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UK Doubles-Down on Sustainable Finance

Regulatory & Compliance on **November 18, 2024**

On 14 November 2024, Rachel Reeves set out in her first Mansion House Speech that "sustainable finance" was to be one of the UK's five priorities in the government's Financial Services Growth and Competitiveness Strategy (the "**Strategy**").

On the same day, representing HM Treasury at COP29, Growth Minister Lord Spencer Livermore laid out the UK's commitment to making the UK the sustainable finance capital of the world on the 'Finance, Investment, and Trade Day' in Baku, Azerbaijan.

A Call for Evidence on the government's Strategy, including on this sustainable finance commitment, has been published with a short deadline of 12 December 2024, with the final Strategy to be published in Spring 2025. HM Treasury has also sent remit letters to the Financial Policy Committee and others (including the FCA) confirming that sustainable finance as an area of the UK government's policy in financial services is one that the Financial Policy Committee, the FCA and other relevant committees should support.

We set out below a summary of the two key announcements for asset managers within the Strategy and note the other developments:

UK Green Taxonomy – its value case under consultation

- On 14 November 2024, the UK government's HM Treasury published a consultation to gather views on the value case for a UK Green Taxonomy ("**UK Taxonomy**") as part of the UK's wider sustainable finance framework ("**Consultation**").
- The objective of this Consultation is to ascertain whether a UK Taxonomy would be an additional and complementary measure to existing policies in meeting the objectives of mitigating greenwashing and channeling capital in support of the government's sustainability objectives. To this end, the Consultation seeks to gather views on any market and regulatory use cases for a UK Taxonomy which would contribute to these objectives, focusing on its usability and key design features, while not seeking detailed input on activity-level standards or broader climate and environmental strategies beyond sustainable finance.

- With a significant number of taxonomies around the world now in place, the UK government is clearly aiming to benefit from hindsight of lessons learnt and the usefulness of the other taxonomies that have been launched.
- The Consultation closes on 6 February 2025.

ESG Ratings Regulation – legislation and consultation set in motion

- Also on 14 November 2024, the UK government launched a consultation on draft legislation to bring ESG ratings providers within the regulatory regime, following on the previous government's consultation on the same. The UK government has published its feedback response setting out information on the scope of the regulatory regime and the ESG ratings activities proposed to be included – as well as excluded.
- The draft legislation has also been published with a deadline for comments by 14 January 2025.
- The consultation has been welcomed by the FCA, who set out in their announcement that bringing ESG ratings providers into regulation is "widely supported by industry". The FCA also sets out that their intention is to consult on proposals for the future regulatory regime in 2025, following the finalisation of the legislation.
- As with the EU ESG Ratings Regulation, asset managers will need to review the draft legislation and follow-on FCA proposals to ascertain whether any publication or use of ratings within investment strategies, whether proprietary or through a third party, could lead to any regulatory obligations.

Other sustainable finance areas in the Strategy

The other areas of the sustainable finance commitments in the Strategy are:

- co-launching a Transition Finance Council with the City of London Corporation;
- commitment to consult on the UK sustainability reporting standards, which are to be based on the ISSB (the UK government has elsewhere published its intention to make endorsement decisions on the ISSB's two main standards by Q1 2025); and
- integrity principles to be launched on the voluntary carbon and nature markets, ahead of a consultation.

With sustainable finance firmly prioritised, asset managers and all other financial market participants will need to keep watch as the various workstreams progress for any impact. They will also need to monitor whether the UK developments are either found to be interoperable or divergent with EU and US legislation and expectations.

Please reach out to UKReg@proskauer.com for further questions.

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