

Greenwashing: Implementing the UK Sustainability Disclosure Requirements

The Financial Conduct Authority (FCA) Sustainability Disclosure Requirements (SDR) is set to transform the UK market for sustainable investment products.

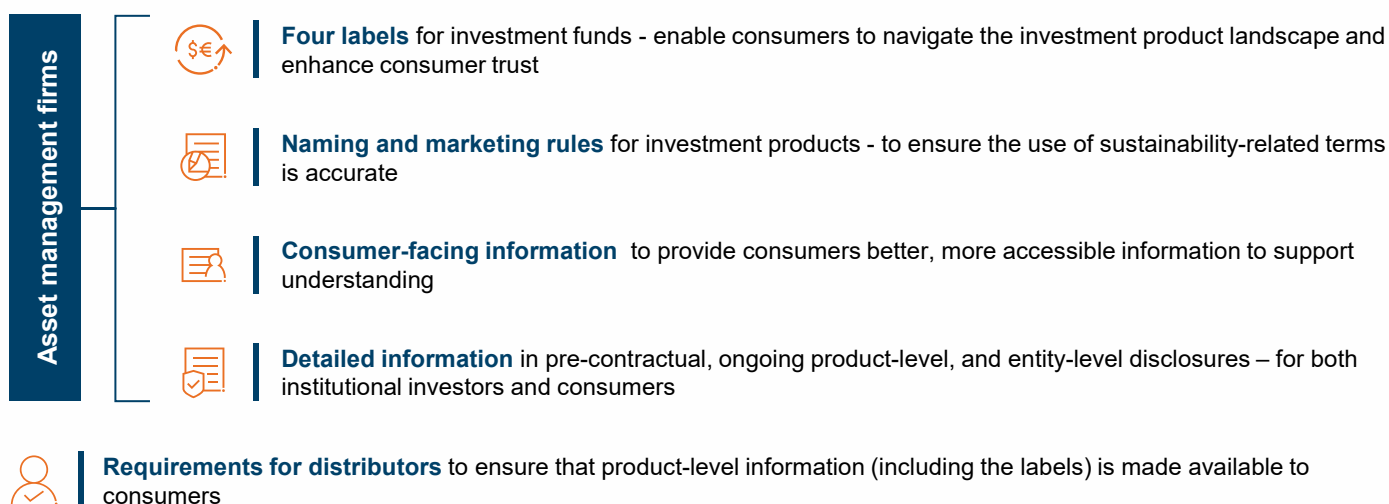
By May 2024, all financial institutions must comply with the new requirements, which aim to prevent greenwashing and ensure that sustainability-related claims are truthful, clear and backed by evidence. This is a crucial step to protect consumers, foster competition and enhance trust in sustainable investment products.

The Competition and Markets Authority (CMA) recently estimated that up to 40% of online “green” claims could be misleading, posing a serious challenge for firms to demonstrate their environmental credentials – have you done enough to substantiate your claims?

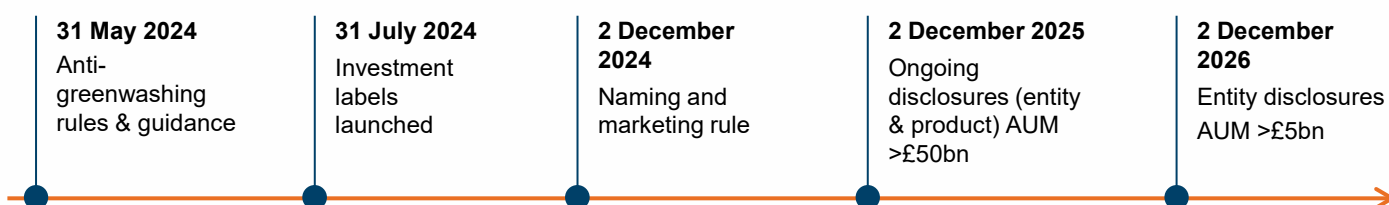
Firms need to assess what direct or indirect sustainability claims they make, or have made, how these are substantiated by verifiable evidence and fairly and proportionately communicated to customers.

ANTI-GREENWASHING – REQUIREMENTS

For all FCA authorised firms, the anti-greenwashing rule sets out sustainability-related claims must be fair, clear and not misleading



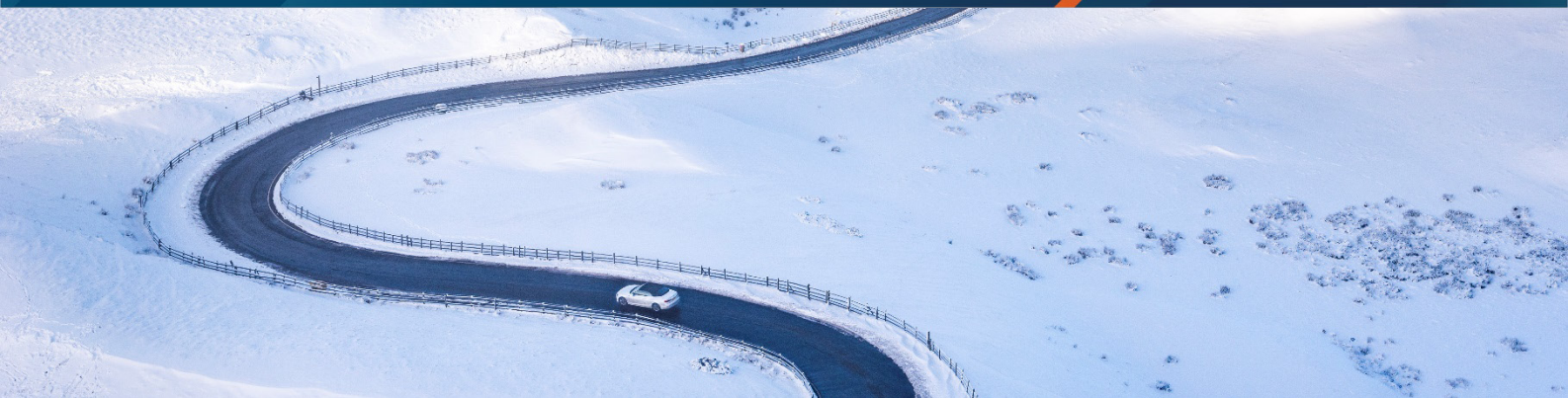
TIMELINE FOR APPLICATION OF UK SDR



NEW ANTI-GREENWASHING RULE ESG 4.3.R

“ A firm must ensure that any reference to the sustainability characteristics of a product or service is (a) consistent with the sustainability characteristics of the product or service, and (b) clear, fair and not misleading. ”

What is an effective approach?



All FCA regulated firms should design a framework to review and ensure products and services, with sustainability claims are in-line with SDR, ensuring:

-  Claims are correct & substantiated
-  Claims are clear & understood
-  Claims have complete information
-  Comparisons are fair & meaningful

KEY STEPS FOR IMPLEMENTING SDR

- Risk assessment**
Assess in-scope products and services and sustainability claims made, identify risks and actions. Ensure alignment with Consumer Duty.
- Gap analysis**
Assess customer communications and determine changes and action required to meet regulatory requirements including data required to substantiate claims made.
- Aligning with other requirements**
Align with other UK greenwashing requirements (eg ASA and CMA), Consumer Duty requirements and any relevant global greenwashing requirements. Ensure claims are substantiated and policy and risks are aligned.
- Process review and changes**
Amend or develop appropriate policies, procedures, systems and controls to manage greenwashing risk
Amend or develop product development and approval processes, financial promotions and customer communications for revised requirements.
- Reporting and validation**
Develop reporting metrics and data sources
Board and senior management briefings to enable effective oversight and control awareness.
- Continuous embedding and substantiation of claims**
Validation and assurance of greenwashing risk framework for internal audit reviews.
- Remediation and complaints handling**
Assess where past sustainability claims may have been misleading and require remediation or compensation

HOW CAN WE HELP YOU?

Our expertise

Protiviti brings a team with diverse skills and knowledge of regulation, ESG data, sustainability. We help our clients conduct assessments and transformation across the Greenwashing Risk journey. Because we have deep subject matter expertise in Risk, we ensure that you meet requirements in a proportionate way that is bespoke to your business model and risk appetite.

Some ways we can help:

- Conducting greenwashing risk assessments and gap analyses;
- Develop and align global regulatory requirements, action plans, transformation planning and alignment with other programmes;
- Implement the required changes to Risk, Data and policy arrangements;
- Board awareness, training, development or reporting and metrics.
- Internal audit reviews, validation and second line assurance;
- Responding to regulatory requests and regulatory engagement;
- Targeted, cost effective remediation planning and delivery.

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