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# Sustainable Finance: A UK Guide January 2022

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# Introduction

As the world watched world leaders and activists gather in Glasgow to discuss how to protect the climate at COP 26, the huge focus on encouraging the development of sustainable finance continues.

In light of further developments in relation to sustainable finance in the UK, including FCA publications, we provide an update to our [March](#) article on sustainable finance disclosure rules from a UK perspective in this article. For an update on the sustainable investment regime in the EU, please see our article [here](#). For a global view on the impact of COP 26 on the development of sustainable finance see our article [here](#).

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Following Brexit, it was confirmed by the government that there would be no wholesale onshoring of the EU Sustainable Finance Disclosure Regulation (SFDR) or Taxonomy Regulation. However, that did not mean the UK would standstill, and in fact the raft of recent announcements by the UK government and regulators show that the UK is determined to at least match the ambition of the EU Sustainable Finance Action Plan in the UK.

In a speech on 9 November 2020, the Chancellor set out his ambition for the UK financial services sector to be at the forefront of sustainable finance, with a robust environmental disclosure regime, supported by the UK's green taxonomy to determine which activities can be defined as environmentally sustainable. The roadmap published alongside the speech set out HM Treasury's path towards mandatory climate-related disclosures together with a timeline for progress in this area over the next five years. The roadmap highlights the need for government and regulators to work closely to achieve this objective. It envisages that consultation with industry, supervisory expectation, and regulation will be required to meet this objective.

This guide will cover recent UK developments in relation to sustainable finance with a particular focus on the UK's key sustainable finance disclosure regime (SDR) and the development of the UK taxonomy (Taxonomy), which is necessary to support the SDR. We also set out some practical steps firms may wish to consider now.

# The Big Picture – Government Policy Developments

## HM Treasury

The Chancellor’s ambition is to make the UK one of the leading green finance centres globally. In July 2021, as part of his Mansion House speech, he spoke of reaffirming the “UK’s position as the best place in the world for green finance”.

HM Treasury has published several documents developing the government’s policy in this area, and a summary of the policy publications is set out below together with the key SDR and Taxonomy points.

HM Treasury Document	SDR	Taxonomy	Key impact
July 2021 <a href="#">A new chapter for financial services</a>	This will require businesses to disclose their risks and opportunities from, and impact on, the climate and the environment through implementing integrated SDR.	HMT confirms that the UK will combat greenwashing with common and transparent definitions of sustainable activities and investments support with advice from the Green Technical Advisory Group.	This proposal will enable consumers to quickly and easily see the environmental impact of their investments via a sustainable investment label covering retail investments using information provided through the SDR.
October 2021 <a href="#">Greening Finance: A Roadmap to Sustainable Investing</a>	A new SDR will require companies, some financial institutions and occupational pension schemes to disclose sustainability-related information.	The roadmap set out how the UK will develop a UK green taxonomy, which will create a shared understanding as to which economic activities count as "green". The UK taxonomy will draw on the EU Taxonomy and will have the same six environmental objectives: <ul style="list-style-type: none"> <li>• Climate change mitigation</li> <li>• Climate change adaption</li> <li>• Sustainable use and protection of water and marine resources</li> <li>• Transition to a circular economy</li> <li>• Pollution prevention and control</li> <li>• Protection and restoration of biodiversity and ecosystems</li> </ul> <p>Each of the environmental objectives will be underpinned by a set of detailed standards, known as Technical Screening Criteria (<b>TSC</b>).</p>	There will be an individual TSC for each economic activity included in the Taxonomy, which identifies how that activity can make a substantial contribution to the environmental objective. To be considered Taxonomy-aligned, an activity must meet three tests: <ul style="list-style-type: none"> <li>• Make a substantial contribution to one of six environmental objectives</li> <li>• Do no significant harm to the other environmental objectives</li> <li>• Meet a set of minimum safeguards</li> </ul> <p>The roadmap also acts as a call to action for the pensions and investment sectors, setting expectations that they will use the information generated by the SDR to start moving capital to align with a net zero economy.</p>
July 2021 <a href="#">A new chapter for financial services</a>	This will require businesses to disclose their risks and opportunities from, and impact on, the climate and the environment through implementing integrated SDR.	HMT confirms that the UK will combat greenwashing with common and transparent definitions of sustainable activities and investments support with advice from the Green Technical Advisory Group.	This proposal will enable consumers to quickly and easily see the environmental impact of their investments via a sustainable investment label covering retail investments using information provided through the SDR.
November 2021 <a href="#">UK Financial Services Future Regulatory Framework Review</a>	This review covers proposals for the whole UK financial services regulatory framework. From a sustainable finance perspective, it is worth noting two key proposals which the government intends to take forward being: <ul style="list-style-type: none"> <li>• a new secondary growth and international competitiveness objective for both the PRA and the FCA to reflect the importance of the financial services sector; and</li> <li>• alongside this new secondary objective, the government also proposes to clarify that growth should occur in a sustainable way that is consistent with the government's commitment to achieve a net zero economy by 2050.</li> </ul>		

## Treasury Committee

The Treasury Committee, a select committee of the House of Commons, has established a number of inquiries that impact the UK's development of its green finance strategy. In particular, it is worth noting its publication of a report from its Decarbonisation and Green Finance inquiry on net zero and green finance in April 2021. Key recommendations for how the government can achieve net zero by 2050 together with regulatory and HM Treasury responses are set out below:

Treasury Committee Report on Decarbonisation and Green Finance	
Treasury committee recommendation	Response
<p><b>Labelling:</b> financial products should be clearly labelled to allow consumers to assess their relative climate impacts and to make choices accordingly. HM Treasury and the FCA should consult on making green labels mandatory, including how they could encourage innovation and be widely understood by retail consumers.</p>	<p><b>FCA's response:</b> the FCA acknowledges the importance of clear objective fund labels.</p> <p>The FCA has progressed its work on labelling with the publication of <a href="#">DP21/4</a>, which is discussed <a href="#">below</a>.</p> <p><b>Treasury response:</b> the Government will work with the FCA to introduce a sustainable investment label so that consumers and retail investors can clearly compare the impacts and sustainability of their investments for the first time.</p>
<p><b>Greenwashing:</b> this may be an issue, with the potential to mislead consumers. HM Treasury must ensure the FCA has the appropriate remit, powers and priorities to prevent the greenwashing of financial products available to consumers.</p>	<p><b>FCA's response:</b> potential greenwashing is tackled in a number of ways including the fund authorisation process during which the FCA continues to challenge firms on their funds' strategies and documentation as they are submitted to us for authorisation.</p> <p>The FCA has progressed its work on greenwashing with the publication of <a href="#">DP21/4</a>, which is discussed <a href="#">below</a>.</p> <p><b>Treasury response:</b> Clear standards for green investments are essential to maintain trust in the market and mobilise the finance necessary to achieve the net zero goal. In November 2020, the Chancellor announced a UK green finance taxonomy that will reduce greenwashing. The Treasury is working closely with the FCA on this matter.</p>
<p><b>Innovation:</b> the FCA should consider undertaking further FinTech challenges to encourage innovation and set out how it will tackle remaining regulatory barriers that discourage innovative green financial products from coming to market.</p>	<p><b>FCA's response:</b> FCA Innovation has established a number of projects designed to investigate how fintech can support a green finance market in the UK. For more see <a href="#">below</a>.</p>
<p><b>Regulatory remit:</b> the PRA and FCA should move quickly to incorporate their revised remits to include climate change.</p>	<p><b>FCA's response:</b> the government has updated its regulatory remit, which now clarifies that the FCA "should have regard to the government's commitment to achieve a net zero economy by 2050... when considering how to advance its objectives and discharge its functions." The FCA has also appointed a new ESG director.</p> <p><b>PRA's response:</b> the Chancellor's recommendations letter to the PRC was updated in March 2021 to state that the PRC should "have regard to the Government's commitment to achieve a net zero economy by 2050...". The PRA also confirms that its climate-related work is a key part of the Bank of England's wider climate strategy.</p>
<p><b>Taxonomy development:</b> the Treasury and regulators should work at speed to ensure that there is a clear timetable and legislative pathway to deliver a UK taxonomy ahead of COP26 in November 2021. The UK can utilise the EU's taxonomy but can exceed it to assist the UK's goals. The UK should seize the opportunity presented by COP26 to use its own work on a taxonomy to push for greater international convergence.</p>	<p><b>FCA response:</b> We are engaging closely on this with HM Treasury, other regulators and other interested parties on details of the design of the UK framework.</p> <p><b>Treasury response:</b> In addition to working with the regulators, the government will publish Technical Screening Criteria via secondary legislation for climate change mitigation and climate change adaptation no later than 1 January 2023.</p>

### **Treasury Committee: Committee on COP 26: climate change and finance.**

On 5 July 2021, Mark Carney (the PM's finance adviser at COP26 and Special Envoy for Climate Action and Finance at the United Nations) gave oral evidence to the Committee. He set out the objective for his team at COP26, which was to make climate change a mainstream element of every professional finance decision, so that the climate impact would be taken into account in such decisions in the same manner that the creditworthiness of a company would be taken into account. No further reports have yet been published by this Committee.

### **Green Technical Advisory Group**

The Green Technical Advisory Group (GTAG) was established in June 2021 by HM Treasury as an expert group that will provide independent non-binding advice to the government on the development and implementation of a UK green taxonomy to help tackle greenwashing. GTAG is due to provide initial recommendations on UK green taxonomy and screening criteria.

### **UK Centre for Greening Finance and Investment (CGFI)**

The CGFI was established in April 2021 by the Department for Business, Energy and Industrial Strategy. It will provide data and analytics to financial institutions and services such as banks, lenders, investors and insurers around the world. The government hopes that this will better support those businesses' investment and other decisions by helping them to consider their impacts on the environment and climate change. In November 2021, it published a discussion paper, "Aligning Finance with Climate-resilient Development", to support discussions at COP 26 aimed at progressing the green finance agenda. For more information on the global development of green finance and COP 26, see our article [here](#).

## **UK regulatory sustainable finance developments since March 2021**

Having considered the "big picture" governmental and policy drivers for the development of the UK sustainable finance regime, we will now consider initiatives from the following regulators since March 2021:

- Bank of England (**BoE**).
- Financial Conduct Authority (**FCA**).
- Prudential Regulation Authority (**PRA**).

Of course, in many instances the regulators are working together and with HM Treasury to avoid duplication and unnecessary complexity and we examine this below.

### **FCA development of the UK's SDR and Taxonomy regime**

Throughout 2021, the FCA has been increasing its capacity to focus on ESG and, in April 2021, established a [webpage](#) about its work on climate change and sustainable finance. The FCA has also appointed a Director of ESG to develop the [FCA's](#) approach to sustainable finance in the UK and globally. As with the EU, key planks of the FCA's work is the development of SDR and a related taxonomy. The FCA is developing its SDR through the publication consultation and discussion papers which are examined below.

### **Development of SDR – climate change disclosure rules**

In December 2021, the FCA published its policy statements and new rules on climate-related disclosure rules for asset managers and asset owners in [PS21/24](#) and for listed companies in [PS21/23](#).

In [PS 21/23](#), the FCA sets out its climate-related disclosure requirements in the Listing Rules (LR) for premium-listed commercial companies to certain issuers of standard listed equity shares.

## Development of SDR – climate change disclosure rules

In this article, we focus on the FCA proposals in [PS21/24](#) which introduce TCFD-aligned disclosure requirements for asset managers, life insurers, and FCA-regulated pension providers, with a focus on the information needs of clients and consumers. A summary of the key points is set out below.

Scope	Entity level disclosure	Product level disclosure
<p><b>Entities</b></p> <p><b>asset managers</b> such as portfolio managers, UK UCITS management companies, full-scope UK AIFMs and small authorised UK AIFMs.</p> <p><b>asset owners</b> such as certain life insurers and pure reinsurers and non-insurer FCA regulated-pension providers</p> <p>Subject to:</p> <p>A de minimis threshold, it is not proposed to apply these requirements to firms that have less than £5 billion in AUM or administration on a 3-year rolling average – which will be assessed annually.</p> <p>Proposals do not apply to defined benefit pension schemes.</p>	<p><b>Obligation</b></p> <p>Firms will be required to make annual reports on how they take climate-related risks and opportunities into account in managing or administering assets on behalf of their clients and consumers.</p> <p>These disclosures must be made on the firm’s main website.</p>	<p><b>Obligation</b></p> <p>Firms will be required to make annual disclosures in respect of the <b>individual products</b> or <b>portfolio management services</b> they offer.</p> <p>Annual disclosures must be published on the firm’s website and put in appropriate client communications or upon client request in specific cases.</p> <p>The FCA does acknowledge that this would not always be appropriate, for example, in the case of discretionary services provided to individuals. Therefore, the FCA is proposing that such product level disclosures should be made to the client upon request, once a year.</p>
<p><b>Products:</b></p> <p><b>asset managers</b> products include: authorised funds, unauthorised AIFs and discretionary portfolio management services.</p> <p><b>asset owners</b> products include: insurance-based DC pension schemes, non-insurance based DC pension schemes and SIPPs.</p>	<p><b>Contents of disclosure</b></p> <p>The contents of the report must be consistent with the TCFD’s recommendations – which require that firms consider and disclose climate-related risks in four areas – namely governance, strategy, Risk management and metrics and targets.</p> <p>Must include a signed compliance statement.</p>	<p><b>Contents of disclosure</b></p> <p>These disclosures would comprise a baseline set of core, mandatory carbon emissions and carbon intensity metrics, additional metrics where possible and a scenario analysis.</p> <p>Firms must include disclosures on governance, strategy and risk management insofar as they are materially different to disclosures made at entity level and where firms consider that more detailed information would be useful to clients and consumers.</p>
<p><b>Territorial scope:</b></p> <p>all in scope FCA regulated firms with respect to their assets managed or administered from the UK, regardless of where the client, investors, product or portfolio is based.</p>	<p><b>Impact of delegation</b></p> <p>Where asset managers delegate (i.e. in a host ACD scenario), the delegation should include how climate-related matters have been considered when selecting the delegate – i.e. ESG-related due diligence on delegates will effectively become mandatory.</p>	

## Development of SDR – climate change disclosure rules

### Implementation and Interaction with SFDR

#### Implementation

The FCA intend to implement its proposed new rules and guidance in a new Environmental, Social and Governance (**ESG**) Sourcebook. Initially, the ESG Sourcebook will relate to the climate-related disclosures, but the FCA anticipates that it will expand to cover related and wider ESG topics over time.

Timing - Phase 1 – Effective 1 January 2022

Asset managers with Assets under Management (**AuM**) in excess of £50 billion and asset owners with AuM (or under administration) in excess of £25 billion in relation to in-scope business. First disclosures to be published by 30 June 2023 and subsequent disclosures by 30 June each calendar year. In relation to “on demand” disclosures to institutional clients, firms must provide the information from 1 July 2023.

Timing - Phase 2 – Effective 1 January 2023

ESG Sourcebook to apply to remaining in scope asset managers and asset owners. First disclosures to be published by 30 June 2024 and subsequent disclosures by 30 June each calendar year. In relation to “on demand” disclosures to institutional clients, firms must provide the information from 1 July 2024.

#### Interaction with SFDR

Where disclosure requirements under EU rules cover matters similar to those under the TCFD recommendations (for example, certain carbon emissions metrics), the FCA aims to ensure consistency both with the EU and internationally.

#### Waivers

The FCA does note in PS21/17 that a firm can apply for a waiver if it believes that making the required disclosures for a particular product would be unduly burdensome.



## Development of ESG disclosure rules - FCA Dear Chair letter and DP21/4

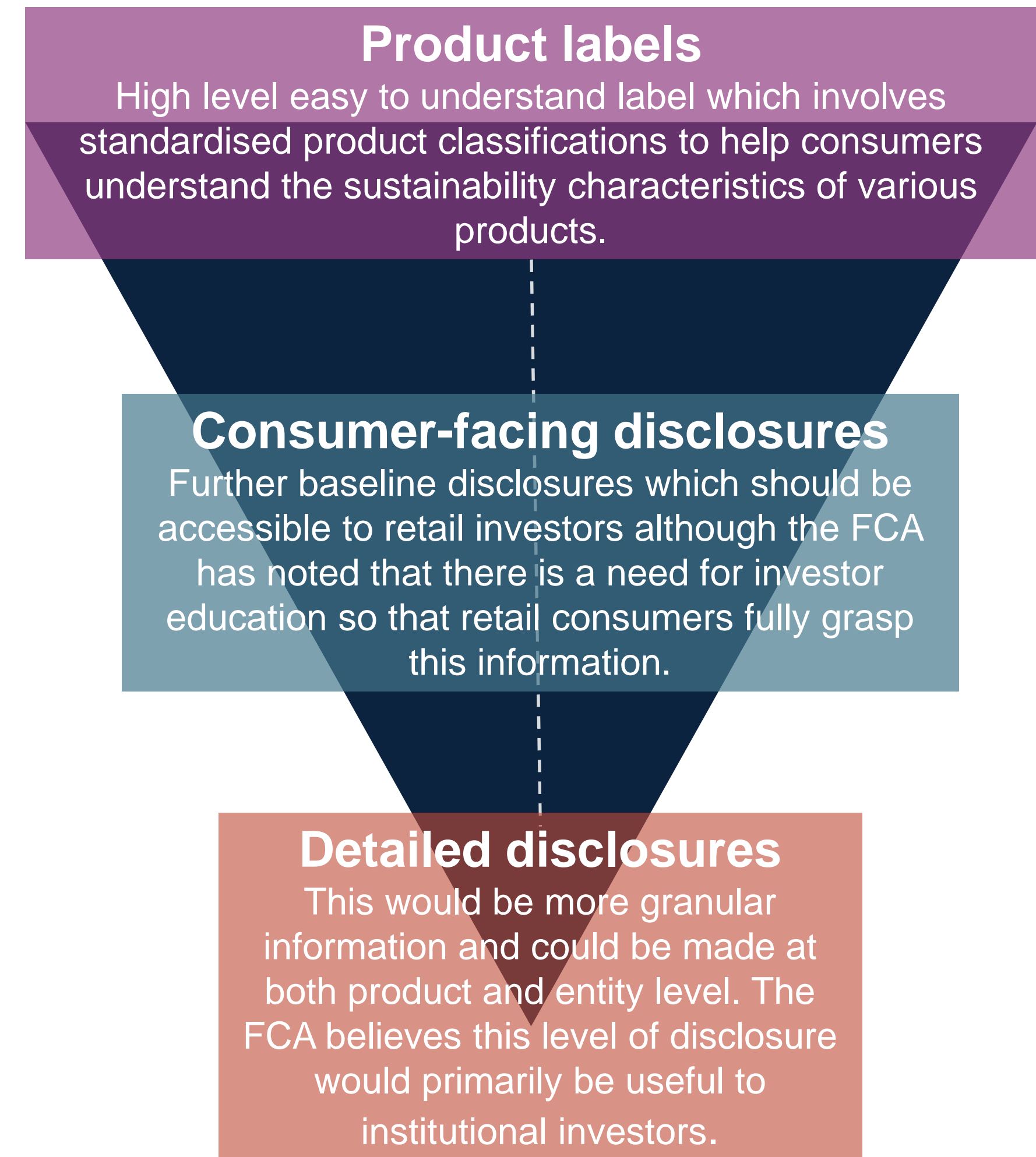
In **July 2021**, the FCA published a Dear Chair [letter](#) addressed to the chairs of authorised fund managers (**AFMs**) containing guiding principles on design, delivery and disclosure of ESG and sustainable investment funds. The FCA is clear that authorised funds should describe their investment strategies clearly and that assertions made regarding sustainable goals should be reasonable and substantiated. Examples of poor practice included:

- misleading ESG related names
- unsubstantiated claims of positive environmental impact
- proposed holdings at odds with stated ESG claims

The FCA has published a set of guiding principles, and for further information on these guiding principles, please see our article [here](#).

In **November 2021**, the FCA further developed its thinking on the UK's SDR and published a discussion paper ([DP21/4](#)) on sustainability disclosure requirements and investment labels. The FCA is seeking initial views on SDR for asset managers and certain FCA-regulated asset owners, and a new labelling system for sustainable investment products. Acknowledging that some UK firms may also be covered by the EU SFDR, the FCA is seeking views on how the UK regime can remain consistent with the SFDR in DP21/4.

The FCA is proposing a three-tiered disclosure regime with both entity and product level disclosures. Under this approach, the entity-level and product-level disclosure requirements would build on the FCA's TCFD-aligned disclosure requirements as set out in PS21/24.



## Proposed Product Label Regime

The FCA is proposing that the labelling regime should use objective criteria and descriptive labels such as setting out the proportion of sustainable investments or the nature of the product's objectives. The FCA does not believe that subjective labels such as traffic lights would be appropriate for a regulatory regime, and it would be difficult to supervise effectively. The FCA has also set out a proposed mapping for the UK label system to the EU SFDR.

		Sustainable		
Not promoted as sustainable	Responsible The product may have some sustainable investments.	Transitioning The product has sustainable characteristics, themes or objectives; low allocation to Taxonomy aligned sustainable activities.	Aligned The product has sustainable characteristics, themes or objectives; high allocation to Taxonomy aligned sustainable activities.	Impact The product has objective of delivering positive environmental or social impact.
FCA proposed indicative mapping of UK labels to the EU SFDR				
Article 6 SFDR	Article 8 SFDR	Article 8 SFDR	Article 9 SFDR	Subset of Article 9 SFDR

The FCA is also considering how overseas funds marketing into the UK would be treated, and it is exploring the best approach to introducing SDR requirements for financial advisers in due course.

The FCA is seeking industry input on its proposals and expects to publish a consultation paper in Q2 2022.

## Developments at FCA Innovation

In **August 2021**, the FCA explained FCA Innovation were launching a programme of work to support firms and regulators in overcoming sustainable finance and climate challenges, as well as developing and launching new products and solutions. A summary of key innovation projects is set out below.

Innovation project	Summary	Development/Impact
Sandboxes	<p>A digital regulatory sandbox to allow innovative firms to test and develop proofs of concept in a supervised digital testing environment.</p> <p>The FCA is currently running a sustainability cohort that will focus on providing support to innovators looking to develop and validate solutions for ESG data and disclosure obligations.</p>	<p>Details of the second cohort can be found <a href="#">here</a>. The sandbox is due to run until March 2022.</p> <p>Participants are developing solutions in relation to:</p> <ul style="list-style-type: none"> <li>Understanding ESG Data</li> <li>Validating ESG Data</li> <li>Transparency in ESG Data and Disclosures</li> </ul>
Tech sprint	TechSprints allow the FCA to bring together market participants including regulators (from across and outside financial services) to collaborate on shared challenges to develop technology-based ideas or proof of concepts to address specific industry challenges.	In October 2021, the FCA held a TechSprint focused on building technological solutions to overcome challenges faced by regulators in monitoring ESG Data and Disclosures. One of the winners was a digital solution that aims to track how companies are moving towards net zero targets by increasing transparency around companies' carbon offsetting programs.
Green FinTech Challenge	The challenge is open to firms that are developing innovative green solutions that require regulatory support to bring their proposition to market. The FCA is interested in firms that are developing innovations for ESG data and disclosure obligations.	The window for application is due to close on 6 December 2021.

## FCA report on climate change adaption

In **October 2021**, the FCA published a [report](#) on climate change adaption. In the report, the FCA sets out its assessment of how the financial services industry and listed companies are adapting to climate change. It has set this in a broader context, explaining how the FCA is developing its strategic approach to climate-related issues, and how it sees firms and markets evolving to meet new demands and challenges, and transition to net zero.

## FCA strategy for ESG priorities

Further, in **November 2021**, the FCA published its [strategy](#) for ESG priorities which has five core themes:

- **Transparency.** This involves enhancing climate-related disclosures, promoting a global standard for sustainability reporting.
- **Trust.** This involves building trust and integrity in ESG-labelled instruments, products and the supporting ecosystem.
- **Tools.** This involves the FCA working with others to enhance industry capabilities and support firms' ESG work, delivering an innovation programme and collaborating with other regulators and the government.
- **Transition.** This involves supporting the role of finance in delivering a market-led transition to a more sustainable economy and encouraging effective investor stewardship.
- **Team.** This involves embedding ESG considerations in the FCA, and communicating, and role modelling good behaviour – such as publishing an FCA TCFD report in Q3 2022.

The FCA will monitor progress against its commitments and will provide interim updates as in 2022, with a more detailed update on progress in 2023.

## Key PRA developments

The PRA is continuing its work on its supervisory approach to climate-related financial risks and expects firms to have fully embedded its [Supervisory Statement 3/19](#) by December 2021. The five key expectations under SS3/19 are:

- embed climate-related financial risks into their governance framework;
- under the Senior Managers Regime (SMR), allocate responsibility for identifying and managing climate-related financial risks to the relevant existing Senior Management Function (SMF), and ensure that these responsibilities are included in the SMF's Statement of Responsibilities;
- incorporate climate-related financial risks into existing risk management frameworks;
- undertake longer-term scenario analysis to inform strategy and risk assessment;
- develop an appropriate approach to climate disclosure in line with the TCFD framework

In October 2021, the PRA published a climate change adaption [report](#) in line with the Climate Change Act 2008. It sets out the [PRA's](#) response to the risks posed by climate change to its operations and policy functions in two parts:

- Part A of the report examines the risks posed by climate change to PRA-regulated firms, the progress they have made in their management of these risks as set out in SS3/19, the PRA's response to these risks. Going into 2022, as climate change moves into the PRA's core supervisory process, the assessment of climate-related financial risks will be included in all relevant elements of the supervisory cycle.
- Part B of the report examines the relationship between climate change and the banking and insurance regulatory capital regimes. The PRA already expects firms to hold capital against material climate-related financial risks, but in light of the report's findings, it will be undertaking further work. This work will help determine whether changes to the design, use or calibration of the regulatory capital framework may also be needed to ensure resilience against these risks. The PRA will provide an update on its approach to climate change risks and capital requirements in 2022.

## Working together – cross regulatory initiatives and forums.

### PRA/FCA Climate Financial Risk Forum

- The FCA and PRA jointly established the Climate Financial Risk Forum (CFRF) in March 2019. The objective of the CFRF is to build capacity and share best practice across financial regulators and industry to advance financial sector responses to the financial risks from climate change.
- [In October 2021, the CFRF](#) published a second set of [guides](#) to help financial services firms approach and address climate-related financial risks, including risk management, scenario analysis and disclosure obligations. The guides follow on from and build on the [CFRF's](#) June 2020 guide on managing climate-related financial risks and are written by the industry for the industry.

An online climate scenario analysis narrative tool to support smaller firms is also planned to launch in the first quarter of 2022. The idea of the tool is that firms would input some basic information regarding their business activities, products, or risks into the tool to then output a narrative description of climate risks and opportunities.

### PRA/BoE: Network for Greening the Financial System

The BoE and PRA co-founded the Network for Greening the Financial System (NGFS) in December 2017. The NGFS is a group of central banks and financial sector supervisors working to help strengthen the global response to the Paris Agreement on climate change. The NGFS defines and promotes best practices in climate risk management for the financial sector and conducts or commissions analytical work on green finance.

In May 2021, the BoE published a [speech](#) that outlined steps UK financial services firms could take to help the UK move to a net zero economy. This was followed by a [progress report](#) from the NGFS on bridging climate-related data gaps. In June 2021, the NGFS published a revised set of climate scenarios and a dedicated [website](#), aiming to integrate climate-related risks into the work of central banks and supervisors.

In June 2021, the BoE launched the [Climate Biennial Exploratory Scenario](#) (CBES). The CBES will test the resilience of the largest banks, insurers and the financial system to different possible climate pathways and provide a comprehensive assessment of the UK financial [system's](#) exposure to climate-related risks. It will examine both transition risks (that is, the risks that arise as the economy moves from a carbon-intensive one to net zero emissions) and physical risks (that is, risks associated with higher global temperatures likely to result from taking no further policy action). The participants will measure the impact of the scenarios on their end-2020 balance sheets as a proxy for their current business models. The BoE expects to publish the CBES results in May 2022.

### Practical considerations for firms

The development of the UK ESG regime will require considerable work for affected firms as the government and the regulators develop their legislative and regulatory stance. While some changes are already clearly set out, such as the PRA's SS3/19, firms should be aware of the direction of travel that HM Treasury and the regulators have given and should be considering the following issues:

#### Interaction between UK/EU Sustainability regimes

Certain firms will be affected by EU SFDR and Taxonomy regime as well as the requirements of the UK regime and will need to consider how to manage differing approaches. The FCA has acknowledged that this may be an issue and, in DP21/4, is looking for views as to how contradictions and undue complexity can be avoided.

For example, it is worth noting that the EU requires website disclosure for tailored portfolios, whereas the FCA acknowledges that this may not be appropriate and is proposing to allow firms to provide that disclosure to clients on request. It remains to be seen how far this approach will go and whether, for example, model portfolio solutions (MPS) fall under the tailored portfolio category or whether the FCA would regard MPS as suitable for website disclosures.

In addition, it looks like the FCA is considering a more flexible approach to whether disclosures are made at an entity level or group level, whereas current ESA guidance suggests that the EU regime will require entity level disclosure.

## Labelling

The FCA has given an indication of how it intends to map its labelling regime against the SFDR regime and firms could begin considering how it would label appropriate products.

## Supervisory approaches

In September 2021, the FCA explained in a [speech](#) that it expects climate change to form a central part of how firms do business. This will increasingly form part of the [FCA's](#) supervisory engagement strategy, and firms should expect to be subject to greater challenge on these issues.

As mentioned above, the PRA is continuing to work on its supervisory approach to climate-related financial risks and expects firms to have fully embedded its Supervisory Statement 3/19 by December 2021. From January 2022, the PRA will start to actively supervise firms against these expectations.

As climate change comes into the PRA's core supervisory process, the assessment of climate-related financial risks will be included in all relevant elements of the supervisory cycle, i.e. the management of climate-related financial risks will become subject to formal supervisory assessments. The PRA will expect boards, firm executives and senior managers to be able to demonstrate their understanding of the risks climate change poses to their areas of responsibility and their plans to address them.

Firms should ensure that they are adequately prepared for the growing focus on climate change and ESG as part of their regulatory supervision

## Investor Education

In DP21/4, the FCA acknowledges that typical investor language may not be easily accessible to retail investors and that there will need to be a certain amount of investor education, and it is carrying out further investigation into how best to explain relevant terminology and how to present disclosures in a digestible manner. The FCA is considering the use of an ESG factsheet template and welcomes industry views on this.

## Involvement in Innovation initiatives

As firms consider how best to get to grips with disclosure regimes which may vary across the jurisdictions in which they operate, it may be worth considering whether to become involved in regulatory innovation projects. For example, interested parties can register to review the cohort of innovators working on ESG tools in the FCA sandbox to better understand the technological options that may be available to help firms manage their ESG data.



## What's next in 2022?

Below we set out a timeline of key anticipated developments through to December 2022.

Date	Action point
6 December 2021	The window for application to take part in the FCA's Green Fintech Challenge is due to close on 6 December 2021
31 December 2021	The PRA expects firms to have fully embedded its Supervisory Statement 3/19
Q4 2021	GTAG UK advice on green taxonomy and screening criteria expected
1 January 2022	For firms affected by Phase 1 of the implementation of the ESG Sourcebook, the effective date is 1 January 2022. First disclosures to be published by 30 June 2023 and subsequent disclosures by 30 June each calendar year. In relation to "on demand" disclosures to institutional clients, firms must provide the information from 1 July 2023
7 January 2022	Comments and feedback on DP21/4 to be received by the FCA
9 February 2022	HMT FS Future Regulatory Framework Review consultation closes
March 2022	Digital Sustainability Sandbox due to finish, outcomes to be published in due course
Q1 2022	UK Government expected to consult on UK Green Taxonomy in relation to climate change mitigation and climate change adaption and draft technical screening criteria
Q1 2022	CFRF expects to launch an online climate scenario analysis narrative tool to support smaller firms
May 2022	The BoE expects to publish the CBES results in May 2022.
Q2 2022	The FCA intends to consult in Q2 2022 on the proposed rules to implement SDR disclosure requirements as set out in DP21/4
During 2022	PRA to publish results of its CBES exercise assessing the resilience of the UK's largest banks and the wider financial system to different climate scenarios
During 2022	HM Treasury may introduce legislation to Parliament, reflecting the outcome of the FS Future Regulatory Framework Review
During 2022	UK Government intends to legislate on technical screening criteria for the UK green taxonomy by the end of 2022

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