UNITED KINGDOM REGIONAL OVERVIEW

The UK's general election in July 2024 saw a strong mandate from the electorate to the centre-left Labour Party who have pursued an active agenda on climate change and sustainable finance in office, though a number of headwinds are increasingly becoming apparent.

Economic & Political Context

The election of a new, 'climate friendly' government in the summer of 2024 provided positive signals to many sustainability-focused investors and other financial market participants. This followed a period of relative uncertainty for the UK's climate policy under the previous government, which had adopted various measures that the UK's independent adviser on tackling climate change, the Climate Change Committee (CCC), had expressed some concern over. For example, in September 2023 the Conservative government had outlined plans to delay a number of decarbonisation milestones for certain sectors (including the automotive industry and home heating). This attracted criticism at the time from the CCC and a range of business and investor-led organisations.

With the Labour government signalling its intention to re-assert the UK's climate leadership internationally and with detailed plans on Net Zero in its manifesto, naturally the expectations of industry stakeholders have been relatively high. In a number of respects, the UK has shown positive leadership over the past 18 months. For example, it has set a 2035 Nationally Determined Contribution (NDC) that has widely been viewed as ambitious when compared with other countries. A wide-ranging programme of reforms to planning and permitting regulations, including for clean energy projects, and grid connectivity is also under way, while clean energy was identified as a core growth sector in the UK's recent 'Modern Industrial Strategy.' The CCC's latest annual progress report, published in June 2025, highlighted the benefits of the government's policy approach, citing progress in addressing planning rules for onshore wind and heat pumps alongside a marked increase in adoption of electric vehicles across the UK.

Despite tangible signs of progress, questions have remained on delivery and speed of implementation across initiatives, which have increased in light of the ongoing, challenging geo-political environment for sustainability. Political parties on the right and centre-right of UK politics have been adopting increasingly sceptical stances on Net-Zero policy, with the Conservative Party recently pledging to repeal the UK's landmark Climate Change Act. As with other jurisdictions, politics in the UK is also increasingly fragmented. Smaller parties with more strident positions, for example Reform and the Green Party, are gaining some traction with the public. Separately, the European Union's rollback of sustainable finance rules through the 'Omnibus' initiative appears to be mirrored to an extent in the UK. For instance, with proposals for a 'green taxonomy' put aside by government and delays most recently to the UK's commitments on transition plans for companies and adoption of the International Sustainability Standard Board's (ISSB's) disclosure standards.

Regulatory & Policy Drivers

FCA's Sustainability Disclosure Requirements (SDR)

Regulatory developments on sustainable finance in the UK continue to be a driver in how investors are addressing sustainability-related risks and opportunities. The Financial Conduct Authority's (FCA's) Sustainability Disclosure Requirements (SDR) and investment labels regime was introduced in December 2023. Asset management firms have been able to apply for sustainability labels for their funds from July 2024. The initial implementation phase of the FCA's SDR has been relatively mixed. While the regime has been largely welcomed by investment industry participants and wider stakeholders for making progress in tackling greenwashing risks in the UK market and promoting transparency for retail clients in investments, the overall uptake of labels has been lower than expected under the SDR.

Other issues have arisen in the implementation of SDR; for example, the 'naming and marketing' rules which aim to ensure funds' names match their sustainability approach and strategy in practice. Challenges have led the regulator to make clarifications in its approach to the SDR over the past year, as well as produce guidance to support asset managers to meet the standards set by the labels. Most recently, the FCA has sought to clarify its approach to the treatment of index products under SDR.

UK Stewardship Code

In the first half of this year, the Financial Reporting Council (FRC) conducted its review of the UK Stewardship Code. Today, the Code is viewed by many jurisdictions as setting a high standard of practice for investor stewardship and stewardship-related reporting. A wide-ranging industry engagement programme was carried out by the FRC ahead of the Code review, which helped set out a clear direction of travel to stakeholders in advance and was welcomed by many industry participants.

Most notably, the review of the Code proposed an amended definition of 'stewardship', contending that references to the 'environment', 'society,' and the 'economy' should be removed from this definition. This proposal was received relatively negatively by many UK asset owners and wider stakeholders, by appearing to downgrade the importance of considering sustainability factors and governance as part of an investor's engagement activities. The finalised Stewardship Code, published in June 2025, largely retained these proposals, though included references to the 'environment' and 'society' in the definition's supporting statement. While welcomed by some sustainability-focused firms, it will take some time for the UK market to adapt to the revised Code's expectations and for a clearer picture to emerge on how the new definition and supporting statement are interpreted by clients and their asset managers.

Wider sustainability reporting landscape

The UK's sustainability reporting landscape on the whole continues to experience evolution. There have been a number of reviews carried out by policymakers on the operation of the Task Force on Climate Related Financial Disclosures (TCFD) regulations for different groups in the investment chain. The FCA completed its TCFD review for UK asset managers and FCA-regulated asset owners in August 2025, while the Department for Work and Pensions is now carrying out its review for certain pension schemes. There has been an emphasis so far on the need for simplification of sustainability-related reporting for firms, who have fed back to policymakers the pressures and costs incurred by some sustainability reporting initiatives. Some of the discussion in the investment industry has focused on questioning the value of reporting at the entity-level, while market participants have stressed the importance of consumer-friendly and accessible disclosure.

Separately, developments are ongoing over the UK's adoption of the ISSB's IFRS S1 and IFRS S2. The government closed its consultation on adoption of the disclosure standards in September 2025 and next steps are anticipated shortly.

ESG ratings regulation

Although continuing to experience some delay, we saw developments take place in the UK's regulatory approach in the ESG ratings market. At the start of 2025, Treasury published its draft statutory instrument (SI) relating to the scope of its regulations which broadly draw on the EU's approach to regulation. Once the SI is finalised, the FCA is expected to consult on details of its regulatory regime for ESG ratings providers, which is expected to align with the EU's rules (for example on transparency requirements for providers).

Pensions policy developments

Pensions policy has featured heavily as part of the Labour government's agenda for the financial services community. This has been a prominent priority for the Chancellor of the Exchequer, who announced plans for a wholesale review of the UK's pensions system within the first few weeks of the new government.

The government's pensions investment review has moved quickly, with the first phase now complete and the second phase well underway. Thus far, there have been ambitious measures laid out which are beginning to be implemented across the following areas: consolidation of the defined contribution and Local Government Pension Scheme (LGPS); an increasing emphasis on total 'value' versus cost in private pensions; and the launch of an independent Pensions Commission, which is expected to make recommendations on pensions adequacy in Spring 2026.

Market overview

Similarly to various other markets around the world, in the UK client inflows into sustainable and responsible investment funds based domestically have experienced a slowdown over the last year. Partly, this is a result of the ongoing challenging global environment for sustainability. The FCA's new SDR and investment labels regime may have also played a role in this slowdown.

While in some respects it remains too early to judge the impacts of the SDR given its nascency in the UK market, there are nonetheless clear signs that a relatively large number of funds with sustainability-related terms in their names or marketing have re-branded and dropped these terms over 2025. This is in contrast to the relatively low number of UK funds that have received approval for sustainability labels under SDR, which stands at more than 150 (as of November 2025). This figure on labelled funds in the UK market is around half of what had been estimated by the FCA previously, based on its analysis in its November 2023 Policy Statement on SDR. While sustainability labelled funds have been lower than expected, the SDR has helped encourage the growth of a new category of sustainability-themed funds in the UK market that have specific 'sustainability characteristics', though do not have a label. There are over 350 UK-based funds identified specifically in this category.

In terms of client inflows into labelled funds under the SDR, some surveys have shown a mixed picture. For example, an LSEG Lipper survey from September 2025 indicated outflows of around £3.5 billion from these labelled funds over the period January to July 2025. The only labelling category for this period to experience positive inflows from clients was the 'Mixed Goals' label, while the label category which had the most outflows was the 'Impact' label. More positively though, the survey showed costs for clients were competitive for these labelled funds.

Other data has also shown a relatively mixed picture. Data from the Investment Association (IA, 2025) highlighted that over 2024 there were some, albeit limited, areas of retail client inflows into responsible investment funds; for example, into fixed income responsible funds. Overall, IA data showed that retail outflows have taken place from the second half of 2023 onwards. From 2020 to 2022, by contrast, retail inflows had been very strong, and were accompanied by high levels of new product launches relating to responsible investments.

UK institutional investors' interest continues to be an important driver in the UK's sustainable investment landscape. A study from Legal & General from November 2024 highlighted that sustainable and impact mandates are expected to account for almost half of private markets portfolios over a two-year period. Of client segments surveyed, defined contribution schemes were expected to have the largest number of impact and sustainable mandates, followed by insurance investors and defined benefit schemes. A separate study from Robeco of 35 UK institutional investors representing 26% of the UK institutional market showed growing adoption of sustainable investment principles.

Going forward, we may see a shifting picture on inflows especially as the FCA's SDR evolves and potentially captures a broader group of funds. For example, index funds are at present largely excluded from the regime.

About Us

The UK Sustainable Investment and Finance Association (UKSIF) is the UK's leading membership organisation for sustainable finance, committed to promoting a financial system and wider economy that works for the benefit of the environment and society.

UKSIF represents a diverse range of global and UK-based financial services institutions and investors committed to these aims, and our more than 300 members- representing over £19 trillion of global assets under management (AUM)- include investment managers, pension funds, banks, wealth managers, financial advisers, ESG data and research providers, NGOs, among other groups. UKSIF and our members have played a prominent role over recent years to facilitate a more supportive policy environment in the UK for the growth of sustainable finance and to support the private finance sector's efforts in helping advance the transition to a more sustainable future. For more information, please visit www.uksif.org

CAPABILITIES	UK SIF
Member Communications	Yes
Member Events	Yes
Policy Influencing	Yes
Research	Yes
Education	Yes
Accreditation	No