet’ could potentially give the impression to investors that ESG considerations were a more prominent feature of the product than they actually were (simply by virtue of them being subject to their own standalone disclosure separate from other disclosures).

- A product should be considered as a whole, i.e. ESG forms part of the consideration alongside other financial considerations (particularly in the case of ESG integration which may be primarily focussed on the impact of ESG on financial returns), rather than as separate parts. Providing a separate 'standalone' document related to any specific component or feature of a product will inevitably cause investors to assign undue prominence to that specific attribute. Including the consumer-facing disclosures in the same document as all the other product information would support a more holistic consideration of a product by investors.

- The requirement to produce and disseminate a separate ESG document containing the consumer-facing disclosures will be an additional cost, which could be passed on to the investors.

For these reasons, SIFMA AMG thinks the FCA should not require a separate ESG document containing the consumer-facing disclosures, though it could be optional. We also note our response to Question 2 – that we do not think the labels or “disclosure layer 1” (that any ESG factsheet type information would presumably form part of) should apply to non-retail products, separate accounts, or small funds targeted at retail investors.

15) What are your views on product-level disclosures, including structure, content, alignment with SFDR and degree of prescription?

As a general point, SIFMA AMG does not think there should be too much prescription. A high level of prescription might not be appropriate in providing the flexibility to cater to all product categories, and product-level disclosures should be sufficiently flexible to cover a wide range of asset classes. In addition, we note that “disclosure layer 2” and the more detailed product-level disclosures seem to be primarily aimed at sophisticated or institutional investors, and we expect they would be experienced in reviewing product-level disclosures so as to not require prescriptive and uniform templates to understand their content.

SIFMA AMG also takes the view that consideration of alignment with EU SFDR would be beneficial. This does not mean the SDR should be identical or completely aligned with the EU SFDR, but unnecessary inconsistency should be avoided. This has the benefit of minimising cost of generating multiple disclosures that differ substantially across various jurisdictions (and therefore increasing the cost to the investors) and reducing regulatory risk (we refer to our response to Question 4 above where we noted that the ‘Responsible’ label did not map to an Article 8 product under the EU SFDR, and the risks of using such label for products that are also marketed in the EU).

16) **What are your views on building on TCFD entity-level disclosures, including any practical challenges you may face in broadening to sustainability-related disclosures?**

SIFMA AMG supports the FCA's approach of building on existing TCFD entity-level disclosures. We do not have any specific practical challenges to raise.

17) **How can we best ensure alignment with requirements in the EU and other jurisdictions, as well as with the forthcoming ISSB standard? Please explain any practical or other considerations.**

Please refer to the responses to Questions 3 and 15 above, where SIFMA AMG expresses support for basing disclosures on the major international standards, including the forthcoming ISSB standard, but would also prefer if the SDR rules could avoid any unnecessary conflicts or inconsistencies with EU SFDR requirements.

18) **What are your views on the roles of other market participants in communicating sustainability-related information along the investment chain?**

SIFMA AMG thinks other market participants (e.g. distributors) have a role to play in communicating sustainability-related information along the investment chain, though this is unlikely to be different from the role they currently play in passing along other required information about a product. SIFMA AMG has had some industry experience with EU SFDR, where the product manufacturer categorises the product in one way but the third-party distributor categorises it differently. We therefore suggest the FCA ensures products only have to be classified by the manufacturer under the SDR, to ensure there is more consistent classification along the investment chain.

SIFMA AMG has a few points that we suggest the FCA could consider.

- If funds marketed into the UK under the Overseas Fund Regime do not need to produce the same disclosures as under the SDR but can instead apply their own jurisdiction's standards (e.g. EU SFDR), the FCA could perhaps consider whether a UK-based intermediary for the overseas fund, marketing this fund to UK retail customers, should need to interpret the overseas fund for UK purposes (e.g. apply a label under SDR).
- SIFMA AMG is of the view that investment advisors should not be required to consider sustainability issues in providing advice and assessing the suitability of a product to a retail consumer in all circumstances, though they could of course consider sustainability if requested to do so. The advisor's duty is ultimately to provide advice that is best for their client, and we do not think there should be a requirement for them to consider sustainability, which would tip the scale of decision-making to sustainable investments, even if these are not necessarily most suitable for their client's goals (e.g. if this is to maximise risk-adjusted returns).

19) **Do you consider that there is a role for third-party verification of the proposed approach to disclosures, product classification and labelling and organisational arrangements of product providers? Do you consider that the role may be clearer for certain types of products than others?**

SIFMA AMG does not think that third-party verification should be required, and that currently, the role of such third-party verifiers will be of limited use. At the moment, market participants are generating much of the data internally, and it would be costly to get an external auditor up to speed to audit this information. Similarly, the lack of comprehensive, final standards that are widely adopted also limits the utility of third-party verification, given that such third-party verifiers may not be able to apply specific standards consistently. Hence, third-party verification could increase costs for investors without significant benefits.

20) **What approaches would you consider to be most effective in measuring the impact of our measures, including both regulatory and market-led approaches, and should disclosures be provided in a machinereadable format to better enable data collection and analysis?**

SIFMA AMG does not think there should be a requirement for disclosures to be provided in a machine readable format. Instead, we suggest that the FCA adopts a flexible approach on the format of the disclosures, with the focus being on a format that is most useful for consumers of the disclosures (particularly retail investors who are unlikely to find machine readable disclosures useful).

In terms of measuring the impact of the SDR requirements in future, SIFMA AMG suggests that the FCA could consider the impact of the measures on capital flows, noting our concern raised in response to Questions 4 and 10 above.