

IN-DEPTH

Sustainable Finance Law

UNITED KINGDOM



LEXOLOGY

Sustainable Finance Law

EDITION 4

Contributing Editor

Ferdisha Snagg

Cleary Gottlieb Steen & Hamilton LLP

In-Depth: Sustainable Finance Law (formerly The Sustainable Finance Law Review) provides a practical global overview of the current state of sustainable finance and related regulatory efforts across multiple jurisdictions. It also tracks the evolution of sustainable finance and outlines key trends for the near future. Topics examined include sustainable disclosure requirements and taxonomies, sustainable finance instruments and incentives, and much more.

Generated: November 24, 2025

The information contained in this report is indicative only. Law Business Research is not responsible for any actions (or lack thereof) taken as a result of relying on or in any way using information contained in this report and in no event shall be liable for any damages resulting from reliance on or use of this information. Copyright 2006 - 2025 Law Business Research

 LEXOLOGY

Explore on [Lexology](#) 

United Kingdom

Ferdisha Snagg

Cleary Gottlieb Steen & Hamilton LLP

Summary

INTRODUCTION

YEAR IN REVIEW

REGULATION AND POLICY

SUSTAINABLE FINANCE INSTRUMENTS

SUSTAINABLE DISCLOSURE REQUIREMENTS AND TAXONOMY

ESG DATA, RATINGS AND REPORTING

SUSTAINABLE FINANCE INCENTIVES

CARBON MARKETS AND CARBON TRADING

GREEN TECHNOLOGY

CLIMATE CHANGE, NATURE AND BIODIVERSITY IMPACTS

GREENWASHING AND CLIMATE LITIGATION RISKS

OUTLOOK AND CONCLUSIONS

ENDNOTES

Introduction

Following the departure of the UK from the EU, and the UK government's decision not to adopt the EU's sustainable finance framework, it may be tempting to unfavourably compare the ambition and reach of the UK's sustainable finance policies to the EU's. In reality, however, having left the EU, the UK government has sought to strengthen the UK's regulatory regime relating to climate, the environment and other sustainable development issues. The government and financial services regulators have undertaken a multifaceted programme of sustainable law and regulation that aims, among other things, to transform the UK into a net zero aligned economy, and promote the UK as a leading global financial centre for green and sustainable investment.

The foundations of this evolving framework are the UK's international commitments. The UK made various climate-change related commitments under the 1997 Kyoto Protocol and the 2015 Paris Agreement that led to the UK setting itself a binding target to reach net zero by 2050.^[1]

The government and financial services regulators have also been strong proponents of international standardisation of environmental, social and governance (ESG) rules, such as in relation to corporate disclosure requirements and ESG ratings regulation.

Another distinctive characteristic of the UK's approach to sustainable finance regulation is the space left for market-led developments. This is apparent, for example, from the role that voluntary industry standards play (e.g., on sustainable finance instruments, transition plan disclosures, ESG ratings, and voluntary carbon markets), or the prominence of net zero industry alliances and the acknowledgement that competition law should not unduly prevent collaboration amongst market participants in relation to climate change.

It remains to be seen whether the July 2024 elections, which resulted in a change in government, will result in a step change in UK sustainable finance policy. The Labour government continues to emphasise the transition to net zero in its economic strategy. Chancellor of the Exchequer Rachel Reeves made clear in her July 2025 Mansion House speech that in the sphere of sustainable finance, the government was determined to support investment into the net zero transition by working 'with regulators through the Transition Finance Council to capitalise on the £200 billion opportunity of the global transition to net zero'.

Year in review

2025 has been characterised by extensive consultations and regulatory reviews in relation to sustainable finance in the UK. Market activity in sustainable finance instruments improved as compared to 2024, various policy and regulatory initiatives were announced, implemented, or came into force whilst some others have been cancelled

As far as disclosure and reporting is concerned, key aspects of the FCA's sustainability disclosure and labelling regime – namely, product label, anti-greenwashing and certain naming/marketing rules have come into force since 2 December 2024, and in its September 2025 quarterly consultation, the FCA has since tabled minor adjustments

to clarify rule changes relating to index funds, and to give firms greater flexibility on sustainability product reports.^[2] Further, a number of initiatives and/or consultations have been announced, many with a view to achieving international standardisation. The UK's plan to incorporate into UK law the International Sustainability Standards Board (ISSB) sustainability reporting standards that has recently undergone a first consultation phase that ended on 17 September 2025 that sought views on the exposure drafts of the UK Sustainability Reporting Standards (UK SRS), which are based on ISSB standards. Likewise on 17 September 2025, the Department for Energy Security and Net Zero recently concluded its consultation on transition plan disclosures, and nature-related financial disclosures continue to be advanced by the Taskforce on Nature-related Financial Disclosures with the support of the UK government. Another important regulatory development is the publication of draft legislation to regulate ESG ratings providers. In May 2025, the FCA concluded a voluntary survey of ESG ratings providers to ensure future regulation is proportionate and tailored to market needs. However, the UK government confirmed on 15 July 2025 that it will no longer proceed with a UK Green Taxonomy, marking the end of the proposed classification tool which would have provided a framework to define economic activities that support ESG or sustainability objectives.

Nevertheless, the Labour government remains committed to fostering sustainable investment, including through various pension reforms and the adoption of a Financial Services Growth & Competitiveness Strategy.^[3] In July 2025, the government published the outcomes to its Financial Services Growth and Strategy call for evidence.^[4] A priority sector for the Labour government is green technology, especially related to the energy sector. Further, the publication of principles for voluntary carbon and nature market integrity as well as a recently concluded 2025 consultation^[5] reflects the government's commitment to voluntary carbon markets (despite the difficulties those markets have experienced in recent years, which led to a sharp drop in market volume).

In terms of climate-change related litigation, there has not been in 2025 a UK case of similarly high profile as the 2023 derivative claim that ClientEarth brought against Shell; however, 2025 brought a number of international developments that may influence UK based climate litigation going forward, including before international tribunals as well as courts of other states. Another key risk for corporates to consider and address is greenwashing, which is becoming an increasing priority of regulatory enforcement and also an avenue for private litigants.

Regulation and policy

The UK's green finance policy

The UK has set a legislative target to reach 'net zero' by 2050. Section 1(1) of the Climate Change Act 2008, as amended by the Climate Change Act 2008 (2050 Target Amendment) Order 2019,^[6] provides that 'it is the duty of the Secretary of State to ensure that the net UK carbon account for the year 2050^[7] is at least 100 per cent lower than the 1990 baseline'. This climate target reflects the UK's international commitments under the Paris Agreement, which has the ambition to limit any increase in global surface temperature to 1.5°C above pre-industrial levels by the end of the century.^[8]

The UK government has published several policy documents setting out its strategy on sustainable finance, including 'Transforming finance for a greener future: 2019 green finance strategy',^[9] 'Greening Finance: A Roadmap to Sustainable Investing (the 2021 Roadmap)',^[10] and 'Mobilising Green Investment: 2023 Green Finance Strategy (the 2023 Strategy)'.^[11]

The policy objectives that underpin the government's strategy are, broadly: (1) to support UK financial services growth and competitiveness, (2) to promote investment in the green economy, (3) to ensure financial stability, (4) to better incorporate climate-adaptation and nature-related considerations into the green finance framework, and (5) to align global financial flows with climate and nature objectives.^[12]

As regards specific policy actions, the 2023 Strategy sets out three main areas of initiatives, namely (1) transparency to ensure market participants have decision-useful information to manage risks and allocate capital, (2) creating tools and frameworks to expand green finance activity and (3) transmission channels for financial markets to support businesses to grow as a part of a net zero economy, to 'enabl[e] the market to align with UK climate and environmental goals'.^[13]

The 2023 Strategy also set out policy initiatives to mobilise and create opportunities for green investment.^[14] This includes various announcements of public spending, work with public finance institutions (including the former UK Infrastructure Bank and British Business Bank, now under the umbrella of the National Wealth Fund,^[15] with a total capitalisation of £27.8 billion to catalyse investment that would not have otherwise taken place), creation and promotion of investment opportunities throughout the economy (e.g., work with local authorities)^[16], and consulting on how to support the growth of voluntary carbon markets (see 'Carbon markets and carbon trading' below) and nature markets.

The new Labour government is continuing the work announced in the 2023 Strategy. In October 2024, a government-commissioned market review on transition finance (i.e., financial flows to facilitate the economy-wide net-zero transition)^[17] was published, setting out a number of policy recommendations.^[18] The new Labour government has endorsed the review's recommendations and has confirmed its mission to make the UK 'the green finance capital of the world'.^[19] On 24 October 2024, the government launched a consultation on the UK's industrial strategy,^[20] a key pervasive aspect of which is support of the UK's net-zero transition. On 15 November 2024, the government published a call for evidence on a new Financial Services Growth & Competitiveness Strategy,^[21] with sustainable finance representing one of the government's priority growth opportunities. In July 2025, the government published the outcomes to its Financial Services Growth and Strategy call for evidence^[22] and emphasised the delivery of a competitive regulatory environment, maintaining global leadership in financial services, embracing UK fintech leadership, building a retail investment culture, upskilling the UK financial services sector and realising the economic potential of financial services clusters.

Financial services regulators and their regulatory frameworks

The UK regulator for the regulation of the conduct of authorised financial-services firms is the UK Financial Conduct Authority (FCA). The FCA's ESG strategy is based on five themes, namely (1) transparency on climate change, (2) building trust and integrity in ESG-labelled instruments, (3) creating tools to enhance industry capabilities to support

firms' management of climate-related and wider sustainability risks, (4) supporting the role of finance in delivering a market-led transition to a more sustainable economy and (5) teamwork to develop strategies, structures resources and tools to support the integration of ESG into the FCA's own activities.^[23]

The UK Prudential Regulation Authority (PRA), which is part of the Bank of England, is the prudential regulatory authority for banks, designated investment firms and insurers in the UK. The PRA has published a number of documents setting out regulatory requirements and expectations in respect of climate change. The first of these was a supervisory statement in 2019, where the PRA made clear that climate change is relevant to its objectives.^[24] The PRA set out a number of expectations, covering, in addition to general high-level expectations, the following headings: governance, risk management, scenario analysis, and disclosure.

In 2021, the Bank of England conducted a climate-related exploratory scenario exercise, involving the largest UK banks and insurers, covering three scenarios exploring transition and physical risks, to different degrees. This was aimed at improving regulators' and banks' understanding of the financial risks climate change poses and enhancing risk management capabilities. The results of the exercise were published in May 2022, highlighting, among other things, that a lack of data on corporates' current emissions and transition plans was a collective issue faced by participating firms.^[25]

In September 2024, the PRA issued a 'Dear CEO' letter, asking banks to enhance their climate risk accounting capabilities.^[26]

The Financial Services and Markets Act 2023 (FSMA 2023) introduced a new regulatory principle for the FCA and the PRA, requiring them, when discharging their general functions to have regard to the need to contribute towards achieving the government's compliance with section 1 of the Climate Change Act 2008 (the UK's net zero emissions target) and section 5 of the Environment Act 2021 (environmental targets), where each regulator considers the exercise of its functions to be relevant to the making of such a contribution. On 14 November 2024, the Chancellor sent letters to the FCA,^[27] the PRA^[28] and the Bank of England's Financial Policy Committee,^[29] highlighting the challenges posed by climate change and asking regulators to have regard to the government's policy objective of leading the world in sustainable finance.

On 30 January 2025, the PRA published its Climate Change Adaptation Report 2025,^[30] which noted that though banks and insurers have taken positive steps toward implementing the supervisory expectations in relation to governance, risk management, scenario analysis, and disclosure as established in its 2019 supervisory statement, levels of embedding continue to vary and further progress is required by all firms.

On 30 April 2025 the PRA issued a consultation paper^[31] seeking views on its proposals on updated supervisory expectations for banks and insurers to aid them manage the effects of climate change on their businesses, maintaining the essential services they provide to the economy.

Sustainable finance instruments

Markets have developed a number of sustainability-themed investment and lending products^[32], including the following:

1. green loans^[33]/bonds^[34]/sukuk^[35] – the proceeds of which must be used to finance projects with environmental benefits;
2. blue loans/bonds^[36] (a subset of green loans/bonds) – the proceeds of which must be used to finance ocean-based projects;
3. social loans^[37]/bonds^[38]/sukuk – the proceeds of which must be used to finance projects with positive social outcomes;
4. sustainability loans/bonds^[39]/sukuk – the proceeds of which must be used to finance a combination of green and social projects;
5. sustainability-linked loans^[40]/bonds^[41] – the proceeds of which can typically be used for general corporate purposes, but the structural/financial characteristics of which vary depending on (i.e., they may incentivise) the issuer's achievement of predefined sustainability/ESG objectives; and
6. sustainability-linked derivatives^[42] – which embed a sustainability-linked cashflow in a derivatives structure and use key performance indicators to monitor compliance with ESG targets, incentivising parties to meet their sustainability objectives.

Unlike the voluntary Green Bond Standard in the EU,^[43] there exists no UK standard issued by the government or by regulators as to the classification of finance instruments under the above categories. However, to ensure market transparency, credibility and trust, sustainable finance instruments will usually comply with international industry standards issued by the International Capital Market Association (ICMA),^[44] the Loan Market Association (LMA)^[45] or the International Swaps and Derivatives Association (ISDA).^[46] International financial institutions and multilateral development banks have also published influential guidance and principles.^[47] In addition, there may be certain other requirements, for example, requirements for third-party review/to obtain a second opinion and exchange/listing requirements.

It should also be noted that, while the FCA does not currently regulate this market, it monitors its development and may respond to emerging concerns. For example, in 2022, the FCA issued guidance encouraging issuers ESG-labelled use-of-proceeds debt instruments to apply industry standards, reminding market participants of their obligations to ensure that advertisement is not inaccurate or misleading, and encouraging the use of external verifiers/assurance providers.^[48] In 2025, the FCA reported that about the sustainability-linked loan market has matured with more robust product structures (although some barriers remain such as access for small to medium enterprises and incentive calibration), and highlighted that it will continue to monitor its development and work closely with the Transition Finance Council.^[49] The FCA has also established an industry-led working group in 2024 to support financial advisers with financial product sustainability claims brought by consumers.^[50]

In 2024, the UK government was amongst the largest green, social, sustainability, and sustainability-linked bond issuer on a global scale, totalling a value of US\$29.6 billion.^[51] For the London Stock Exchange's (LSEG) Sustainable Bond Market (SBM), 2024 saw

issuers raising US\$56 billion.^[52] According to AFME data, in 2024, there has been some deceleration for some sustainable finance products, especially green bonds.^[53] The UK government has announced that £10 billion was raised in 2024-2025 via the issuance of green gilts and the sale of retail Green Savings Bonds^[54] and, as of April 2025, the Green Financing Programme has raised a total of £47.9 billion since September 2021.^[55] On the contrary, total issuance of social bonds and sustainability bonds is increasing; placing the UK as one of the largest issuer countries for the latter, ahead of other countries such as the USA.^[56]

Sustainable disclosure requirements and taxonomy

Climate-related entity-level disclosures

As of the date of this publication, only certain companies are bound by mandatory financial climate-related disclosures, and, unlike in the EU, which already has an established taxonomy for sustainable activities,^[57] the UK has recently confirmed in July 2025 that it will not be proceeding with a UK Green Taxonomy^[58] after its consultation on the taxonomy yielded negative feedback from industry stakeholders. The consultation responses reflected that other policies were of higher priority to accelerate the net zero transition and that the establishment of a taxonomy would be time consuming, highly difficult to maintain and would not be proportionate way to reduce greenwashing and promote the channelling of investment into sustainable finance.

First, under the FCA's listing rules (UKLR) companies that are listed in the UK are required, on a 'comply or explain' basis,^[59] to make disclosures which are consistent with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).^[60] The TCFD recommendations comprise overarching recommendations across four themes and specific recommended disclosures for each category: (1) governance (with recommended disclosures on the board's oversight of climate-related risks and opportunities and the management's role in assessing and managing climate-related risks and opportunities), (2) strategy (with recommended disclosures on climate-related risks and opportunities the organisation has identified over the short, medium, and long term; the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning; and the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario), (3) risk management (with recommended disclosures on the organisation's processes for identifying and assessing climate-related risks; the organisation's processes for managing climate-related risks; and how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management), and (4) metrics and targets (with recommended disclosures on the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process; Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks; and the targets used by the organisation to manage climate-related risks and opportunities and performance against targets).

Second, firms subject to the disclosure rules in the FCA's ESG Sourcebook – namely, certain asset managers, life insurers and FCA-regulated pension providers^[61] – must publish on an annual basis^[62] 'TCFD entity reports', which contain climate-related financial disclosures regarding the overall assets managed or administered by the firm^[63] and must be consistent with the TCFD recommendations.^[64]

Third, certain occupational pension schemes are subject to climate-related reporting requirements under the Pensions Act 1995.^[65]

Fourth, certain large UK companies and LLPs^[66] must make climate-related financial disclosures as part of a 'non-financial and sustainability information statement' in their strategic report.^[67] As explained in UK government guidance, these disclosure requirements are broadly aligned with the pillars of the TCFD recommendations (although without specifically referring to them).^[68] In her November 2024 Mansion House speech, the Chancellor announced the government's intention to consult on streamlined sustainability disclosures for economically significant companies.^[69]

Notably, the above-referenced requirements all relate to non-financial reporting, which has been the focus of regulatory developments in recent years. However, the International Accounting Standards Board (IASB) has published guidance,^[70] and is currently consulting on additional guidance,^[71] making clear that climate change risk equally needs to be reflected in companies' financial reporting. Similar guidance exists in relation to auditing standards.^[72] In September 2025, the Department for Business & Trade concluded its consultation to develop an oversight regime for assurance of sustainability-related financial disclosures. Notably, the consultation focuses on providers of assurance (i.e., external auditors or certified public accountants) and sets out the government's desire to seek views on a proposal to introduce a registration regime operated by the Audit Reporting and Governance Authority to strengthen audit and corporate governance. This regime would recognise assurance providers as being able to assure information disclosed against the UK SRS, European Sustainability Reporting Standards (ESRS) and any jurisdictional standards aligned to the ISSB Standards.

Transition plans

One particular aspect of businesses' climate-related disclosures is disclosure of a company's climate-related transition plan. For these purposes, a transition plan can be understood as 'an aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions'.^[73]

Currently, there are no mandatory requirements in the UK to publish transition plans, although transition plan disclosures are relevant to certain existing requirements, notably TCFD-aligned reporting.^[74] Where companies, pursuant to FCA regulatory requirements, do disclose transition plans as part of their TCFD disclosures, they should assess the extent to which, in developing and disclosing their transition plan, they have considered the net-zero commitment (if any) of the country in which they are headquartered.^[75] The FCA also expressly encouraged companies making such disclosures to use of the TCFD's Guidance on Metrics, Targets and Transition Plans when doing so as well as the work of the UK Transition Plan Taskforce (TPT).^[76]

While transition plan disclosures are currently not mandatory in the UK, the FCA^[77] and the government is expected to continue consulting on how best to strengthen transition plan disclosure requirements. A recently concluded 2025 consultation by the Department for Energy Security and Net Zero^[78] on the UK government's plans to mandate UK-regulated financial institutions and FTSE 100 companies to develop and implement credible transition plans (including disclosures of such plans) reflects a commitment to mandating transition plan disclosures by UK regulators. Future close cooperation between the FCA and the UK government in relation to future legislation and regulatory requirements will ensure that transition plan disclosures are robustly implemented.

A notable UK development on transition plans is the work of the TPT, which was set up by the UK government in 2022 to develop a 'gold standard' for private sector net-zero transition plans. In October 2023, the TPT published its final Disclosure Framework for disclosure of private sector transition plans in 2023, and, in October 2024, related guidance and resources^[79] were published as well as the TPT's final report.^[80] The TPT's framework was designed to be consistent with both the TCFD recommendations and the International Sustainability Standards Board's IFRS S1 and S2 standards, and, after the TPT concluded its work, the TPT's materials are now under the International Sustainability Standards Board's (ISSB's) responsibility.^[81] It is expected that any potential future UK developments regarding mandatory transition plan disclosures would draw on the TPT's work. Notably, on 13 November 2024, IOSCO published a report on transition plans,^[82] highlighting the challenge of diverging practices and regulatory requirements across jurisdictions and, following from that, insufficient comparability, consistency and reliability of transition plan disclosures. The report also welcomed the ISSB's announcement that it would seek to develop standardised, authoritative transition planning guidance building on the TPT's work. As such, there may be a further trend of international convergence of transition plan disclosure requirements.

Non-UK disclosure requirements with implications for UK companies

UK companies may need to consider the scope and potential extraterritorial effect of certain EU legislation, including particularly the Sustainable Finance Disclosure Regulation^[83] (which imposes transparency and disclosure requirements on certain financial services firms), the Corporate Sustainability Reporting Directive^[84] (which imposes wide-ranging non-financial reporting obligations in relation to sustainability matters), the Corporate Sustainability Due Diligence Directive^[85] (which imposes not only wide-ranging supply-chain-due-diligence obligations, but also transition planning requirements).

Product disclosures and investment labels

In addition to the entity-level disclosure requirements explained above, the FCA has also introduced a number of product-specific requirements under its Sustainability Disclosure Requirements (SDR) regime.^[86] The government's approach to SDR was established in the 2021 Roadmap.^[87] SDR aims to address the concerns around transparency, comparability, accountability and efficiency of capital allocation by improving the quality and availability of sustainability-related information. It is also intended to promote financial market and

reduce the potential harms to investors arising from inaccurate information, and help sustainability risks and opportunities to be appropriately priced into markets.

Investment product labels: the FCA introduced four sustainability labels for investments: (1) 'Sustainability focus' (investment in assets that are environmentally and/or socially sustainable); (2) 'Sustainability improvers' (investment in assets that have the potential to improve environmental and/or social sustainability over time); (3) 'Sustainability impact' (investment objective of achieving a pre-defined, positive, measurable impact in relation to an environmental and/or social outcome); and (4) 'Sustainability mixed goals' (investment in accordance with two or more of the other sustainable investment objectives). Firms have been able to use these labels since 31 July 2024, subject to compliance with various requirements.^[88]

Naming/marketing rules and the anti-greenwashing rule: to ensure that the use of sustainability-related terms, both in product names and marketing material, is accurate, and to mitigate the risk of greenwashing, the FCA introduced restrictions for asset managers on the use of certain terms (e.g., 'ESG', 'sustainable', 'transition', 'impact' or 'responsible')).^[89] These rules came into force on 2 December 2024, although firms will, in certain circumstances, have some additional flexibility in naming/marketing until 2 April 2025.^[90] Moreover, since 31 May 2024, all regulated firms have been subject to an 'anti-greenwashing rule', requiring them, when communicating with clients in relation to a product/service or engaging in financial promotion, to ensure that any reference to the sustainability characteristics of such product/service is both consistent with the actual sustainability characteristics of the product and fair, clear, and not misleading.^[91]

Disclosure requirements: the FCA also introduced various disclosure requirements, including (1) certain consumer-facing disclosures (clear, concise information on products' key characteristics) where products use sustainability labels or certain sustainability-related terms, (2) more detailed pre-contractual product-specific disclosures, and (3) sustainability product-level reports.^[92]

Requirements for distributors: to ensure that product-level information (including the labels) is made available to consumers, distributors (e.g., financial advisers and platforms) are required to communicate sustainability labels to consumers and ensure they are provided with related consumer-facing disclosures.^[93]

While the 2021 Roadmap identified the FCA as the main regulator for introducing SDR in the financial services sector, the PRA also requires prudential disclosure in connection with matters relating to sustainability, for example through implementation of any Pillar 3 Disclosure requirements of the Basel Committee on Banking Supervision.^[94]

Ongoing developments: the FCA has continued to refine the SDR regime in light of feedback from industry. In April 2025, the FCA published an update on its consultation paper CP24/8^[95] regarding the potential extension of the SDR and investment labels regime to portfolio management.^[96] After reflecting on the feedback to the consultation and taking into account wider regulatory work affecting portfolio managers, the FCA concluded that it will not yet finalise rules extending SDR to portfolio management.

Most recently, in its September 2025 Quarterly Consultation Paper, the FCA has also proposed minor technical amendments to the SDR, including clarifications for index funds and greater flexibility in the publication of public product-level sustainability reports.^[97] The consultation closes on 15 October 2025.

Future developments: sustainability reporting standards, nature-related reporting and UK Green Taxonomy

In June 2023, the ISSB published two sustainability reporting standards: the IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures).^[98] The ISSB's standards build on the TCFD recommendations and recommended disclosures, but, in certain instances, require more detailed disclosures/provide additional guidance and use different wording.^[99] According to the latest SDR implementation update,^[100] the government plans to consult on draft UK Sustainability Reporting Standards, to make an endorsement decision of the ISSB standards, and, subject to a positive endorsement decision, publish UK-endorsed ISSB standards, in Q1 2025. According to the most updated guidance as to the UK SRS,^[101] the government has only just recently concluded its consultation on the exposure drafts of the UK versions of IFRS S1 and IFRS S2 (known as UK SRS S1 and UK SRS S2) in September 2023 and following this consultation process the UK government will publish finalised versions of the UK SRS S1 and UK SRS S2 for voluntary use later in 2025. Subsequently the government and FCA will consider whether to introduce requirements for certain UK entities to report against these standards. As noted in the latest SDR implementation update, subject to a positive endorsement decision of the ISSB standards in the UK by the Secretary of State for Business and Trade, the government plans to consult on disclosure requirements against the UK Sustainability Reporting Standards for UK companies that do not fall within the FCA's regulatory perimeter, and subject to the endorsement process, the FCA plans to consult on updating TCFD-aligned rules to UK Sustainability Reporting Standards.

A further development to monitor is nature-related reporting. The Financial Stability Board's Taskforce on Nature-related Financial Disclosures (TNFD) published its final recommendations^[102] in September 2023, and has since then published additional guidance^[103] as well as a discussion paper on nature transition plans.^[104] The government has stated it would explore how the final TNFR framework should best be incorporated into UK policy and legislative architecture.^[105] At present, UK companies are already required to make certain environmental disclosures in their strategic report,^[106] and may make more extensive nature-related disclosures on a voluntary basis.

ESG data, ratings and reporting

ESG data and ratings providers form a key part of the sustainable finance ecosystem, evaluating disclosures and providing market participants with an independent view of ESG financing initiatives. Nonetheless, the activity of ESG ratings providers is currently unregulated in the UK.^[107]

In December 2023 the FCA-convened ESG Data and Ratings Code of Conduct Working Group (DRWG) published a voluntary code of conduct^[108] to which firms can sign up. The code, now administered by ICMA, consists of six principles that aim to achieve four key outcomes: (1) good governance; (2) systems and controls (underpinned by principles on securing quality, confidentiality and engagement); (3) management of conflicts of interest;

and (4) transparency. Once a ratings provider has signed up to the code, they will be obliged to publicly state how they are implementing the code and annually review this statement of compliance.

In addition to the voluntary code of conduct, the UK government has expressed its desire to bring forward legislation governing the activities of ESG ratings providers. In March 2023, the former Conservative government launched a consultation on proposals to regulate ESG ratings providers, which included the introduction of a new regulated activity relating to the assessment of a specified investment's ESG qualities and the extension of the FCA's regulatory perimeter to include ESG ratings providers.^[109] The FCA has said that should ESG ratings providers be subject to their supervision, then they will develop a regulatory approach that is based on the IOSCO recommendations that formed the key outcomes set out in the DRWG's voluntary code of conduct set out above.^[110]

On 15 November 2024, the government published a response to its 2023 consultation^[111] and draft legislation^[112] that would create a new regulated activity of providing an ESG rating,^[113] subject to certain exclusions. The FCA has announced that it would consult on proposals for the future regulatory regime in 2025.^[114] On 16 May 2025, the FCA concluded a voluntary survey of ESG ratings providers^[115] to aid the development of more proportionate future regulation tailored to the needs of the market. The survey sought for information to help better the ESG ratings market, particularly (1) business models or structures used to provide ESG ratings (2) how ESG ratings are constructed and distributed and (3) what policies and processes firms have in place when providing ESG ratings. The final form of the ESG ratings regulation remains to be seen.

Sustainable finance incentives

Taxes and incentives

Environmental taxes and incentives are a key instrument in encouraging businesses to operate in a more environmentally friendly way and, as such, an important tool for the UK government in pursuing its climate objectives.^[116] In 2024, environmental taxes raised £54.3 billion in the UK, down 0.5 per cent from £54.6 billion in 2023.^[117]

While the range of measures that may have the effect of incentivising reduction of greenhouse gas emissions is potentially very wide, some of the most important environmental taxes include the following: (1) the 'aggregates levy',^[118] a tax on commercial exploitation of certain 'aggregates' (rock, gravel, and sand); (2) the 'climate change levy',^[119] a tax on certain energy supplies for fuel purposes paid by businesses and the public sector and the 'carbon price support', a tax on certain fossil fuels when used for electricity generation^[120] (the UK ETS and CBAM, further discussed below, also have characteristics of carbon emissions related taxes); (3) the 'landfill tax',^[121] a tax on certain waste disposals by way of landfill; (4) the 'energy profits levy',^[122] a temporary windfall tax on the extraordinary profits of oil and gas companies, which has recently been extended to 31 March 2030; and (5) the 'plastic packaging tax',^[123] a tax on certain plastic packaging that does not contain at least 30 recycled plastic. Certain industries are subject to multiple

measures that could fall within the scope of environmental taxes, such as the oil and gas and air transport industries.

There are also certain tax incentives that seek to encourage environmentally beneficial expenditures, such as (1) enhanced capital allowances for expenditure on certain environmentally friendly technologies (e.g., low or zero emission cars)^[124] or (2) corporation tax relief for qualifying expenditure incurred on the remediation of contaminated land.^[125] On the other hand, note that the rate of taxing the benefit to employees of electric 'company cars' is continuing to increase, and electric vehicles are no longer exempt from vehicle excise duty.

Industry alliances and collective action

A number of industry associations and alliances have been formed with the aim of addressing climate change. As far as financial institutions are concerned, an early example is the Glasgow Financial Alliance for Net Zero,^[126] but there are many others, including, for example, sector-specific alliances forming part of GFANZ^[127] or the UN led Forum for Insurance Transition to Net Zero.^[128] Apart from the sharing of knowledge and best practices and the development and propagation of industry standards, some of these alliances involved voluntary or obligatory commitments on the part of their members to take certain actions to mitigate climate change (e.g., constraints on support for development of new fossil fuel production, or active stewardship engagement with investee companies to encourage transition plans to net zero).

Such joint commitments are generally intended to overcome a perceived 'first-mover disadvantage', namely the disincentive for individual businesses to pursue certain sustainability outcomes alone and thereby be put at a competitive disadvantage compared to rivals who do not pursue similar outcomes (i.e., 'free-ride').^[129]

Such alliances, as well as other initiatives seeking to address climate change, may involve some degree of cooperation amongst competing businesses. To assess the degree of cooperation that is permissible under English competition law, businesses may wish to refer to the UK Competition and Markets Authority (CMA) guidance on the application of the 'Chapter I prohibition' in the Competition Act 1998 (the restriction of unlawful horizontal agreements) to environmental sustainability agreements,^[130] and may make use of the CMA's open door policy set out in that guidance.

Executive remuneration

Since 2019, the Investment Association's Principles of Remuneration^[131] have recommended that, where ESG measures are material to the business in question, clearly linked to the implementation of the company's strategy and quantifiable,^[132] remuneration committees should consider incorporating ESG-related performance criteria into the design and assessment of executive pay. Indeed, ESG metrics (typically carbon emissions reductions), are already prevalent in the short and long-term incentive arrangements of UK listed companies.^[133] However, in 2025, there has been a slight decrease in prevalence from 2024. Approximately 61 per cent (down from 64 per cent in 2024) of FTSE 100 companies are employing environmental and sustainability-related performance measures in their long-term incentive plans (approximately 38 per cent in their annual

bonus plans, which is down from 46 per cent in 2024), with ESG measures as a whole being used to determine approximately 18 per cent of CEO bonus pay-outs, which is down from 20 per cent in 2024.^[134]

Shareholder demand for robust disclosure which demonstrates the strategic link and rationale behind the use of ESG-related metrics in the determination of executive remuneration may be impacted by regulatory requirements to which those shareholders are themselves subject. For example, since the EU's Sustainable Finance Disclosure Regulation^[135] requires financial market participants and financial advisers to disclose how their remuneration policies are consistent with the integration of sustainability risks, financial services firms investing in UK companies may increasingly expect comparable levels of disclosure from their investee companies.

In a Discussion Paper published in February 2023, the FCA explored, and sought views on, the question of how regulated firms embed sustainability-related considerations into their objectives and purpose, and how these are then reflected in its culture, business strategy, governance and incentives.^[136] In April 2025 the FCA published its feedback on the Discussion Paper.^[137] The FCA noted that a common theme across responses was the need to wait for new regulations like the FCA's Consumer Duty and SDR regimes to be properly embedded before determining whether further rules would be required. Some respondents noted that existing rules were sufficient. Since its February 2023 Discussion paper certain new rules have been introduced (like the Consumer Duty, SDR and labelling rules as well as the Anti-Greenwashing rules), but the FCA maintained that it was not currently considering introducing new rules on the themes discussed in its Discussion Paper, noting that it would continue to monitor developments to promote the themes covered in the Discussion Paper to help the sustainable finance market grow responsibly, and promote the UK as a leading financial centre.

Carbon markets and carbon trading

Carbon markets and trading generally fall within one of two categories:

1. Compliance markets. These presuppose a compliance framework imposing limits on greenhouse gas emissions in-scope entities can emit. Compliance markets allow market participants to trade permits to emit greenhouse gas emissions (emission allowances).
2. Voluntary carbon markets (VCMs). These are concerned with the issuance and secondary transfer/trading of carbon offsets or credits (voluntary carbon credits or VCCs), namely transferable instruments issued in respect of projects that seek to lower the amount of greenhouse gas emissions in the atmosphere and recorded usually by an independent registry.

The UK operates a compliance market, the UK Emissions Trading Scheme (UK ETS),^[138] as a key part of its approach to addressing climate change. Each year, in-scope entities^[139] are required to surrender a number of emissions allowances^[140] that is equal to that entity's emissions during the preceding calendar year.^[141] Failure to comply is subject to penalties.^[142] The total quantity of allowances issued each year is capped at a certain level,

and that level decreases year by year.^[143] Allowances may be acquired in primary markets (either through free allocation^[144] or auctioning^[145] of allowances), and subsequently traded in secondary markets,^[146] either over-the-counter or on exchanges. The aim of this 'cap-and-trade' approach is to effect reductions of greenhouse gas emissions in a cost-effective and economically efficient manner.

There are a number of modifications or additions to the UK ETS which are either planned or subject to consultation at the moment. The most important of these is the introduction of a UK Carbon Border Adjustment Mechanism (UK CBAM),^[147] whereby the UK government will, starting in 2027, apply a carbon price to imported goods from certain sectors,^[148] in order to address the issue of 'carbon leakage'.^[149] In April 2025 the UK government published draft UK CBAM primary legislation^[150] for technical consultation^[151] which ended on 3 July 2025 alongside a policy update^[152] on the UK CBAM regime, which highlights the sectoral scope of the CBAM, how CBAM liability will be calculated, and registration requirements for persons who meet or exceed the registration threshold for imported CBAM goods. The government will review the responses to the technical consultation and will introduce the primary legislation for CBAM later in 2025. As of October 2025, no CBAM legislation has been introduced. Other potential developments include the expansion of the UK ETS' scope to cover additional sectors,^[153] changes to free allocation and alignment of those changes with the introduction of the UK CBAM,^[154] changes to the UK ETS markets policy (e.g., the auction reserve price, the cost containment mechanism, or implementation of a supply adjustment mechanism),^[155] and the potential integration of engineered (i.e., technology-based) greenhouse gas emissions removals into the UK ETS.^[156] As to whether the UK ETS should be linked to the EU ETS in order to improve efficiency^[157] (as is the case with the Swiss ETS), on 19 May 2025, the European Commission and the UK government announced their commitment to establishing a link between the EU ETS and UK ETS respectively,^[158] outlining a framework for linking the EU and UK ETS through a formal agreement. The final form of the formal agreement remains to be seen.

VCCs have in the past mostly been issued under schemes run by independent standard setters who frequently are NGOs^[159] (although there are some notable examples of governmental oversight).^[160] Such credits are generally used (1) for meeting self-set emission reductions targets, or (2) where a compliance scheme allows,^[161] for meeting entities' compliance obligations under such scheme. VCCs have recently been subject to criticism and reduced market confidence given concerns as to the quality and integrity of VCCs, for example, as regards the quantification of avoided or removed greenhouse gas emissions or issues relating to permanence or the risk of reversal.^[162] Nonetheless, there is recognition that climate change mitigation efforts will require the use of carbon offsets,^[163] and there has been general policy support in the UK for developing and utilising VCCs.^[164] In line with this, the UK government, on 15 November 2024, published a policy paper setting out six principles for voluntary carbon and nature market integrity.^[165] On 17 April 2025, the Department for Energy Security and Net Zero embarked on a consultation^[166] on how to operationalise the six principles for voluntary carbon and nature market integrity.

Green technology

Green and low carbon technologies not only represent important opportunities for investors, but they are a core component of the government's strategy for reaching its climate goals.^[167]

Much of the focus is on green energy technologies,^[168] such as wind and solar energy, low-carbon hydrogen production, (technology-based) greenhouse gas removals and nuclear power, although the government is also exploring how to harness the potential of artificial intelligence as part of its climate transition strategy.^[169] From a sustainable finance perspective, the government's aim is to incentivise private investment in these technologies (see section III above), both through regulatory tools and investment initiatives.^[170] The Labour government, as far as green technology is concerned, equally focuses heavily on energy and carbon capture technology; for example, the Great British Energy Act 2025 establishes publicly-owned and operationally independent energy company (Great British Energy) with the primary objectives of increasing the domestic supply of clean energy and public ownership of clean energy assets.^[171] Next steps include providing Great British Energy with the statutory footing required to allow it to develop clean energy projects and generate a return for working individuals.

As far as UK financial sector regulators are concerned, one of the FCA's ESG strategy priorities (tools) includes a commitment to developing technology that can help to improve ESG outcomes in the financial services sector. In line with this, in 2021, the FCA hosted a Sustainability TechSprint, where 10 mixed-discipline teams were invited to design solutions for scenarios involving the monitoring and interpretation of ESG disclosures.^[172] In June 2025, the FCA announced a collaboration with Nvidia to 'supercharge' its digital sandbox by offering greater computing power, enriched datasets and more sophisticated tooling to developers which is likely to help developers test and build technology that can be used to solve challenges related to ESG data and disclosures more effectively.^[173]

Various initiatives explore the intersection of technology, finance and ESG. In 2021, the UK Centre for Greening Finance & Investment (CGFI) was established in 2021 to accelerate the adoption and use of climate and environmental data and analytics by financial institutions.^[174]

Climate change, nature and biodiversity impacts

Traditionally, legal requirements relating to climate change and nature/biodiversity tended to be relatively narrow in scope, focusing on specific economic activities (e.g., the high-energy sector) or specific habitats or species.^[175] However, the UK is developing regulatory frameworks that impose climate-change and nature/biodiversity related requirements on a much broader basis, including as a result of the Climate Change Act 2008 (pursuant to which the UK set itself a net zero carbon target for 2050) and the Environment Act 2021 (which requires the government to set legally-binding nature-related targets, e.g., in relation to biodiversity, air quality, water).^[176]

One key area of focus for businesses is supply chain due diligence. In the UK, supply chain considerations in connection with climate change, nature and biodiversity apply at present mainly as regards illegal timber^[177] and will soon be introduced as regards 'forest risk commodities'.^[178] In addition, UK companies may need to consider compliance with EU legislation,^[179] to the extent they fall within the scope thereof, and soft law

instruments such as the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (the OECD MNE Guidelines).^[180] Another key area of focus is reporting and disclosure of climate change and nature/biodiversity related risks. Apart from these, there are a number of specialist regimes, such as the Energy Savings Opportunity Scheme, requiring entities of a certain size to assess their energy consumption and energy savings opportunities.^[181] Last, like other areas that may have financial impacts for businesses, nature and biodiversity related risks may have implications for general legal obligations that businesses are subject to, such as, for example, the duties directors owe to their companies.^[182]

Beyond developments in the UK specifically, there are a number of international organisations and standard setters working on various aspects of assessing and addressing climate change and nature/biodiversity related risks.^[183]

Greenwashing and climate litigation risks

Greenwashing and related litigation and enforcement

Greenwashing generally occurs where businesses or investment funds make misleading or unsubstantiated claims about the environmental characteristics or performance of their activities or products.^[184] Such claims may be made via various channels (annual reports, regulatory disclosures, forward-looking commitments, transition plans, marketing), and they may be false or misleading in various ways (outright falsehood, but equally selective disclosure, unsubstantiated disclosure, suggestive use of ESG terminology or provision of outdated/irrelevant information). Liability for greenwashing may arise from a number of regulatory regimes or statutory or other causes of action.

As regards regulatory regimes, one area is regulation aiming to prevent false or misleading advertising or other commercial practices harming consumers or businesses. Key legislative instruments in this area include the Consumer Protection from Unfair Trading Regulations 2008^[185] or 'CPRs' (which are due to be revoked and replaced with new, albeit similar,^[186] rules under the Digital Markets, Competition and Consumers Act 2024) and the Business Protection from Misleading Marketing Regulations 2008^[187] (BPRs). These frameworks are supported by the CMA's 'Green Claims Code',^[188] which sets out six key principles designed to help businesses comply with the law^[189] as well as illustrative examples. Other relevant regulatory frameworks include the advertising codes administered by the Advertising Standards Authority^[190] (ASA) as well as various rules imposed by the FCA (including the anti-greenwashing rule, mentioned above).

Various regulators have taken enforcement action under the above frameworks, including the CMA (which has focused particularly on the fashion,^[191] fast-moving consumer goods,^[192] and green heating/insulation sectors,^[193] and might focus on travel and transport sectors in future reviews) and the ASA.^[194]

Further, greenwashing can give rise to private litigation and civil liability. Leaving aside claims brought by consumers under consumer protection legislation, potential litigation venues include the statutory causes of action under sections 90 and 90A of the Financial Services and Markets Act 2000^[195] (which may become an increasingly attractive

venue for shareholder activism); liability for fraudulent or negligent misrepresentation; or enforcement of company directors' duties (owed to the company) to promote the success of the company^[196] or to exercise reasonable care, skill and diligence,^[197] or for certain untrue or misleading statements^[198] (all of which can, in principle, be enforced by shareholders by way of derivative actions).

Climate change litigation

Climate change litigation, broadly, cases brought before a judicial body^[199] where climate change law, policy or science is a material issue of law or fact^[200] is a global litigation trend, with cases continuously growing in numbers and spreading to new jurisdictions.^[201] One way of categorising cases is to distinguish between cases against governments and cases against businesses, although the former will usually have a direct or at least indirect impact on the latter.^[202]

As far as claims against the UK government are concerned, these frequently focus on the government's climate change mitigation strategy (e.g., successful challenges by Friends of the Earth in 2022^[203] and 2024),^[204] changes to which generally affect the regulatory and policy environment in which businesses operate. Another important area is judicial review of decisions to grant planning permissions.^[205] Particularly important in this area is the Supreme Court's landmark decision in *Finch*,^[206] where it was held that environmental impact assessments to be carried out when applying for planning permissions (in this case, for a proposed oil production site) must take into account scope 3 emissions (when the oil produced is burnt as fuel). This decision has not only had a significant impact on planning decisions and litigation, but the Supreme Court's position on scope 3 emissions may influence other litigation, unrelated to planning. Further, certain international developments are likely to have key implications for the UK, such as the evolution of human rights jurisprudence (see, in particular, the 2024 *KlimaSeniorinnen* case,^[207] which will not only impact on Human Rights Act 1998 claims in the UK, but may stimulate climate litigation between private parties^[208]) and advisory opinions issued by international tribunals.^[209]

As regards claims against businesses, there are, in principle, several causes of action litigants could rely on in respect of climate change. These might include (depending on the specific defendant and the actions in respect of which claims are brought) torts such as negligence^[210] or public nuisance,^[211] breaches of fiduciary or other duties owed by asset owners/asset managers,^[212] product liability and specific consumer protection regulations, as well as claims for false or misleading statements (discussed above). However, so far, in the UK, public attention has mostly focused on cases against public actors. One notable exception to that was *ClientEarth v Shell*,^[213] a derivative action alleging breach of Shell's directors' duties for failing to take certain steps to protect Shell against climate-change related risks. The case was unsuccessful, in large part because of the very high barriers to derivative actions, and subject to burdensome costs for the applicants.^[214] It has been observed, however, that the decision was fact specific,^[215] and that '*the issues raised in the case are far from buried*',^[216] including, possibly, as regulatory disclosure requirements evolve further.^[217]

Looking ahead, key trends and developments in climate change litigation are likely to involve the following: developments in climate science and economic assessments, which will enable litigants to better address (including by way of expert evidence in court)

issues of causation/attribution^[218] and loss; cross-fertilisation between climate change litigation and other areas of litigation, such as nature/biodiversity related litigation;^[219] further evolution of criminal liability for climate change related harms;^[220] claims based on tort against companies involved in new fossil fuel development and unabated high-emission projects;^[221] and claims (based on tort and fiduciary duties) against lenders or other financial institutions for facilitating certain economic activities (e.g., for financing high-emissions activities).^[222]

Outlook and conclusions

Sustainable finance will only increase in importance over the forthcoming years, as a result of both the maturing of markets and regulatory frameworks and the increasing imperatives of mitigating, and adapting to, climate change while ensuring a just transition.

Looking at 2026 in particular, developments on a number of government and regulatory initiatives are to be expected, including as regards disclosure (ISSB standards, transition plan disclosures, nature-related financial disclosures), regulation of ESG ratings as well as a shift from soft guidance to more structured market rules in relation to VCCs. Further, it is expected that further international cooperation in emissions trading, with the prospect of a formal agreement and framework linking the EU and UK ETS will see further progress in the year to come.

Endnotes

- 1 Section 1(1) of the Climate Change Act 2008, as amended. ^ [Back to section](#)
- 2 Financial Conduct Authority, 'Quarterly Consultation CP25/24' (No.49) (September 2025), accessible [here](#) ^ [Back to section](#)
- 3 HM Treasury, 'Financial Services Growth & Competitiveness Strategy: Call for Evidence' (15 November 2024), accessible [here](#). ^ [Back to section](#)
- 4 Accessible [here](#) ^ [Back to section](#)
- 5 Department for Energy Security & Net Zero 'Voluntary Carbon and Nature Markets: Raising Integrity' (17 April 2025), accessible [here](#) ^ [Back to section](#)
- 6 S.I. 2019/1056. ^ [Back to section](#)
- 7 For these purposes, 'net UK carbon account' for a period means the amount of net UK emissions of targeted greenhouse gases for the period (a) reduced by the amount of carbon units credited to the net UK carbon account for the period in accordance with regulations under this section, and (b) increased by the amount of carbon units that in accordance with such regulations are to be debited from the net UK carbon account for the period (Climate Change Act 2008, s.27(1)). ^ [Back to section](#)

- 8 See the United Nations, Paris Agreement, 2015, accessible [here](#): as part of the Paris Agreement, the UK Government submitted in December 2020 its 'nationally determined contribution' (NDC) in which it committed to reduce economy-wide greenhouse gas emissions by at least 68 per cent compared with 1990 levels by 2030, accessible [here](#). In addition to the UK-wide target, Scotland has set its own and is aiming to become a net zero economy by 2045 (Climate Change (Emissions Reductions Targets) (Scotland) Act 2019). ^ [Back to section](#)
- 9 Accessible [here](#). ^ [Back to section](#)
- 10 Accessible [here](#). ^ [Back to section](#)
- 11 Accessible [here](#). ^ [Back to section](#)
- 12 2023 Strategy, pp. 7-8. ^ [Back to section](#)
- 13 2023 Strategy, Chapter 2 ^ [Back to section](#)
- 14 2023 Strategy, Chapter 3. See also the DESNZ's policy paper on 'Powering Up Britain' (March 2023, accessible [here](#)) and the Department for Environment, Food & Rural Affairs' 'Environmental Improvement Plan 2023' (January 2023, accessible [here](#)). ^ [Back to section](#)
- 15 See press release 'Boost for new National Wealth Fund to unlock private investment' ([here](#)) and HM Treasury's policy paper 'National Wealth Fund: Mobilising Private Investment' ([here](#)). ^ [Back to section](#)
- 16 See DNESNZ guidance on 'Local net zero: central support for local authorities and communities' ([here](#)). ^ [Back to section](#)
- 17 See Transition Finance Market Review and The Global City 'Scaling Transition Finance: Findings of the Transition Finance Market Review' (17 October 2024), accessible [here](#). ^ [Back to section](#)
- 18 At a high level, these relate to: (i) Defining the scope of transition finance, (ii) pathways and policy, (iii) scaling finance for transition activities, (iv) scaling finance for transitioning activities, (v) scaling transition finance with credibility & integrity, (vi) scaling transition finance in emerging markets and developing economies, and (vii) delivering on the ambitions of the review. ^ [Back to section](#)
- 19 Transition Finance Market Review launch, Keynote speech by Minister for Industry at the launch event for the Transition Finance Market Review (17 October 2024, Guildhall, London), accessible [here](#). ^ [Back to section](#)
- 20 Department for Business & Trade, Invest 2035: the UK's modern industrial strategy (Open consultation, 24 October 2024), accessible [here](#). ^ [Back to section](#)

- 21 HM Treasury, 'Financial Services Growth & Competitiveness Strategy: Call for Evidence' (15 November 2024), accessible [here](#). ^ [Back to section](#)
- 22 HM Treasury, 'Call for evidence outcome Financial Services Growth & Competitiveness Strategy: Overview' (21 July 2025), accessible [here](#) ^ [Back to section](#)
- 23 See the FCA's ESG priorities (November 2021), accessible [here](#); the FCA Strategy for 2025 to 2030, available [here](#); and the FCA's latest update on its ESG Strategy is in its annual work programme 2025/26 ([here](#)). A summary is accessible on the FCA's webpage on climate change and sustainable finance ([here](#)). ^ [Back to section](#)
- 24 See Supervisory Statement SS3/19 on 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change' (April 2019, accessible [here](#)). Later climate-change related PRA documents include: 'Dear CEO' letter on managing climate-related financial risk (July 2020, accessible [here](#)); Report on 'Climate-related financial risk management and the role of capital requirements' (October 2021, accessible [here](#)); Bank of England report on climate-related risks and the regulatory capital frameworks (March 2023, accessible [here](#)). The PRA's Business Plan 2024/25 (April 2024, accessible [here](#)) the PRA states that it will continue to assess firms' progress in managing climate-related financial risks. ^ [Back to section](#)
- 25 See Bank of England, 'Key elements of the 2021 Biennial Exploratory Scenario: Financial risks from climate change' (June 2021), accessible [here](#); and Bank of England, 'Results of the 2021 Climate Biennial Exploratory Scenario' (May 2022), accessible [here](#). See also 'Dear CEO' letter on the thematic feedback on the PRA's supervision of climate related financial risk and the Bank of England's Climate Biennial Exploratory Scenario exercise (October 2022, accessible [here](#)). ^ [Back to section](#)
- 26 Bank of England, Letter from David Bailey 'Thematic feedback on accounting for IFRS 9 ECL and climate risk' (27 September 2024), accessible [here](#). ^ [Back to section](#)
- 27 See [here](#). ^ [Back to section](#)
- 28 See Letter from the Chancellor of the Exchequer to the Governor of the Bank of England providing recommendations for the Prudential Regulation Committee (responsible for the exercise of the Bank of England's functions as the PRA), accessible [here](#) ^ [Back to section](#)
- 29 See [here](#). ^ [Back to section](#)
- 30 Prudential Regulation Authority 'Climate Change Adaptation Report 2025' (30 January 2025), accessible [here](#) ^ [Back to section](#)
- 31 Prudential Regulation Authority 'CP10/25 – Enhancing bank's and insurer's approaches to managing climate-related risks – Update to SS3/19' (30 April 2025), accessible [here](#) ^ [Back to section](#)

- 32** Other sustainable finance instruments include debt-for-nature swaps, blended finance instruments, SDG bonds, although those are generally targeted more towards Global South issuers than the UK. [^ Back to section](#)
- 33** See LMA, Green Loan Principles ([here](#)). [^ Back to section](#)
- 34** See ICMA, Green Bond Principles ([here](#)). [^ Back to section](#)
- 35** ICMA and the London Stock Exchange Group jointly published guidance on green, social and sustainability sukuk (April 2024, [here](#)). Sukuk are the primary capital market instruments in Islamic finance that follow the principles of Shari'ah (Islamic) law and offer fixed income characteristics similar to bonds, based on the sharing of underlying profits or income streams. [^ Back to section](#)
- 36** See ICMA, 'Bonds to Finance the Sustainable Blue Economy: A Practitioner's Guide' (September 2023, accessible [here](#)). [^ Back to section](#)
- 37** See LMA, Social Loan Principles ([here](#)). [^ Back to section](#)
- 38** See ICMA, Social Bond Principles ([here](#)). [^ Back to section](#)
- 39** See ICMA, Sustainability Bond Guidelines ([here](#)). [^ Back to section](#)
- 40** See LMA, Sustainability-Linked Loan Principles ([here](#)). [^ Back to section](#)
- 41** See ICMA, Sustainability-Linked Bond Principles ([here](#)). [^ Back to section](#)
- 42** See ISDA, Sustainability-linked Derivatives KPI Guidelines ([here](#)); ISDA, 'ISDA Launches Sustainability-linked Derivatives Clause Library' (January 2024, accessible [here](#)); see also ISDA, 'The Way Forward For Sustainability-linked Derivatives' (November 2022, accessible [here](#)). [^ Back to section](#)
- 43** Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds, which will apply from 21 December 2024. [^ Back to section](#)
- 44** See the ICMA's Green Bond Principles ([here](#)); the ICMA's Guide on Bonds to Finance the Sustainable Blue Economy ([here](#)) and the UN's Sustainable Blue Economy Finance Principles ([here](#)); the ICMA's Sustainability-Linked Bond Principles ([here](#)); the ICMA's Social Bond Principles ([here](#)); the ICMA's Sustainability Bond Principles ([here](#)). [^ Back to section](#)
- 45** See the LMA's Green Loan Principles ([here](#)); the LMA's Sustainable-linked Loan Principles ([here](#)); the LMA's Social Loan Principles ([here](#)). [^ Back to section](#)

- 46** See the ISDA's Sustainability-linked Derivatives KPI Guidelines ([here](#)). [^] [Back to section](#)
- 47** See the International Finance Corporation's Guidelines for Blue Finance (January 2022, accessible [here](#)); the Asian Development Bank's Green and Blue Bond Framework (September 2021, accessible [here](#)); the World Bank's Sustainable Development Bond Framework (March 2021, accessible [here](#)). [^] [Back to section](#)
- 48** See FCA Feedback Statement FS 22/4 'ESG integration in UK capital markets' (June 2022, accessible [here](#)) and Primary Market Bulletin 41 (June 2022, accessible [here](#)). [^] [Back to section](#)
- 49** FCA, 'The sustainability-linked loans market – two years on' (August 2025), accessible [here](#). [^] [Back to section](#)
- 50** FCA, 'FCA establishes industry-led working group for financial advisers' (16 April 2024), accessible [here](#). [^] [Back to section](#)
- 51** Environmental Finance, Sustainable Bonds Insight 2025, 'Largest GSSS bonds in 2024' (January 2025), accessible [here](#). [^] [Back to section](#)
- 52** Ibid, 'Making a market in sustainable finance'. [^] [Back to section](#)
- 53** AFME, ESG Finance Report, 'Green Bond Issuance' p. 13 (25 September 2024), accessible [here](#). [^] [Back to section](#)
- 54** UK Debt Management Office, '2024-2025 Annual Report and Accounts' (15 July 2025) p.9, accessible [here](#). [^] [Back to section](#)
- 55** HM Treasury, Debt Management Report 2025-2026 (2 April 2025), accessible [here](#). See also, AFME, ESG Finance Report Q2 2024, 'Green Bond Issuance' p. 13 (25 September 2024), accessible [here](#); AFME, ESG Finance Report Q4 2023, 'Green Bond Issuance' p. 13 (23 February 2024), accessible [here](#). [^] [Back to section](#)
- 56** AFME, ESG Finance Report Q2 2025, 'Sustainability-linked Bond Issuance' p. 18 (6 August 2025), accessible [here](#). [^] [Back to section](#)
- 57** Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088. [^] [Back to section](#)
- 58** HM Treasury 'Consultation outcome UK Green Taxonomy Consultation Response' (15 July 2025), accessible [here](#) [^] [Back to section](#)

- 59** This means that where a company's disclosures fail to comply with one or more of the TCFD recommendations, it must include in the relevant disclosures a statement explaining (i) the recommendations and/or recommended disclosures for which it has not included such disclosures; (ii) the reasons for not including such disclosures; and (iii) any steps it is taking or plans to take in order to be able to make those disclosures in the future, and the timeframe within which it expects to be able to make those disclosures. [^ Back to section](#)
- 60** See TCFD, 'Recommendations of the Task Force on Climate-related Financial Disclosures' (June 2017), available [here](#). The UKLR requirements are set out in UKLR 6.6.6R(8) for companies with a listing of equity shares in the equity shares (commercial companies) (ESCC) category of the UKLR, with corresponding rules under UKLR 14 (equity shares (international commercial companies secondary listing)), UKLR 16 (non-equity shares and non-voting equity shares) and UKLR 22 (equity shares (transition)). [^ Back to section](#)
- 61** The precise scope of the disclosure obligations in ESG 2 is set out in ESG 1A.1.1R, and covers certain of the mentioned firms in respect of certain specified types of activities, such as portfolio management or providing insurance-based investment products ('TCFD in-scope business')). [^ Back to section](#)
- 62** ESG 2.1.1R. [^ Back to section](#)
- 63** ESG 2.2.1R. [^ Back to section](#)
- 64** ESG 2.1.5R. The ESG Sourcebook requires annual report on TCFD compliance at both an entity and at a product level; see ESG 2.2 and 2.3. The entity report must follow TCFD's recommendations (ESG 2.2.1). The concept of a product report was a new development that had not been suggested in the government's TCFD roadmap. Product-level reporting requires certain of the firm's products to be disclosed on mandatory metrics which are similar (but not identical) to the SFDR indicators: (i) scope 1 and 2 GHGs, (ii) scope 3 GHGs, (iii) total carbon emissions, (iv) total carbon footprint, and (v) weighted average carbon intensity; see ESG 2.3.9. [^ Back to section](#)
- 65** Pensions Act 1995, ss. 41A and 41B; Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (SI 2021/839); Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (SI 2021/839). [^ Back to section](#)
- 66** In particular, companies or LLPs that (i) have more than 500 employees, and (ii) are either traded companies, banking companies, authorised insurance companies, AIM companies or high turnover companies (with more than £500 million annual turnover on an individual basis or, where the company in question is a parent company, on the basis of the group headed by the company). [^ Back to section](#)

- 67 The Companies Act 2006, sections 414CA(A1) and 414CB(2A). Climate risks and opportunities must be done in the non-financial and sustainability information statement (NFSI statement) of the strategic report. ^ [Back to section](#)
- 68 BEIS, 'Mandatory climate-related financial disclosures by publically quoted companies, large private companies and LLPs' (21 February 2022) accessible [here](#). ^ [Back to section](#)
- 69 See HM Treasury, Mansion House 2024 speech (14 November 2024) accessible [here](#). ^ [Back to section](#)
- 70 See 'Educational material: Effects of climate-related matters on financial statements' (republished June 2023), accessible [here](#). ^ [Back to section](#)
- 71 See 'Exposure Draft: Climate-related and Other Uncertainties in the Financial Statements - Proposed illustrative examples', accessible [here](#). ^ [Back to section](#)
- 72 International Auditing and Assurance Standards Board, 'The Consideration of Climate-Related Risks in an Audit of Financial Statement' (October 2020, accessible [here](#)). ^ [Back to section](#)
- 73 See the definition of 'climate-related transition plan' in the IFRS S2 (*Climate-related Disclosures*) standard (accessible [here](#)), used also in the Transition Plan Taskforce's Disclosure Framework (October 2023), accessible [here](#). ^ [Back to section](#)
- 74 Notably, the TCFD's Guidance on Metrics, Targets, and Transition Plans (accessible [here](#)) highlights that '*[t]he Task Force recognizes that an organization's transition plan is one component of its strategy to address its climate-related risks and opportunities and believes its recommendations implicitly cover the key aspects of transition plans*' (p. 39). ^ [Back to section](#)
- 75 See, e.g., UKLR 6.6.12G or ESG 2.2.2G. See the FCA's Primary Market Bulletin 45 (10 August 2023), accessible [here](#), where it explains that '*where [developing and disclosing] a transition plan, listed companies should assess the extent to which they've considered national net zero commitments*'. ^ [Back to section](#)
- 76 See the FCA's Primary Market Bulletin 42 (12 December 2022) available [here](#), where it '*remind[s] companies to consider the TCFD's Guidance on Metrics, Targets and Transition Plans for future reporting. In addition, when making their transition plan disclosures, [it] encourages companies to consider the TPT's initial outputs*'. ^ [Back to section](#)
- 77 See the speech at the UKSFIF Leadership Summit by FCA chief operating officer (6 November 2024) available [here](#); the FCA's Primary Market Bulletin 49 (20 May 2024) available [here](#). The FCA specified that such consultation would take place at the same time as consulting on aligning their rules to ISSB standards. ^ [Back to section](#)

- 78** Department for Energy Security and Net Zero 'Closed consultation Climate-related transition plan requirements' (25 June 2025), accessible [here](#) ^ [Back to section](#)
- 79** See TPT's October 2023 'Disclosure Framework', available [here](#). Further updates to the package of documents are contained at 'Build your Transition Plan' section of the TPT website, available [here](#). From October 2024, the TPT Disclosure Framework and supporting guidance are available on the IFRS Sustainability Knowledge Hub, available [here](#). ^ [Back to section](#)
- 80** TPT, 'Progress Achieved and the Path Ahead: The Final Report of the Transition Plan Taskforce' (October 2024), accessible [here](#). ^ [Back to section](#)
- 81** The ISSB has stated ([here](#)) that it will assume responsibility for the disclosure-specific materials developed by the Transition Plan Taskforce, that, in the near term, it expects to use these materials to develop educational materials, and that, over time, it will utilize these materials, as relevant, to enhance the application guidance within IFRS S2. ^ [Back to section](#)
- 82** IOSCO Report on Transition Plans, 13 November 2024, accessible [here](#). ^ [Back to section](#)
- 83** Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability related disclosures in the financial services sector. ^ [Back to section](#)
- 84** Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting, accessible [here](#). ^ [Back to section](#)
- 85** Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859, accessible [here](#). ^ [Back to section](#)
- 86** See, in general, FCA PS 23/16, 'Sustainability Disclosure Requirements (SDR) and investment labels' (November 2023), accessible [here](#). ^ [Back to section](#)
- 87** See Chapter 1. ^ [Back to section](#)
- 88** See, ESG 4.1 and 4.2. ^ [Back to section](#)
- 89** ESG 4.3. ^ [Back to section](#)
- 90** See [here](#). ^ [Back to section](#)
- 91** See ESG 4.3.1R. In April 2024, the FCA has published non-handbook guidance on the Anti-Greenwashing Rule (FG 24/3, accessible [here](#)). ^ [Back to section](#)

- 92** See ESG 5. ^ [Back to section](#)
- 93** ESG 4.1.16R-19R. ^ [Back to section](#)
- 94** See [here](#). ^ [Back to section](#)
- 95** See FCA, 'Extending the Sustainability Disclosure Requirements (SDR) regime to Portfolio Management' (Consultation Paper CP24/8) (April 2024) (accessible [here](#)). ^ [Back to section](#)
- 96** See [here](#). ^ [Back to section](#)
- 97** Financial Conduct Authority, 'Quarterly Consultation CP25/24' (No.49) (September 2025), accessible [here](#). ^ [Back to section](#)
- 98** See [here](#). ^ [Back to section](#)
- 99** See, ISSB, 'Comparison: IFRS S2 Climate-related Disclosures with the TCFD Recommendations' (November 2024), accessible [here](#). ^ [Back to section](#)
- 100** HM Government, 'Sustainability Disclosure Requirements: Implementation Update 2024' (16 May 2024), accessible [here](#). ^ [Back to section](#)
- 101** See [here](#). ^ [Back to section](#)
- 102** The TNFD's final recommendations are accessible [here](#). ^ [Back to section](#)
- 103** For example, guidance on value chains ([here](#)), guidance on scenario analysis ([here](#)), guidance on getting started with adoption of the TNFD recommendations ([here](#)). ^ [Back to section](#)
- 104** The TNFD's discussion paper on nature transition plans (October 2024) is accessible [here](#). ^ [Back to section](#)
- 105** '2023 Strategy, chapter 2, paragraph 52. ^ [Back to section](#)
- 106** Companies Act 2006, ss. 414A to 414D. ^ [Back to section](#)

- 107** The FCA has first raised the question of whether ESG ratings and ESG data providers should become subject to regulatory oversight in its June 2021 Consultation Paper 21/18 'Enhancing climate-related disclosures by standard listed companies and seeking views on ESG topics in capital markets', accessible [here](#). In June 2022, the FCA published the feedback statement noting that it saw 'a clear rationale for regulatory oversight of certain ESG data and rating providers – and for a globally consistent regulatory approach informed by the recommendations on ESG data and ratings developed by IOSCO in 2021' (Feedback Statement 22/4 'ESG integration in UK capital markets', accessible [here](#)). For an overview of the emerging regulation of ESG ratings in the UK, see [here](#). [^ Back to section](#)
- 108** DRWG 'Code of Conduct for ESG Ratings and Data Products Providers', December 2023 (<https://www.icmagroup.org/assets/DRWG-Code-of-Conduct-for-ESG-Ratings-and-Data-Products-Providers-v3.pdf>). For a detailed analysis of the Code of Conduct, see [here](#); for commentary on the potential regulatory implications of a voluntary code of conduct, see [here](#). [^ Back to section](#)
- 109** HM Treasury 'Future regulatory regime for Environmental, Social, and Governance (ESG) ratings providers', 30 March 2023 (<https://www.gov.uk/government/consultations/future-regulatory-regime-for-environmental-social-and-governance-esg-ratings-providers>). For a detailed analysis of the UK government's proposals, see [here](#). [^ Back to section](#)
- 110** FCA 'FS22/4 ESG integration in UK capital markets: Feedback to CP21/18' 29 June 2022 (<https://www.fca.org.uk/publications/feedback-statements/fs22-4-esg-integration-uk-capital-markets>) [^ Back to section](#)
- 111** HM Treasury, 'Future regulatory regime for Environmental, Social and Governance (ESG) ratings providers. Consultation Response' (15 November 2024), accessible [here](#). [^ Back to section](#)
- 112** Draft Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) (No. 2) Order 2024, accessible [here](#). [^ Back to section](#)
- 113** The draft legislation defines 'ESG rating' as 'an assessment regarding one or more ESG factors, produced in the form of an ESG opinion, an ESG score or a combination of both, whether or not it is characterised as an ESG rating'. [^ Back to section](#)
- 114** FCA, 'FCA welcomes move to bring ESG ratings providers into regulation' (15 November 2024), accessible [here](#). [^ Back to section](#)
- 115** FCA. 'FCA invites ESG ratings providers to complete a voluntary survey' (24 March 2025), accessible [here](#). [^ Back to section](#)

- 116** See <https://www.gov.uk/green-taxes-and-reliefs>; see also House of Commons Committee of Public Accounts, 'Environmental tax measures. Fifty-Fifth Report of Session 2019-21', accessible [here](#). ^ [Back to section](#)
- 117** Office for National Statistics 'UK environmental taxes: 2024' (6 May 2025), accessible [here](#) ^ [Back to section](#)
- 118** Finance Act 2001, Part 2. ^ [Back to section](#)
- 119** Finance Act 2000, Part II. ^ [Back to section](#)
- 120** See House of Commons Research Briefing 'Carbon Price Floor (CPF) and the price support mechanism' (January 2018), accessible [here](#). ^ [Back to section](#)
- 121** Finance Act 1996, Part III. ^ [Back to section](#)
- 122** Energy (Oil and Gas) Profits Levy Act 2022, Section 1 ^ [Back to section](#)
- 123** Finance Act 2021, Part 2; see also HMRC, Policy paper 'Introduction of Plastic Packaging Tax from April 2022' (July 2021), accessible [here](#). ^ [Back to section](#)
- 124** Capital Allowances Act 2001, s. 45D; see also: <https://www.gov.uk/capital-allowances/first-year-allowances>. ^ [Back to section](#)
- 125** Corporation Tax Act 2009, Part 14. ^ [Back to section](#)
- 126** <https://www.gfanzero.com/> ^ [Back to section](#)
- 127** such as the Net Zero Asset Owner Alliance (NZAOA), the Net Zero Asset Managers initiative (NZAM), the Paris Aligned Asset Owners (PAAO), Net-Zero Banking Alliance (NZBA), Net Zero Financial Service Providers Alliance (NZFSPA), Net Zero Investment Consultants Initiative (NZICI), the Venture Climate Alliance, and the Net-Zero Export Credit Agencies Alliance (NZECA). ^ [Back to section](#)
- 128** <https://www.unepfi.org/forum-for-insurance-transition-to-net-zero/>, reconvened after the discontinuation of the Net-Zero Insurance Alliance. ^ [Back to section](#)
- 129** For a discussion of the economic analysis and the need to address climate change externalities, market failures and first-mover disadvantages, see [here](#). ^ [Back to section](#)
- 130** The CMA's Green Agreements Guidance is accessible [here](#) and a detailed commentary is accessible [here](#). The European Union has issued similar guidance in Chapter 9 of its Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements ([here](#)). A useful resource on sustainability and climate discussions and agreements is the Net Zero Lawyers' Alliance's guidance 'EU/UK Competition Law 101', accessible [here](#). ^ [Back to section](#)

- 131** The Investment Association's principles of remuneration are accessible [here](#). [^] [Back to section](#)
- 132** A March 2025 article by WTW, 'Investor perspectives on ESG metrics in executive incentive programs' ([here](#)), indicates that whilst institutional investors are generally happy to defer to the board's judgement in selecting appropriate ESG metrics against these criteria, they expect meaningful disclosure that extends to the rationale behind their selection. The article also suggests that institutional investors may not consider all ESG metrics to be of the same quality, with benchmarking against ESG indices and compliance-related metrics being of a low quality, and with one investor citing 'non-measurable KPIs or opaque scorecards' as a form of greenwashing. [^] [Back to section](#)
- 133** See, e.g., the May 2021 report by the Financial Reporting Council on 'Changes in Remuneration Reporting Following the UK Corporate Governance Code 2018' ([here](#)), which notes an increase in companies' linking remuneration with ESG objectives from 2017 to 2019, and ICAEW, 'UK executive pay increasingly linked to ESG targets' ([here](#)). [^] [Back to section](#)
- 134** See the September 2025 report by WTW on 'Director Remuneration in FTSE 100 companies' ([here](#)) compared with the September 2024 report by WTW on 'Director Remuneration in FTSE 100 companies' ([here](#)). [^] [Back to section](#)
- 135** Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, Article 5 and Recital (22). [^] [Back to section](#)
- 136** See the February 2023 Discussion Paper DP23/1 by the FCA on 'Finance for positive sustainable change' ([here](#)). The discussion period ended on May 2023. [^] [Back to section](#)
- 137** FCA, 'DP23/1: Finance for Positive Sustainable Change' Feedback Shared (2 April 2025), accessible [here](#) [^] [Back to section](#)
- 138** As a consequence of the UK's exit from the European Union, the UK ETS came into force on 1 January 2021. The main legislative instrument creating the framework for the UK ETS is the Greenhouse Gas Emissions Trading Scheme Order 2020 (SI 2020/1265)(the GGETSO). [^] [Back to section](#)
- 139** The scope of the GGETSO is mainly set out in Schedule 2. It covers 'installations', i.e., subject to certain exclusions, stationary technical units where one or more 'regulated activities' are carried out (Schedule 2, paragraph 2(1)). For these purposes, regulated activities broadly mean certain activities specified in Schedule 2 (e.g., certain combustion of fuels, refining of mineral oil, production of coke, certain metal and other manufacturing operations, etc.) where they result in emissions of certain specified GHGs (carbon dioxide, nitrous oxide, perfluorocarbons). [^] [Back to section](#)

- 140** UK ETS allowances are permits to emit 1 tonne of carbon dioxide equivalent (GGETSO, Article 18). [^ Back to section](#)
- 141** GGETSO, Article 27. [^ Back to section](#)
- 142** GGETSO, Part 7. [^ Back to section](#)
- 143** GGETSO, Part 2, Chapter 2. [^ Back to section](#)
- 144** GGETSO, Part 4A. [^ Back to section](#)
- 145** Finance Act 2020, s. 96; Greenhouse Gas Emissions Trading Scheme Auctioning Regulations 2021 (SI 2021/484). [^ Back to section](#)
- 146** Notably, UK ETS allowances are 'specified investments' under the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. Accordingly, trading in UK allowances may have regulatory implications under the Financial Services and Markets Act 2000 regulatory regime. [^ Back to section](#)
- 147** See 'Addressing carbon leakage risk to support decarbonisation - Summary of consultation responses and government response' (18 December 2023), accessible [here](#). The previous government's intention to introduce the UK CBAM was subsequently confirmed in the Spring Budget (see [here](#), paragraph 2.46), and the election manifesto of the current government also expressed support for the introduction of a UK CBAM ([here](#), p. 56). Details of the UK CBAM's design – e.g., the precise list of sectors and goods that should be covered by the CBAM and the calculation methodology, the UK carbon price and adjustments for overseas carbon prices – are subject to an ongoing consultation process (HM Treasury & HMRC, '*Introduction of a UK carbon border adjustment mechanism from January 2027 – Consultation*' (March 2024), accessible [here](#)). [^ Back to section](#)
- 148** Initially, the following sectors were envisaged to become subject to the UK CBAM: aluminium, cement, ceramics, fertiliser, glass, hydrogen, iron, and steel. [^ Back to section](#)
- 149** Carbon Leakage is the movement of production and associated emissions from one country to another due to different levels of decarbonisation effort through carbon pricing and climate regulation (see 'Addressing carbon leakage risk to support decarbonisation - Summary of consultation responses and government response' (18 December 2023)). [^ Back to section](#)
- 150** Draft Legislation: Carbon Border Adjustment Mechanism (24 April 2025), available [here](#). [^ Back to section](#)
- 151** Available [here](#) [^ Back to section](#)

- 152** HM Revenue and Customs 'Carbon Border adjustment mechanism (CBAM): Policy Update' (24 April 2025), available [here](#) ^ [Back to section](#)
- 153** In December 2023, the UK ETS Authority set out its long-term plans for developing the UK ETS, including consultations to deliver the initial expansion to the waste and maritime sectors, and exploring expanding the UK ETS to more sectors (see [here](#)); and in May 2024, the UK government's Department for Energy Security and Net Zero published a consultation on expanding the UK ETS to include energy from waste and waste incineration (see [here](#)). On 21 July 2025, the UK government published responses by the UK ETS authority to three major consultations announcing the planned integration of [maritime emissions](#) (from 2026), [waste incineration](#) (from 2028) and [carbon removals](#) (from 2029) into the UK ETS. ^ [Back to section](#)
- 154** See [here](#). ^ [Back to section](#)
- 155** See [here](#). ^ [Back to section](#)
- 156** See [here](#). ^ [Back to section](#)
- 157** As is required under Article 392(6) of the EU/UK Trade and Cooperation Agreement (accessible [here](#)). More recently, the Government's response to the European Affairs Committee report on UK-EU future relationship (June 2023, accessible [here](#)) has recommended that such linking be explored. ^ [Back to section](#)
- 158** See [here](#) ^ [Back to section](#)
- 159** E.g., American Carbon Registry, Climate Action Reserve, Gold Standard, Verra. ^ [Back to section](#)
- 160** Notable examples of governmental oversight include the mechanisms under the Kyoto Protocol and the Paris Agreement, China's Certified Emission Reductions ('CCER')) scheme and the EU's proposed regulation establishing an EU certification framework for permanent carbon removals, carbon farming and carbon storage in products (the 'CRCF Regulation')). ^ [Back to section](#)
- 161** A notable example is China's emissions trading scheme which allows in-scope entities to satisfy some of their obligations through CCERs, i.e., VCCs. Further, until 2020, the EU ETS allowed for the use of credits generated through flexibility mechanisms under the Kyoto Protocol. ^ [Back to section](#)
- 162** See, e.g., Climate Change Committee, 'Voluntary Carbon Markets and Offsetting' (October 2022), accessible [here](#); IOSCO, 'Voluntary Carbon Markets – Consultation Report' (CR/06/23), accessible [here](#); or UK Parliament Research Briefing, 'Carbon Offsetting' dated 24 January 2024 (POSTnote713), accessible [here](#). ^ [Back to section](#)
- 163** See, e.g., CRCF Regulation, Recitals (2) – (4). ^ [Back to section](#)

- 164** For instance, in 2022, the Climate Change Committee recommended to support the role VCMs can play in the UK net-zero pathway (in tandem with other measures), provided that the integrity of carbon credit projects in the UK and globally is ensured and credits are not used as a substitute for direct emissions reductions (Climate Change Committee, 'Voluntary Carbon Markets and Offsetting' (October 2022). In January 2023, the Department for Business, Energy and Industrial Strategy's Net Zero Review recommended that the UK government endorse international VCM standards as soon as possible and consult on formally adopting regulated standards for VCMs and setting up a regulator for carbon credits and offsets by 2024 (see [here](#)). And in its March 2023 'Mobilising Green Investment' strategy (accessible [here](#)), the previous UK government expressed its intention to 'unlock voluntary markets for carbon and nature', planning to consult on the specific steps and regulatory interventions needed to support the growth of high integrity VCMs and protect against greenwashing, and introduced projects to support the Integrity Council on Voluntary Carbon Markets and stated that it would consider the potential for the output of the Council to be incorporated in relevant regulatory regimes. ^ [Back to section](#)
- 165** DESNZ, 'Principles for voluntary carbon and nature market integrity' (15 November 2024), accessible [here](#). ^ [Back to section](#)
- 166** DESNZ, 'Voluntary Carbon and Nature Markets Raising Integrity' (17 April 2025), accessible [here](#) and also the UK Government's commitment to support businesses to trade carbon credits in its press release 'UK backs businesses to trade carbon credits and unlock finance' (17 April 2025), accessible [here](#) ^ [Back to section](#)
- 167** See, generally, the 2023 Strategy. ^ [Back to section](#)
- 168** See, generally, House of Commons Research Briefing, 'The UK's plans and progress to reach net zero by 2050' (26 September 2024), accessible [here](#); DESNZ and DBEIS's policy paper on 'Advanced Nuclear Technologies' (October 2024, accessible [here](#)); DESNZ's policy paper on 'Powering Up Britain: Net Zero Growth Plan' (March 2023, accessible [here](#)) and DESNZ and DBEIS's policy paper on 'Net Zero Strategy (Build Back Greener)' (April 2022, accessible [here](#)); DBEIS's white paper on 'Powering our Net Zero Future' (December 2020, accessible [here](#)). ^ [Back to section](#)
- 169** See, 'Government backing for AI businesses to deliver net zero with innovative technologies', accessible [here](#). ^ [Back to section](#)
- 170** See, e.g., the National Wealth Fund ([here](#)) and the Net Zero Innovation Portfolio ([here](#)). ^ [Back to section](#)

- 171** DESNZ, 'Great British Energy Act 2025: factsheet' (3 September 2025), accessible [here](#); DESNZ, 'Great British Energy Bill overarching factsheet' (18 November 2024), accessible [here](#). Other relevant initiatives include the Crown Estate Act 2025 (to remove restrictions and allow for easier investment in public infrastructure, see [here](#)); and Sustainable Aviation Fuel (Revenue Support Mechanism) Bill (see [here](#)). The Labour party's pre-election manifesto ([here](#)) had set out five missions for Britain, one of which was to make the country a 'Green Energy Superpower'. Within three days of being in power, the Labour party lifted the de facto ban on the construction of onshore wind farms (HM Government, 'Policy statement on onshore wind', 8 July 2024, accessible [here](#)). ^ [Back to section](#)
- 172** FCA, 'Sustainability TechSprint' October 2021, see [here](#). ^ [Back to section](#)
- 173** FCA, 'Supercharging the digital sandbox: how we're collaborating with Nvidia to accelerate AI innovation" (10 June 2025), accessible [here](#); FCA, 'Supporting innovation in ESG data and disclosures – the digital sandbox', 23 June 2022, (accessible [here](#)) ^ [Back to section](#)
- 174** See [here](#). The CGFI seeks to act as a platform to connect wider UK science and innovation with financial institutions, providing a route by which needs are understood and the latest climate and environmental science is made accessible, commercialised, and exported globally, placing the UK as global hub for climate and environmental analytics for financial institutions. ^ [Back to section](#)
- 175** See, e.g., the Wildlife and Countryside Act 1981, the Environment Act 1995, the Natural Environment and Rural Communities Act 2006, the Marine and Coastal Access Act 2009, Town and Country Planning (Environmental Impact Assessment) Regulations 2017 (SI 2017/571), the Conservation of Habitats and Species Regulations 2017 (SI 2017/1012), the Conservation of Offshore Marine Habitats and Species Regulations 2017 (SI 2017/1013), the Control of Trade in Endangered Species Regulations (SI 2018/703), etc. ^ [Back to section](#)
- 176** Environment Act 2021, s. 1. ^ [Back to section](#)
- 177** See Regulation (EU) No 995/2010 as it forms part of assimilated law in the UK. This prohibits the placing on the market of illegally harvested timber or products from illegally harvested timber and imposes corresponding due diligence obligations (Article 4). Illegal harvesting, for these purposes, means harvesting in contravention of the applicable legislation in the country of harvest. ^ [Back to section](#)
- 178** Environment Act 2021, s. 116 and Sch. 17. The scope of 'forest risk commodities' is yet to be specified in subordinated legislation, but previous governmental statements indicated that key drivers of deforestation (e.g., cattle products (excluding dairy), cocoa, palm oil and soy) would be the initial focus (see [here](#)). The new scheme would prohibit the use of illegally produced forest risk commodities, and would impose wide-ranging due diligence and reporting requirements (Environment Act 2021, Sch. 17, paras 3 and 4). As of September 2025, this scheme has not been introduced. ^ [Back to section](#)

- 179** See, in particular, Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence. [^ Back to section](#)
- 180** The OECD MNE Guidelines are accessible [here](#). [^ Back to section](#)
- 181** See Energy Savings Opportunity Scheme Regulations 2014 (SI 2014/1643). [^ Back to section](#)
- 182** This has been analysed in detail in a widely discussed legal opinion on 'Nature related risks and directors' duties under the law of England and Wales', accessible [here](#). [^ Back to section](#)
- 183** For example, the Network for Greening the Financial System, in July 2024, issued two publications on nature related risks: a conceptual framework for nature-related financial risk ([here](#)) and a report on emerging trends and lessons learned from nature-related litigation ([here](#)). In September 2024, the Science Based Target Network published a pilot summary report ([here](#)) on setting nature related targets. See also the work of the Green Finance Institute ([here](#)). [^ Back to section](#)
- 184** '2023 Strategy, accessible [here](#), p. 8. [^ Back to section](#)
- 185** SI 2008/1277. [^ Back to section](#)
- 186** In April 2025, new directly enforceable consumer protection laws came into force under the DMCCA which allows the CMA to impose fines and require undertakings to modify offending conduct (previously the CMA would have had to apply to the court for an order for compliance). However, the Digital Markets, Competition and Consumers Act 2024 ('DMCCA')) does not specifically list greenwashing as an automatically unfair practice (although the relevant list of practices may be updated in the future). Seeing that the CPRs were introduced to implement the EU's Unfair Commercial Practices Directive (Directive 2005/29/EC), the UK's approach under the DMCAA is in contrast with the approach taken in the EU, where the Unfair Commercial Practices Directive was amended specifically with a view to empowering consumers for the green transition through better protection against unfair practices relating to, and better information on, sustainability aspects of relevant goods/services (Directive (EU) 2024/825). [^ Back to section](#)
- 187** SI 2008/1276. [^ Back to section](#)
- 188** The Green Claims Code is available [here](#). [^ Back to section](#)
- 189** The principles are: (i) claims must be truthful and accurate, (ii) claims must be clear and unambiguous, (iii) claims must not omit or hide important relevant information, (iv) comparisons must be fair and meaningful, (v) claims must consider the full life cycle of the product or service, and (vi) claims must be substantiated. [^ Back to section](#)

- 190** See, in particular, Committee of Advertising Practice, 'The environment: misleading claims and social responsibility in advertising Advertising Guidance (non-broadcast and broadcast)' (accessible [here](#)). ^ [Back to section](#)
- 191** See [here](#). The CMA subsequently secured commitments from various fashion retailers (see [here](#)), and issued an open letter to the sector ([here](#)) as well as guidance on complying with consumer law when making environmental claims in the fashion retail sector ([here](#)). ^ [Back to section](#)
- 192** See this press [release](#). On 6 November 2024, the CMA has decided to close this investigation ([here](#)). ^ [Back to section](#)
- 193** See [here](#). In August 2024, the CMA secured certain undertakings related to marketing ([here](#)) and has subsequently issued guidance for businesses on marketing of green heating and insulation products ([here](#)). ^ [Back to section](#)
- 194** E.g., in respect of hybrid vehicles which were misleadingly advertised as 'zero emissions' ([here](#) and [here](#)), a brewery that was advertised as carbon negative while the advert did not explain the basis for this claim ([here](#)), an airline which claimed to enable people to 'travel better and sustainably' ([here](#)). ^ [Back to section](#)
- 195** Section 90(1) provides that any person responsible for listing particulars is liable to pay compensation to a person who has (a) acquired securities to which the particulars apply; and (b) suffered loss in respect of them as a result of (i) any untrue or misleading statement in the particulars; or (ii) the omission from the particulars of any matter required to be included. Section 90A and Schedule 10A impose liability on issuers of securities to pay compensation to persons who have suffered loss as a result of (a) a misleading statement or dishonest omission in certain published information relating to the securities, or (b) a dishonest delay in publishing such information. An example of claims brought under these provisions include the litigation against Glencore (see [here](#)). ^ [Back to section](#)
- 196** Companies Act 2006, s. 172. ^ [Back to section](#)
- 197** Companies Act 2006, s. 174. ^ [Back to section](#)
- 198** Companies Act 2006, s. 463. ^ [Back to section](#)
- 199** Although certain examples of administrative matters or investigation requests are usually included as well. ^ [Back to section](#)
- 200** See, e.g., <https://www.lse.ac.uk/granthaminstitute/explainers/what-is-climate-change-litigation/>. ^ [Back to section](#)
- 201** See Setzer and Higham, 'Global trends in climate change litigation: 2024 snapshot' (June 2024)(the '2024 Litigation Snapshot')), accessible [here](#). ^ [Back to section](#)

- 202** An example of a direct impact was the Dutch Supreme Court's decision in *Urgenda Foundation v State of the Netherlands* NL:HR:2019:2007 (20 December 2019, available [here](#)), which was an important factor in the findings of the Hague District Court (NL:RBDHA:2021:5339 (26 May 2021), available [here](#)) and of the Hague Court of Appeals (ECLI:NL:GHDHA:2024:2100 (12 November 2024), available [here](#)) in *Milieudefensie v Shell* that respect for human rights implies climate change considerations. ^ [Back to section](#)
- 203** *R (Friends of the Earth and others) v Secretary of State for Business, Energy and Industrial Strategy* [2022] EWHC 1841 (Admin). ^ [Back to section](#)
- 204** *R (Friends of the Earth and others) v Secretary of State for Energy Security and Net Zero* [2024] EWHC 995 (Admin). ^ [Back to section](#)
- 205** See, e.g., *Friends of the Earth Ltd v Secretary of State for Levelling Up, Housing and Communities* [2024] EWHC 2349 (Admin) ^ [Back to section](#)
- 206** *R (Finch on behalf of the Weald Action Group) v Surrey County Council and others* [2024] UKSC 20. ^ [Back to section](#)
- 207** *Verein KlimaSeniorinnen Schweiz and Others v. Switzerland* (Application no. 53600/20), accessible [here](#). For a detailed discussion of the decision, see [here](#) or [here](#). In this case, it was held that states' positive obligations under the European Convention on Human Rights require them to take certain measures in connection with climate change (see, in particular, paragraph [548] of the judgment). ^ [Back to section](#)
- 208** For a detailed discussion, see [here](#). ^ [Back to section](#)
- 209** For example, in May 2024, the International Tribunal for the Law of the Sea (ITLOS) issued an advisory opinion (accessible [here](#)) finding that state parties to the UN Convention on the Law of the Sea (UNCLOS) have legal obligations to take all necessary measures to prevent, reduce and control marine pollution from anthropogenic GHG emissions and must take all measures necessary to ensure GHG emissions under their jurisdiction or control do not cause damage by pollution to other states and their environment, and that pollution from those emissions does not spread beyond their jurisdiction. A request for an advisory opinion from the International Court of Justice on the obligations of States in respect of climate change (see [here](#)) is currently pending. ^ [Back to section](#)

- 210** See, by analogy, *Milieudefensie et al. v Royal Dutch Shell plc*, NL:RBDHA:2021:5339, Hague District Court (NL:RBDHA:2021:5339 (26 May 2021), available [here](#). On 12 November 2024, The Hague Court of Appeals (ECLI:NL:GHDHA:2024:2100, available [here](#)) allowed an appeal against the first instance judgment (on the basis that it was not possible to determine a specific percentage by which Shell would be required to reduce emissions by 2030), but confirmed that Shell is, under Dutch tort law, under an obligation to reduce its CO2 emissions (and suggested that continued expansion and development of new fossil fuel projects could give rise to tortious liability). An analysis of the judgment and its implications is available [here](#). ^ [Back to section](#)
- 211** See the Supreme Court of New Zealand's refusal to strike out a public nuisance claim in *Smith v Fonterra* [2024] NZSC 5. ^ [Back to section](#)
- 212** See, e.g., the Australian case of *McVeigh v. Retail Employees Superannuation Trust*, which settled in 2020, with the Trust acknowledging '*that climate change could lead to catastrophic economic and social consequences [and] is a material, direct and current financial risk to the superannuation fund across many risk categories, including investment, market, reputational, strategic, governance and third party risks*' (see [here](#)). For a detailed discussion of the impact of climate change on fiduciaries' duties, see: Wildner and Dolmans, '*Sustainable Fiduciary Duties. Draft Discussion Paper for the NZLA Secretariat*' (18 September 2024), accessible [here](#). ^ [Back to section](#)
- 213** *ClientEarth v Shell plc and others* [2023] EWHC 1897 (Ch). A detailed discussion of the judgment is accessible [here](#). ^ [Back to section](#)
- 214** *ClientEarth v Shell plc and others* [2023] EWHC 2182 (Ch). A detailed discussion of the costs decision is accessible [here](#). ^ [Back to section](#)
- 215** For a comprehensive and authoritative critique of the judgment, see Lord Robert Carnwath, '*ClientEarth v Shell: What future for derivative claims?*' (February 2024), accessible [here](#), where his Lordship highlights, amongst other things, that '*a different judge could have come to a different decision ...*'. ^ [Back to section](#)
- 216** 2024 Litigation Snapshot, p. 36. Note also, Legal Opinion, Pollination Law/CCLI, [Nature-related risks and directors' duties under the law of England and Wales](#), 11 March 2024, para 138, which states '*[a]n investor who is concerned generally with the company's approach to nature [and climate]-related risks and who holds a significant shareholding in a company may be able to persuade a court that the proceedings had been commenced with the company's interests in mind.*' ^ [Back to section](#)
- 217** See section VII above. For example, UK companies within the scope of the EU's Corporate Sustainability Due Diligence Directive will, under Article 22 of that Directive, be required to adopt and put into effect climate change transition plans, and those plans will need to comply with specific requirements that, for example, the transition strategy that was the subject of the *ClientEarth* case would have fallen short of. ^ [Back to section](#)

218 See Climate Attribution Database, accessible [here](#). ^ [Back to section](#)

219 2024 Litigation Snapshot, p. 50. See also: Network for Greening the Financial System, 'Nature-related litigation: emerging trends and lessons learned from climate-related litigation', July 2024 (accessible [here](#)). ^ [Back to section](#)

220 2024 Litigation Snapshot, p. 50. ^ [Back to section](#)

221 See [here](#) and [here](#). ^ [Back to section](#)

222 In France and in the Netherlands, for example, claims have been brought/threatened in respect of, amongst other things, banks' financed/scope 3 emissions (see [here](#) and [here](#), respectively). Notably, several complaints against financial institutions have already been brought under the dispute resolution mechanism of the OECD MNE Guidelines, e.g., against an insurance broker for contributing (by arranging for legally required insurance) to a pipeline project causing environmental and human rights impacts ([here](#)); against a bank for failing to set targets to reduce the emission of greenhouse gases from its financial products ([here](#)); jointly against a number of banks in respect of financing a coal-fired power project ([here](#)). ^ [Back to section](#)

CLEARY GOTTLIEB

Ferdisha Snagg

fsnagg@cgsh.com

Cleary Gottlieb Steen & Hamilton LLP

[Read more from this firm on Lexology](#)