

The UK's Sustainability Disclosure Requirements: why policymakers should legislate for mandatory sustainability disclosures

The UK's Sustainability Disclosure Requirements (SDR) were announced in July 2021 at the Mansion House speech by the then Chancellor of the Exchequer, Rishi Sunak. The SDR regime is intended to create one integrated framework that brings together sustainability-related reporting requirements for corporates and financial institutions.

The intention of SDR is to build on the UK's Taskforce on Climate-related Financial Disclosures (TCFD) implementation and cover three types of disclosure: corporate disclosure, asset manager and asset owner disclosure, and investment product disclosure. While strong progress has been made by the Financial Conduct Authority (FCA) in driving forward new sustainable investment labels, with final rules expected to be published this autumn, little to no progress has been made around corporate and investor sustainability disclosures.

In the lead up to the Queen's Speech in May 2022, ministers made a last-minute decision to withdraw plans to require big UK companies and asset managers to disclose their environmental impact. The Treasury said it "remained committed to implementing sustainability disclosure requirements and will proceed with the necessary legislation in due course."ⁱ

The withdrawal of SDR from the Queen's Speech was a missed opportunity to support the UK's climate ambitions by requiring disclosures on environmental factors. It was also a missed opportunity to provide more transparency around broader socially responsible practices by requiring disclosures on social-related factors, specifically health. Economic output is strongly linked to population health. Improving health can add \$12 trillion to global GDP by 2040, an increase of 8%.ⁱⁱ However, company disclosure on health lags significantly behind disclosure on environmental topics. We are calling on the Government to ensure SDR forms part of next month's King's Speech and introduce the relevant legislation ahead of the next election.

This policy briefing sets out recommendations to the Government to move forward with mandatory sustainability disclosures and to require disclosures on social-related factors as well as environmental factors. Specifically we want the Government to:

- 1. Legislate for mandatory sustainability-related corporate disclosures;**
- 2. Ensure the new legislation includes mandatory social-related corporate disclosures, which explicitly integrate health disclosures.**

Making the case for mandatory social-related disclosures, including health disclosures

The private sector is a major contributor to social harms, such as poor health, racial injustice, and inequality. According to the American Journal of Preventative Medicine, 80% of people's health is determined by upstream factors, such as the conditions in which they live and work, what they consume and the air they breathe.ⁱⁱⁱ For example, many companies directly contribute to air pollutants, such as those in transportation and shipping, industrial processes including energy generation, and agriculture, and other sectors will be exposed to air pollution risks through their supply chains. Air pollution not only takes years from peoples' lives but also has a large detrimental

effect on quality of life. However, few companies currently report on key air pollutants or set publicly available policies for reducing their air pollution impact.

By requiring companies to report on social-related factors, investors can assess whether directors are appropriately mitigating the broad range of financial risks that might impact a company. For wider stakeholders such as employees, consumers, and communities, this information provides assurance that a company is acting responsibly, gives clarity as to the ethics of a product or service, and informs on the company's value-add to society.

Specifically, investors need to be informed on company impacts on health because market performance (affected by system risks like health) determines up to 94% of portfolio returns.^{iv} Also, the extent to which companies are externalising negative health costs also relates to the level of regulatory risk they face. For example, food manufacturers over reliant on the sale of unhealthy foods face risks of sugar taxes, marketing restrictions, and enforcement actions. However, data on companies' health-related impacts, practices, and relevant risks is limited, incomplete, and poor quality.

The Government needs to legislate to ensure that there is consistent and reliable corporate data. Companies should be required to report on risks and opportunities relating to sustainability matters, including risks and opportunities arising from social-related factors. Given the strong business case for reporting on health-related risks and opportunities, these disclosures should be explicitly included.

Recommendations to UK policymakers

Implementation of the Sustainability Disclosure Requirements regime will create a consistent reporting landscape that facilitates decision-useful information on sustainability across the economy. HM Treasury must create the framework for companies to use to enable consolidated environmental and social-related disclosures, including health. We need the Government to honour its commitment to put forward the relevant legislation necessary to introduce SDR. Within the reporting framework, disclosures on both environmental factors and social-related factors should be mandatory.

1. Legislate for mandatory sustainability-related corporate disclosures

The reporting landscape in the UK is incredibly fragmented. The primary source of ESG data is corporates making disclosures of sustainability-related information that is largely based on self-assessment with varying degrees of independent audits. There is a clear and urgent need for an integrated and streamlined reporting framework.

2. Ensure the new legislation includes mandatory social-related corporate disclosures, which explicitly integrate health disclosures

Mandating environmental disclosures is not enough. Mandatory social-related disclosures, including health disclosures, would provide all stakeholders with more transparency around business practices, including a company's social impact and how it affects business strategy and market position.

Alongside legislation, the Government should work with investors, companies, health experts, and civil society to provide best practice guidance on health disclosures.

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ⁱ Financial Times (2022) Ministers delay plans to force UK corporate environmental disclosure. Available online at: <https://www.ft.com/content/2c5acee3-e900-4b2e-853d-85b10e13629c>

ⁱⁱ Remes, J. et al. (2020). Prioritizing health: A prescription for prosperity. McKinsey Global Institute. Available online at: <https://www.mckinsey.com/industries/healthcare/our-insights/prioritizing-health-a-prescription-for-prosperity>

ⁱⁱⁱ Hood CM, Gennuso KP, Swain GR, Catlin BB. County Health Rankings: Relationships Between Determinant Factors and Health Outcomes. *Am J Prev Med.* 2016; 50(2):129-135.

^{iv} Jon Lukomnik and James P. Hawley, [Moving Beyond Modern Portfolio Theory: Investing that Matters](#) (April 30, 2021) Routledge.