

# GREEN FINANCE ROADMAP - A SYNOPSIS

**There is no escaping COP26, the global climate conference taking place in Glasgow. In advance of this much heralded event, the UK Government has issued a roadmap, outlining the way ahead for greening the UK finance industry. At 48 pages its not a short or an easy read, so this summary aims to detail the main points and how it impacts advisers and fund buyers.**

The overall aim is to provide the information that investors and businesses need to properly understand the full range of environmental risks they face and create; to tackle greenwashing by defining what is sustainable; and to ensure that investors have access to reliable, high quality and intentionally comparable, and material ESG information. Three phases are identified:

1. Informing investors.
2. Acting on the information – embedding in financial decisions
3. Shifting financial flows to align with the UK Government's net zero commitments.

The roadmap covers phase one and is directed at companies and asset managers. An update will be issued in 2022 following further consultation. There are three main elements of the roadmap:

- Sustainability Disclosure Requirements
- UK Green Taxonomy
- Stewardship



## Sustainability Disclosure Requirements

Asset managers will be required to make a number of investment product disclosures, which will form the basis of a sustainability investment labelling regime based on the sustainability characteristics of funds. This will include metrics and targets, strategy details and risk management plans. In addition, asset managers will need to disclose their Net Zero Transition plans which will be required to align with the UK Government's Net Zero commitments. As part of the SDR, the FCA will also introduce sustainable investment labels that allow consumers to compare the impacts and sustainability of their investments.



## UK Green Taxonomy

Like its European counterpart, the taxonomy will require funds to state the extent of fund investments in 'green' activities. These include:

- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems
- Sustainable use and protection of water
- Circular economy
- Climate change mitigation
- Climate change adaptation

In addition, activities will not count as 'green' unless they also qualify as doing 'no significant harm'. It's important to note that ALL funds will be required to report on their exposure to green activities regardless of whether they are labelled as sustainable or not.



## Stewardship

Most asset managers already engage in activities commensurate with their responsibilities as stewards of capital, but there will be additional requirements for transparency and a focus on the transition to Net Zero.

## What this means for you

The direct impacts on advisers and fund buyers are limited, at least in the short term, but the roadmap gives a clear indication of the direction of travel. There are also several major implications for you – most notably the need to understand and explain the new reporting to clients, and to incorporate it into your decision making. According to the roadmap, 70% of the public want their money to go towards making a positive difference to people or planet. Investors will be asking you for these sort of investments and being able to respond positively will be critical in the years ahead. Furthermore, when the sustainability investment labelling regime comes into force, you will need to be able to understand what function different types of sustainable investment perform and how they relate to the needs of investors.

## How can Square Mile help?

We can help you get ahead of the game as we have already identified the different types of sustainable investor and what type of funds might be suitable for them.

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