~~Annex 1~~Chapter 2 Guidance on the anti~~-~~-greenwashing rule

Scope

~~1. The FCA's~~ 2.1 Our anti~~-~~-greenwashing rule, in the Environmental, Social and Governance ~~sourcebook~~ (ESG) Sourcebook (ESG 4.3.1R), requires ~~that a firm must~~firms to ensure that any reference to the sustainability characteristics of a product or service is: consistent with the sustainability characteristics of the product or service, and is fair, clear and not misleading.

~~2. In the financial services sector, the~~2.2 The terms 'environmental', 'social' and 'governance' are ~~commonly~~ used to ~~classify~~refer to sustainability ~~issues~~matters. However, ~~we recognise that~~ there is no single definition of 'sustainability'. In PS23/16 we said that we consider governance to be an enabler of environmental and/or social outcomes, rather than an end in itself, and we refer to 'sustainability characteristics' as ~~'~~environmental or social characteristics~~'~~.

~~3.~~2.3 Our anti~~-~~-greenwashing rule applies ~~to all communications about financial products or services where they refer to~~ when a firm:

• communicates with clients in the UK in relation to a product or service, or

• communicates a financial promotion (or approves a financial promotion for communication) to a person in the UK.

2.4 The rule applies with respect to references to sustainability characteristics (environmental and/or social characteristics) of ~~those products and services. Sustainability-related references can~~a product or service.

2.5 The rule applies in relation to financial products and services which FCA-authorised firms make available for clients in the UK. This includes financial promotions that authorised firms communicate or approve for unauthorised persons (including for overseas products and services where the promotion is approved in the UK).

2.6 Firms are nevertheless subject to other rules including those that govern claims about the firm itself (as outlined below).

2.7 References to sustainability characteristics could be present in~~,~~ (but are not limited to~~,~~) communications that include statements, assertions, strategies, targets, policies, information, and images~~.~~

~~4~~ relating to a product or service.

2.8 The rule applies to all ~~FCA-~~authorised firms~~, including firms that approve financial promotions for unauthorised persons for communication in the UK, and~~ irrespective of whether they are subject to the Consumer Duty. Any reference to the Consumer Duty in this ~~guidance~~Guidance is designed to help firms interpret how the rule and the Duty interact, where relevant~~, but the rule still applies even where the Duty does not~~.

2.9 We recognise that some ~~FCA-~~authorised firms operate a business~~-~~-to~~-~~-business model, as opposed to a customer~~-~~-to~~-~~-business model. For this reason, we have used the term 'audience' in this

~~guidance~~Guidance to better capture the ~~end-user (~~client or person that firm may be communicating with. This may be, for example, existing or prospective clients, customers, consumers, or businesses~~)~~.

~~5. The rule links to existing requirements in our Handbook to ensure communications are fair, clear and not misleading, clarifying that these apply in the context of claims referencing the sustainability characteristics of products and services (often referred to in this guidance as 'claims')~~.

Existing requirements and related guidance

~~6. We have introduced the anti-greenwashing rule into the ESG Sourcebook to clarify our expectations when firms are making claims about their products or services which include references to sustainability characteristics (that is 'sustainability claims').~~

~~7.~~

2.10 Various sections of ~~the FCA~~our Handbook already require most firms to ensure ~~that~~ the information they communicate is fair, clear and not misleading. This includes the Principles for Businesses (PRIN) that apply, ~~(~~in whole or in part~~)~~, to most firms. ~~There are also~~Some sections of the Handbook ~~that~~also elaborate on what the 'fair, clear and not misleading' requirement means in specific contexts. For example, the Conduct of Business Sourcebook (COBS) 4.2 adds further prescription around financial promotions for investments and the Consumer Credit ~~sourcebook (CONC)~~Sourcebook 3.3 adds detail ~~in respect of~~for consumer credit.

~~8. Where firms are~~

2.11 The anti-greenwashing rule is intended to complement and be consistent with these rules. It is not a substitute for, and is not intended to override, any other rules in the Handbook where firms may be subject to fair, clear and not misleading rules in specific circumstances. We included guidance in the relevant sourcebooks to remind firms of the anti-greenwashing rule when they comply with other obligations.

2.12 Firms subject to the Consumer Duty~~, they~~ will also need to consider ~~relevant~~its rules ~~under the Duty~~. Our expectations under the anti-greenwashing rule for the retail market are consistent with the Duty. For example, we expect firms to act in good faith towards their retail customers, and to enable and support ~~these customers~~them to pursue their financial objectives. Similarly, under the consumer understanding outcome rules, in PRIN 2A.5, firms should give retail customers the information they need, ~~at the right time, and~~ presented in a way they ~~can~~are likely to understand, ~~to support~~ and ~~enable~~that equips them to make effective, timely and properly informed decisions ~~about financial products and services~~. ~~9.~~

2.13 Firms are also subject to other legislation and guidance that applies to sustainability-related claims ~~they make about their products and services~~. This includes existing consumer protection law~~; this~~, which covers what firms say, how they present it and what they fail to say about the environmental impacts or credentials of their products, services, brands, and activities. The Competition and Market Authority's (CMA~~'s~~) guidance on environmental claims is designed to help firms understand and comply with their ~~existing~~ obligations under consumer protection law.

~~10.~~2.14 Our anti~~-~~-greenwashing rule and guidance is consistent with the CMA's guidance on environmental claims and the requirements of the ~~ASA's CAP and BCAP Codes~~Advertising Standards Authority's (ASA) guidance. We have worked closely with the CMA and ASA to ensure consistency.

~~11. The examples given in this guidance are meant to be illustrative and are not real examples. They are designed to help firms understand what the guidance means in practice~~

2.15 While the scope of the anti-greenwashing rule relates to products and services, we remind firms that the CMA and ASA's guidance and FCA Principles 6 and 7 or, as relevant, the Consumer Duty (Principle 12 and the rules in PRIN 2A), apply to sustainability-related claims that a firm may make about itself as a firm.

Expectations and examples ~~for firms~~

~~12.~~2.16 This ~~guidance~~Guidance is designed to help firms understand our expectations under the ~~antigreenwashing~~anti-greenwashing rule.

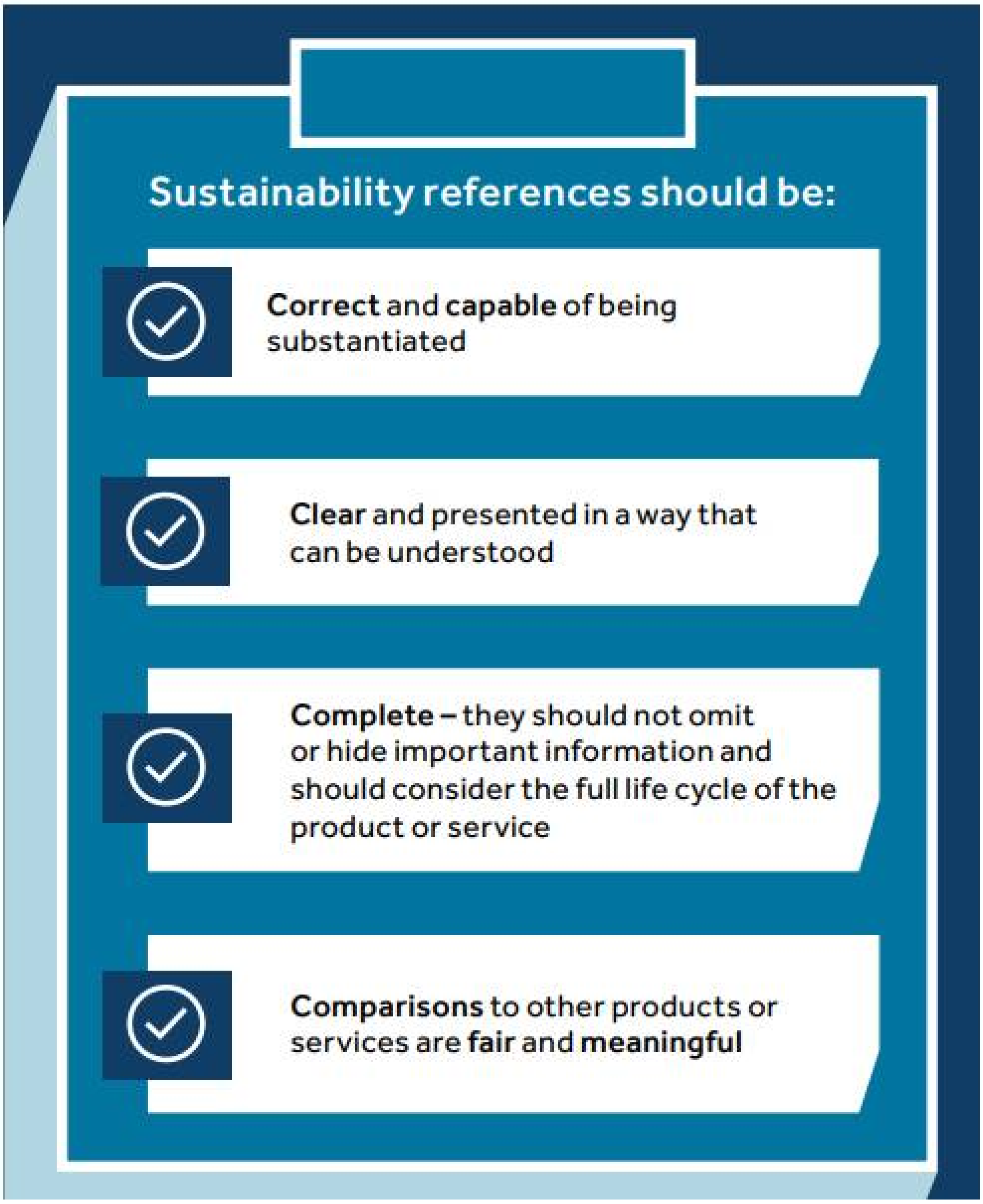
~~13.~~2.17 In practice, the effect of the anti~~-~~-greenwashing rule and the other rules mentioned above mean ~~that firms should ensure their sustainability-related claims are:~~ the following

~~• correct and capable of being substantiated~~

~~• clear and presented in a way that can be understood~~

~~• complete – they should not omit or hide important information and should consider the full life cycle of the product or service~~

~~• fair and meaningful in relation to any comparisons to other~~



The examples below were created for the purposes of this Guidance and are designed to help firms understand what the core principles of the Guidance mean in practice. They are not exhaustive. The Guidance often refers to references that firms make about the sustainability characteristics of products ~~or~~and services as 'claims

Claims should be correct and capable of being substantiated

~~14.~~2.18 The claims firms make should be factually correct. Firms should not state or imply features of a product or service that are not true. Nor should they overstate or exaggerate ~~the~~a product or service's sustainability or positive ~~social and/or~~ environmental and/or social impact ~~of a product or service~~. Claims should only give the impression that a product or service has the sustainability characteristics that it really has. Claims can also be ~~incorrect~~misleading if they provide conflicting or contradictory information.

~~15.~~2.19 A firm's products or services should do what they say they do. They should live up to the claims made, and firms should be able to support those claims with robust~~, relevant,~~ and credible evidence. Claims should be capable of being substantiated at the point in time at which they are made. Firms should think carefully about whether they have the appropriate evidence to support ~~the~~their claims~~ they are making~~.

~~16.~~2.20 It is also important that firms regularly review their claims and any evidence that supports them, to ensure ~~that~~ the evidence is still ~~supports~~relevant for so long as those claims~~. Approvers of financial promotions should take reasonable steps to periodically monitor the continuing ongoing compliance of the~~ are being communicated (eg, a financial promotion is live). Firms should also ensure that their claims remain compliant with the anti~~-~~-greenwashing rule~~, and all other~~ on an ongoing basis. Firms which approve financial promotions subject to the rules ~~that apply over the lifetime of the~~in COBS 4 should consider compliance with the anti-greenwashing rule as part of their monitoring of the ongoing compliance of the financial promotion~~, not just on approval~~ which they have approved.

~~17.~~2.21 Where a firm's claim makes specific reference to the evidence that supports it, they may ~~wish~~want to consider whether it would be helpful to make that evidence publicly available in ~~a way that is~~an easily accessible~~. The examples given in this guidance are meant to be illustrative and are not real examples.~~ way

Example 1

A firm makes a promotional statement that an investment fund is 'fossil fuel free'. However, the terms and conditions explain that the investment fund includes investments in companies involved in the production, ~~sale~~selling, and distribution of fossil fuels where the company's revenue earned from those activities is below a certain threshold. ~~The~~So, the companies within the investment fund are~~ therefore~~ not 'fossil fuel free'. This statement is not factually correct and is not capable of being substantiated, which makes the claim~~ potentially~~ misleading.

Example 2

In the promotions for a fund, an investment manager prominently displays a claim that all investments are reviewed for their sustainability characteristics. However, ~~these sustainability characteristics are not actually a significant factor in the investment manager's decisions and~~ not all investments are systematically reviewed ~~in~~for their sustainability characteristics, and sustainability characteristics are not always factored into the investment ~~process.~~

~~The~~manager's decisions. There is a risk that the investment manager is overstating the extent to which they consider the sustainability characteristics of investments in the fund and that this claim ~~is not capable of being~~cannot be substantiated. Should the investment manager wish to make this claim, all their investments should be consistently reviewed for their sustainability characteristics, and the investment manager should hold evidence to demonstrate how they do this and how the review is factored into their decision-making process. The investment manager may want to consider whether to make this information publicly available in an easily accessible way.

Example 3 (good practice)

A firm advertises a fund which makes social sustainability claims, including statements that it invests in companies that have good labour practices in line with international best practice. The fund manager establishes clear and robust standards for selecting investee companies – it has chosen to include fair wages, safe working conditions and other criteria that align with international frameworks and standards. It assesses and monitors the investments that it has selected, and seeks to address any issues that arise while holding the investment through appropriate escalation. Its marketing materials include a clear explanation of the investment objectives and strategy, including its standards for selecting investee companies and the types of holdings in the fund.

Claims should be clear and presented in a way that can be understood

~~18.~~2.22 The claims firms make should be transparent and straightforward, and firms should consider whether the meaning of all the terms ~~should~~would be ~~generally~~ understood by the intended audience.

~~19. Technical~~For example, technical language may be difficult to understand, so firms should consider whether any technical terms ~~should~~could be explained for the intended audience, unless their meaning is clear and widely understood. ~~Firms should consider whether the information they are providing is useful.~~

~~20.~~ The use of ~~vague,~~ broad~~,~~ terms or general ~~terms~~statements may be also unclear and confusing. Firms should not use terms that might give the impression that a product or service has sustainability characteristics that it does not have.

~~21.~~

2.23 Firms should consider whether the information they are providing is useful for the intended audience. Where a claim is being communicated to a professional client, firms may not need to include the same information or present it in the same way as they would for a communication addressed to a retail client.

2.24 Firms should also be aware of the overall impression ~~that can be created through the~~a visual presentation of a claim can create. The images, logos and colours used are an important part of the overall presentation of a claim. ~~They~~Firms should ~~be particularly careful when using images related to~~consider how images, logos and colours together may be perceived by the audience when presented alongside other sustainability characteristics of a product or service. Claims may be undermined if what they say is factually correct, but their visual presentation conveys a different impression.

~~22.~~

2.25 This Guidance does not extend to the use of images, logos, and colours in a context not intended to refer to, or describe, the sustainability characteristics of a product or service (although other rules may apply).

2.26 If firms are subject to the Consumer Duty, they should test their communications where appropriate. This testing should check that communications ~~can~~are likely to be understood~~,~~ by customers and meet their information needs so ~~that consumers~~they can make effective, timely and properly informed decisions. Firms should consider if it would be appropriate to test ~~their~~ communications relating to a product or service, where they are making sustainability-related claims. Our consumer research on SDR and investment labels ~~outlines the findings from~~summarises our consumer testing findings, which shaped our final rules, and includes some considerations for asset management firms ~~may find helpful when~~ developing consumer~~-~~-facing disclosures.

~~23. If~~2.27 Firms subject to the Duty~~, firms~~ should also ensure they have ~~all~~ the necessary information to understand and monitor ~~consumer~~customer outcomes. This includes, where relevant, checking if ~~consumers~~customers are equipped with the ~~right~~ information to make effective, timely and properly informed decisions. It also includes being able to assess the overall ~~consumer~~customer outcomes when they purchase a product or service or when they interact with a firm. For example, whether they can use the products or services as expected, the ~~benefits~~value that they receive, and whether they may be subject to harm. Where ~~any issues are identified,~~ firms identify any problems, they should investigate ~~the issue~~ and correct any deficiencies.

Example ~~3~~4

A firm ~~places~~has a large image of a rainforest at the top of its webpage about its savings accounts, with an overlay of text that reads ‘Sustainable Savings’. The webpage includes its ‘Green Savings Account’ alongside a list of other savings accounts. Its ‘Green Savings Account’ uses deposits to lend to companies to fund sustainable projects, while its other savings accounts do not. In this case, the image of the rainforest on the savings account webpage coupled with the text that reads ‘Sustainable Savings’ may give its audience the impression that the firm will use deposits in all savings accounts to help create positive ~~change~~sustainability outcomes. If only the deposits in its ‘Green Savings Account’ are ringfenced to fund sustainable projects, the use of both words and images in this way is potentially misleading as it gives the impression that the bank ~~invests more into~~uses deposits to finance sustainable projects through more of the savings accounts offered than it actually does.

If the firm wishes to use a sustainability-related image, they should use an image that is consistent with the sustainability characteristics of the product or service, and only use that image in relation to products and services with those characteristics. In this case, it should only use the image and text for the ‘Green Savings Account’, rather than all savings accounts.

Claims should be complete – they should not omit or hide important information

~~24.~~2.28 Claims should ~~convey~~give a representative picture of the product or service. Firms should not omit or hide important information that might influence decision~~-~~-making.

~~25.~~2.29 Where claims are only true if certain conditions ~~or caveats~~ apply, those~~ conditions or caveats~~ should be clearly and prominently stated. Similarly, the limitations of any information, data or metrics used in a claim should be clearly and prominently disclosed.

~~26.~~2.30 Claims should not highlight only positive sustainability impacts where this disguises negative impacts. ~~Claims~~Firms should ~~be presented~~present claims in a balanced way and not focus solely on ~~the~~a product or service's positive sustainability characteristics~~ of a product or service~~, where other aspects may have a negative impact on sustainability.

~~27.~~2.31 Similarly, firms should consider the ~~whole~~ life cycle of a product or service, as appropriate, when making sustainability~~ claims and consider which~~-related claims. Firms should base their claims on the full life cycle of the product or service. Otherwise, for example in cases where certain elements of the life cycle ~~are most likely to~~may be more of interest in a consumer's decision~~-~~-making process~~.~~ ~~Claims relating to a specific part of a product's life cycle~~, firms should be clear ~~as to exactly~~about which part ~~they refer~~of the life cycle the claim relates to. Firms should not cherry~~-~~-pick information as ~~it~~this may give the impression that a product or service has sustainability characteristics that it does not have.

~~28.~~2.32 Firms ~~are reminded that the CMA and ASA's guidance and FCA Principles 6 and 7 or, as relevant, the Consumer Duty (Principle 12 and the rules in PRIN 2A), apply to sustainability-related claims that a firm may make about itself as a firm. Information~~should consider what information is necessary to include for the claim to give a representative picture of the product or service. Firms should also consider whether information about the firm itself may be considered part of the 'representative picture' ~~in~~of a ~~decision-making process so it~~product or service. It is important that ~~these~~those claims ~~are also~~meet the relevant rules and expectations (as outlined above) so that the overall picture is fair, clear and not misleading.

Example ~~4~~5

A bank promotes ~~its 'Green~~bonds and makes claims about their sustainability impact. The bonds~~ – greening the planet' which~~ are used to finance a range of sustainability projects including renewable energy and improving ~~the~~companies' energy efficiency~~ of companies~~. However, eligible activities also include projects to improve the ~~energy~~ efficiency of fossil fuel energy production and distribution – information which is not included in the promotional materials.

~~This~~Omitting this information is potentially misleading for its audience~~. The firm is omitting information which could give the impression that its product is more sustainable than it really is. Consumers may associate~~ as from the marketing materials consumers may not expect these bonds to include investments in projects related to fossil fuels~~ with negative impacts so the~~. The firm should ~~explain why they are~~be transparent in its promotional materials about what the eligible activities~~. Investors need to be given complete information to make an informed decision~~ might include. The firm could also explain how the projects can contribute to sustainability impact so that its consumers can better understand why they are eligible.

Example ~~5~~6

A commonly tracked benchmark claims to be 'sustainable', by excluding companies with ESG ratings 'lower than 3'. The benchmark administrator does not specify what the rating aims to assess, for example, whether it ~~assess~~assesses sustainability~~-~~-related risks or impact. It also does not specify the scale the rating uses, which could be ~~1-10~~1-10, and does not disclose the rationale ~~regarding why~~for choosing an ESG score of 3~~ was chosen~~ as the appropriate threshold. It could, in reality, not be a high bar, as standards may vary ~~in some~~across markets. The benchmark administrator does not ~~provide~~give its audience ~~with~~ complete information and ~~as a result~~so does not make it clear whether and how the ~~product~~benchmark is ~~delivering~~representing sustainable ~~outcomes in practice~~objectives. This could result in users and ultimately end~~-~~-investors being misled ~~as to~~about the sustainability outcomes of the ~~product~~benchmark.

Example 7 (good practice)

A fund manager advertises its asset selection process as 'focused on supporting carbon intensive companies with credible transition plans to finance their decarbonisation'. The fund promoted invests in Sustainability-Linked Bonds (SLBs). In its marketing materials to potential investors the manager highlights how it selects only those SLBs that meet criteria that are 'in line with market standards for best practice'.

To support this claim, the fund manager names the SLB framework it uses to assess potential investments within the marketing materials. The marketing materials also set out the qualities it looks for within SLBs to support compliance with this framework – which in this case includes clear, measurable, and ambitious performance indicators and sustainability performance targets linked to a company's transition plan, and routine reporting against these metrics which will be independently verified.

Comparisons should be fair and meaningful

~~29.~~2.33 The claims firms make when comparing a product or service, either to ~~a~~one of their previous ~~version of the same product or service~~versions or to a competitors'~~ product or service~~, should be fair and meaningful. Comparisons should enable the audience to make informed choices about the products or services.

~~30.~~2.34 Claims comparing the sustainability characteristics of products and services should make clear what is being compared, how a comparison is being made~~,~~ and should compare like with like. Claims that appear to make market~~-~~-wide comparisons but are based only on a limited sample have the potential to mislead their audience.

~~31.~~2.35 Firms should be careful when making claims about the extent to which a feature of a product or service has sustainability characteristics when it may simply be meeting a minimum standard of compliance with existing legal requirements. Such claims could be misleading, as, while they may be true, they may also wrongly give the impression that their product or service is superior to others available.

~~32.~~2.36 Where comparative claims are made, any evidence to substantiate those should cover all products or services compared.

Example ~~6~~8

~~An insurer offers 'The UK's Greenest Car Insurance'. This insurance product is therefore likely to be understood by its audience as having the most positive overall environmental impact of all UK car insurance products. This may be accurate, but there is no information to demonstrate how it has made the most positive environmental impact compared with of all UK car insurance products. The insurer should make it clear how this conclusion was reached and what comparisons this claim is based upon. The insurer should have evidence to back up this claim.~~

~~**Example 7**~~

A firm claims that by ~~purchasing~~buying their investment bond, investors will 'reduce emissions' more than through ~~the purchase of any~~buying other investment bonds on the market. However, the firm does not make it clear to its audience that this comparison refers only to Scope 1 emissions (as opposed to all emissions – Scope 1, 2 and 3) and was based on a limited sample at a particular date ~~in time~~. The ~~market participant~~firm has picked information ~~which means it~~that paints a better picture of its investment bond compared to others on the market. The claim does not make clear how the comparison is being made or its limitations. The ~~market participant needs to~~firm should make the limitations of the comparative claim ~~clearly, and in~~clear. In doing so, ~~will need to~~it should explain what is meant by Scope 1, 2 and 3 emissions, if this technical language is not widely understood by the intended audience, and the limitations of covering only Scope 1 emissions. It should clarify that the claim was based on a limited sample, explaining what the sample was and the date on which that sample was taken.