

ESG regulation in UK

What is the current ESG legislation landscape?

The UK Government confirmed it will retain the EU Taxonomy Regulation framework, however, there is yet no clear indication to the extent to which UK law will align with EU law in the matter.

There is no overarching piece of UK legislation that covers ESG. Various regulations cover aspects of ESG and include laws such as the UK Corporate Governance Code 2018 (UKCGC), Companies Act 2006, Climate Change Act 2008 (CCA) and Disclosure Guidance and Transparency Rules (DTRs).

The most recent laws in the field came into effect on April, 2022. These are:

- The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022
- The Limited Liability Partnerships (Climate-related Financial Disclosure) Regulations 2022
- The laws cover all UK registered companies and Limited Liability Partnerships (LLPs) with over 500 having annual revenue of more than £500 million

- The law required the companies to produce a sustainability statement on climate-related disclosures in their annual strategic or energy and carbon reports.

Some of the specific metrics regarding ESG regulation include the following:

- Greenhouse gas reporting - Mandatory for companies since 2013
- Energy use - Large businesses must disclose their annual energy use and greenhouse gas emissions in the UK. Certain companies need to report on their global energy use.
- Gender Pay Gap - Employers with more than 250 employees must comply with gender pay gap reporting regulations.
- Modern slavery - UK organisations with an annual turnover of £36 million or more need to publish an annual statement on the steps they take to prevent modern slavery.

The Financial Reporting Council asks that UK public interest entities report against the Task Force on Climate-related Financial Disclosures (TSFD)'s recommended disclosures and the Sustainability Accounting Standards Board metrics.

The Clean Growth Strategy initiative aims to help businesses reduce energy use by at least 20% by 2030.

The UK has minimum energy efficiency standards in place:

- Commercial properties let to others require a minimum Energy Performance Certificate rating of E (introduced in 2018)
- The most common only used certification systems in UK buildings include BREEAM and LEED

What ESG changes are in the pipeline?

The Government has announced the establishment of a new and improved audit regulator ARGAs. The regulator will replace the FRC and could propose stronger ESG reporting standards.

From August 2nd, 2022, Financial advisers need to incorporate ESG considerations within their suitability requirements for investments according to the Markets in Financial Instruments Directive II (MiFID II).

ESG changes that are coming in the future include the following approved schemes:

- > Commercial properties let to others will need to have a minimum Energy Performance Certificate rating of B by April 1st, 2030
- > The Future Homes Standard will require a 75-80% reduction in emissions in new build homes by 2025.
- > Gas boilers will be banned in new homes.

The Government has ran public consultation regards to changes to the building and construction planning system. These changes could focus more on design and sustainability, meaning new rules for buildings. However, the proposals have yet been launched into a policy.

The FCA has consulted the investment industry on the SDR (UK's version of EU's Sustainable Finance Disclosure Regulation) and is considering to dovetail with EU's SFDR disclosure regime.

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Email

sales@drooms.com →