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November 10, 2021

UK ESG: UK Government Roadmap to Sustainable Investing

[33892]

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TO: ICI Members

ICI Global Members

ESG Task Force

Global Regulated Funds Committee SUBJECTS: ESG

International/Global RE: UK ESG: UK Government Roadmap to Sustainable Investing

On 18 October 2021, HM Treasury published its latest policy paper titled, Greening Finance: A Roadmap to Sustainable Investing ("Roadmap").[\[1\]](#) It refers to the UK Government's long-term goal to green the financial system and align it with the UK's net-zero commitment.

This memorandum summarizes the key policies laid out in the Roadmap.

1. Introduction

Building on the Green Finance Strategy published in 2019,[\[2\]](#) the Roadmap provides a broad overview of the green finance policy framework. HM Treasury identifies three fundamental phases in moving towards a sustainable finance market:

- Phase 1 - Informing investors and consumers to ensure a flow of decision-useful information on sustainability from corporates to financial market participants
- Phase 2: Acting on the information and making the sustainability information a day-to-day part of business and financial decisions
- Phase 3: Shifting financial flows to align with UK's net zero commitment

The Roadmap represents the UK Government's strategy to deliver Phase 1. It introduces an economy-wide sustainable disclosure regime and reveals further developments in relation to the UK Green Taxonomy. It also identifies the proposed timeframe for further developments on each of these topics. The UK Government will update its Green Finance Strategy in 2022, which will go beyond the timetable in the Roadmap and set out an indicative sectoral transition pathway to 2050. This updated strategy will assess industry progress on Phases 1 and 2. It will also consider triggers for stronger policy to facilitate Phase 3 and help ensure that the UK meets its climate and environmental objectives.

2. Sustainability Disclosure Requirements (SDR)

A. Overall framework

First announced by Chancellor of the Exchequer Rishi Sunak in July 2021,[\[3\]](#) the SDR is a comprehensive regime that will bring together existing sustainability-related disclosure requirements under one integrated framework building on both existing and future global standards and best practices for companies, asset managers, and investment products. It will integrate both the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD) and the standards to be issued by the International Sustainability Standards Board (ISSB). SDR intends to adopt the four pillars of the TCFD recommendations - Strategy, Governance, Risk Management, and Metrics and Targets.[\[4\]](#)

While the ISSB standards will primarily focus on information that is material to investors, SDR plans to go further requiring wider information on how firms impact the environment. The SDR will require disclosure against certain minimum safeguards and other related metrics set out in the UK Green Taxonomy. Certain companies will be required to disclose the percentage of their capital expenditure, operational expenditure and turnover on activities aligned with the UK Green Taxonomy. Further, the SDR will require asset managers/owners and investment products to substantiate ESG claims they make in a way that is comparable between products and is accessible to clients and consumers. They will also need to disclose whether and how they take ESG-related matters into account in their governance arrangements, and in their investment policies and strategies.

The Roadmap indicates that SDR will also require disclosures on transition plans. Initially, certain firms will be required to publish transition plans that align with the UK's net zero commitment or provide an explanation if they have not done so. As standards for transition plans emerge, the UK Government will look to incorporate these into UK regulation and strengthen disclosure requirements as appropriate. The UK Government expects the pensions and investment sectors, including asset managers, to publish a high-quality transition plan by the end of 2022 (see section 4 below).

B. Types of disclosures

The SDR framework will cover three types of disclosure—corporate disclosures, asset manager and asset owner disclosure, and investment product disclosure. The Roadmap sets out an indicative path[\[5\]](#) towards each disclosure type under the SDR framework. HM Treasury will coordinate the sectoral approaches to ensure that the right information is made available across the investment chain.

Corporate disclosure. Companies and financial services firms will be required to disclose information using the ISSB standards and appropriate metrics to explain the level of alignment of their activities with the UK Green Taxonomy in their Annual Report. These requirements will be introduced in phases, starting with UK-registered companies. By 2022, the UK Government will consult on the scope and timing of the corporate disclosure requirements for the UK-registered companies, and the reporting details. The Roadmap indicates that mandatory disclosure requirements for all UK-registered and UK-listed companies under the SDR will be in place within 2-3 years after the primary legislation is approved.

The Roadmap also confirms that new TCFD-aligned disclosure requirements will be introduced for certain UK-registered financial companies[\[6\]](#) and UK-listed issuers[\[7\]](#) by

2022.

Asset manager and asset owner disclosure. At the entity level, asset managers and asset owners will disclose how they are managing their sustainability risks, opportunities and impacts, and how they take sustainability into account in managing or administering investments on behalf of clients and consumers. A discussion paper on SDR disclosures for asset managers, life insurers providing investment products, and FCA-regulated pension schemes will be released in November 2021, following on the FCA's June consultation.[\[8\]](#) In terms of timing, the Roadmap confirms that TCFD-aligned climate disclosures by asset managers will be in place by 2022.

Investment product disclosure. Firms will be required to disclose, at the product level, the sustainability attributes of the investment products and portfolios they offer. This will include their sustainability risks, opportunities and impacts, a core set of product-level climate-related metrics, and their alignment with the UK Green Taxonomy. Notably, both products marketed as sustainable and those not making sustainability claims will be required to disclose information about their sustainability performance. Investment products that make claims about the sustainability of their product will be required to substantiate such claims. A discussion paper is also expected in November 2021, which will focus on consumer-facing product-level SDR disclosures.

The Roadmap highlighted that the consumer-facing product-level disclosures will form the basis of a new sustainable investing labelling regime. On November 3, the FCA published a Discussion Paper on sustainable investment labels.[\[9\]](#) The input received will inform the development of policy proposals for consultation in Spring 2022.

3. UK Green Taxonomy

A. Environmental objectives and alignment criteria

The UK Green Taxonomy largely follows a similar approach to the EU Taxonomy framework, aiming to combat greenwashing by providing a common approach for companies and investors to use in relation to sustainable characteristics. It includes six environmental objectives, which are identical to those in the EU Taxonomy, namely:

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems

As with the EU Taxonomy, each of the above environmental objectives will be underpinned by a set of technical screening criteria (TSC). An activity that is aligned with the UK Green Taxonomy must meet three tests, i.e., make a substantial contribution to at least one of the above six environmental objectives, do no significant harm to other environmental objectives, and meet a set of minimum safeguards, including alignment with the OECD Guidelines for Multinational Enterprises[\[10\]](#) and the UN Guiding Principles on Business and Human Rights.[\[11\]](#)

B. Transitional and enabling activities

The UK Green Taxonomy will also recognize transitional and enabling activities. Transitional

activities are those in which technological constraints do not permit the completion of the process in a net zero-aligned way. In these instances, the TSC will set the threshold for alignment with the UK Green Taxonomy at the best-in-sector emissions level, subject to not locking in carbon-intensive activities. Enabling activities facilitate other activities to make a substantial contribution to one of the UK Green Taxonomy's environmental objectives whilst not actually being sustainable themselves, for instance, the manufacture of components for wind turbines.

C. Implementation timeline

The TSC for climate change mitigation and adaptation will be subject to a consultation in Q1 2022, while the TSC for the remaining four environmental objectives is scheduled for consultation in Q1 2023.

The UK Government plans to focus on delivering the UK Green Taxonomy and ensuring that it has been road-tested by the market before considering any changes or an extension to its scope. This includes identifying activities that cause significant harm or adding further transitional activities. The UK Green Taxonomy Regulation will be reviewed every three years. These reviews will also consider whether enabling or transitional activities remain in line with the relevant objectives under the UK Green Taxonomy

4. Investor Stewardship in Green Finance

The Roadmap sets out five expectations on the pension and investment sectors - including asset owners, asset managers, and the service providers that support them:

- Progress work on stewardship within their organization and apply to become a signatory of the UK Stewardship Code 2020;
- Take into account the information generated by SDR when allocating capital;
- Actively monitor, encourage, and challenge companies by using their rights and direct/indirect influence to promote long-term, sustainable value generation;
- Be transparent about their own and their service providers' engagement and voting;
- Provide leadership, for example by joining a Race to Zero-accredited net-zero initiative for the financial sector, and thereby joining Glasgow Financial Alliance for Net Zero (GFANZ). They should back up this commitment by publishing a high-quality transition plan by the end of 2022.

The UK Government indicates that it will assess progress on the above expectations at end of 2023.

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endnotes

[1] See *Greening Finance: A Roadmap to Sustainable Investing*, October 2021, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1026224/CCS0821102722-006_Green_Finance_Paper_2021_v5_Bookmarked_48PP.pdf.

[2] See *Green Finance Strategy: Transforming Finance for a Greener Future*, July 2019, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820284/190716_BEIS_Green_Finance_Strategy_Accessible_Final.pdf.

[3] See Mansion House Speech 2021 - Rishi Sunak, 1 July 2021, available at <https://www.gov.uk/government/speeches/mansion-house-speech-2021-rishi-sunak>.

[4] See Roadmap, *supra* note 1, at Figure B, p.14.

[5] See Roadmap, *supra* note 1, at Figure C, p.18-19.

[6] In March 2021, the Department for Business, Energy and Industrial Strategy (BEIS) consulted on proposals to mandate climate-related financial disclosures by publicly quoted companies, large private companies and limited liability partnerships (LLPs). The necessary regulations intend to come into force on 6 April 2022. See *Consultation on requiring mandatory climate-related financial disclosures by publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs)*, March 2021, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/972422/Consultation_on_BEIS_mandatory_climate-related_disclosure_requirements.pdf.

[7] In June 2021, the Financial Conduct Authority (FCA) consulted on proposals to extend its TCFD requirements to standard-listed issuers, excluding investment entities and shell companies. The FCA plans to apply the requirements for accounting periods beginning on or after 1 January 2022. See *CP21/18: Enhancing climate-related disclosures by standard listed companies*, June 2021, available at <https://www.fca.org.uk/publication/consultation/cp21-18.pdf>.

[8] In June 2021, the FCA consulted on proposals to introduce climate-related financial disclosures by asset managers, life insurers, and FCA-regulated pension providers. It is proposed that the first phase of implementation will be effective from 1 January 2022. See *CP21/17: Enhancing climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers*, June 2021, available at <https://www.fca.org.uk/publication/consultation/cp21-17.pdf>. See also ICI Memorandum No. 33703 (27 July 2021), available at <https://www.ici.org/memo33703>.

[9] See FCA Sustainability Disclosure Requirements (SDR) and investment labels (DP21/4), available at <https://www.fca.org.uk/publication/discussion/dp21-4.pdf>.

[10] Available at <https://www.oecd.org/corporate/mne/>

[11] Available at https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf. Note that June 2021 marks the 10-year anniversary of the adoption of the UN Guiding Principles on Business & Human Rights (UNGPs) by the UN Human Rights Council. To mark this

occasion, the UN Working Group on Business and Human Rights launched a new project to further drive and scale up implementation of the UNGPs more widely over the next 10 years.

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