

SIGNIFICANT DEVELOPMENTS IN 2023

GREEN FINANCE STRATEGY

In March, the UK Government published its 2023 Green Finance Strategy,¹ updating its 2019 document, aiming “to strengthen the UK’s position at the forefront of the rapidly growing global green finance market, while driving private investment to deliver our energy security, net zero and environmental objectives.”

Key announcements from the strategy include:

- A review of the regulatory stewardship framework – including the Stewardship Code – which will be conducted by the FRC, working with FCA, DWP and TPR.
- The Government commits to consulting on the introduction of requirements for the UK’s largest companies to disclose their transition plans, supported by the Transition Plan Taskforce framework.
- Government to launch a call for evidence on Scope 3 greenhouse gas (GHG) emissions reporting, to better understand the costs and benefits of producing and using this information. Call for evidence was launched in October and closed in December.
- Government will deliver a UK Green Taxonomy – a tool to provide investors with definitions of which economic activities should be labelled as green. After the Taxonomy has been finalised, Government will initially expect companies to report voluntarily against it for at least two reporting years, after which it will explore mandating disclosures.

CORPORATE GOVERNANCE CODE

In May, the Financial Reporting Council announced a limited revision of the Corporate Governance Code,² following the Government’s response to the White Paper, “Restoring Trust in Audit and Corporate Governance”,³ which identified areas of reform related to a particular focus on directors’ responsibilities for internal control, risk, audit and corporate reporting.

Following feedback and engagement with industry, the FRC announced in November⁴ that it would be only taking forward a small number of the original 18 proposals set out in the consultation and to stop development of the remainder. At the time, the government wrote to the FRC to update their remit and outlined that while their core responsibility is still to enhance public trust and

¹ HM Government, ‘Mobilising Green Investment 2023: Green Finance Strategy’ HM Government (2023) <<https://assets.publishing.service.gov.uk/media/643583fb877741001368d815/mobilising-green-investment-2023-green-finance-strategy.pdf>>.

² Financial Reporting Council ‘UK Corporate Governance Code: Consultation document’, Financial Reporting Council (2023) <https://media.frc.org.uk/documents/Corporate_Governance_Code_Consultation_document.pdf>.

³ Department for Business, Energy & Industrial Strategy ‘Restoring trust in audit and corporate governance’, Department for Business, Energy & Industrial Strategy (2022) <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1079594/restoring-trust-in-audit-and-corporate-governance-govt-response.pdf>.

⁴ Richard Moriarty ‘Statement: FRC policy update’, Financial Reporting Council (2023) < <https://www.frc.org.uk/news-and-events/news/2023/11/statement-frc-policy-update/>>.

confidence in the quality of audit, corporate reporting and governance, this should be done in a way that supports the UK's economic growth and international competitiveness.

On 22 January 2024, the FRC published its revision⁵ to the Code. The changes made have been limited with the focus on promoting smarter regulation and better governance through revisions to the Code in Internal Controls. The comply or explain regime means companies do not have to adhere strictly to the rules if they can provide a rationale as to why.

The new 2024 Code will apply to financial years beginning on or after 1 January 2025. Until then the 2018 Code will apply.

FCA PRIMARY MARKETS REVIEW

Due to concerns around the long-term decline in number of UK listed companies, which has fallen by 40% since 2008, the FCA launched a consultation⁶ in May proposing to replace standard and premium listing share categories with a single listing category for commercial company issuers of equity shares.

Among the new proposals, asset owners were concerned with a new dual class share structure, the removal of shareholder approval for significant transactions and related party transactions, considering these changes would weaken shareholder rights by removing some important checks and balances.

In December, the FCA responded to the consultation,⁷ publishing detailed rules for a simplified listing regime with a single listing category. Whilst the FCA have acknowledged asset owners' concerns, it has broadly maintained the approach set out in the first consultation.

VOTE REPORTING TEMPLATE

The Vote Reporting Group, established by the FCA in November 2022 to address the recommendations of the Taskforce on Pension Scheme Voting Implementation (TPSVI), published a consultation and discussion paper⁸ in June proposing a voluntary, standardised and comprehensive 'vote reporting template' for asset managers to communicate to asset owner clients on their voting activity.

The consultation closed in September and the FCA, acting as Secretariat, will be reviewing responses and submitting a summary to the Vote Reporting Group.

⁵ Financial Reporting Council 'UK Corporate Governance Code', Financial Reporting Council (2024) <https://media.frc.org.uk/documents/UK_Corporate_Governance_Code_2024_FF6VFzi.pdf>.

⁶ Financial Conduct Authority 'Primary Markets Effectiveness Review: Feedback to DP22/2 and proposed equity listing rule reforms', Financial Conduct Authority (2023) <<https://www.fca.org.uk/publication/consultation/cp23-10.pdf>>.

⁷ Financial Conduct Authority 'Primary Markets Effectiveness Review: Feedback to CP23/10 and detailed proposals for listing rules reforms', Financial Conduct Authority (2023) <<https://www.fca.org.uk/publication/consultation/cp23-31.pdf>>.

⁸ Vote Reporting Group 'Vote Reporting: A consultation and discussion paper from the Vote Reporting Group', Vote Reporting Group (2023) <<https://www.fca.org.uk/publication/consultation/vote-reporting-consultation-discussion-paper.pdf>>.

FCA DIVERSITY AND INCLUSION FRAMEWORK

In September, the FCA launched a consultation⁹ on diversity and inclusion (D&I) in the financial sector. They set out proposals for what they describe as a flexible and proportionate D&I regulatory framework for FCA firms. The stated objectives are to achieve healthier firm cultures, reduce groupthink, increase diversity of talent and a greater understanding of and provision for diverse consumer needs.

The proposals would see all firms required to meet minimum standards to carry on regulated activities by embedding rules around diversity and inclusion into fitness and propriety rules, the code of conduct and the threshold conditions. In addition, large firms would have additional reporting and disclosure requirements as well as requirements to create evidence-based D&I strategies and set targets to drive progress. The consultation closed in December.

TASKFORCE ON NATURE-RELATED FINANCIAL DISCLOSURES

In September, the Taskforce on Nature-related Financial Disclosures (TNFD) published its final Recommendations¹⁰ for nature-related risk management and disclosure. Additional guidance was also released, aimed at helping market participants get started with integrated assessment and corporate reporting related to nature.

The Recommendations aim to inform better decision making by companies and capital providers, intended to serve as a starting point for companies to begin identifying, assessing and disclosing the nature-related issues in their own time, and subject to their own strategy, materiality, cost and capability considerations.

The TNFD will now encourage and support voluntary market adoption of the Recommendations, and it will track voluntary market adoption on an annual basis through an annual status update report beginning in 2024.

TASKFORCE ON SOCIAL FACTORS

In October, the Taskforce on Social Factors (TSF) published a guide¹¹ including more than 30 recommendations aimed at providing pension trustees with the tools to identify and monitor social risks and opportunities, while developing consensus in approaching these across the pension

⁹ Financial Conduct Authority ‘Diversity and inclusion in the financial sector – working together to drive change’, Financial Conduct Authority (2023) <<https://www.fca.org.uk/publication/consultation/cp23-20.pdf>>.

¹⁰ Taskforce on Nature-related Financial Disclosures ‘Recommendations of the Taskforce on Nature-related Financial Disclosures’, Taskforce on Nature-related Financial Disclosures (2023) <https://tnfd.global/wp-content/uploads/2023/08/Recommendations_of_the_Taskforce_on_Nature-related_Financial_Disclosures_September_2023.pdf?v=1695118661>.

¹¹ Taskforce on Social Factors ‘Considering Social Factors in Pension Scheme Investments: Guide from the Taskforce on Social Factors’, Taskforce on Social Factors (2023) <https://www.taskforceonsocialfactors.co.uk/siteassets/shared-media/images/uk_social_factors_consultation_v4.pdf>.

investment landscape. The guide and its recommendations (which are explored in Section 7 of this document) were object of an industry consultation which closed on 1 December 2023.

The TSF was launched in February 2023 as a result of the DWP consultation on the consideration of social risks and opportunities by occupational pension schemes. The Taskforce aims to support pension scheme trustees and the wider pensions industry with some of the key challenges around managing social factors, including the identification of reliable data and metrics.

TRANSITION PLAN TASKFORCE

In October, the Transition Plan Taskforce (TPT) - established by Government in 2022 to develop the 'gold standard' for climate transition plans - published its finalised Disclosure Framework¹² and supporting guidance. The package of publications was designed to ensure that entities take a 'strategic and rounded approach' in developing a transition plan that explains how climate-related targets will be met, how climate-related risks are managed, and how it contributes to achieving net zero.

The TPT also published a range of supporting implementation guidance, including a sector summary that outlines decarbonisation levers and metrics and targets for 40 sectors, which was open for industry comment until 24 November. In November, the TPT published seven pieces of sector deep dive guidance for consultation - covering asset managers, asset owners, banks, food & beverage, electric utilities & power generators, metals & mining, and oil & gas - which closed at the end of 2023.

SUSTAINABILITY DISCLOSURE REQUIREMENTS

In November, the Financial Conduct Authority (FCA) announced its Sustainability Disclosure Requirements¹³ and an investment labels regime, with the aim to support the UK as a leader in sustainable investment and to protect consumers by enhancing the credibility of the market.

The FCA will introduce an anti-greenwashing rule for all authorised firms to make sure sustainability-related claims are fair, clear and not misleading, which comes into force from 31 May 2024. Product labels to help investors understand what their money is being used for, based on clear sustainability goals and criteria, can be used by firms from 31 July 2024. Naming and marketing requirements, so products cannot be described as having a positive impact on sustainability when they do not, will come into effect from 2 December 2024.

¹² Transition Plan Taskforce 'Disclosure Framework', Transition Plan Taskforce (2023) <https://transitiontaskforce.net/wp-content/uploads/2023/10/TPT_Disclosure-framework-2023.pdf>.

¹³ Financial Conduct Authority 'Sustainability Disclosure Requirements (SDR) and investment labels', Financial Conduct Authority (2023) <<https://www.fca.org.uk/publication/policy/ps23-16.pdf>>.