

# HMT reveals UK sustainable finance roadmap

## AT A GLANCE

October 2021

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### What's new?

- HM Treasury (HMT) published [Greening Finance: A Roadmap to Sustainable Investing](#) on 18 October 2021.
- This sets out the UK Government's ambition to become a centre for sustainable finance, supporting the transition to a net zero carbon economy.
- The Government's agenda is divided into three phases: ensuring decision-useful information on sustainability is available to financial decision-makers; mainstreaming sustainability considerations into business and financial decisions; and shifting capital to align with a net zero and nature positive economy.

### What does this mean?

- This roadmap focuses on the first phase, which will be delivered through new economy-wide Sustainable Disclosure Requirements (SDRs).
- The SDRs will provide an integrated framework to ensure consistent sustainability disclosures between corporates, financial services firms, and investment products.
- UK-registered corporates (including financial services firms) will need to make sustainability disclosures. This will include reporting under new International Sustainability Standards Board (ISSB) standards, and reporting of environmental impact using the UK Green Taxonomy.
- Asset managers and owners will have to disclose how they take sustainability into account across their portfolios. Creators of investment products will have to report on products' sustainability features and impact. This information will form the basis of a sustainability labelling regime (on which the FCA will publish a discussion paper next month).
- The SDRs are expected to build on the four pillars of the TCFD recommendations (strategy, governance, risk management, metrics and targets).
- Discussion papers on the SDRs for asset managers/owners and investment product creators will be published in November 2021. The roadmap also signals a discussion paper on the sustainability labelling regime in November 2021. Separately, a consultation on the SDRs for corporates will be issued in 2022.
- The Government also sets out its plans to implement the UK Green Taxonomy. Certain corporates will be required to disclose the proportion of their activities that are Taxonomy-aligned. Providers of investment funds/products will have to do the same for the assets they invest in.
- The structure of the Taxonomy draws on the EU's approach. This means the UK Taxonomy will be made up of six environmental objectives. To be Taxonomy-aligned, an activity must contribute to at least one objective, 'do no significant harm' to the remaining objectives, and meet minimum social safeguards.

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- The Government plans to consult on Technical Screening Criteria for the climate change mitigation, and climate change adaptation objectives of the Taxonomy in Q1 2022, and legislate by the end of 2022. It will consult on the remaining standards in Q1 2023.
- The Government also sets out expectations on stewardship for asset managers and owners. It expects firms to publish a transition to net zero plan by the end of 2022, and plans to assess firms progress on stewardship by the end of 2023.
- Given the overlaps with other initiatives such as the EU SFDR, the EU Taxonomy, and mandatory TCFD reporting, firms should start planning how the SDRs could be implemented thematically across their organisations. This would involve identifying the likely impacts on different aspects of their business, including risk management, investment processes, product development/governance, product disclosures, and reporting frameworks.
- The SDRs will be a new type of regime for many UK-registered corporates (including companies outside of the financial services sector). They will need to familiarise themselves with the types of disclosures they will need to make. They should begin work to identify the underlying processes and governance to capture the necessary information to make the disclosures envisaged under the SDRs.

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## What do firms need to do?

- HMT's roadmap is ambitious, far-reaching, and will have significant implications for how corporates and financial services firms integrate sustainability considerations into their decision-making, disclosure and reporting.
- Despite not containing any formal proposals at this stage, the roadmap provides a clear indication of the direction of travel on the UK regulatory approach. Firms should therefore carefully engage with the roadmap and, where possible, begin their preparations now.
- Asset managers and owners should assess how these upcoming initiatives will impact their ESG programmes.
- It is clear that the UK Taxonomy will draw heavily on the EU framework. While we await the consultation containing the details in Q1 2022, corporates and financial services firms could usefully begin work to align their investments and/or business activities with taxonomy criteria (for the climate-related objectives), and develop a plan for obtaining the necessary data to report on taxonomy-alignment.

## Next steps

The Government says it will update the Green Finance Strategy in 2022, assessing progress so far, and setting out an indicative sectoral transition pathway to 2050 to align the financial system with the UK's net zero commitment. See the *What does mean section?* for additional dates regarding implementation.

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