May 2025

UK-EU divergence in financial sustainability reporting

Differences between UK and EU financial regulations relevant to climate and nature

Summary

In the interests of avoiding greenwashing and empowering financial market actors to make more sustainable choices, reporting and labelling requirements for financial products like funds have been introduced in the UK and EU. But, for companies operating in both jurisdictions which are subject to these requirements, it is confusing and, in some cases, leads to duplication.

Since the UK left the EU, both parties have been leapfrogging each other on progressive nature and climate reporting. Whilst a race to the top for maximum transparency and minimum greenwashing is welcome, the varying pace of change and duplication creates confusion and complexity for companies seeking to align with both UK and EU rules.

As the UK and EU agree a reset in their relationship and review various reporting regulations, it is a good time to consider better alignment on sustainability reporting standards. The International Sustainability Standards Board has sought to develop a global baseline and is incorporating climate related disclosures in the first instance, followed by nature.[1] But reforms in the UK and the EU are slow, disjointed and are potentially going in the wrong direction for climate and nature, with the emphasis on reducing business burdens.

This briefing provides a snapshot of developments in the UK and the EU since Brexit, with recommendations for how rules can be improved and aligned to nudge economies in a more sustainable direction.

Parallel reform

Both the UK and the EU have acknowledged the need to act on the climate and nature crisis, but action on nature consistently lags behind, with insufficient recognition of the interconnections between climate change, nature degradation and economic prosperity.

The Memorandum of Understanding on Financial Services Cooperation between the UK and EU does not prevent either party from implementing regulations they deem appropriate.[2] Consequently, since Brexit, companies operating across both jurisdictions must now navigate differing reporting regimes.

Primary regulatory frameworks in play in relation to climate and nature are the UK Sustainable Disclosure Regulation (SDR) and the EU Sustainable Finance Disclosure Regulation (SFDR). Though UK regulation draws from the EU's foundation, the approaches of both are now diverging. For example:

- The EU is reviewing its framework through the Omnibus Simplification Package, which the European Parliament and Council still need to approve and which is unlikely to be a simple process.[3,4] This may affect the SFDR.
- The UK is streamlining reporting frameworks by implementing International Sustainability Standards Board (ISSB) standards under the forthcoming UK Sustainability Reporting Standards (UK SRS). This will place new obligations on financial corporations (as well as companies beyond the financial sector).[5] The details of this and how it will overlap with the existing UK SDR, are yet to be set out. The next stage is a consultation, expected at some point in 2025, before changes are introduced towards the end of 2025.[6]

The frameworks currently in operation feature three 'labels' that describe how sustainable (or otherwise) a fund is, but they are structured differently. The UK SDR employs a non-hierarchical system focused on consumer choice, while EU SFDR categories reflect the levels of disclosure that funds are making.[7] Essentially, they offer a means of assessing the quality of a fund for the purpose of reducing greenwashing and empowering better decisions through increased transparency.

The UK's approach has been characterised as more of a 'labelling regime' than a 'disclosure regime', shifting the emphasis onto consumers, while aiming to combat greenwashing.[8,9]

Parallel green taxonomy (the system used to classify economic activity and investments as sustainable or not) development in the UK and EU also continues:

- The EU's Green Taxonomy applies to UK companies operating in EU markets.
- The UK is developing its own green taxonomy, which shares the EU's objective of identifying economic activities that help achieve climate and environmental goals, but through a separate process.

What about nature?

The Taskforce for Nature-related Financial Disclosures (TNFD) recommends that companies disclose and manage their nature-related risks and dependencies, replicating the more widely adopted Taskforce for Climate-related Financial Disclosures.

The UK has been a longstanding supporter of the TNFD and hopes to implement it as it embeds ISSB standards across the economy.[10]

In the EU, the Corporate Sustainability Reporting Directive (CSRD) includes a nature component that references the TNFD, but it is not yet clear how this will be affected by the Omnibus Simplification Package.[11]

This regulatory landscape reveals alternating leadership by both the UK and EU in developing sustainability reporting, while highlighting the complexities of compliance for businesses that operate across borders.

Environmental protection: challenges and opportunities

The International Sustainability Standards Board (ISSB), established at COP26 in 2021, has expanded its scope to include water, biodiversity and ecosystems following COP15. Both the UK and EU have endorsed these standards, reaffirming this support at the Joint EU-UK Financial Regulatory Forum in May 2024.[12]

The EU's reporting approach is more holistic but has faced corporate ‘greenwashing’ controversies, for example, NGO research revealed funds classified as promoting or prioritising sustainable investment in fact invested billions in companies pushing fossil fuel expansion projects.[13] The UK's updates have emphasised climate change and anti-greenwashing measures, but neither framework adequately addresses nature-related dependencies. While ISSB standards may address these gaps, implementation details and timelines remain unclear.

In the UK, the Financial Services and Markets Act 2023 prioritises long term growth and international competitiveness through reduced regulatory requirements, potentially undermining green finance commitments. For example, it only introduces a regulatory principle for sustainable growth, not a statutory objective to align the financial system with the UK’s net zero and nature targets.[14]

Conversely, the UK's Green Finance Strategy updated in 2023 aims to incorporate nature and adaptation into policy frameworks and align global financial flows with climate and nature objectives.[15] The government has yet to clarify how reducing the regulatory ‘burden’ will complement its ambition to make the UK “a global leader in sustainable finance”.[16] Perhaps more will be revealed at the chancellor’s Mansion House speech on 15 July 2025.[17]

The UK's Transition Plan Taskforce (TPT), established in April 2022, published its Disclosure Framework covering 30 sectors. However, its Nature Working Group was not formed until April 2023, producing an independent report highlighting that: “Acting through a climate change lens alone will not be enough to address the nature crisis”, and recommending integrated climate and nature transition planning.[18]

On the one hand, these examples demonstrate that harm to nature is still an afterthought, compared to action on climate change, in relation to reporting standards, but on the other hand they also demonstrate the financial sector’s trailblazing approach to incorporating nature-related dependencies, relative to other sectors.

The direction of travel also highlights a disappointing trend, with both UK and EU decision makers seeing reporting requirements as inefficient for businesses rather than a necessity to achieve meaningful sustainable development.

More positively, the chancellor's directive to the Bank of England governor to consider the “materiality of nature-related financial risks” through the Financial Policy Committee.[19] This will require consistent implementation across the economy.

Our recommendations

A holistic understanding of the economy's dependence on a stable climate and healthy natural environment should be embedded in financial regulations when they are updated at both the UK and EU level.

This will ensure an approach that includes appropriate environmental considerations and will also make reporting more efficient for companies operating across borders.

We recommend that the UK government:

1. takes a holistic approach and considers nature explicitly in its efforts to improve the environmental and social impacts of the financial sector;
2. ensures the National Wealth Fund can continue to invest in natural capital via its founding legislation and strategic objectives;[20]
3. sets a timeline for mandating the Taskforce for Nature-related Financial Disclosures to develop voluntary nature markets;[21]
4. ensures the UK's Green Taxonomy includes activities that support the country's overall environmental objectives, not just climate change objectives.

Endnotes

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[6] Ibid

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[18] International Transition Plan Network, April 2024, *The future for nature in transition planning*

[19] Gov.uk, 15 November 2024, correspondence, 'Remit and recommendations for the Financial Policy Committee: November 2024'

[20] For more on the National Wealth Fund's role in nature restoration, read: Green Alliance, November 2024, briefing, 'The role of the National Wealth Fund in boosting private finance for nature'

[21] For more on boosting private finance for nature, read: Green Alliance, November 2024, briefing, 'How to increase private investment in nature'

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UK-EU divergence in financial sustainability reporting: post-Brexit landscape

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The unit is funded by the Esmée Fairbairn Foundation, Samworth Foundation and Waterloo Foundation.

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Registered charity no 1045395
Company limited by guarantee
(England and Wales) no. 3037633

Published by Green Alliance
May 2025