



ESG Forecast 2022

January 2022

The UK government has recommended that, in view of how soon some of its SDR requirements are going to start applying, corporates (and others caught by the SDR) start taking steps now to build their disclosure capabilities and refine their data.

Even if you think it doesn't apply to you because of thresholds or because you are working with institutions, think again. You may very well get caught up in it because of consumer demand.

Regulators, and investors, as was seen in 2021, are increasingly focusing on greenwashing. In this regard asset managers, who have grappled with new disclosure obligations under the EU's disclosure framework since March 2021, have even more challenges to face in 2022. While compliance with detailed product disclosure obligations will not hit until the beginning of 2023, other reports are required in 2022, including the beginning of mandatory UK TCFD reporting for large asset managers.

In the **UK the Greening Finance Roadmap**, sets out the UK's ESG programme the key components of which are:

- A regime for the integrated disclosure of climate and other sustainability issues for UK companies, the financial sector and creators of investment products (the SDR);
- The UK Green Taxonomy;
- An increased expectation for investor engagement with investee companies on ESG issues.

Unlike the EU's SFDR, the UK SDR framework for disclosures is more widely framed than just the asset management / investment adviser sector.

The UK SDR is intended to incorporate a wider range of entities (meaning UK registered and UK listed companies) in having to provide sustainability disclosures under forthcoming international ISSB standards and reporting on environmental impact using the forthcoming UK Green Taxonomy, as well as the asset manager and asset owner disclosure and labelling regime proposed in the FCA's Discussion Paper 21/4 (and which itself builds on TCFD and ISSB reporting standards).

The UK government has said (DP 21/4) that it will consult on the SDR for corporates in 2022 while the EU has put back the date of application of the SFDR Level 2 measures by six months, from 1 January to 1 July 2022.

The Roadmap makes it clear that, in 2022, standard listed companies will be required to disclose in line with the TCFD recommendations, as is also the case for the large asset managers (see below for more on TCFD disclosures).

It is anticipated that, once the ISSB climate standard has been developed and incorporated into the UK SDR regime, UK companies will have to report in line with the ISSB climate standard (and other ISSB sustainability standards, once developed), as well as reporting on their alignment with the UK Green Taxonomy. The timeline in the Roadmap envisages that happening in one to three years.

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Obviously while some organisations will have started their preparations or building on what they have already been doing for their EU business, others will not yet have fully prepared.

The Financial Reporting Council has undertaken research to produced guidance and additional information on preparation and the requirements see:

https://www.frc.org.uk/getattachment/09b5627b-864b-48cb-ab53-8928b9dc72b7/FRCLab-TCFD-Report_October_2021.pdf

Under the FCA's proposals, most UK asset managers (i.e. UK MiFID managers, AIFMs and UCITS ManCos) and asset owners (i.e. life insurers and FCA regulated pension providers) **will be expected to report annually on TCFD compliance at both an entity and at a product level.**

The asset manager and asset owner obligations is being phased in as follows:

- from 1 Jan 2022 large UK asset managers (i.e. enhanced SMCR firms that have AUM of more than 50 billion) and large asset owners (i.e. FCA regulated life insurers and pension providers that have £25 billion or more assets under management) and the first annual report will be due by 30 June 2023;
- from 1 Jan 2023 all other UK asset managers and asset owners not excluded under the £5 billion threshold (which excludes asset managers and asset owners with less than £5 billion AUM from the disclosure requirements) and the first annual report due by 30 June 2024. Even if an asset manager does not fall within the first phase of disclosure, the impact on large asset owners – i.e. the large pension funds and life insurers – may have an indirect impact on all asset managers in the shape of potentially significant data requests received from those asset owners.

Taking an approach consistent with that for TCFD reporting for asset managers, the FCA has published its discussion paper on its proposed product classification, labelling and disclosure regime under the UK SDR: product labelling and disclosure for asset managers . This establishes:

- Five product labels with different eligibility criteria (ranging from “Sustainable – impact” (being those with the objective of providing a net E or S impact) to “Not promoted as sustainable”);
- Product level consumer-facing disclosures; and
- Detailed product and entity-level disclosures for institutional investors.

The next stage is for the FCA to publish a consultation paper in Q2 2022 with detailed rules for further consultation



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