Response to FCA consultation (CP24/8) on extending the Sustainability Disclosure Requirements (SDR) regime to Portfolio Management

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About the Investment Association

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £8.8 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 48% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

Executive Summary

The IA fully supports the intention of the Sustainability Disclosure Requirements (SDR) and investment label regime to inform and protect consumers, improve trust in the market for sustainable investments, and increase the provision of standardised sustainability information along the investment chain.

Following on from the publication in November 2023 of the SDR rules for funds, we welcome the opportunity to respond to the FCA consultation (CP24/8) on extending the SDR and investment labels regime to portfolio management services.

Overall, we support the extension of some aspects of the SDR and labelling regime to certain portfolio management services to the extent that products and services in other parts of the retail market are analogous to collective investment vehicles and are marketed as sustainable. This would mean that model portfolio services (MPS) and centralised investment propositions (CIPS) would come into scope, as this would provide a more level playing field for the market, in particular where customers have clear sustainability preferences.

Making this work effectively requires change or clarification in four key areas:

1. Implementation date

Given the scale and complexity of the changes which need to be implemented, and in order to give the rules for fund managers sufficient time to bed in, the rules for portfolio managers should come into force 12 months after the final rules are published.

2. Scope

We do not support the proposal as it stands with respect to bespoke (and customised) portfolio management. In such activities, almost by definition, the marketing will take place on the basis of a sustainability profile within a portfolio that is yet to be determined. Furthermore, this profile may be subject to significant refinement on the basis of other customer preferences as well as sustainability.

At the same time, we call for more clarification from the FCA regarding specific relationships in the delivery chain where the adviser may be treated as a professional investor by the DFM, for example where the relationship is between the DFM and the adviser on an 'agent as client' basis but where the service to a retail investor is delivered using MPS/CIPS.

3. Thresholds and portfolio construction

We caution the implications for the advised retail and private wealth market of aspects of SDR that are already proving challenging to implement in the fund management space. MPS/CIP offerings are ultimately offering a portfolio approach, not marketing individual funds that may have different sustainability characteristics such as Sustainability Impact or Sustainability Improvers. This is likely to mean that the main area of overlap between concerns and implementation challenges for SDR for funds and SDR in the retail and wealth management market will be multi-asset strategies that act as portfolio solutions.

Where firms have risk-rated solutions with different asset allocations - whether structured as a fund or MPS/CIP - it is not yet clear how well sustainability labels will be able to operate across ranges. Whilst the reduction of investment thresholds from 90% in the original proposal in CP22/20 to 70% is welcomed, we do have a concern that the focus on a minimum 70% threshold could have a potential unintended consequence for low-risk portfolios - which hold sovereign bonds, investment grade corporate bonds and cash - and low risk tolerance clients with sustainability preferences. This presents very real challenges for marketing and overall customer communication as well as being able to respond to customer sustainability preferences.

4. Reporting requirements

Where the management of model portfolios is outsourced to discretionary fund managers, in particular where the model portfolios are hosted on platforms, the FCA should not mandate client-specific reporting. It is important to note that unlike funds, DFMs managing portfolio management services on platforms are not currently required to provide investors with model-based documents (such as a KIID equivalent). Thus, the platform's role is limited to managing the investment through trade execution, custody, and reporting on the model portfolios. The intermediaries, not the portfolio manager or the platform, are tasked with ensuring that all documentation reaches the end retail customer. This should be considered and reflected in any final rules.

In the sections below we provide detailed answers to the questions posed in the CP. To aid those answers, we also set out a comprehensive breakdown of the different types of portfolio management services with a clear indication of what our members think should be in-scope and what should be out-of-scope. The IA remains fully committed to the goals and implementation of the new SDR rules and making them work across all applicable types of investment products and services. We hope the FCA finds our feedback on this consultation helpful, and we look forward to contributing and further discussing the views we have expressed. We appreciate the opportunity to engage with the FCA on this important topic and we remain available for any questions or clarifications.

Breakdown of different types of portfolio management services

There are three clear criteria that the FCA sets out in the consultation paper on the extension of the SDR rules to portfolio management services:

- That the scope of the portfolio management service falls into three main categories – model portfolios, customised portfolios and bespoke portfolios.
- That portfolio management services are conducted on a discretionary basis – the consultation paper is explicit that advisory portfolio management services would only be in scope where they relate to private markets.
- The regime is focused on outcomes for retail investors and primarily aimed at wealth management services for individuals and model portfolios for retail investors.

The SDR labelling regime and accompanying naming and marketing rules are designed to enable retail investors searching for sustainable funds to have confidence that the funds in which they are investing are sustainable and that investment approaches follow one of the four strategies captured by the sustainability labels. A labelled fund must have a sustainable investment objective alongside a financial objective which the fund will measure against absolute metrics as well as being required to meet robust stewardship and engagement standards. Funds also must not be marketed or named as sustainable unless they have a sustainability label or legitimate sustainable characteristics. Disclosure against sustainability characteristics must be clear, fair and not misleading, even if the fund does not have a label, for example in describing the fund's exclusions policy.

This will lead to a high bar for setting standards for sustainable investing in the UK and should ensure that retail investors are better able to make informed and confident decisions when choosing sustainable funds.

The intentions and principles behind SDR have been designed for a market where retail investors are choosing from potentially hundreds of individual funds. It is worth highlighting some of the key differences in the way that portfolio management services are provided to investors that mean that the objectives behind the application of SDR labels do not simply read across but require some consideration.

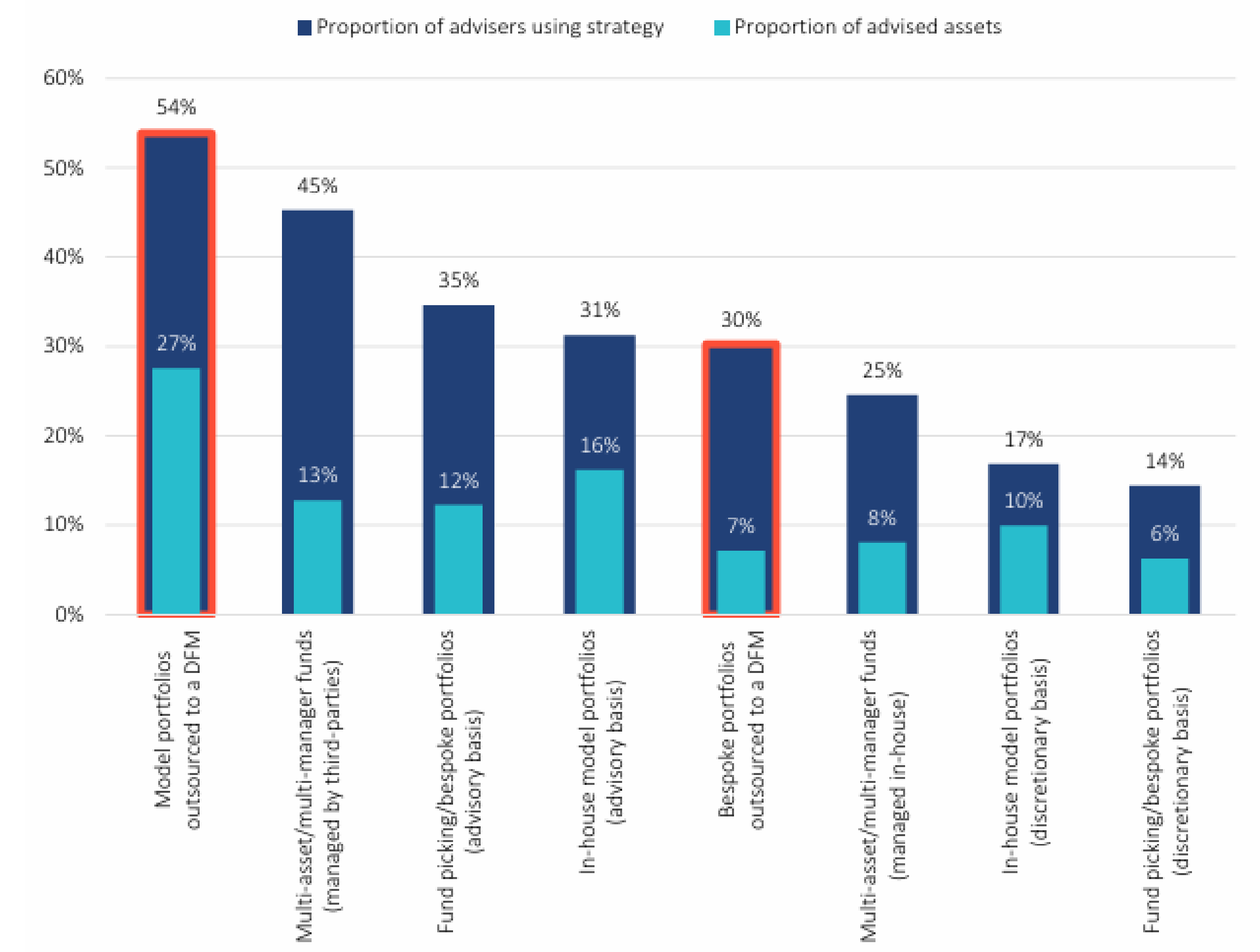
The portfolio management services market

As stated above, the FCA describes portfolio management services as falling into three main categories: model portfolios; customised portfolios; and bespoke portfolio management services. It also outlines that the scope of the extension of the SDR rules would apply to 'portfolio management services provided to clients on a discretionary basis (and/or advisory in relation to private markets) basis.'

Platforum sizes the wealth management industry in the UK as £1.25 trn as at December 2023. The majority of this market (80%) is made up of discretionary portfolio managers (DFMs) who provide portfolio management services to advisers. This market also encompasses digital discretionary portfolios run by providers, where investors have a direct relationship with the portfolio management service provider, which account for 1% of the total market according to Platforum data, and private banks which make up 19% of the market. We believe that discretionary services provided by digital wealth managers should be in scope of the SDR rules.

Looking at the 80% of the wealth management market where the assets are under advice, the following chart, produced by Platforum, illustrates the principal investment strategies provided by advisers to their clients and also shows the significance of these strategies by assets under advice and by number of advisers using the strategy:

Figure 6: Investment strategies used by advisers



Source: Platforum, May 2024
Which of the following investment products and strategies does your firm use? Roughly what proportion of your clients' assets are managed via those strategies?
Base: 218 advisers

Financial advisers provide a centralised investment proposition, which is a standardised approach to investing, to different client segments typically using model portfolio services but sometimes using multi-asset or multi-manager fund of funds.

There has been a significant trend in the adviser market to outsourcing investment management services to a third-party discretionary manager. The majority of investment management services run by DFMs are provided on an indirect basis to clients through an adviser, either on an 'agent as client' basis or on a 'reliance on others' basis where the discretionary manager does not interact with the end investor at all and where suitability and reporting is determined by the adviser.

It is our view that the FCA's consultation proposals will have the most significant impact on the part of the market where advisers outsource their investment strategies to third party DFMs. This can be done on a model portfolio basis (27% of assets) or on a bespoke basis.

Where an adviser outsources the discretionary portfolio management to a third-party DFM, they can choose from a range of model portfolio services using different providers that are often run on platforms. This enables an adviser to use different providers depending on the suitability of the model portfolio service provided for their different client segments. We believe that a model portfolio service has similar characteristics to a collective investment vehicle – namely multi-asset or multi-manager funds and should be in scope of the SDR rules.

Bespoke portfolio services, which are customised to suit the individual client's needs, are typically provided to wealthy clients and represent just 7% of assets. We do not see the bespoke service provided to clients as analogous to collective investment vehicles, and we believe that this service should be out of scope of the rules.

A table summarising our views on what should and should not be in scope can be found under question 1.

The difference between an MPS investment approach and a fund

It is also important to consider how advisers choose model portfolios that are appropriate for their clients. The key considerations for advisers are the client's appetite for risk and their capacity for loss. They will also consider the client's sustainability preferences but when choosing the appropriate portfolio, they will select using a risk profiling approach and risk profiling tools where the client is given a risk score, typically from 1 – 7. The score is then mapped to the investment approach.

The client's risk tolerance and capacity for loss therefore determines the investment approach. For example, if a client has a very low risk appetite and/or capacity for loss, a cautious portfolio with a rating of 1 or 2 would have a high percentage allocated to funds investing in bonds that have the highest investment grades such as sovereign bonds (UK gilts) and cash.

If a client has a high risk tolerance and/or capacity for loss such as a 7 mapping to an adventurous portfolio, they could be placed in a portfolio with a high allocation to equities. A balanced portfolio for clients in the middle of the risk range will typically have a weighting of between 20 – 60% to equities.

This means that sustainable discretionary model portfolios are first and foremost constructed using an approach that focuses on managing the volatility of returns and diversification of assets. To provide a range that caters to the different needs of advised client segments, discretionary portfolio managers must provide clients with portfolios that invest in a high proportion of fixed income through to portfolios that are largely equities. They may also construct portfolios using a combination of direct securities and funds.

It is important that the FCA takes into account this investment process when looking at the application of the rules to portfolio management services and we provide further comment on this under question 3.

We highlight some key considerations for the FCA that are also emerging in the multi-asset/multi-manager market as they move to adopting labels:

- **Investing in sustainable fixed income funds:** There is a far smaller range of 'sustainable' fixed income funds to choose from compared to equity funds. IA data suggest that labelled sustainable fixed income funds will account for 13% of the market of labelled funds – at current estimates this is around 30 funds. This will force DFMs wanting a sustainable label or to market their portfolios as sustainable to choose from a very narrow range of funds. This creates concentration risk. These funds are also largely investing in green or sustainable bonds according to IA data. Furthermore, there is some debate in the market over whether sovereign bonds can be assessed as sustainable using absolute metrics (as required in the SDR rules) rather than relative metrics. The range of fixed income funds domiciled in the UK is also more limited than those investing in equities. In the IA sectors, 60% of fixed income funds by number of funds are domiciled overseas (excluding ETFs). At present, this narrows the range of funds available to DFM selectors.

- **Uneven playing field for investors with sustainable preferences:** If it is not possible to meet the 70% threshold required for MPS with low and even medium risk ratings, it means that only investors with the highest risk tolerances will be able to choose portfolios that have a sustainable label and are marketed as sustainable. This does not seem equitable and could mean that more than half of investors with sustainability preferences could not choose a sustainable MPS

- **Fund selection from across UK and overseas domiciled funds:** Most model portfolios would typically invest in funds that are available for sale in the UK wholesale market but that may be domiciled overseas, alongside UK domiciled funds. Fund selectors will be looking across a wide range of funds to choose the best funds available for their portfolios irrespective of where they are domiciled. We ask that the FCA clarifies in the final rules that portfolio offerings with a label are allowed to invest in non-UK domiciled funds, which are not currently subject to UK SDR regulation. This would help to avoid a scenario where DFMs sell out of overseas domiciled funds in the short term in order to be able to label and market their portfolios as sustainable.

1. Do you agree with the proposed scope of our regime? If not, what alternative scope would you prefer and why?

Following on from the previous section where we outline the key differences between how funds and model portfolio services operate and the implications, the following table summarises what we think should be in and out of scope of the SDR regime for portfolio management services and why.

The core principle underpinning our response is that the SDR rules should be applied to portfolio management services that are Centralised Investment Propositions taking a standardised approach to investing. These are analogous to a collective investment vehicle. This table highlights that although the scope of the FCA proposal only extends to discretionary services (apart from where an advisory model invests in private markets), a retail client with an adviser who chooses a sustainable model portfolio service which is managed on a discretionary basis could be put into a labelled portfolio, a retail client with an adviser who uses a model portfolio service provided on an advisory basis, could not. This distinction seems artificial from a client perspective because it is based purely on whether operationally a client is required to approve a trade/rebalance or not. An advisory model portfolio could feasibly hold exactly the same funds as a discretionary model portfolio.

Product type	Sub-category	FCA proposal regarding whether caught in scope	IA Proposal and Reasoning
Model portfolio – Centralised investment Proposition	Model portfolios which are outsourced to a Discretionary Fund Manager (DFM)	In scope	**Should be in scope** – built on a standardised basis. Clients do not provide pre-trade approval. Advisers can choose from a range of standardised model portfolio ranges on a restricted or whole of market basis depending on the suitability of the sustainable model portfolios for their clients.
	In-house model portfolios provided on a discretionary basis by a financial adviser	In scope	**Should be in scope** – built on a standardised basis to cater to clients with a sustainability preference. Clients do not provide pre-trade approval.
	In-house model portfolios provided on an **advisory basis** by a financial adviser	Out of scope	**Should be in scope** - built on a standardised basis to cater to clients with a sustainability preference. Clients do provide pre-trade approval.
Bespoke portfolio*	Bespoke portfolios provided on an **advisory basis** by a financial adviser	Out of scope	**Should be out of scope** - highly customised portfolio with a high degree of consultation on client sustainability preferences. Clients provide pre-trade approval.

	Bespoke portfolios outsourced to a DFM	In scope	**Should be out of scope** - advisers can choose from a range of bespoke portfolio providers based on their suitability to provide investment management services to the individual client. Highly customised portfolio with a high degree of consultation on client sustainability preferences.
	Bespoke portfolios provided on a discretionary basis by a financial adviser	In scope	**Should be out of scope** - highly customised portfolio with a high degree of consultation on client sustainability preferences. Clients do not provide pre-trade approval.
Funds – Centralised Investment Proposition	Multi-asset/multi-manager funds	Already in scope of SDR	Advisers can choose from a standardised fund of fund or multi-asset range. The adviser could be choosing from a restricted range of funds or from whole of market. basis depending on the suitability of the sustainable funds for their clients.

Other issues on scope to consider:

Carve-out of for funds, AIFMs, ManCos, and clients outside of the UK
We support the carve-out provided to portfolio management for funds, AIFMs, ManCos, and clients outside of the UK. Not only does this carve-out eliminate a possible duplication of disclosure requirements, but it will also remove the disconnect between the labels applied via the IMA and those from the client (e.g. fund manager) to their underlying client. This will help to avoid some of the issues members have encountered under SFDR regarding segregated mandates with professional clients, particularly those that are also subject to SFDR, e.g. sub-advisory agreements.

Life contracts
It appears that life contracts are captured in scope of the proposed rules. It is not clear whether this is intended by the FCA. Paragraph 1.5 within CP24/8 states it applies to firms managing investments. In the FCA Handbook, this term is defined as including *'assets (that) consist of or include any security, structured deposit or contractually based investment…'.* In accordance with Article 3(1) of the Regulated Activities Order (Interpretation), contractually based investments include life policies. There is therefore ambiguity as to whether such products, including unit-linked life funds, are caught under this proposed regulation. This does not seem to be the intention of the SDR Policy Statement 23/16 which states that the FCA will continue work to develop proposals for pensions products and insurance-based investment products in the medium term. Insurance products are not mentioned in CP24/8. It would be helpful for the FCA to clarify whether life products are indeed meant to be in scope.

ESG 1.2.4G(2) – how the rules apply to firms

We note that the proposed updated drafting of ESG 1.2.4G(2) appears to place all portfolio management services outside of the scope of the labelling and naming and marketing rules. This conflicts with the narrative of the CP and we question whether it was the FCA's intention. ESG 1.2.4G(2) limits the application of ESG 4 to portfolio managers "in relation to UK AIFs", which are out of scope on the basis of the proposed definition of "sustainability product" within the rules. It would be helpful for the FCA confirm whether the drafting of ESG 1.2.4G(2) is intentional and reflects the FCA's policy intention, or whether it is an error in drafting.

Outsourced portfolio management services- contractual relationship between DFM and adviser

We ask that the FCA to clarify its position on outsourced portfolio management services where the contractual relationship is between the DFM and the adviser. The majority of on-platform DFM MPS is contracted as 'agent as client', not least because it enables DFMs not to charge VAT and brings down the cost to investors. We question whether making these services 'opt in' if they are provided on an 'agent as client' basis is in the spirit of the rules that the FCA is trying to introduce.

We would ask that the FCA clarify that where the contractual relationship is between the DFM and the adviser on an 'agent as client' basis but the service is delivered to a retail investor using MPS/CIP, should this be treated as a professional investor relationship and therefore be 'opt in' or should this be in scope of the rules? It would also be helpful to understand if there are any other circumstances where the DFM treats the adviser as a professional investor that should be considered 'opt in'?

Given the complexities regarding scope and all the different scenarios demonstrating how portfolio management can be provided, we ask that the FCA makes it clear in the final Policy Statement what exactly is in and out of scope of the final rules.

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

We have significant concerns with the proposed implementation timeline, specifically the 2 December 2024 date of implementation and outline our reasons below. We are asking the FCA to adopt an implementation date that applies from 12 months after the final rules for portfolio management services are published.

Expanded scope of regime

We express strong concerns about the proposed implementation date of 2 December 2024 for the labelling, naming and marketing rules, as well as the pre-contractual and consumer-facing disclosures (CFDs). Given the fundamental changes to the proposed rules for portfolio managers from what was consulted on in CP22/20, portfolio managers will need more time to prepare for the implementation of the FCA's updated rules for portfolio management. As such, we suggest that the implementation date applies from 12 months after the final rules for portfolio management services are published.

The scope of the rules seems to have expanded since the initial consultation and now covers bespoke and discretionary portfolio services. This adds complexity and additional preparatory work for wealth managers. It also introduces further obligations for third parties, such as service providers to portfolio managers.

In addition, the initial proposals also suggested that portfolio managers would not be required to produce consumer-facing disclosures and they would instead be able to cross-reference to CFDs produced by fund managers. With the exception of the carved-out services, this is no longer the case and firms providing portfolio management services will be required to produce their own consumer-facing disclosures. Producing these individual client-specific disclosures in a short period of time will be a considerable task.

The proposed implementation timeline therefore is simply not feasible given the scale and complexity of work required and the time needed for firms to review and reassess the implications of the updated rules. A rushed implementation timeline is also likely to lead to poorer outcomes for clients who will not be given sufficient time to consider the implications of any changes notified in advance by portfolio managers.

Insufficient time for fund management rules to bed-in
The existing SDR rules regulate the funds which portfolio managers use in their products. As fund managers are currently repositioning their own funds following the relatively recent publication of the SDR final rules, portfolio managers will need to be given further time to assess how asset managers implement SDR, in particular their use of labels, to allow portfolio managers to align their propositions to these fund changes. Results from an IA member survey on SDR implementation suggest that only 14% of managers will be applying labels on the go-live date of the labels in July 2024, moving to 45% between July and December 2024. Introducing the rules for portfolio management services in December 2024 will not provide enough time for these underlying funds to apply labels, thus heavily impacting the ability of portfolio management services to apply a label.

Additionally, the data transfer that must take place between the model portfolio manager and the asset managers running the underlying funds the model allocates to must also be considered. It will take some time for the industry to work through KPIs, metric, reporting SLAs etc. and it will be practically impossible to have this operational in a credible way for 2 December.

Our proposal is therefore that the implementation date applies from 12 months after the final rules for portfolio management services are published.

3. Do you agree with our approach to labelling portfolios, including the threshold and assessment requirements? If not, what alternatives do you suggest and why?

In order to answer this question, it is crucial to understand the differences between a MPS investment approach and a fund, which we outline earlier in our response.

The majority of members welcome that portfolio management offerings can use a label if at least 70% of the gross value of the assets within the portfolio is invested in accordance with the sustainability objective, and the other qualifying criteria are met. The reduction from the original proposal in CP22/20 from 90% to 70% is a welcomed move and we appreciate the FCA taking our response to those elements in CP22/20 onboard. This puts the required threshold for portfolio management services in line with that required for funds in PS23/16.

However, as outlined on page 5 where we explain the difference between a MPS approach and a fund, thresholds on portfolio managed products are not compatible with different risk appetites. Managed portfolio providers typically provide a range of portfolios catering for clients with different risk appetites. Portfolios for those with higher risk appetites are likely to make larger allocations to higher risk asset classes (e.g. equities) whereas portfolios for those with lower risk appetites will give a larger allocation to lower risk asset classes (e.g. bonds). These lower risk asset classes do not typically contribute to sustainable outcomes but can be considered as not contradictory to the objective and as not doing harm.

The implications of this are that the 70% threshold could have a potential unintended consequence of encouraging adjustment of the asset allocation framework, particularly for low-risk portfolios, which does not seem to be the intention of the regulation. Additionally, individuals with sustainable investment objectives may feel compelled to take more investment risk than they would otherwise, in order to invest in a sustainable portfolio, therefore risking potential customer harms. Alternatively, portfolio managers may withdraw their lower risk sustainable portfolios altogether, with negative outcomes for consumer choice. This would also contradict the FCA's secondary outcomes of increased provision of sustainable investment products and increased capital flows into sustainable activities.

This affects not just portfolio managers, but also multi-asset funds within the existing rules.

We propose industry-wide engagement to develop a solution to this problem which the IA would be happy to help facilitate with the FCA. Any final rules developed by the FCA need to work in practice so further collaboration with the industry prior to final rules is essential.

There are several other areas where we request clarification on the application of the 70% threshold:

- **Look through.** Whilst it is generally understood that an underlying fund should be treated as an asset (and therefore its holdings are essentially grossed up to 100%), it would be helpful for the FCA to confirm this point. It remains unclear as to how a firm can satisfy itself regarding the eligibility of an underlying fund, i.e. whether it is required to look through and consider the individual exposures in the underlying fund, as if those exposures were direct holdings. This will have implication for the thresholds: it is unclear if underlying funds which only have 70% holdings towards a sustainable objective would be treated as an asset (and its holdings in effect grossed up to 100%), or whether it will be treated as having a 70% holding (which therefore has implications for the threshold of the master fund). The fact that the CP states that 'a label is not an absolute measure of sustainability' also complicates this point and suggests that the FCA might be introducing a requirement for a portfolio manager to look through to all underlying assets.

  We note that the FCA clarified recently on its SDR Landing Page that in the context of index strategies, to meet the criteria for a label, a fund manager doesn't necessarily need to ensure that the sustainability objective is pursued on an asset-by-asset basis, provided that at least 70% of the gross value of the products' assets are invested in accordance with the sustainability objective. We would ask that the FCA confirms that this also applies in the context of portfolio management services.

  The issue of look through also raises questions as to monitoring of underlying holdings. Given those providing portfolio management services do not have an accurate up to date look through to all underlying holdings, there would be a lag before they were able to update their products should it fall below the threshold.

  However, should portfolio managers wish to look through to underlying funds, they should be allowed the flexibility to do so.

- **Unlabelled funds.** Clarification is requested around the treatment of unlabelled portfolio management products with sustainability terms in their name given the guidance in ESG 4.3.6 regarding fund naming that 'the sustainability characteristics of a sustainability product should be material to that product – for example, at least 70% of its assets should have sustainability characteristics'. This would appear to suggest that the 70% threshold also applies to unlabelled portfolio management products with a sustainability term in their name - we would request the FCA provides clarification on this point.

- **Temporary departures from the threshold.** As with the rules for fund management, portfolio managers should be allowed temporary departures from the threshold where there are market movements which cannot be accounted for, e.g. if an underlying fund decides to remove its label or the portfolio receives a large injection of cash.

- **Overseas funds.** As is the case for unitised funds**,** we ask that the FCA clarifies in the final rules that portfolio offerings with a label are allowed to invest in non-UK funds which are not currently subject to UK SDR regulation. Should HMT decide to apply (elements of) SDR to overseas funds following its consultation, we would request the same approach is adopted for portfolio management services performed outside of the UK.

4. Do you agree with our approach to naming and marketing? If not, what alternative approach would you suggest and why?

The majority of members agree with the updates to the proposed rules which require that those providing portfolio management offerings to retail investors are subject to the naming and marketing rules. Applying the naming and marketing rules to model portfolios will provide a level playing field between portfolio management and fund management.

Bespoke portfolios
As outlined in our answer to question 1, there are different types of bespoke offerings. If SDR did apply to bespoke arrangements, the naming and marketing rules could apply to bespoke arrangements produced with IFA's which are then marketed to retail investors. However, they should not apply to segregated mandates built exclusively for a particular client as this portfolio is not marketed.

In the situations where bespoke portfolios *do* market to retail investors, the requirement of additional disclosures that the naming and marketing rules introduce is likely to result in a reduced offering of these types of portfolios. Such a situation will not align with the secondary outcomes of increased provision of sustainable investment products and increased capital flows into sustainable activities. Consequently, for asset managers marketing to the wealth management sector, this could result in a decreased demand for sustainable discretionary portfolios, leading to a potential reduction in asset managers' sustainable investment offerings.

Portfolio management for professional clients
We agree that firms offering portfolio management services to professional clients should not be subject to the naming and marketing requirements and associated disclosures. Professional clients have a higher level of knowledge and sophistication in investment decision-making and therefore it is appropriate that they do not fall within scope of the naming and marketing rules. We also note that any marketing of portfolio management services to professional clients will in any case still be subject to the anti-greenwashing rule.

Where the adviser outsources the management of the investments to DFMs on the basis the adviser is the professional client, we ask that the FCA's confirms its intention. Our understanding is that this allows DFMs to treat these mandates as professional and therefore the naming and marketing rules are not mandatory.

Marketing of general services
We request further clarity from the FCA whether firms marketing their general services, as opposed to a specific product, would be brought into scope of the naming and marketing rules.

5. Do you agree with our proposed approach to disclosures, including the tiered structure? If not, what alternative do you suggest and why?

As with funds, the FCA is proposing to apply the various disclosure requirements to portfolio management services – this includes the consumer facing document, the more detailed pre-contractual information, as well as ongoing reports and entity level reports. We have a number of concerns with this proposed approach to disclosure for portfolio managed products.

Model portfolios contracted directly with retail clients
The majority of members believe that where model portfolios are contracted directly with retail clients, in particular where the model portfolios are hosted on platforms, the FCA should not mandate client-specific reporting.

In 'agent as client' arrangements, commonly utilised by DFMs on third-party platforms, there isn't a direct contractual relationship between the end investor/retail client and either the DFM or the platform. Rather, the underlying investor enters into a direct contractual relationship with their adviser. The adviser then holds a direct contract with the DFM, the adviser is considered the 'client' of the DFM in this scenario. Both the DFM and the adviser maintain separate agreements with the platform.

In addition, many model or managed portfolios invest in funds, some of which are not subject to the FCA's SDR disclosure regime, e.g. due to being based offshore. Portfolio managers cannot control the management and ongoing sustainable nature of the underlying funds nor the quality and extent of reporting by underlying funds.

Therefore, model portfolio/strategy level information should instead be provided to retail clients. This is reasonable and proportionate and will provide retail clients with information on the sustainable nature and the progress of their investments. This could be provided at least annually.

Additionally, and as we further outline under question 6, we would welcome the following points of clarification from the FCA given that platforms take on the responsibility of delivering portfolio performance reports, and DFMs have no visibility or means of communication with the end investor:

- From a regulatory standpoint, this is still regarded as a portfolio management service rendered directly to retail clients, based on the understanding that these are the ultimate investors (despite the absence of a direct contract).
- DFMs are not expected to generate client-specific reporting for platform MPS due to the lack of visibility.
- The responsibility lies with the adviser (distributor) to provide the retail client with model portfolio/strategy information, since the DFM has no direct contact with the end investor.

Entity-level reporting
Firms – including portfolio managers - above the £5bn AUM threshold are already subject to mandatory TCFD reporting. The FCA notes in CP24/8 that it is introducing entity-level disclosures specifically for portfolio managers that build on the TCFD requirements already in place. Where these disclosures go beyond the TCFD entity-level reporting requirements that already exist for portfolio managers, we would question their utility.

It would also be helpful for the FCA to clarify its expectations regarding the reporting dates for SDR and TCFD. As with SDR rules for funds, TCFD reports must be produced by 30 June each year, and SDR reports by 2 December each year. We would ask that the FCA clarifies whether firms can align timelines for these reporting requirements.

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

For consistency purposes, we agree the FCA proposed rules for distributors should be applied to the proposed in-scope products we outline in the table under question 1. However, it's important to note that unlike funds, DFMs managing portfolio management services on platforms are not currently required to provide investors with model-based documents (such as a KIID equivalent). In such arrangements, intermediaries have agreements with portfolio managers that typically authorise them to act as agents with authority to appoint a portfolio manager for their retail customer. There is no direct contractual relationship between the end retail investor and the portfolio manager.

Thus, the platform's role is limited to managing the investment through trade execution, custody, and reporting on the model portfolios. The intermediaries, not the portfolio manager or the platform, are tasked with ensuring that all documentation reaches the end retail customer.

Consequently, unlike funds, platforms do not store any documentation related to the model portfolios within their systems. The FCA's proposals for platforms to act as distributors, communicating the labels for portfolio management offerings and providing access to the related consumer-facing disclosures to retail investors, do not align with the current ‘agent as client’ regulations and establishing such a system would be new.

One suggestion could be that the portfolio manager should create the consumer-facing document for model portfolios and publicly post it on their website. It should then be the intermediary's duty to make sure this information is accessible to the end retail customer as part of the advisory process. It should not incur unnecessary costs for the DFM, for instance, if the platform chooses to engage a third-party data vendor to extract DFM documents from and the DFM pays to make these documents available on that site.

7. 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.

It is challenging to estimate costs at this stage, given the need for further clarity on the application to bespoke portfolio services, where producing individualised reporting and disclosures for each portfolio could prove to be hugely costly.

However, as currently framed, the proposed rules indicate that costs associated with providing sustainable portfolio management services will rise. It appears unlikely that portfolio managers will be able to adhere to the standards for setting and monitoring KPI’s without using an external ESG data provider. While information can be sourced from fund managers and individual companies, the data will vary between funds and companies, and manually collecting it would be expensive. As such, the labelling rules may drive up the costs of offering sustainable portfolio management services.