



SDR – Sustainability Labels and the advice process checklist

31st July 2024 is a very important date for investment advisers – it is the first birthday of Consumer Duty and it is the date that fund managers can first begin using one of the FCA’s sustainability labels (Improvers, Focus, Impact or Mixed Goals).

This date is crucial for financial advisers because, as required by [Sustainability Disclosure Requirements](#) (the rules of which are consistent with the Consumer Duty), all advisers must be ready to discuss the sustainability labels with every client. This is all about demonstrating that clients have made an informed choice. To make a choice about sustainability, retail customers need to be aware that the labels exist. Advisers cannot wait for clients to discuss the labels, as that would assume all clients are well-informed about SDR!

Under Consumer Duty and the SDR, advisers will need to have a robust process in place to introduce the sustainability labels to all clients from 31st July. Firms will have to show what material is provided to clients to explain the labels and then, during the advice process, advisers will have to capture each client’s views to enable and support them to pursue their financial objectives – this includes sustainability-related needs and preferences as part of their investment objectives. Even if many clients of a firm do not want to invest sustainably, which they are completely free to decide, advisers must still record the decision and reference it within their suitability letters.

All firms providing investment advice should:

In place?

Last checked?

Have a written process for ensuring that clients can make informed decisions about their investment preferences and objectives. This will ensure that senior management/compliance responsibilities are met by demonstrating a consistent process across all advisers.

Provide clients with access to either a document or video(s) which explain the broad spectrum of capital, including conventional investment, conventional investing including ESG, the four sustainability labels and ethical/responsible investment. The document needs to be clear, concise and client friendly – not so short it isn’t able to inform and not so long that clients are put off reading it (see ‘sludge practices’ under Consumer Duty).

Have a standard document for use in client meetings for advisers to record the discussion with clients around informed choice and their chosen investment pathway. This needs to demonstrate that clients have the option to choose sustainability without having to resort to completing detailed questionnaires. Questionnaires should only be used with clients who specifically want to express their views around ESG, sustainability or ethical/responsible options.

Demonstrate their due diligence process can accommodate all the options from the different investment pathways that might be chosen by clients. Ideally, due diligence processes should be in writing, including specific reference to client segmentation, target market assessments and informed choice options.

A process for documenting investment preferences and objectives in the suitability letter, including reference to the client’s decision around informed choice. Any references to sustainability, ESG, ethical/responsible need to be checked against the firm’s anti-greenwashing process.

Demonstrate that all advisers have sufficient competence to be able to deliver advice on ESG, sustainability, ethical/responsible investment. This will include appropriate CPD/testing to demonstrate ongoing competence.

Process summary for informed choice, investment preferences and objectives

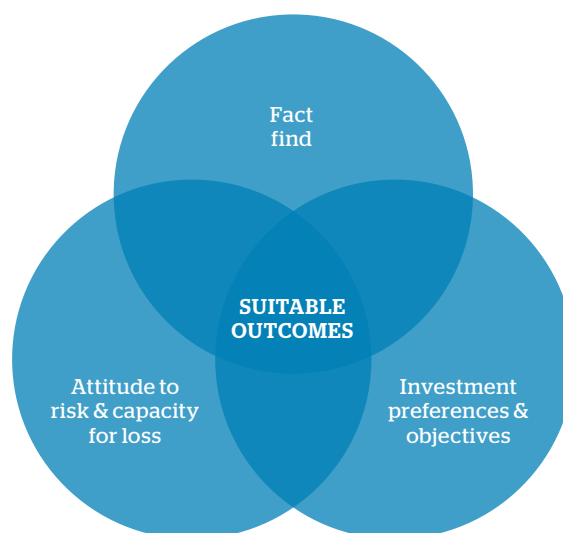
1) Before first/next meeting with client

Provide the client with a document to read or video to watch which explains the spectrum of capital and the main investment classifications. As a minimum, this needs to reflect the options provided by the FCA on [page 97 in PS23/16](#) - the SDR Policy Statement.

2) At the meeting

The client completes your firm's existing Fact-Find, Attitude to Risk and Capacity for Loss and other relevant advice process documents. Using a separate document, record that the client has read the information sent to them, it has been understood, you have answered any questions and they are now able to make an **informed choice** about their investment preferences and objectives.

This step meets the requirements of Consumer Duty as well as the obligations under SDR to discuss the sustainability labels with all clients. Your **Know-Your-Client** process should now be in three parts, where all three come together to deliver good client outcomes.



3) Post meeting due diligence

Using the information gathered from the Fact Find, Attitude to Risk, Capacity for Loss and the Informed Choice document (detailed in the 'At the meeting' section above), you will be able to match client needs to the available investment solutions. One of the benefits of SDR is the increased level of transparency and information providers will make available to you for your due diligence. And, because of the anti-greenwashing rules, you will be able to rely on the available information.

4) Suitability letter

All the information gathering, due diligence and your professional view come together in the suitability letter. It is here you deliver your investment solution to meet the client's needs. If the client has chosen to have sustainability, ESG or values-based options built into their financial plan, this is where you can demonstrate how the portfolio/product delivers the client's preferences and objectives. When describing the solution, make sure there is no inadvertent greenwashing and that all claims can be substantiated.

Free to access tools to help you

If you are looking for a simple way of meeting Consumer Duty's informed choice requirements and a process which helps you and your clients consider sustainable investment options, then have a look at the suitability framework on the [Accord Initiative website](#). The compliance templates are free to access, thanks to our partners such as **Brooks Macdonald**. The templates can easily be used to bolt onto your existing advice process. You will also find lots of information on ESG, sustainable investment, and compliance, plus Deep Dive Databases for sustainable MPS and Tax Efficient Vehicles. Register now for free access.

For more information please visit our [Responsible Investment Hub at brooksmacdonald.com](#)

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