14 June 2024

Via Electronic Mail: cp24-8@fca.org.uk

ESG Policy Team
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Re: Extending the SDR regime to Portfolio Management: Consultation Paper (CP24/8)

Dear Sir/Madam,

MFA[1] appreciates the opportunity to represent views of the global alternative investment industry in this written response to the Financial Conduct Authority's ("**FCA**") consultation paper on extending the SDR regime to Portfolio Management (the "**Consultation Paper**"). We have set out our responses to the relevant questions of the Consultation below and in the Annex hereto.

In summary, MFA welcomes the consultation on the extension of the Sustainability Disclosure Requirements ("**SDR**") and investment labels regime to portfolio management, as part of an overall framework that helps to facilitate and streamline the flow of robust and useful information between corporates, consumers, investors and capital markets.

MFA appreciates the FCA's aim to strike a balance between ensuring the regime works both for consumers and for firms that need to apply the rules in practice. MFA fully agrees with the FCA's view that it is important to ensure that the SDR rules strive to ensure international coherence with other regimes, such as the European Union's Sustainable Finance Disclosure Regulation ("**SFDR**") and proposals by the Securities and Exchange Commission ("**SEC**") in the US (the "**SEC proposals**").

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[1] Managed Funds Association (MFA), based in Washington, DC, New York, Brussels, and London, represents the global alternative asset management industry. MFA's mission is to advance the ability of alternative asset managers to raise capital, invest, and generate returns for their beneficiaries. MFA advocates on behalf of its membership and convenes stakeholders to address global regulatory, operational, and business issues. MFA has more than 180 member fund managers, including traditional hedge funds, credit funds, and crossover funds, that collectively manage over $3.2 trillion across a diverse group of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors to diversify their investments, manage risk, and generate attractive returns over time.

Many MFA members have professional investors who look to invest with an increasing focus on sustainable investment products. To meet this demand, many MFA members manage funds with investment strategies that consider the sustainability-related risks, opportunities, and impacts of their investments and in doing so, members frequently promote the sustainability characteristics of such funds. As a consequence, MFA understands the importance of standardised disclosures and reporting to allow members to promote sustainability objectives and strategies in a manner that is reliable and comparable, particularly given the significant amount of harm caused by misleading sustainability-related claims that have been recently highlighted in the sustainable investment product market.

MFA member firms deploy a wide range of investment strategies and manage global portfolios that can include a diverse mix of asset classes across public and private markets. We note that some of the most cutting-edge and innovative alternative investment fund strategies may not fit squarely within the labels of the proposed labeling regime. They serve a key role in facilitating sustainable investments and the market-driven transition to green energy sources. Accordingly, it is important that the SDR regime accommodates this diversity and provides sufficient flexibility to alternative asset managers. We encourage FCA to consider ways to accommodate firms in scenarios where relevant data on the sustainability characteristics of portfolios may not be readily available. Greater clarity to portfolio managers and the investors they serve will enhance the effectiveness of the regime.

As highlighted in our January 2023 response to CP22/20[2], a key factor for our members is international operability of the proposed regime, both in terms of alignment with the EU's SFDR regime and US SEC proposals. Significant points of divergence across international regimes creates administrative and cost barriers, which could restrict members from making investment products and portfolios available on a cross-border basis.

In this regard, we are pleased to see the FCA's mapping and analysis of the key disclosure items under the SFDR disclosure requirements in Annex 3 of PS23/16.[3] Similarly, it is encouraging to see confirmation that the FCA is engaging with the EU authorities as it considers the adoption of an equivalent labelling regime to help consumers navigate the market. We trust that similar efforts will be made to engage with the US authorities as they develop their own related proposals.

[2] MFA response to FCA CP 22/20: (https://www.mfaalts.org/wp-content/uploads/2023/01/MFA-Comment-Letter-UK-FCA-Consultation-Paper-on-Sustainability-Disclosure-Requirements-FINAL.pdf

[3] Financial Conduct Authority Policy Statement: Sustainable Disclosure Requirements (SDR) and Investment Labels (https://www.fca.org.uk/publication/policy/ps23-16.pdf)

In addition, we note that consideration of the approach to overseas funds remains out of scope of the SDR and is a matter for His Majesty's Treasury. This will be an important aspect of the overall regime for MFA members.

MFA appreciates the opportunity to provide comment and stands ready to serve as a resource as you continue to refine the SDR regime. If you have any questions, please do not hesitate to contact the undersigned (jflores@mfaalts.org) or Rob Hailey (rhailey@mfaalts.org).

Sincerely,

Jillien Flores
Executive Vice President
Managing Director, Head of Global Government Affairs

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ANNEX

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

Yes, MFA generally agrees with the proposed scope of the regime. MFA believes it is appropriate for the labelling regime to apply on an opt-in basis for firms offering portfolio management services to professional investors. MFA member firms' clients are sophisticated institutional investors who have the experience, resources, and capacity to assess the diverse array of investment strategies deployed by firms. We recognise that there may be investor or market expectations for firms to opt-in to the regime, despite its voluntary nature.

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

Given the various sustainability-related global work streams and regimes across global jurisdictions, MFA believes frequent coordination by the FCA with counterparts, in the EU and US in particular, is necessary to ensure implementation timelines are aligned and configured appropriately. MFA members deploy significant time and financial resources to ensure they are compliant with the sustainability regulatory regimes across jurisdictions. MFA recommends that the FCA harmonise any implementation with regulators globally.

Question 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?

Given the diverse nature of the alternative asset management industry – encompassing a wide array of entities, each with unique business models, investment strategies and risk profiles – it is vital that the SDR regime accommodates this diversity and provides sufficient flexibility.

MFA members manage diverse fund portfolios with different types of asset classes, such as real estate, derivatives, private capital and currencies. There is therefore a need for case study examples to address how the proposed sustainability labels should be applied to different types of assets. This will help to ensure that firms are able to understand the parameters of the rules and help them to be applied consistently across pre-contractual disclosures. Ultimately, this would enable investors to make better comparisons across fund disclosures and thereby make better informed investment decisions.

As noted in our response to CP22/20[4], MFA supports the FCA's efforts to maintain international coherence between the various regimes in relation to the naming and marketing rules. In this context, MFA strongly encourages the FCA to ensure that the qualifying criteria for the sustainable investment labels consider the SEC's and European Securities and Markets Authority's ("**ESMA**") proposed scope of restrictions on naming and marketing.

MFA supports the creation of a fourth category, as noted in our 2023 comment letter to the FCA, to cover products that provide sustainability features (beyond foundational ESG integration strategies) but do not qualify for the three initially proposed sustainable investment labels.

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

MFA agrees that it is appropriate that firms providing services to professional investors will not be subject to the naming and marketing requirements and associated disclosures for similar reasons stated in our response to Question 1.

[4] Financial Conduct Authority Consultation Paper: Sustainability Disclosure Requirements (SDR) and investment labels (https://www.fca.org.uk/publication/consultation/cp22-20.pdf)