Key UK ESG Developments for Asset Managers in 2025

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The UK became in 2019 the first major world economy to commit to reach net zero greenhouse gas emissions by 2050. In parallel, the UK intends to become a world leader in sustainable finance and has adopted an ambitious ESG legislative agenda.

This update summarises the key developments in 2025 for UK ESG regulation, together with implications for asset managers.

UK Sustainability Reporting Standards. The UK government has signaled its intention to adopt Sustainability Reporting Standards ("SRS"), based on the International Sustainability Standards Board's ("ISSB") IFRS S1 and S2 standards. These deal with general sustainability and climate-specific disclosures.

IFRS S1 sets out the core requirements for sustainability-related disclosures, covering all sustainability-related risks and opportunities that may impact a company's prospects. IFRS S2 covers physical and transition climate-related risks and opportunities that are reasonably expected to affect an entity's cash flows, access to finance or cost of capital over the short, medium and long term. These disclosures will support the users of general financial reports to understand the impact of sustainability factors on financial performance.

In December 2024, the Sustainability Disclosure Technical Advisory Committee, which was established by the government to review the inclusion of ISSB Standards in UK law, formally recommended adoption of the standards with only minor amendments. The UK government will consult on drafts of the UK SRS in the first quarter of 2025.

Once the SRS are adopted, the Financial Conduct Authority ("FCA"), as the UK Listing Authority, will consult in 2025 on requiring UK-listed companies to report under the SRS. The FCA will likely address the need for companies to adopt climate-related transition plans as part of its proposed 2025 consultation on UK SRS. The government will also consult on whether to apply SRS to other "economically significant" companies, which is likely to encompass large private companies. This will presumably replace existing requirements for UK companies to report under the Task Force on

Climate-Related Financial Disclosures' ("TCFD") standards, noting that the TCFD is now disbanded, with its standards incorporated into the IFRS S2 standards.

The FCA currently requires large asset managers (those with over £5 billion of assets under management) to make climate-related disclosures under the TCFD framework at the level of the firm and their funds. The FCA will presumably replace this TCFD reporting regime when the UK adopts the SRS, given that TCFD standards are now incorporated into IFRS S2. However, it is not clear at this early stage whether the FCA will apply future topical ISSB standards to asset managers, which will deal with additional topics, such as nature-related financial disclosures. In any event, the ISSB is unlikely to launch these new topical standards before 2026.

Sustainability Disclosure Regulation. The UK Sustainability Disclosure Regulation ("SDR") is mainly directed at UK managers of UK funds. It contains a sustainability labelling regime, with criteria for use of defined sustainability labels for products marketed to retail investors, namely "sustainability focus", "sustainability improvers", "sustainability impact", and "sustainability mixed goals".

SDR requires initial and ongoing disclosure requirements for an asset manager marketing a UK fund to UK retail investors, where the fund uses one of the above labels. There are reduced disclosure requirements where the asset manager markets a fund which does not use a label, but where its name incorporates certain ESG terms (including "impact", "responsible" or "green"), or where these ESG terms are included in a financial promotion about the fund's sustainability characteristics.

These rules have been in force since December 2024, with 2025 being the first financial year in which the reporting obligations apply. Large UK asset managers will need to make new entity level disclosures from 2 December 2025. The FCA has consulted in 2024 on whether to extend the SDR regime to UK firms providing portfolio management services, and is expected to release proposed rules in the second quarter of 2025. The UK government has also indicated that it will consult on applying SDR to funds marketed in the UK under the Overseas Funds Regime, which are principally EU UCITS (retail) funds.

UK anti-greenwashing rule. The FCA's anti-greenwashing rule applies to all FCA-authorised firms, including asset managers, which make sustainability-related claims about their products and services, to retail and professional clients. The rule applies to all communications about financial products or services which refer to environmental or social characteristics of those products or services, in the context of marketing material or any other communication with investors. Any such communications must be consistent with the actual sustainability characteristics of the product or service, and be fair, clear and not misleading.

In its quarterly consultation paper published in December 2024, the FCA announced a consultation on amending the anti-greenwashing rule, to make clear that the rule applies to **all** communications by authorized firms to their clients, rather than just financial promotions.

Other developments. The UK government published in November 2024 a response to its consultation on a regime to govern ESG ratings providers, together with draft legislation. The legislation envisages the FCA regulating ESG rating agencies, which will impose minimum standards on rating agencies on topics such as good governance, independence and transparency. Once the government has finalized the legislation, the FCA intends to consult on its own rules under the regime later in 2025.

The UK government is also currently consulting on introducing a "Green Taxonomy" in UK law. A UK Green Taxonomy would aim to facilitate sustainable investment in the UK, by setting formal criteria for environmentally sustainable activities, similar to the EU Taxonomy which entered into force in 2020. There are open questions as to the value of a separate UK Taxonomy and its degree of inter-operability with the EU Taxonomy. The consultation closes in February 2025.

In addition, the Transition Finance Market Review published its final report in October 2024, on scaling transition finance to facilitate an economy-wide transition to net zero, consistent with the 2015 Paris Agreement. In particular, the report recommends the introduction of a Transition Finance Classification System, to guide financial institutions on how to define and assess "transition activities" and "transitioning entities". The report also envisages publication of further Guidelines for Credible Transition Finance, as a voluntary, principles-based framework to support financial institutions develop their own transition finance frameworks.

We further expect the FCA to release finalized disclosure requirements for debt securities issuers in 2025, following a consultation in 2024. Under the new rules, an issuer will likely be required to state in its prospectus if its securities are marketed as green, social, sustainable or sustainability linked. An issuer may provide voluntary supporting information on this basis, such as information on eligible projects it expects to be financed with the proceeds of the securities.

Going forward. Heading into 2025, the FCA has indicated that it will continue engaging with industry to balance proportionate regulation with avoiding excessively burdensome obligations for companies. In this context, asset managers should stay alert to the evolving legal landscape, particularly to the increasing global prevalence of ISSB standards as the foundation for sustainability reporting regimes in the UK as well as, for example, Australia, Hong Kong and Singapore. Asset managers should also ensure that they comply with the UK sustainability framework outlined above.

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