

# Sixty second summary

## Greening finance: A roadmap to sustainable investing

Following the Chancellor's announcement of the Sustainability Disclosure Requirements in July this year, the government has published "Greening Finance: A Roadmap to Sustainable Investing" ahead of COP 26.

COP 26 (the 26<sup>th</sup> United Nations Climate Change Conference) is being hosted in Glasgow in November 2021. Outside of this, sustainability reporting requirements for companies, asset managers and pension funds have been increasing rapidly. Amongst a wave of other government proposals on sustainability, the newly published "[Greening Finance: A Roadmap to Sustainable Investing](#)" outlines the government's plans to deliver on their [Green Finance Strategy](#) and seeks to develop sustainability disclosure within the UK. The Roadmap sets out a phased approach to 'green the financial system', of which there are three phases:

**Phase 1: Informing Investors and Consumers:** Addressing information gaps for market participants, ensuring a flow of decision-useful information on environmental sustainability to investors and consumers.

**Phase 2: Acting on the Information:** Acting on this information to ensure sustainability considerations are mainstreamed into business and financial decisions.

**Phase 3: Shifting financial flows** to align with the [UK's net zero commitment](#) and wider environmental goals.

This Roadmap represents the strategy to deliver Phase 1, Informing Investors and Consumers, made deliverable through four key steps.

### Step 1: Sustainability Disclosure Requirements ('SDR')

Announced by the Chancellor in July 2021, the SDR is being developed by the government as an integrated framework for disclosures on sustainability across the whole economy. The plans bring together existing disclosures to ensure consistency, as well as providing international compatibility. In particular, the SDR builds on the UK implementation of the Taskforce on Climate-related Financial Disclosures ('TCFD') reporting framework and will cover three types of disclosure:

**1. Corporate disclosure:** New requirements for companies to make sustainability disclosures. Subject to consultation, this will comprise reporting under proposed international standards and reporting of environmental impact using the UK Green Taxonomy.

**2. Asset manager and asset owner disclosure:** New requirements for asset managers and asset owners (including occupational pension schemes) to disclose how they take sustainability into account. The roadmap notes the current requirements to report in line with TCFD from 2022 onwards and will seek to use a similar framework. A consultation on potential mandatory sustainability-related disclosures is expected in 2022/23.

**3. Investment product disclosure:** New requirements for creators of investment products to report on the products' sustainability impact and relevant financial risks and opportunities. This will help form a new sustainable investment labelling regime which aims to make it easier for consumers to understand and compare investment products available to them. (The framework for the labelling regime is outlined in page 14 of the Roadmap.)

### Step 2: UK Green Taxonomy

It is widely recognised that there is no single accepted definition of which economic activities count as environmentally sustainable. To address this, the government is proposing to develop and implement the UK Green Taxonomy ('the Taxonomy'), setting out the criteria which specific economic activities must meet to be considered environmentally sustainable and therefore 'Taxonomy-aligned'. This follows similar steps that have been taken across the European Union.

To be considered Taxonomy-aligned, it is proposed that an activity must meet three tests:

1. Make a substantial contribution to one of the six objectives;
2. Do no significant harm to the other objectives; and
3. Meet a set of minimum safeguards.

Under SDR certain companies will be required to disclose the percentage of their capital expenditure, operational expenditure and turnover that relates to Taxonomy-aligned activities, providing investors and consumers with an indicator of a company's current environmental performance. Informed by this reliable data, investment product providers can then disclose the extent to which their products are Taxonomy-aligned. This enables investors to identify the investment products which are making a substantial contribution to environmental objectives. The proposed Taxonomy will also include Enabling Activities, i.e. activities which currently support the transition by enabling substantial contributions to environmental objectives in other sectors, but which are not yet sustainable themselves.

#### The six objectives covered by the Taxonomy:

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

Each objective will be underpinned by a set of detailed standards, known as Technical Screening Criteria (TSC). TSC for the first two objectives will be consulted on in 2022.

### Step 3: Being a Responsible Steward of Capital

Step 3 of the roadmap highlights the important role that investors play in responsibly allocating capital and making use of their ownership rights and influence over investee companies, whilst fulfilling their fiduciary responsibilities. This stage also sets out a number of other criteria that the government expects the pensions and investment sectors to meet, including but not limited to: progressing work on stewardship within their organisation; using the information generated by SDR when allocating capital; actively monitoring and engaging companies to promote long-term, sustainable value generation; being transparent about engagement and voting, providing leadership.

UK pension and investment sectors have shown that, in order to effectively target and engage with firms on climate change and act as responsible stewards, investee companies must disclose relevant information. The government will make disclosure mandatory under the SDR and also consider various stewardship initiatives to lower the barriers to acting as effective stewards.

### Step 4: Leading international efforts to green finance

Step 4 of the roadmap outlines the speed of change required by financial systems and provides further detail on how the UK is, and will continue to be, working internationally to drive this by:

- Ensuring market participants have the information needed to factor climate-related issues into all investment decisions;
- Ensuring that the financial system can measure and manage climate-related risks;
- Measuring how investment is aligned to the net-zero transition, by development of clear and consumer-friendly metrics;
- Driving long-term net-zero commitments by setting out robust transition plans and requiring regular progress reporting.

### What does this mean for pension schemes?

While there is no immediate action for pension schemes trustees, the government plans to review progress against the above steps in 2023. In light of this, we urge pension schemes to review their stewardship activities against this roadmap to ensure they are making continuous improvements. This need to focus on stewardship has been further emphasised by a [separate consultation](#) issued by the government this week. Schemes should also continue their preparation for the requirements under TCFD, bearing in mind that the SDR will build on the TCFD framework.



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