



Need to know

UK government publishes Green Finance Strategy – Mobilising green investment

Contents

Background

The Sustainability Disclosure Requirements

Disclosure of transition plans

IFRS Sustainability Disclosure Standards developed by the ISSB

Company reporting of GHG emissions, nature-related financial risks and impacts, and physical climate risks

Fund labels and FCA approach to SDR

UK Green Taxonomy

Investor stewardship

Further information

For more information please see the following websites:

www.ukaccountingplus.co.uk
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This *Need to know* discusses the UK government's Green Finance Strategy - Mobilising green investment, published in March 2023.

- The UK government has published a new policy paper, [Green Finance Strategy - Mobilising Green Investment \("the 2023 Strategy"\)](#), building on the previous Green Finance Strategy which was published in July 2019.
- The 2023 Strategy sets out the government's updated plans for the UK to become the world's first net zero-aligned financial centre, including five key objectives addressing UK financial services growth and competitiveness, investment in the green economy, financial stability, incorporation of nature and adaptation and alignment of financial flows with climate and nature objectives.
- The 2023 Strategy re-emphasises the government's commitment to the sustainability disclosure requirements (SDR) set out in its [Greening Finance Roadmap](#), published in October 2021, including its support for UK adoption of the standards being finalised by the International Sustainability Standards Board (ISSB) and the development of an endorsement mechanism.
- The 2023 Strategy also sets out plans to develop and consult on:
 - a package of requirements for companies to disclose information about their transition plans; and
 - a UK Green Taxonomy to promote transparency and help to direct investment towards sustainable businesses.

Background

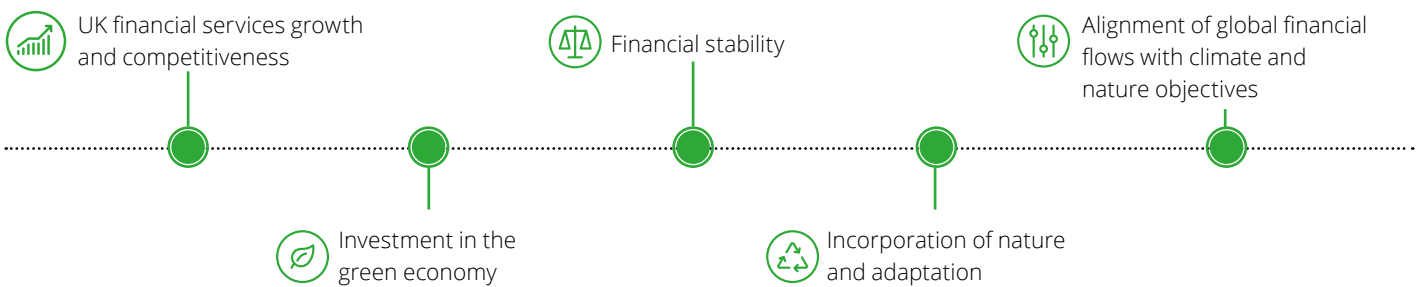
Following its 2019 Green Finance Strategy, in May 2022 the government published a [call for evidence](#) asking for views from stakeholders to support the development of an updated strategy. The feedback received indicated that stakeholders wanted:

- clarity on the UK government's expectations for the UK finance sector and the actions businesses and financial firms should take in response to the global transition to a net zero, resilient and nature positive economy.
- a regulatory and disclosure framework that ensures investors and consumers receive the information they need from businesses and financial firms, and that new investment tools and market frameworks are robust and protect consumers.
- effective interoperability between the UK's green finance regulatory framework and the frameworks of other major financial centres so that market participants are able to operate easily across jurisdictions.

UK government publishes Green Finance Strategy – Mobilising green investment

Following this feedback, in March 2023 the government published its updated [Green Finance Strategy - Mobilising green investment \("the 2023 Strategy"\)](#). The 2023 Strategy also builds on the government's October 2021 policy paper [Greening Finance: A Roadmap to Sustainable Investing \("the Roadmap"\)](#), which sets out three phases towards greening the financial system and introduces a planned set of UK Sustainable Disclosure Requirements ("the SDR").

The 2023 Strategy sets out five broad objectives, with the overall aim of reinforcing and expanding the UK's position as a world leader on green finance and investment:



These objectives are addressed across three chapters in the 2023 Strategy; Chapter 1 sets out the UK approach to green finance, Chapter 2 focuses on how the government plans to align the UK financial system with UK climate and environmental goals and Chapter 3 discusses plans for green investment. This Need to know focuses on Chapter 2, which builds on the Roadmap by setting out plans to improve the availability of information and tools to enable market participants to assess effectively the climate and environmental risks and opportunities attached to potential investments.

The Sustainability Disclosure Requirements

A key aspect of the 2023 Strategy is to ensure that market participants have the information and data they need to manage risks and allocate capital. Central to this are the government's plans for the Sustainability Disclosure Requirements (SDR) which were first introduced in the Roadmap. The SDR aims to create a streamlined disclosure framework bringing together new and existing sustainability reporting disclosure requirements for UK businesses, the financial sector and investment products.

The UK has already taken a number of steps in developing the SDR, including the [Financial Conduct Authority \(FCA\)'s Listing Rule for premium and standard listed companies to make disclosures consistent with the TCFD Recommendations](#), and [government legislation to require certain companies and LLPs to include climate-related financial disclosures in the annual report](#). TCFD reporting requirements have also been introduced for asset managers, life insurers, FCA-regulated pension providers and occupational pension schemes.

The government aims to introduce the SDR in a way that complements the UK's wider non-financial reporting framework, minimises duplication with other forms of corporate reporting and gives businesses enough time to implement the new requirements. To this end, the 2023 Strategy confirms that the government will be carrying out a broader review of the UK's non-financial reporting framework, beginning with a call for evidence requesting stakeholder views on how best to achieve these aims.

The 2023 Strategy sets out plans to implement four key components of the SDR:

- Disclosure of transition plans.
- IFRS Sustainability Disclosure Standards developed by the ISSB.
- Company reporting of GHG emissions, nature-related financial risks and impacts, and physical climate risks.
- Fund labels and the FCA's approach to the SDR.

Disclosure of transition plans

In recent months, the focus on reporting of transition plans has increased, with investors and regulators expecting more detailed and transparent disclosures to reduce the risk of 'greenwashing'.

What are transition plans?

Transition plans typically set out:

- a) high-level targets used by the organisation to mitigate climate risks, including greenhouse gas reduction targets;
- b) interim milestones; and
- c) actionable steps the organisation plans to take to meet those targets.

This is crucial in setting out how organisations will drive change and adapt as the world moves towards a net zero economy

In 2022, the government set up the UK Transition Planning Taskforce (“the TPT”) to develop a ‘gold standard’ for private sector climate transition plans applicable to the UK. The TPT has subsequently consulted on a disclosure framework and related implementation guidance which is expected to be finalised in the summer of 2023.

The FCA’s Listing Rules already require listed companies and large asset owners and managers to disclose transition plans on a ‘comply or explain’ basis as part of their TCFD reporting. Aligned to this, the 2023 Strategy states that once the TPT framework is finalised, the government plans to consult on the introduction of requirements for the largest UK companies to disclose their transition plans, if they have any, on a ‘comply or explain’ basis similar to that for listed companies. Although the 2023 Strategy states that these requirements would only apply to “the UK’s most economically significant entities”, it does not set out a proposed threshold for determining which entities would fall into the scope of these requirements. Instead, the government will consider this once it has completed its review of the UK’s non-financial reporting framework. It also intends to work with other jurisdictions to encourage global adoption of mandatory transition plan disclosures.

Deloitte observation:

Transition plan disclosures will also form part of the forthcoming IFRS S2 *Climate-related Disclosures*, which will require disclosure of information that enables users to understand the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans. The ISSB’s [exposure draft IFRS S2 Climate-related Disclosures](#), published in March 2022, included specific disclosures about:

- how an entity is responding to significant climate-related risks and opportunities including how it plans to achieve any climate-related targets it has set.
- information regarding climate-related targets for these plans.
- quantitative and qualitative information about the progress of plans disclosed in prior reporting periods.

IFRS Sustainability Disclosure Standards developed by the ISSB

In 2022, the ISSB published exposure drafts of the first two international sustainability disclosure standards: S1 *General Requirements for Disclosure of Sustainability-Related Financial Information* and S2 *Climate-related Disclosures*. The ISSB is currently finalising these standards following the consultation period and the final standards are expected to be published in June 2023. These standards are expected to form a global baseline for sustainability reporting, improving the quality and consistency of reporting across jurisdictions and ensuring that investors are provided with globally comparable information prepared under a common reporting framework.

In its Roadmap, the government confirmed that it intends to adopt the ISSB sustainability standards for use in the UK once published. The 2023 Strategy reaffirms this intention and states that the government will carry out a formal assessment of the standards once they are published. Through this assessment the government aims to ensure that the standards endorsed for use in the UK are appropriate for UK companies. The government will also consider how to incorporate the standards into company law alongside its review of the UK’s non-financial reporting framework. The FCA’s Listing Rule requirements will be taken forward separately once the standards are endorsed for use in the UK.

The 2023 Strategy sets out plans to establish two advisory committees to support with these processes: the first will consider public policy while the second will be supported by the Financial Reporting Council (FRC) and will consider how the standards will sit alongside existing UK reporting requirements. These committees are expected to be established by the time the ISSB publishes its first two standards. The aim is for an endorsement decision on those standards to be made within 12 months of publication.

The 2023 Strategy also makes clear that the UK government and regulators will continue to support global adoption of the ISSB’s standards to drive international interoperability of sustainability reporting requirements and promote high quality sustainability reporting.

Company reporting of GHG emissions, nature-related financial risks and impacts, and physical climate risks

GHG emissions

Quoted companies have been required to disclose information about their greenhouse gas (GHG) emissions since 2013. For periods commencing on or after 1 April 2019, additional requirements were introduced (often referred to as the Streamlined Energy and Carbon Regulations, or SECR) to include further information about energy consumption and energy efficiency measures and to extend reporting requirements to unquoted companies and LLPs above the medium-sized company or LLP thresholds.

Under the SECR, quoted and unquoted companies and LLPs are required to report on their Scope 1 (direct) and Scope 2 (indirect) emissions, and unquoted companies and LLPs are also required to report on a very narrow aspect of Scope 3 relating to business travel. However, in general SECR does not require the reporting of upstream or downstream Scope 3 emissions (i.e. those generated in the value chain of an business which are not within the control of the business).

Deloitte observation:

For many businesses Scope 3 emissions make up the most significant component of their total carbon footprint, meaning that without Scope 3 reporting, there is a risk that investors using SECR disclosures in company reporting will not have a full picture of the company's impact on emissions. However, in practice, there are significant challenges with collecting reliable Scope 3 data.

In the 2023 Strategy the government recognises the information gap that exists for investors where Scope 3 information is not available, but it also acknowledges the difficulties around the methodologies used to obtain and report Scope 3 data, particularly for smaller entities in the value chain. The 2023 Strategy does not set out any plans to make Scope 3 disclosures mandatory, but it states that the government will engage with stakeholders to test updates to its [Environmental Reporting Guidelines](#), which provide guidance and information on how to report under SECR.

Deloitte observation:

For many businesses Scope 3 emissions make up the most significant component of their total carbon footprint, meaning that without Scope 3 reporting, there is a risk that investors using SECR disclosures in company reporting will not have a full picture of the company's impact on emissions. However, in practice, there are significant challenges with collecting reliable Scope 3 data.

Nature-related financial risks, dependencies and impacts

The Taskforce for Nature-Related Financial Disclosures (TNFD) was formally established in 2021 and aims to draw up a risk management and disclosure framework for organisations to report on nature-related risks, in a similar structure to that already used for TCFD but with a broader set of drivers that include resource exploitation, land and sea use change, pollution and invasive alien species as well as climate change. A [draft framework](#) has been published on the [TNFD website](#) and the final framework is expected to be published in September 2023. The 2023 Strategy states that the government plans to look at how the final TNFD framework could be incorporated into UK policy and legislation.

Physical risks

The 2023 Strategy observes that businesses are still finding it challenging to report on physical climate-related risks and states that in response, the government will develop adaptation metrics and guidance to help businesses approach mitigation and disclosure of physical risks in a more consistent manner and with possible quantification of the risks. It also notes that the government will encourage the development of adaptation metrics within the ISSB's sustainability standards.

Fund labels and FCA approach to SDR

The 2023 Strategy summarises the progress made by the FCA regarding disclosure requirements and investment labelling. In 2022, the FCA issued a [consultation paper](#) proposing a number of measures for asset managers, their UK-based fund products and portfolio management services to reduce the risk of 'greenwashing'. These included the introduction of sustainable investment labels, additional disclosure requirements and restrictions on the use of sustainability-related terms in product naming and marketing. In March 2023, the FCA published an [update](#) stating that it expects to finalise its Policy Statement on these measures in the third quarter of 2023.

UK Green Taxonomy

In its Roadmap, the government confirmed its intention to implement a UK Green Taxonomy to provide a clear framework for companies and investors to be able to determine whether an economic activity is environmentally sustainable (or "Taxonomy-aligned"). The 2023 Strategy reconfirms this intention and notes that the taxonomy will be developed drawing on those already developed in other jurisdictions (such as the EU Green Taxonomy) and with the input of the Green Technical Advisory Group (GTAG) to arrive at a system which is proportionate, usable and decision-useful. The government has also signalled its intent to work with other jurisdictions to maximise interoperability for companies that operate cross-border.

The government intends to consult on the Taxonomy in autumn 2023 and there will be a voluntary testing period of at least two years once the Taxonomy is finalised, before any mandatory reporting obligations are introduced. This testing period is designed to help identify and resolve any implementation challenges.

Deloitte observation:

The [EU Green Taxonomy](#) took effect in the EU for reports published in the year commencing 1 January 2022, reporting on activities undertaken in 2021. The environmental objectives set out in the Roadmap for the UK Green Taxonomy are the same as those for the EU Green Taxonomy. The implementation process in the EU will help inform the development of the UK Green Taxonomy and supporting guidance. A [Deloitte iGAAP in Focus](#) provides more detail on the EU Green Taxonomy, including the scope and applicability to non-EU companies.

More detail on the proposals for the UK Green Taxonomy can be found in a Deloitte [Need to Know – UK Government publishes Greening Finance: A Roadmap to Sustainable Investing](#).

Investor stewardship

The 2023 Strategy reiterates the importance of investor stewardship in ensuring the responsible allocation of capital resources to create sustainable long-term value. It notes that in the fourth quarter of 2023, the FRC, alongside the FCA, Department for Work and Pensions and the Pensions Regulator, will review the regulatory framework for effective stewardship, including the Stewardship code. This review will consider:

- a) ways to evaluate and communicate the efficacy of stewardship activity and outcomes;
- b) the need for a common language for stewardship, for example, defining engagement;
- c) the role of systemic stewardship in supporting the achievement of positive sustainability outcomes;
- d) ways to align expectations, and reporting that is proportionate and not duplicative; and
- e) evolving expectations for stewardship in asset classes other than listed equity.

Further information

If you have any questions about the 2023 Green Finance Strategy, please speak to your usual Deloitte contact.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature.

[GAAP in the UK on DART](#) allows access to the full IFRS Standards, linking to and from:

- Deloitte's authoritative, up-to-date, GAAP in the UK manuals which provide guidance for reporting under UK GAAP and IFRS Standards
- Model financial statements for entities reporting under UK GAAP and IFRS Standards

In addition, our [sustainability reporting](#) volume of GAAP in the UK provides guidance on disclosure requirements and recommendations which businesses must consider in light of the broader environmental, social and governance matters which can significantly drive the value of an entity.

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