



Need to know

FCA Policy Statement and Listing Rule promoting better climate-related financial disclosures aligned with TCFD

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Further information

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The Financial Conduct Authority (FCA) has published a Policy Statement ([PS20/17](#)) (PS) and new listing rule LR 9.8.6R(8) to promote higher-quality climate-related financial disclosures. In this edition of Need to know, we outline the key requirements of the PS.

- A new rule has been introduced in LR 9.8.6R(8)¹ that applies to UK incorporated and overseas commercial companies with a premium listing² (including sovereign-controlled commercial companies).
- The rule is effective for accounting periods beginning on or after 1 January 2021. The first annual reports subject to this rule will therefore be published in early 2022.
- Companies in scope must include a statement in their annual report setting out:
 - Whether they have made disclosures consistent with the Task Force on Climate-related Financial Disclosures (TCFD³) recommendations and recommended disclosures in their annual report.
 - Where they have not made disclosures consistent with all of the TCFD's recommendations and recommended disclosures, an explanation of why and a description of any steps they are taking or plan to take to be able to make consistent disclosures in the future – including the timeframes for being able to make those disclosures.
 - Where they have included some, or all, of their disclosures in a document other than their annual report, an explanation of why.
 - Where in their annual report (or other document) the various disclosures can be found.
- The scope of businesses affected is expected to increase in line with the timeline set out in HM Treasury's roadmap towards mandatory climate-related disclosures.
- A technical note has been published alongside the PS clarifying the existing disclosure information that is already required to be reported by listed companies. This technical note is applicable to all listed issuers and applies immediately.

1. Introduced via LISTING RULES (DISCLOSURE OF CLIMATE-RELATED FINANCIAL INFORMATION) INSTRUMENT 2020

2. LR 9.8.7R confirms that the rule introduced as LR 9.8.6R(8) is applicable to an overseas company with a premium listing.

3. The Task Force on Climate-related Financial Disclosures (TCFD) is a Task Force established by the Financial Stability Board (FSB) to develop more effective climate-related financial disclosures useful to investors and others in understanding material risks related to climate.

Background

Climate change continues to be at the top of political, investor and corporate agendas. The World Economic Forum's [2021 Global Risks Report](#) finds once again that climate-related risks make up four of the five biggest risks faced by business.

Market participants and policymakers agree that better climate-related disclosure is required. The Institutional Investors Group on Climate Change (IIGCC)⁴ published a [report](#) in November 2020 setting out their expectation that companies should prepare accounts that properly reflect the impact of achieving net zero by 2050 consistent with the Paris Agreement, emphasising that:

- Materiality is determined by investor views;
- Material climate risks must be disclosed in the financial statements and associated notes; and
- Disclosure must be company-specific, not boilerplate.

"Achieving net zero will require a whole economy transition – every company, every bank, every insurer and investor will have to adjust their business models. This could turn an existential risk into the greatest commercial opportunity of our time." Mark Carney⁵

However, the [TCFD 2020 Status Report](#) notes that while over 1,500 organisations, and over 110 regulators and government organisations are TCFD supporters, reporting is often not comprehensive across the TCFD's four recommendations, often referred to as the four pillars, and eleven recommended disclosures. This observation is consistent with the findings of [Deloitte's Annual Report Insights 2020](#) survey.

The Government and regulators are responding. In November 2020, the UK Government announced its intention to establish mandatory TCFD-aligned disclosures across the UK economy by 2025 with the majority of requirements in place by 2023, together with a Roadmap and a [ten point plan](#). The FCA has now introduced this new listing rule covering premium listed companies as a first step.

Deloitte observation

The FCA policy statement supports moves towards enhancing transparency on the impacts of climate change through high-quality, consistent and comparable information. Mandatory TCFD reporting provides a stepping stone towards a global climate standard.

TCFD recommendations and recommended disclosures

- The FCA PS states that preparers must disclose whether they have made disclosures consistent with the recommendations and recommended disclosures included in the TCFD's final report. The recommendations are the four thematic areas/pillars that represent core elements of how organisations operate – governance, strategy, risk management, and metrics and targets. The recommended disclosures are the eleven specific climate-related financial disclosures. Together they provide information that will help investors and others understand how reporting organisations think about and assess climate-related risks and opportunities.

4. The Institutional Investors Group on Climate Change is a pan-European group of investors representing assets worth over \$33 trillion

5. <https://www.bankofengland.co.uk/-/media/boe/files/speech/2020/the-road-to-glasgow-speech-by-mark-carney.pdf?la=en&hash=DCA8689207770DCBBB179CBADBE3296F7982FDE5>

Figure 1. The four pillars and eleven recommended Disclosures as set out in the [Recommendations of the Taskforce on Climate-related Financial Disclosures](#) (TCFD).

Recommendations and Supporting Recommended Disclosures			
Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	Recommended Disclosures	Recommended Disclosures	Recommended Disclosures
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Scope of the new listing rule

The new listing rule⁶ applies to commercial companies with a UK premium listing⁷; this includes sovereign-controlled commercial companies (companies subject to LR chapters 9 and 21). The FCA will consult in the first half of 2021 on proposals to extend the rule to a wider scope of listed issuers. This is likely to include all issuers of standard listed shares (excluding listed funds).

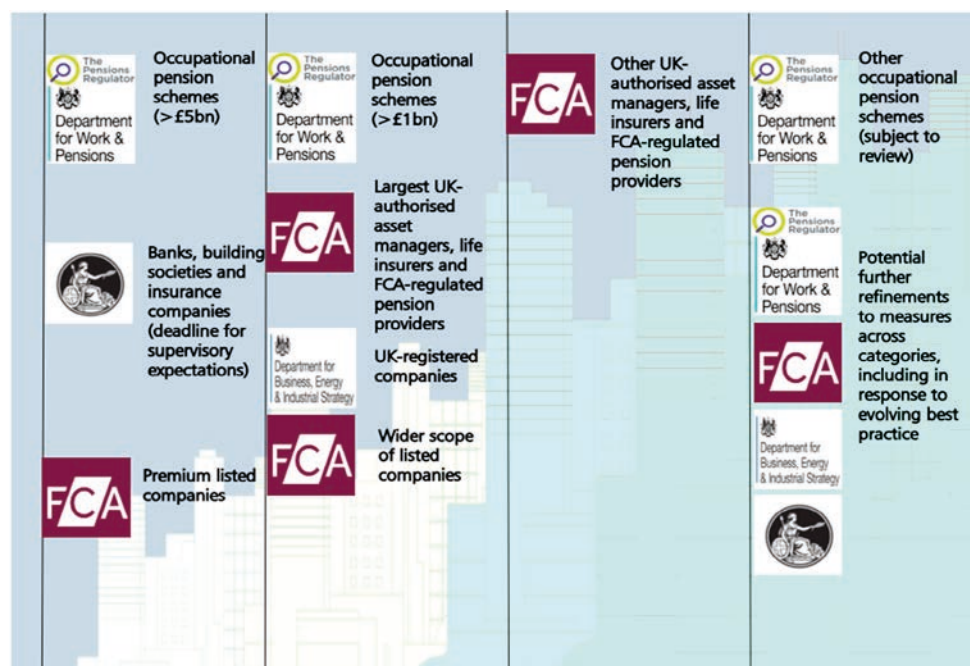
The FCA has stated that UK-authorised asset managers with premium listings are within the scope of the new rule. These entities have two audiences for their reporting, their shareholders and their clients; under the new rule they will report in their capacity as listed companies where applicable, but the FCA will consult in the first half of this year on potential TCFD-aligned disclosures by UK-authorised asset managers, life insurers and FCA-regulated pension providers designed to enhance disclosures to their clients and end investors.

6. Introduced via LISTING RULES (DISCLOSURE OF CLIMATE-RELATED FINANCIAL INFORMATION) INSTRUMENT 2020

7. LR 9.8.7R confirms that the rule introduced as LR 9.8.6R(8) is applicable to an overseas company with a premium listing.

The consultation on extending the scope of the new rule forms part of the UK Government's Roadmap as illustrated below.

Figure 2. [The Roadmap](#) sets out an indicative path towards mandatory climate-related disclosures across the UK economy aligned with the Recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).



Disclosure requirements

A company in the scope of the new rule must include in its annual report a statement setting out:

- whether it has included in its annual report climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures;
- if some or all of the disclosures consistent with the TCFD recommendations and recommended disclosures are included in a document other than the annual report: the recommendations and/or recommended disclosures for which the disclosures are included in that other document; a description of that document and where it can be found; and the reasons for including the relevant disclosures in that document and not in the annual report;
- if it has not made disclosures consistent with all of the TCFD recommendations and recommended disclosures in either its annual financial report or other document: the recommendations and/or recommended disclosures for which disclosures have not been made; the reasons for not including such disclosures; and 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; and
- where in its annual report or (where appropriate) other document the climate-related financial disclosures can be found.

7. The [Task Force on Climate-related Financial Disclosures](#) (TCFD) is a Task Force established by the Financial Stability Board (FSB) to develop more effective climate-related financial disclosures useful to investors and others in understanding material risks related to climate.

Deloitte observation

The new rule requires the statement to include:

- the steps the company is taking or plans to take in order to be able to make disclosures consistent with TCFD's recommendations and recommended disclosures; and
- the timeframe within which it expects to be able to make those disclosures.

This is with the intention of improving market discipline and accountability of the statement. Companies should take note of the additional efforts that may be required to meet this obligation.

Location of the disclosure

Listed companies within scope should include the required statement in their annual report. However, companies are not precluded from cross-referring to other publications to provide additional information on climate-related risks. Where a company has taken this approach, it must explain why.

Implementation Guidance

Together with the new rule, the FCA has published implementation guidance in LR9.8.6B to 9.8.6E which clarifies that a listed company should perform a detailed assessment of its climate-related financial disclosures, and take into account the available guidance materials, to determine whether its disclosures are consistent with the TCFD's recommendations and recommended disclosures.

Guidance in 9.8.6D sets expectations around scope and detail of disclosures made by companies:

- In determining whether its climate-related financial disclosures are consistent with the TCFD's recommendations and recommended disclosures, a company should consider whether those disclosures provide sufficient detail to enable users to assess the company's exposure and approach to addressing climate-related issues.
- Companies should carry out their own assessment of the appropriate level of detail to be included in their climate-related financial disclosures. A company should take into account factors such as the level of its exposure to climate-related risks and opportunities, the scope and objectives of its climate-related strategy, and the nature, size and complexity of the company's business.

The following guidance materials should be taken into account in the assessment of whether climate-related financial disclosures are consistent with the TCFD's recommendations and recommended disclosures, as appropriate:

- section C of the TCFD Annex entitled "Guidance for All Sectors";
- section D of the TCFD Annex entitled "Supplemental Guidance for the Financial Sector";
- section E of the TCFD Annex entitled "Supplemental Guidance for Non-Financial Groups";
- the TCFD Final Report and the TCFD Annex, to the extent not already referred to;
- the TCFD Technical Supplement entitled "The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities";
- the TCFD Guidance on Risk Management Integration and Disclosure; and
- the TCFD Guidance on Scenario Analysis for Non-Financial Companies.

The FCA confirms that it would “ordinarily expect a company to be able to make climate-related financial disclosures consistent with the TCFD Recommendations and Recommended Disclosures, except in limited circumstances where it faces transitional challenges in obtaining relevant data or embedding relevant modelling or analytical capabilities”. As noted above, in these instances companies need to explain the steps they are taking to address gaps and the expected timeframe to achieve this. Consistent with the TCFD’s final report, the FCA confirms that disclosures consistent with the TCFD’s governance and risk management recommendations should be made irrespective of a materiality assessment, whereas “in-scope companies should consider whether disclosures under the strategy and metrics and targets recommendation meet the materiality threshold”.

Deloitte observation

The concept of materiality is equally relevant for TCFD disclosures as it is for financial reporting. Climate-related matters, though sometimes characterised as non-financial, may have a material short-term and long-term impact on the business operations of the organisation, as well as on risks and returns for investors and their investment decisions.

When assessing materiality of, and exposure to, climate-related issues, companies need to look at risks and opportunities across the entire value chain and consider longer time horizons than in traditional operating and financial planning. The FCA signposts to the wording of IAS 1, an IASB article published in November 2019, and FRC resources (for example, the FRC Climate Thematic review) for guidance.

In addition to the new listing rule, the policy statement also includes a technical note reminding listed companies of disclosure requirements under the Market Abuse Regulation (MAR) and the Prospectus Regulation (PR). Specifically, the technical note states that since climate-related risks and opportunities are widely understood to be financially material to many issuers’ assets, they may need to be disclosed. Other environmental, social and governance (ESG)-related risks and opportunities are also likely to be financially material to many issuers, and issuers should consider ESG matters carefully when determining what should be disclosed under the PR, as well as under the other disclosure regimes. This technical note is effective immediately.

The table below summarises the FCA's expectations.

Figure 3. The expectations set out by FCA in relation to the TCFD recommendations and recommended disclosures.

Recommendations and Supporting Recommended Disclosures			
Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	Recommended Disclosures	Recommended Disclosures	Recommended Disclosures
a) Describe the board's oversight of climate-related risks and opportunities. b) Describe management's role in assessing and managing climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term. b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning. c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	a) Describe the organization's processes for identifying and assessing climate-related risks. b) Describe the organization's processes for managing climate-related risks. c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process. b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.
In-scope companies should ordinarily be able to make these disclosures. Furthermore, these disclosures should be made irrespective of materiality.	In-scope companies should consider whether strategy, metrics and targets disclosures meet the materiality threshold.	In-scope companies should ordinarily be able to make these disclosures. Furthermore, these disclosures should be made irrespective of materiality.	In-scope companies should consider whether strategy, metrics and targets disclosures meet the materiality threshold.
	Except where they face transitional challenges in obtaining relevant data or embedding relevant modelling or analytical capabilities, in-scope companies should ordinarily be able to make strategy (a) and (b) disclosures.		

The technical note reminds issuers of the ongoing disclosure requirements of Disclosure Guidance and Transparency Rules (DTR) and of the obligation to "take all reasonable care to ensure that any information it notifies to a RIS is not misleading, false or deceptive and does not omit anything likely to affect the import of the information", which may include information in relation to ESG matters. The technical note further reminds issuers that when disclosing climate-related and other ESG-related information, an issuer must not do so in a way that breaches the prohibition of market manipulation under Article 15 of Market Abuse Regulation (MAR)⁸. Furthermore, the technical note emphasises that listed issuers need to have appropriate arrangements in place to support their disclosure obligations. It details that issuers should consider whether they need to develop specific systems, analytical instruments or arrangements to collate and assess information required to enable it to meet its obligations. Issuers should have adequate systems and controls to identify information that requires disclosure in a timely manner, and ensure that any information identified is properly considered for disclosure by the directors. The FCA highlights the applicability of this to the new rule and how it applies to climate-related and other ESG-related information.

8. Per the FCA: "UK MAR defines and prohibits market manipulation. This offence captures attempted manipulation, benchmarks and, in some situations, spot commodity contracts."

The FCA intends to consult on proposals to strengthen the compliance basis from a 'comply or explain' basis towards full compliance in the first half of 2021, alongside the consultation to widen the scope of listed companies included in LR 9.8.6R(8).

Deloitte observation

Recent reporting requirements have been paving the way for mandatory climate-related financial disclosures. For example, [the Section 172 statement](#) includes the need to report on how directors have discharged their duty to have regard to the impact of the company's operations on the environment which might be addressed by disclosures on climate change governance.

Companies are also already required to report on the principal risks for the business, which may include climate-related risks. The recent introduction of [Streamlined Energy and Carbon Reporting](#) (SECR) in addition to the requirements under the EU Non-financial Reporting Directive (NFRD) should mean companies in scope are already measuring and reporting key climate metrics.

In reporting for 2020 year-ends, companies should already be addressing matters raised by investors and regulators. These matters include:

- the [IASB educational material on climate](#) (see [our news bulletin](#));
- findings and expectations conclusions from the [FRC Thematic Review on climate](#);
- investor expectations on net zero commitments and financial statements consistent with alignment to the 2016 Paris Agreement; and
- increasing attention on reporting the financial impacts of climate change, as called for in the [TCFD 2020 status report](#).

Assurance

The FCA acknowledges the significant value of independent assurance of TCFD-aligned disclosures. However, third-party assurance is not required at present given that this is a developing area. The FCA has stated that it will review this position as international sustainability-related financial disclosures standards develop.

Effective date and recommended actions

The rule is effective for accounting periods beginning on or after 1 January 2021. The first annual reports subject to this rule will therefore be published in early 2022. The FCA acknowledges that the timeline is challenging, particularly given the pressures on business arising from the COVID-19 pandemic. They chose not to delay given the urgency for Climate Change action. However, the FCA has observed that the nature of the TCFD's recommendations and the 'comply or explain' basis of the rule affords companies flexibility to refine disclosures over time.

The FCA have stated that companies affected by the new rules should consider taking the following next steps:

- Premium listed companies directly impacted by the new rule should familiarise themselves with the details of the rule and associated guidance, and consider the arrangements they need to put in place to ensure they can meet the requirements of the rule.
- Relevant issuers should familiarise themselves with the content of the Technical Note and consider where they may already be required to disclose information on climate-related and other ESG matters under the relevant rules and legislative provisions.
- In-scope companies should consider whether disclosures under the strategy and metrics and targets recommendation meet the materiality threshold.

Deloitte observation

The time needed to develop the capabilities to meet these obligations should not be underestimated. Embedding climate considerations into an organisation takes considerable time and effort to identify, assess and manage risks and opportunities. In addition the requirement to give a timeframe and actions towards full compliance will require urgent gap analysis to ensure companies understand their readiness to give disclosures consistent with TCFD in full and to be able to explain how they will address any areas where they will not be able to meet the new requirements.

Application to prospectus

The technical note observes that information on climate change and other ESG-related matters may need to be provided within a prospectus where relevant. The relevant reduced information presented in the simplified prospectus for secondary issuances should enable investors to understand the prospects of the issuer, and any significant changes in the business and financial position of the issuer.

Other more technical guidance is given in relation to inclusion of climate change and other ESG-related risks within risk factors presented in the prospectus, as well as climate change impacts on various annexes to the Delegated Prospectus Regulation.

Progress towards an international standard on climate-related financial disclosures

The TCFD recommendations do not form a corporate reporting standard, although the FCA highlights the advances in reporting that TCFD is facilitating, by promoting transparency, and aiming to “drive organisational change to better manage climate-related financial risks and opportunities”.

However, the FCA states that, to deliver the consistency and comparability of corporate reporting that the market needs, “it will be important to build on, and complement, the TCFD’s recommendations by introducing a [common international] reporting standard”.

In 2020, substantial progress was made towards a global solution for sustainability standards. In September, the IFRS Foundation Trustees published their [consultation paper](#) on proposals to establish a global sustainability standard-setter (SSB) alongside the IASB and under the governance and oversight of the IFRS Foundation.

The five leading international sustainability framework- and standard-setters (CDP, CDSB, GRI, IIRC, and SASB) published a [prototype climate-related financial disclosure standard](#). This followed a [statement of intent](#) in September 2020, setting out a vision for a comprehensive corporate reporting system and a commitment to work together to achieve the vision. (See our [Purpose-driven Business Reporting in Focus](#) publication.)

This direction of travel is supported by the UK Government and regulators who, alongside the publishing of the UK Roadmap in November 2020, issued a [joint statement](#) of support for IFRS Foundation’s role in sustainability standard-setting.

Further to this joint statement, the FCA has also stated its intention in the PS to “bring these initiatives together and drive them forward in a way that will best meet the needs of capital markets, and serve the public interest”, working closely with the International Organization of Securities Commissions (IOSCO).

Further information

The FCA’s [press release](#), [full Policy Statement](#) and appended Technical Note are available on the FCA website.

The TCFD’s 2017 Final Report, 2020 Status Report, and guidance on scenario analysis and risk management integration and disclosure are available on their [website](#).

Our publication [A closer look: Climate change](#) considers the TCFD recommendations in detail.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature. [GAAP in the UK on DART](#) allows access to the full UK accounting and IFRS Standards, linking to and from:

- Deloitte's authoritative, up-to-date, GAAP in the UK manuals which provide guidance for reporting under UK accounting and IFRS Standards; and
- Model financial statements for both listed and unlisted entities.

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