

Title: **To diverge or to not diverge: Can UK businesses escape the new EU Sustainability Reporting regulations?**

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**The obligation for companies to report on their impacts over environment, biodiversity and society is becoming increasingly normalised. With the departure of the UK from the EU legislative framework, some businesses in the UK may have hoped for less requirements to fulfil in the environmental area, but this is unlikely to be the case. Dr. Rosa Fernandez (Sustainability Lead at Keele Business School, Keele University) reflects on what the latest EU sustainability reporting regulations mean for UK businesses and what is the likely approach of the recently elected Labour government in the UK on this area.**

Societal demands for [transparency](#) and accountability of the private sector actions and their wider impacts beyond economic or financial ones have been increasing over time. While large corporations are traditionally obliged by law to report their financial data (profits and losses, benefits and costs), recognising their environmental and social impacts, and reporting on specific socio-environmental indicators (board diversity, salary gaps, environmental penalties and fines, etc) has been mostly done on a voluntary basis. But climate change effects and the urgency of taking action to tackle them at all levels of society is slowly changing this.

Within the EU, an important first step in this direction was the approval of a [Directive in 2014](#) which required the disclosure of non-financial and diversity information by large companies, not only for governments, but also for the general public. Information had to be reported on environmental matters (current and foreseeable impacts of a companies' operations on the environment, health and safety, use of renewable and non-renewable energy, greenhouse gas emissions, water use and air pollution); and on social matters (actions to ensure gender equality, working conditions, social dialogue, respect for workers' rights, etc), including aspects related to human rights, anti-corruption and anti-bribery measures. The UK transposed the Directive into [national law in 2016](#), but by then the Brexit vote had happened, and though the official departure from the EU took some time to materialise, it could be argued that its implementation in theory would have been limited. Companies did not start reporting according to this Directive until 2017, so we would only have seen four years of reporting under EU rules, which would not have been enough to properly evaluate any potential 'sustained' behavioural change in said companies.

But in 2019 a new European Commission was elected, the European Green Deal was approved as the new framework for sustainable economic growth in the EU and the regulatory machine that followed was only slightly delayed by the Covid19 pandemic. Coincidentally 2019 was the year of the first [Climate Emergency Declarations](#) and the public admissions and recriminations that 'not enough' was being done to tackle climate change. Hence the approval of a [new EU Directive at the end of 2022](#), in force since January 2023 – with the first reports issued expected in 2024. The new Directive is more prescriptive and far reaching (reducing considerably the voluntary element of reporting): More companies fall under its umbrella and are obliged to report, including for the first time small and medium enterprises (SMEs); Importantly, the reporting needs to be externally certified by an independent auditor or certifier, non-EU companies will need to report too and have their report certified, and a system of sanctions is outlined for cases of non-compliance, particularly with regard to the audit and assurance of the

reports' quality. This way, companies will need to inform everyone interested about how climate change affects their activities and their own efforts to reduce climate change, including targets and indicators. This directly affects UK companies if they operate in EU member states through branches or subsidiaries (if they exceed certain levels of turnover).

The EU has gone even further, with the latest Corporate Sustainability Due Diligence Directive given the [green light by the Council in May \(though at the time of writing, has not yet formally passed into law\)](#), making companies from the EU and outside of the EU (under certain conditions) establish due diligence procedures to protect human rights and the environment, including their whole value chain even if this means third countries (addressing issues of misbehaviour in less developed countries). Again, UK (and other third country) companies operating in the EU will have to comply if more than €450 million of their turnover is gained in EU territory. Even if the application of specific reporting standards for some sectors and third countries has been [delayed until 2026](#), the general [reporting rules](#) are already enforceable, and some companies will need to make considerable effort to change their ways. This is more the case with the recent approval of yet again another [Directive](#) to prevent greenwashing, in an attempt to protect the public from false 'green' claims.

Meanwhile in the UK the approach to these matters has been subdued. The [2023 Green Finance Strategy](#) set up the first steps for companies' reporting on sustainability matters since the Brexit vote. The UK has attempted to distance itself from the EU approach focusing instead on the adherence and [endorsement of international bodies' standards and guidelines](#) (namely the two new International Financial Reporting Standards [IFRS] approved in 2023 on Disclosure of Sustainability-related Financial Information and Climate-related Disclosures). This endorsement materialised just before the last general election (May 2024), constituting the UK framework. But if one takes into consideration on one hand that the EU Directives and Regulations ensure interoperability with the same international framework, and on the other hand, that the UK Green Taxonomy (effectively the decision on what type of investments are green/sustainable or not) is being developed to ensure the same international interoperability, and with the recommendation to ['align concepts, methodologies, metrics, and thresholds with the EU Taxonomy where possible'](#), then in practice the divergence between the UK and the EU in this area is limited. Significant though, is the fact that the UK rules only apply to large corporations and exclude SMEs, but if these want to operate in the EU, they will have to adapt their reporting to EU rules.

Guidance for SMEs and for specific sectors are still in development at EU level, but given the newly elected UK Labour Government aims to build a 'closer' relationship with the EU, and some steps towards greener policies are emerging (like the [scrapping of the onshore wind ban](#) and the [withdrawal of the support for a new coal mine in Cumbria](#)), it is likely that UK businesses will see more alignment with EU sustainability rules in the near future anyway.