FINANCIAL CONDUCT AUTHORITY

Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations

Consultation Paper
CP20/3**

March 2020

How to respond

We are asking for comments on this Consultation Paper (CP) by **5 June 2020**.

You can send them to us using the form on our website at: www.fca.org.uk/cp20-03-response-form

Or in writing to:
Federico Cellurale
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Telephone:
+44 (0)20 7066 7230

Email:
cp20-03@fca.org.uk

How to navigate this document

- returns you to the contents list
- takes you to helpful abbreviations
- takes you to the previous page
- takes you to the next page
- prints document
- email and share document

Contents

1 Summary

Why we are consulting

1.1 Climate change threatens to have a significant and complex impact on most if not all listed companies. Climate change itself, or policy responses to climate change, may impact the value of companies' assets and prospective profits directly or indirectly because of changes in how their businesses are operated.

1.2 Increasingly, investors want to commit their money to companies and projects that will support the transition to a low-carbon economy.

1.3 Greater transparency about how issuers of listed securities may be impacted by climate-related risks and opportunities will help to ensure that securities are more accurately priced and help markets to work well. This will in turn allow investors to allocate capital more effectively to accelerate the transition. We consider that climate-related risks and opportunities are relevant to all companies, and likely to be material for most. In this Consultation Paper (CP), we are therefore proposing measures to increase transparency.

1.4 We first anticipated this consultation in FS 19/6, published in October 2019. We committed to consult on new rules for certain listed issuers to make climate-related disclosures consistent with the recommendations of the Financial Stability Board's (FSB) Taskforce on Climate-related Financial Disclosures (TCFD).

1.5 The TCFD's recommendations were published in 2017 to help businesses disclose risks and opportunities arising from climate change. The aim is to help investors understand which companies are most at risk, which ones are best prepared, and which are taking action. There is already significant support for the TCFD's framework among both issuers and investors.

1.6 The TCFD's recommendations have also underpinned the work of the Climate Financial Risk Forum (CFRF), a forum which we established last year jointly with the Bank of England's Prudential Regulation Authority (PRA). The CFRF is currently finalising guidance in a number of areas relevant to the TCFD's framework.

1.7 Our proposals are now set out in this CP. We propose to introduce a new rule for commercial companies with a UK premium listing, requiring them to state whether they comply with TCFD-aligned disclosures and to explain any non-compliance. Our proposals aim to promote good disclosures to the market that enable investors to make informed choices, while remaining proportionate for issuers.

1.8 We are not proposing to mandate disclosure at this point. This is because we recognise that issuers' capabilities are still developing in some areas and we do not want to set binding requirements that may not yet be fully achievable. For example, some issuers may not yet have the data and capabilities they need to be able to model and report scenarios in the manner recommended by the TCFD. We also do not want to be overly prescriptive given that standards for disclosure and modelling are evolving.

1.9 In addition to this new rule, we propose to provide guidance (through a Technical Note) on existing obligations set out in EU legislation and in our Handbook that may already require issuers to disclose information on climate-related (and other environmental, social and governance (ESG)) matters, under certain circumstances. This guidance will be relevant for a wider scope of entities, including all companies with listed securities, not just those in the premium segment.

1.10 We consider our proposed new rule to be a first step towards adoption of the TCFD's recommendations more widely within our rules, both as they apply to listed companies, and as they apply to financial services companies.

1.11 Over time, as further industry guidance on implementation of the TCFD's recommendations is finalised, and relevant data become more widely available, we expect to consult on expanding the issuer scope of the proposals and strengthen their compliance basis. Further steps will be informed by ongoing monitoring of the implementation of our rules and guidance.

1.12 Several financial services firms have a UK premium listing and therefore fall within the scope of our proposed new rule.[1] We clarify in Chapter 4 that, at this stage, our rule applies to these companies in their capacity as issuers, rather than their capacity as regulated firms. This is particularly relevant in the case of asset managers, where supplementary guidance produced by the TCFD sets certain expectations regarding disclosures to clients.

1.13 We are currently considering how best to enhance climate-related disclosures by regulated firms, including asset managers and life insurers. In doing so, we are coordinating with Government and other regulators and also taking into account interactions with relevant EU disclosure initiatives.

Who this applies to

1.14 Our proposed new rule promoting adoption of the TCFD's recommendations will directly impact commercial companies – including sovereign controlled ones – with a UK premium listing. The Technical Note on which we are also consulting impacts a wider scope of issuers, including listed issuers, issuers with securities admitted to trading on regulated markets and other entities in scope of requirements under the Market Abuse Regulation (MAR) and the Prospectus Regulation (PR).

1.15 Our CP will also be of interest to a wide range of other stakeholders, including:

- sponsors of listed companies
- corporate finance and other advisors
- accountants and auditors
- consumer groups and individual consumers
- industry groups, trade bodies and civil society groups
- regulated firms
- investors
- policy-makers and regulatory bodies

1 Note that, since our proposed scope is commercial companies with a UK premium listing, our proposals in this CP do not affect open-ended or closed-ended investment companies.

- industry experts and commentators
- academics and think tanks.

The wider context of this consultation

1.16 Climate-related disclosures were an important theme of DP 18/8. We invited views on how to enhance the consistency, comparability and decision-usefulness of climate-related financial disclosures, with specific reference to the TCFD's recommendations.

1.17 Many stakeholders asked us to clarify existing issuer disclosure requirements and potentially strengthen them via rules, in a proportionate manner. Respondents considered that the TCFD's recommendations provide a useful and widely-accepted framework to enhance and structure climate-related financial disclosures.

1.18 There is already significant buy-in for the recommendations across both preparers and users of disclosures, in the UK and internationally, and across a range of sectors. Extensive work is ongoing, both in the TCFD and across a number of industry and regulatory groups internationally, to develop further guidance to support widespread implementation of the TCFD's recommendations.

1.19 Enhanced disclosures can support market integrity, by improving the efficiency of asset pricing and capital allocation. This is recognised in the TCFD's final report, published in June 2017, which anticipates that improving practices will, ultimately, support more appropriate pricing of risks and allocation of capital in the economy.

1.20 There are also potential benefits for listed issuers. Clear expectations can help promote a structured and focused dialogue within companies on matters of governance, strategy and risk, while also reducing the cost of meeting ad hoc requests from investors. Clear disclosure expectations in this area can also help further underpin the reputation of the London market as a leading venue for high-quality listings.

1.21 Voluntary adoption of the TCFD's recommendations has been increasing. However, feedback to DP 18/8 and other evidence on the current status of issuers' climate-related disclosures (see Chapter 2 and our cost-benefit analysis in Annex 2) supports the case to intervene to accelerate progress.

1.22 Our proposals are consistent with the direction of travel in the UK Government's Green Finance Strategy. In particular, the Government set an expectation that all listed issuers and large asset owners would be disclosing in accordance with the TCFD recommendations by 2022. The Government has established a cross-regulator taskforce on TCFD implementation to explore the most effective approach to achieve this expectation. We are participating in this taskforce.

1.23 In Chapter 2, we provide more detail on how we expect our proposals to advance our objectives. In Chapter 3, we give some more background on the TCFD's recommendations. Chapters 4 and 5 set out our proposals for consultation.

What we want to change

1.24 The key elements of our proposals are:

- *A new climate-related disclosure rule*. We propose to introduce a new rule in our Listing Rules (LR), to promote adoption of the TCFD's recommendations and recommended disclosures. Our proposed rule will require commercial companies with a UK premium listing (including sovereign-controlled commercial companies) to include a statement in their annual financial report, setting out:

  a. whether they have made disclosures consistent with the TCFD's recommendations and recommended disclosures in their annual financial report
  b. where they have:
    i. not made disclosures consistent with some or all of the TCFD's recommendations and/or recommended disclosures, or
    ii. included some or all of the disclosures in a document other than their annual financial report

    an explanation of why
  c. where in their annual financial report (or other relevant document) the various disclosures can be found

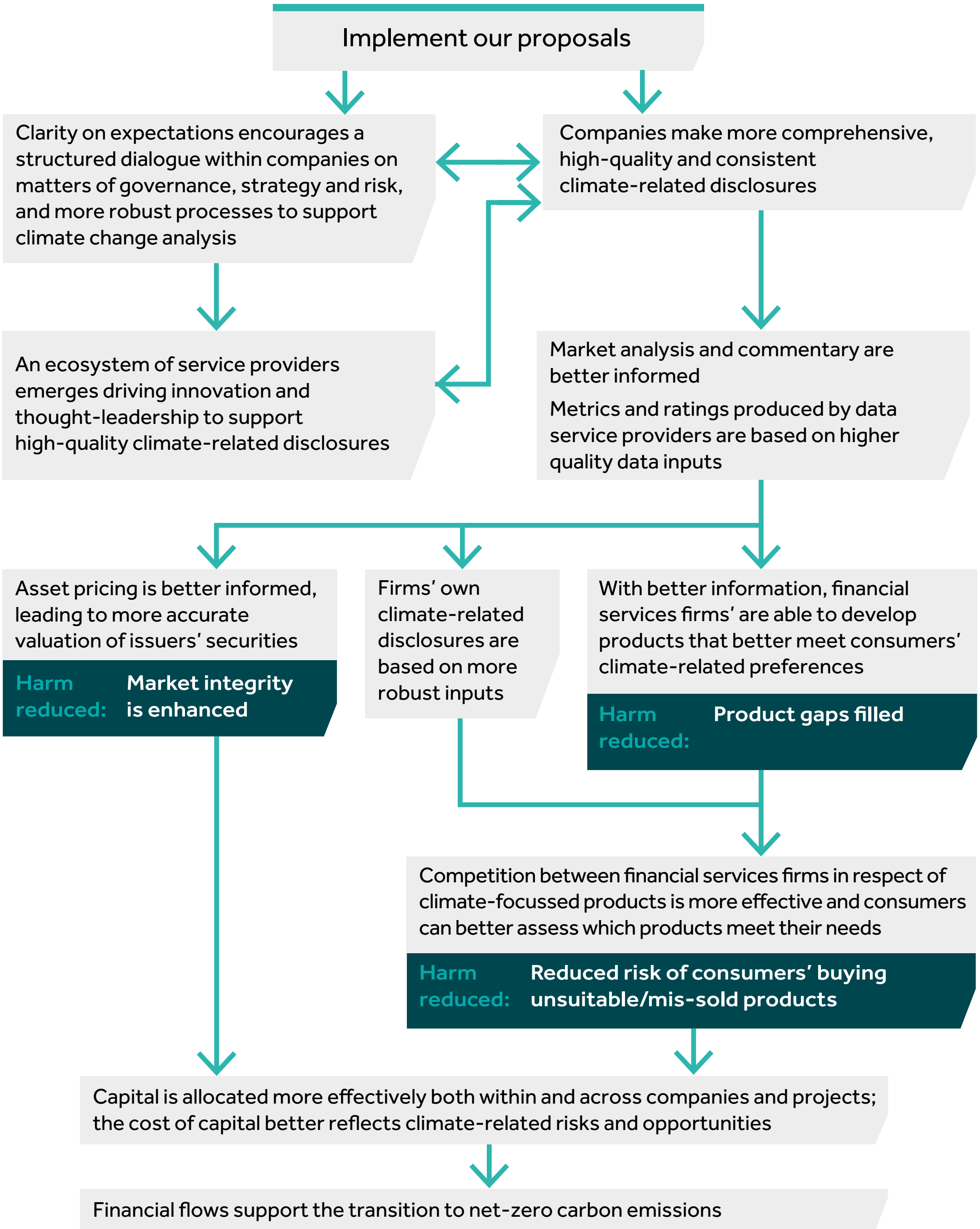
- *A Technical Note clarifying existing disclosure obligations*. Issuers may already be required to make disclosures on climate change and other ESG matters under existing EU legislation and rules in various parts of our Handbook, including in the PR, our LR, our Disclosure Guidance and Transparency Rules (DTR) and the MAR. Our proposed Technical Note is introduced in Chapter 5 and presented in full in Appendix 2.

Outcomes we are seeking

1.25 By introducing a **new climate-related disclosure rule** for premium-listed issuers and **providing clarity on existing obligations**, we expect to advance our strategic objective to make relevant markets function well, and our three operational objectives relating to market integrity, consumer protection and competition.

1.26 Figure 1 summarises the causal chain by which we expect our proposals to help address potential harms and deliver benefits for issuers, financial markets and consumers.

Figure 1: How enhanced disclosures can help advance our objectives



1.27 As set out in the figure, our proposals are expected to help advance our objectives in the following ways:

- **Clear regulatory requirements support high-quality disclosures**. A consistent disclosure framework, underpinned by rules, can help issuers by clarifying what information investors find useful to support their decision-making. This, in turn, can reduce the cost of meeting ad-hoc information requests from investors, and help to promote a structured dialogue within a company on matters of governance, strategy and risk. Consistent with the observation that 'what gets measured, gets managed', this should improve issuers' climate change strategy and risk management.

- **Better disclosures support more informed business, risk and investment decisions**. If issuers make inconsistent or insufficient climate-related disclosures to the market, assets may be mispriced (price too high or too low) because the market is unable to determine their true value. More comprehensive and consistent climate-related disclosures can therefore support more accurate asset pricing. Relevant to the FCA's market integrity objective, this translates into fairer and more effective markets.
- **Financial services firms design products that more reliably meet consumers' needs**. Improved disclosures from commercial company issuers can help to support the development of the market for green financial products. With better issuer disclosures, financial services firms will have more reliable information on companies' climate strategies and performance. This will give them better data to support the development of financial products that meet consumers' climate-related preferences. It will also enable them to aggregate information and disclose how their portfolios and products are exposed to climate-related risks and opportunities. This can in turn enhance competition among providers of climate-focused products and services and help consumers assess which products meet their needs. This can be expected to increase trust in firms' green product offerings and reduce the risk that consumers invest in unsuitable products or are subject to mis-selling.
- **More efficient allocation of capital**. This, in turn, should support investment and capital allocation decisions and help ensure that issuers are able to access funding at a cost of capital that appropriately reflects how they manage climate-related risks and opportunities. The ultimate societal benefit and broader public interest outcome is that financial markets are enabled to better manage risks and allocate capital to support the transition to a net-zero emissions economy.

Measuring success

1.28 We will gauge the success of our intervention via a number of channels:

- **Market Outcomes**. We will have been successful if new disclosures made in line with our rules enable investors to make better informed decisions in primary and secondary markets. This may lead to the outcome that markets reward those companies or projects that are best managing the physical and transition risks of climate change, and those that are best supporting the transition to a net-zero carbon economy. While we will monitor evidence of this, we note that it is unlikely to be measurable in a systematic way.
- **Oversight**. Our strategic objective is to ensure that relevant markets work well. To help achieve this, our Market Oversight function seeks to ensure investors have access to the information they need to make investment decisions and play their part in holding companies to account. We will monitor evidence of shareholders' ability to do this in the context of the new rules.
- **Supervision of asset managers and life insurers**. As part of our supervisory dialogue, we will have opportunities to gather firms' views on the usefulness of issuers' disclosures to support investment decisions, as well as to contribute to the design and delivery of investment products and effective stewardship.
- **Ongoing industry liaison**. We will gather views on the effectiveness of the new regime through ongoing industry liaison, including in the CFRF.

Next steps

1.29 We invite interested stakeholders to provide feedback on our proposals by 5 June 2020. Please use the online response on our website or write to us at the address/e-mail address provided on page 2 of this document.

1.30 We will consider the feedback received and engage directly with stakeholders on these matters. Subject to the feedback received, we aim to publish a Policy Statement, along with the finalised rules and Technical Note, later in 2020.

2 The wider context

2.1 There are a number of initiatives that relate to climate-change disclosures by listed companies, and other broader considerations that we have taken into account in developing our proposals. This chapter provides an overview of the most relevant ones, to explain how our proposals fit into this wider context. To frame this discussion, we first set out in more detail why climate change impacts may be material to an issuer's prospects and describe where climate-related matters may already need to be disclosed under existing regulations. We also elaborate on the case for regulatory intervention, consistent with our objectives.

2.2 Clearly, one of the most relevant initiatives to our proposals is the TCFD. We explore this further in Chapter 3, building on the wider background set out in this chapter.

Climate change risks and opportunities

2.3 Climate change is a relevant consideration for all companies and likely to be material for most. Given its potential impact on companies' financial performance and prospects, climate change is increasingly an important consideration for shareholders and other market participants.

2.4 In the US, for instance, the Sustainability Accounting Standards Board has assessed that climate change is material for companies in 72 out of 79 industries, equating to 93% of the US equity market.

2.5 The financial risks of climate change are usually categorised as physical or transitional risks.

- Physical risks can arise as a consequence of more severe and frequent extreme weather events like storms and flooding. These events may lead to increased business disruption and losses. They can also impact the availability and cost of insurance. From the perspective of the investor, this means that the value of portfolios could fluctuate substantially. Insurance customers, including businesses, may pay higher premiums or choose not to take out coverage, leaving them exposed to potential future losses.
- Transitioning to a greener economy presents different risks that arise from extensive policy, including tax, legal, technological, market and behavioural changes. This is increasingly likely to impact issuers' operating costs, particularly those that rely on fossil fuels, with a potential flow on to asset values and impairments in some sectors. A poorly managed or ineffective transition could significantly affect the value of investments. This impact is likely to be particularly acute for longer-term investments, such as pension funds.

2.6 The transition to a lower carbon economy may also present opportunities for companies. These may, for instance, arise from shifting to lower-cost or more efficient production and distribution processes, or accessing commercial opportunities in new markets.

2.7 Financial impacts can be substantial. In a recent report, the Carbon Disclosure Project (CDP) found that 215 of the world's largest companies collectively reported in their 2018 CDP disclosures that just under US$1 trillion was at risk from likely climate-related impacts, potentially crystallising within the next five years. At the same time, disclosing companies reported quantified financial impacts from climate-related opportunities totalling more than US$2 trillion.

2.8 With a particular focus on transition risks, research summarised in a 2019 report by the Central Banks and Supervisors Network for Greening the Financial System (NGFS) estimated a potential impact on asset values of up to $20 trillion. This included losses arising from stranded assets in the energy sector.

Existing climate-related disclosure requirements

2.9 The TCFD's final report observes that in most G20 jurisdictions, companies with publicly traded securities are already subject to requirements to disclose material information in their financial filings. This implicitly includes information on material impacts for the issuer arising from climate change, and the issuer's response to that change. The TCFD's recommendations aim to work with the grain of these existing requirements, as well as other established standards and industry customs and practices.

2.10 Under rules in our Handbook and EU legislation, listed issuers and other entities with securities admitted to trading on regulated markets, as well as other entities in scope of requirements under the MAR and the PR, must meet a range of disclosure requirements, both when securities are first listed or admitted to trading and on an ongoing basis.

2.11 These existing disclosure obligations – elaborated in Chapter 5 – may already require issuers to report the implications of climate change and other ESG factors where these are financially material or in certain other circumstances. They are intended, among other things, to help markets reach an informed view of the value of traded securities.

2.12 The UK Corporate Governance Code 2018 (the Code) further recommends that companies report on how they have considered and addressed opportunities and risks to the future success of their business, which may include ESG-related opportunities and risks. Our LR require all premium listed issuers to report the extent to which they have complied with the Code.

2.13 In addition to securities regulation, there are a number of established disclosure requirements in the UK Companies Act (CA) that are relevant to UK-incorporated issuers' reporting of climate-related impacts, including in their annual financial reports. For example:

- The CA 2006 requires UK-incorporated companies to provide information about how the directors have performed their duty to promote the success of the company, having regard to various specified matters, including environmental issues. The Strategic Report should contain disclosures on the principal risks and uncertainties and relevant non-financial information.

- The CA 2006 and related 2013 and 2018 Regulations require quoted companies to report information on greenhouse gas (GHG) emissions. Information relating to energy usage and carbon emissions should be included in the Directors' Report (or the Strategic Report if it is considered necessary for an understanding of the development, position or performance of the company or the impact of its activities).

2.14 Existing rules are complemented by an extensive body of guidance, accounting and reporting standards and codes. In conjunction with established and evolving practices, these form the basis on which directors, preparers and auditors set their evolving expectations of what should be disclosed as the risks and opportunities arising from climate change become more apparent.

2.15 The Financial Reporting Council (FRC) provides a useful summary of existing disclosure obligations in a recent FRC Lab report on corporates' climate-related disclosures. With reference to accounting standards underpinning financial statements, the FRC notes that an assessment of materiality is an important starting point. The FRC cites the definition in International Accounting Standard (IAS) 1, which clarifies that "items are material if they could individually or collectively influence the economic decisions that users make on the basis of financial statements."

2.16 Making judgements on financial materiality, particularly in the context of climate-related impacts, can be challenging. The International Accounting Standards Board issued an article in November 2019 to help companies in forming such judgements.

2.17 Concepts of materiality have developed mainly in the context of financial reporting and to inform auditing engagements. The TCFD advises companies to "determine materiality for climate-related issues consistent with how they determine the materiality of other information included in their financial filings". The TCFD also cautions "organizations against prematurely concluding that climate-related risks and opportunities are not material based on perceptions of the longer-term nature of some climate-related risks".

2.18 A body of new EU regulation under the Sustainable Finance Action Plan includes additional ESG-related requirements for financial firms. Related to this broader body of work, in June 2019, the EU published non-binding supplementary guidelines on the Non-Financial Reporting Directive (NFRD), aligned with the TCFD's recommendations. In considering amendments to the NFRD, the European Commission recently sought views on a roadmap setting out a number of broad policy options, and issued a public consultation.

Summary of feedback

2.19 Climate-related disclosures by issuers were an important theme of DP 18/8. Respondents shared the following views.

- Existing disclosure obligations for issuers already require the disclosure of financially material climate-related risks, although there are practical, methodological and data-related difficulties in determining materiality.
- Industry would support promoting greater consistency in the approach to materiality, and to disclosures more generally. Stakeholders see a case for the FCA

to clarify existing issuer disclosure obligations and potentially strengthen them via rules, in a proportionate manner.

- The TCFD's 11 recommended disclosures provide a useful and already widely-accepted framework for climate-related financial disclosures.
- Adopting the TCFD's recommendations would be an important first step to enhancing climate-related disclosures across financial markets.
- A significant uplift in capabilities would be required across the industry, and further guidance would need to be developed over time to ensure an appropriate degree of consistency and comparability.

2.20 There were mixed views on the appropriate compliance basis, with the majority of respondents favouring a 'comply or explain' approach, at least initially. They noted that capabilities are still emerging in this area and acknowledged that directors' liability attaches to disclosures made by public companies.

The current status of disclosure

2.21 A number of recent studies suggest that many issuers, including in the UK, are not yet making extensive, consistent climate-related disclosures that provide markets with the information they need to make informed decisions.

2.22 A status report published by the TCFD in June 2019 suggests that, while voluntary adoption of the TCFD's recommendations is increasing, on average, only around a third of the companies surveyed are making climate-related disclosures aligned with the TCFD's recommended disclosures.

2.23 The FRC Lab's recent report on corporates' climate disclosures highlighted that significant further development of reporting will be necessary to improve disclosures in this area and meet investors' needs. The French securities regulator, the Autorité des Marchés Financiers (AMF), reached a similar conclusion in a recent review of companies' Corporate and Social Responsibility reports.

2.24 We also recently supported a study by a team at the London School of Economics (LSE) to examine the current status of issuers' disclosures, with a specific focus on UK premium-listed issuers (see Annex 2). This study similarly observes uneven disclosures among a representative sample of UK premium-listed issuers.

Rationale for intervention and the link to our objectives

2.25 As set out above, existing rules and standards require disclosure of certain information to the market either on the basis of a materiality assessment or according to other criteria. What is material information requires careful judgment by issuers. To be useful to investors, information needs to be relatively granular, consistent and comparable across issuers.

2.26 Yet looking at the current quality of disclosure, issuers still have further steps to take to make disclosures of the highest standards.

2.27 Against this backdrop, we think that regulatory intervention will help accelerate good practice. We are therefore **proposing a new rule** that will promote higher standards of climate-related financial disclosures, aligned with the TCFD's internationally-accepted framework, among premium-listed issuers.

2.28 We recognise the challenge issuers currently face in preparing such disclosures. We are therefore proposing a proportionate 'comply or explain' approach that provides certainty to issuers and investors, while also allowing a degree of flexibility.

2.29 There may be valid reasons why some issuers are unable to make such disclosures. It should therefore be possible for these issuers to explain that to the market. But explicitly referencing the TCFD's framework in our rules will require issuers to engage with the question of what climate-related disclosures they should and can reasonably make. We expect that this will drive better practice over time.

2.30 In setting the LR, our intention has always been to achieve an appropriate balance between the interests of issuers and investors, to enhance investor confidence and market attractiveness for issuers. We think that encouraging issuers to meet high, but achievable, standards of disclosure and corporate governance will enhance the effectiveness of UK primary and secondary markets by increasing investor confidence.

How it links to our objectives

2.31 Figure 2 illustrates the flow of information and transactions between issuers, financial markets and consumers. The figure illustrates how our proposals can deliver better outcomes and help address potential harms.

2.32 If issuers do not make sufficient disclosures, investors are unable to make informed decisions. This could give rise to harms that impact the financial market, issuers and investors, including ultimately the consumers of financial products.

- *Market integrity*. With a lack of clarity regarding what information investors need in order to make informed investment decisions, issuers may not provide decision-useful information to markets on climate-related risks and opportunities. As a result, market integrity may be impaired:
  - assets may be mispriced (too high or too low)
  - investors may find it difficult to compare asset values, potentially leading to capital misallocation
  - issuers may be unable to access financial markets at the cost of capital that they could achieve if investors had more confidence about the impact of climate change on business prospects.

2.33 Harms could also arise indirectly. Financial services firms may create products that generate exposure to issuers, but without taking into account the right information. As a result:

- *Consumers' needs may not be met*. There is evidence that consumers increasingly seek financial products that address sustainability concerns. With insufficient information from issuers on climate change considerations, financial services firms may find it difficult to design and structure financial products that meet consumers' needs.

- *Consumers may buy unsuitable products or be subject to mis-selling*. If information from issuers is insufficient, financial services firms may be unable reliably to disclose to consumers how their products are exposed to climate change risks and opportunities. This may make it more difficult for consumers to assess which financial products meet their needs, leading to a higher risk that consumers buy unsuitable products or are subject to greenwashing (i.e., they are led to believe that a firm's products produce a positive environmental impact, when this is not actually the case).

Figure 2: How enhanced disclosures can help address potential harms and deliver better outcomes

Potential harms

1 Without clarity on the information investors need, issuers may not:

- systematically assess climate change risks and opportunities
- provide information to investors that is useful for decision-making

2 Incomplete or inconsistent disclosures may not support investors' long-term business, risk and investment decisions:

- Assets may be mispriced (too high or too low), with a risk of abrupt repricing
- Investors may find it difficult to compare asset values, potentially leading to capital misallocation

3 Firms may find it difficult to design and structure products that meet consumers' needs.

They may also be unable reliably to disclose to consumers how their portfolios and products are exposed to climate change risks and opportunities

Consumers may then be unable to assess which products meet their needs, increasing the risk that they invest in unsuitable or mis-sold products

Securities issuer (company)

↕ **Information Transactions**

Financial markets

↕ **Information Transactions**

Consumer/ end-investor

How enhanced disclosures can help

1 Clear disclosure expectations:

- clarify for issuers what information is decision-useful to investors
- encourage systematic and cross-disciplinary consideration of climate-related risks and opportunities within companies
- Reduce the cost of meeting ad hoc information requests from investors
- encourage service providers to develop products to support issuers in preparing disclosures
- help London maintain a reputation for high-quality listings

2 More comprehensive and consistent disclosures contribute to:

- informed pricing
- efficient capital allocation
- a cost of capital for issuers that appropriately reflects how they manage climate-related risks and opportunities

3 With enhanced issuer disclosures:

- inputs to firms' product design processes are more reliable
- firms are better able to populate their own disclosures of how their balance sheets, portfolios and products are exposed to climate change risks and opportunities

  As a result, competition between firms will be improved and consumers will be able better to assess which products meet their needs, reducing the risk that they invest in unsuitable products or are subject to mis-selling

2.34 Intervention to address these harms therefore flows directly from our overarching strategic objective to ensure that the relevant markets function well, as well as advancing our three operational objectives to:

- protect and enhance the integrity of the UK financial system
- secure an appropriate degree of protection for consumers
- promote effective competition in the interests of consumers.

2.35 The current lack of good climate-related disclosures by issuers may reflect market failures arising from asymmetric information, or coordination failures among both issuers and investors. These are elaborated in Annex 2, where we present our cost benefit analysis (CBA).

Choice of the TCFD's recommendations as a basis for disclosure

2.36 While other disclosure frameworks exist, we consider that the TCFD's recommendations provide an appropriate framework to enhance disclosures and promote consistency in this area (see Chapter 3).

- The TCFD's recommendations were carefully conceived and were subject to extensive consultation.
- As noted, the TCFD's recommendations are already widely recognised across the financial industry and more broadly and a number of issuers have already adopted them in their disclosures.
- Other existing disclosure frameworks, such as those promulgated by the CDP and the Climate Disclosure Standards Board (CDSB), have also since aligned with the TCFD's recommendations.
- The TCFD's focus on investors, lenders and insurance underwriters as the primary users of the recommendations aligns well with the FCA's remit and the UK's corporate reporting framework, where primary responsibility for holding companies to account rests with their investors.

Engagement with market participants

2.37 This consultation is taking place against a backdrop of extensive engagement with market participants – including issuers and financial services firms – and other regulators on climate change and sustainable finance issues.

2.38 A key engagement initiative is the CFRF, which we mentioned in Chapter 1. The CFRF brings together senior representatives from across the financial sector to produce practical tools for firms to respond to climate-related risks and opportunities. The CFRF established working groups focused on disclosures, innovation, scenario analysis and risk management. These groups are now finalising guidance materials in each of these areas, which reference the TCFD's recommendations. The CFRF will publish its outputs in Spring 2020.

2.39 We anticipate that this work will make an important contribution to the growing body of guidance to support implementation of the TCFD's recommendations. The CFRF's work has, to date, been focussed primarily on financial services firms. However, to the extent that the guidance impacts how firms integrate climate-related risks and opportunities in their business, risk and investment decisions, there will be associated impacts on issuers.

Equality and diversity considerations

2.40 We have considered the equality and diversity issues that may arise from the proposals in this CP. We consider these further in Annex 1 in our Equality Impact Assessment.

3 The Taskforce on Climate-related Financial Disclosures

3.1 In this chapter, we set out in more detail what is included in the TCFD's recommendations and how these are increasingly being referenced in public policy and regulatory initiatives, both in the UK and internationally. We provide this detail because our proposed rule will cross-reference the TCFD framework. Background on the framework is therefore helpful in understanding the substance of our proposal.

3.2 The TCFD was established in December 2015 with the aim of identifying the climate-related information needs of financial services firms – investors, lenders and insurance underwriters – and developing a set of climate-related disclosure recommendations to support these needs. The TCFD comprises 32 members, drawn from a range of financial and non-financial corporations, accountants, consultants and credit rating agencies.

Recommendations and supporting recommended disclosures

3.3 The TCFD's final report sets out 4 overarching recommendations. Underneath these sit 11 recommended disclosures which provide more granular detail on the information to be disclosed under each of the recommendations. This framework is intended to provide the market with decision-useful, forward-looking information in 4 thematic areas: governance; strategy; risk management; and metrics and targets. The 4 recommendations and the 11 supporting recommended disclosures are shown in Figure 3.

Figure 3: TCFD Recommended Disclosures

Figure 4

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.

Source: Final Report, Recommendations of the Taskforce on Climate-related Financial Disclosures, June 2017

3.4 The TCFD's final report also includes guidance for all sectors on each of the recommended disclosures.

3.5 The purpose of the guidance is to assist preparers by "providing context and suggestions for implementing the recommended disclosures". It does this by setting out key matters that the disclosing party should have regard to when developing its disclosures. The guidance for all sectors is reproduced for reference in Appendix 3.

3.6 The TCFD's final report was published alongside two additional documents, which will also be relevant to preparers in developing their disclosures. These are:

- supplementary sector-specific guidance to implement the recommendations, in a report entitled, *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*; this guidance covers banks, insurance companies, asset owners, asset managers, and non-financial companies operating in a range of sectors (including energy, transportation, materials and buildings, agriculture, food, and forest products).
- a Technical Supplement, entitled *The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities*.

3.7 The TCFD encourages organisations to include their climate-related disclosures in their mainstream financial filings. This recognises that climate-related issues are likely to be material for most organisations. If disclosures are included in mainstream reports, such as the annual financial report, they will be subject to the systems, controls and governance frameworks that apply more widely for these reports. This approach should also raise awareness and understanding among investors and other users.

3.8 The TCFD also provides general guidance on the approach to disclosures by way of a set of Fundamental Principles for Effective Disclosure (Figure 6, page 18 of the Final Report). These include that disclosures should: contain relevant information; be specific and complete; be clear, balanced and understandable; be consistent over time; be comparable among organisations within a sector, industry or portfolio; be reliable, verifiable and objective; and be provided on a timely basis.

Adoption of TCFD

3.9 As noted in Chapter 2, there is already significant adoption and support for the TCFD's recommendations, across both issuers and users in the UK and internationally, and across a range of sectors (including financial services). A number of other disclosure initiatives have aligned with the TCFD's recommendations and more than 1000 global organisations have formally declared their support for the framework. These include the NGFS.

3.10 The TCFD's recommendations are also increasingly being referenced in regulatory frameworks. For instance, the EU published non-binding guidance to the NFRD last year, aligned with the TCFD framework. The New Zealand authorities are also considering the feedback to their consultation on the proposed introduction of TCFD-aligned disclosures requirements for asset owners, financial firms and listed companies. Australia and Japan have variously encouraged its adoption.

3.11 Alongside our proposals in this CP and the work of the CFRF (described in Chapter 2), there is extensive dialogue among UK regulators and the Government on how to coordinate steps to implement the TCFD's recommendations in the UK regulatory framework.

3.12 As we noted in Chapter 1, the Government endorsed the TCFD's recommendations in its Green Finance Strategy, published in July 2019. Consistent with this direction of travel, a number of steps have already been taken by other UK regulators to encourage adoption of the TCFD's recommendations.

- The FRC's Lab's report on climate-related disclosures is grounded in the TCFD's recommendations and provides useful guidance to companies – including key questions and matters for consideration – to help them prepare their disclosures. The FRC has also announced a new thematic review of how companies and auditors assess and report on the impacts of climate change.
- In its Supervisory Statement, SS 3/19, dealing with the management of climate-related financial risks, the PRA sets an expectation that banks and insurers "develop and maintain an appropriate approach to disclosure" and "consider engaging with the TCFD framework and other initiatives in developing their approach to climate-related financial disclosures".
- The Bank of England is also developing a climate-related scenario for its 2021 Biennial Exploratory Scenario. The Bank of England published a Discussion Paper in December 2019, seeking views on its proposed approach. The Bank of England's scenario and data inputs are likely to be of interest to issuers and financial services firms in developing their own scenario analysis capabilities.
- The Department for Work and Pensions recently tabled an amendment to the Pension Schemes Bill, granting it an enabling power to make governance and TCFD-aligned disclosure regulations for occupational pension schemes. Working with the Pensions Regulator, the DWP also established a joint industry working group to develop guidance for pension schemes on reporting in accordance with the TCFD's recommendations. This group is expected to publish guidance for consultation in the Spring.

Evolution of the TCFD's recommendations

3.13 In issuing its recommendations, the TCFD recognised that climate-related financial reporting is still evolving and capabilities are still emerging. The recommended disclosures are ambitious, but nevertheless aim to provide a practical foundation for organisations to begin reporting, while continuing to build and develop their capabilities. TCFD allows for this evolution by avoiding too much prescription.

3.14 The recommended disclosures around scenario analysis (Strategy (c)) and the specifics of setting climate-related targets (under Metrics and Targets (c)) are two areas in which capabilities are still emerging for many organisations. In both cases, there are data and methodological challenges. The TCFD itself, the NGFS and a number of industry groups are developing additional practical tools to help organisations further develop their approaches in these areas.

3.15 The TCFD also hosts a Knowledge Hub in collaboration with the CDSB, comprising a large body of resources (e.g. research, guidance documents, tools) to help organisations implement the recommendations.

3.16 As climate-related reporting becomes more widespread and mainstream, practices and techniques will evolve. We also anticipate that service providers will innovate and provide thought leadership to support organisations in their analysis and reporting.

4 New climate-related disclosure rule for premium-listed issuers

4.1 In this chapter, we set out in more detail our proposal to introduce **a new continuing obligation in the Listing Rules (LR)** applicable to premium listed commercial companies, referencing the 4 recommendations and 11 supporting recommended disclosures in the TCFD's final report.

Scope

4.2 We propose that the scope of the new rule will cover commercial companies with a UK premium listing (companies subject to LR chapters 9 and 21).

4.3 The UK's primary market regulation is largely based on EU legislation. However, the UK regime also has additional distinct provisions, notably the premium listing segment. The rules for this segment build on EU-minimum requirements by adding certain 'super-equivalent' rules that reflect longstanding UK corporate governance traditions, including requirements for additional disclosures.

4.4 Promoting good climate-related disclosures is consistent with the overall outcome that we aim to achieve in the premium listing regime.

4.5 The premium listing rules represent a high benchmark of standards that issuers are expected to meet. Market participants have regularly expressed that the shareholder rights and transparency provided through the premium listing rules enhance the UK market's attractiveness to a broad range of issuers and investors.

4.6 In practice, imposing our proposed rule on premium-listed commercial companies will capture a significant proportion of issuers on the FCA Official List. They are also likely to be among the companies to which UK equity investors are most heavily exposed.

4.7 There are currently 480 issuers in these listing categories on the FCA Official List, out of 1,140 companies admitted to trading on the Main Market of the London Stock Exchange. The combined market capitalisation of these issuers, at £2.3 trillion, is over 60% of the Main Market's total market capitalisation.[2]

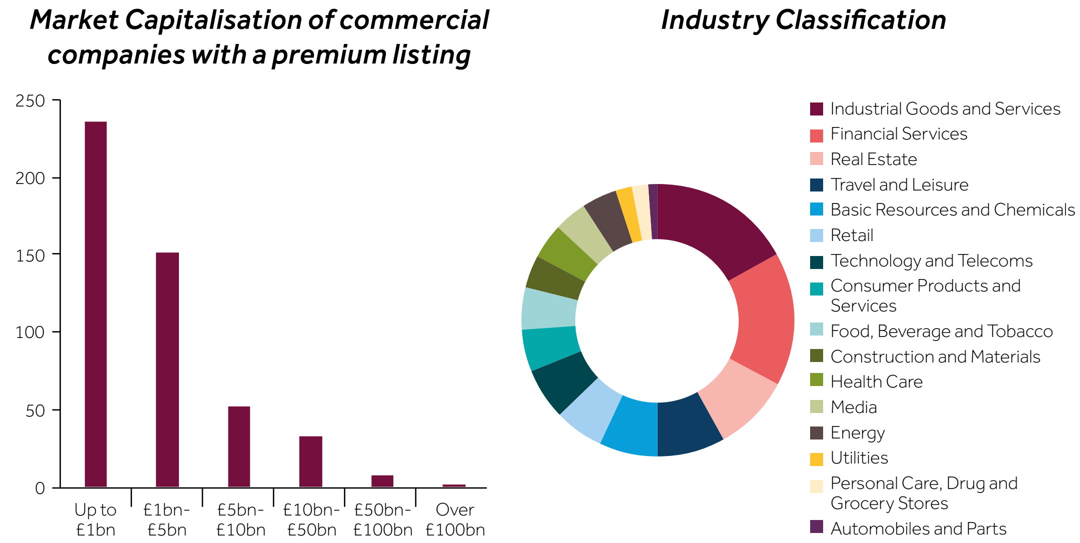
4.8 We are not proposing at this stage to apply the new requirements to investment companies, including investment trusts, that are subject to LR 15 and 16. We will reconsider this position alongside further work on how best to enhance climate-related disclosures by regulated firms, including asset managers and life insurers. See also below.

4.9 Figure 4, below, presents some summary statistics on the size and sectoral breakdown of in-scope issuers.

2 The total market capitalisation of the Main Market is calculated at £3.8 trillion, excluding Depositary Receipts.

- In-scope issuers span a wide range of sectors, with a particularly high weighting of industrial goods and services, financial services and real estate. Almost 90% of in-scope issuers are UK-headquartered.
- While almost 50% of the in-scope issuers have a market capitalisation of less than £1 billion, the proposed scope also captures all companies in the FTSE 100 index, including the largest UK-headquartered companies. Some of these issuers will be companies that are responsible for high carbon emissions.

Figure 4: Market capitalisation and sectoral breakdown of in-scope issuers



Source: London Stock Exchange statistics, FCA calculations

4.10 As capabilities evolve, and subject to ongoing monitoring of how the rule is implemented, we will consider expanding the scope to other listed issuers, including standard-listed issuers.

4.11 This would extend the benefits of improved transparency on climate-related impacts to a wider range of issuers, including a number of large overseas-incorporated companies with a secondary listing in the UK.

> **Q1:** **Do you agree that our new rule should apply only to commercial companies with a premium listing, at least initially? If not, what alternative scope would you consider to be appropriate, and why?**
>
> **Q2:** **Do you agree that sovereign-controlled commercial companies with a premium listing should also be in scope? If not, why should these companies not be included?**

Asset managers with a premium listing

4.12 Several asset management firms, and insurance companies with asset management businesses, have a UK premium listing and therefore fall within the scope of our proposed new rule.

4.13 The TCFD's report, *Implementing the Recommendations of the Taskforce on Climate-related Financial Disclosures*, acknowledges that where an asset manager is a public company, it has two distinct groups of users for its climate-related financial disclosures:

- the asset manager's shareholders, who will be interested in risks and opportunities at enterprise-level
- the asset manager's clients, who want information on the asset manager's products and investment strategies

4.14 The TCFD emphasises the information needs of asset management clients. More specifically, the TCFD suggests that asset managers should consider materiality through the lens of investment performance for clients. As part of this, the TCFD recommends reporting to clients on the 'carbon foot-print' of their portfolios, further suggesting that these disclosures be made irrespective of a materiality assessment.

4.15 The TCFD also recommends that asset managers provide climate-related financial information to their clients using existing reporting channels, where relevant and feasible.

4.16 As noted, we are still considering how best to enhance climate-related disclosures by regulated firms, coordinating with the cross-regulator taskforce on TCFD implementation, and taking into account relevant EU disclosure initiatives.

4.17 In the meantime, we expect in-scope asset managers and insurance companies with asset management businesses to prepare enterprise-level disclosures in their capacity as issuers, rather than in their capacity as regulated firms. That is, we expect them to assess materiality and report climate-related financial information in a manner consistent with premium-listed commercial companies operating in other industries. We will separately clarify our approach to enhancing climate-related disclosures by asset managers as FCA-regulated firms.

4.18 However, we see considerable benefit to clients from receiving targeted climate-related information on asset managers' products and strategies. We therefore encourage these firms voluntarily to make disclosures in line with the TCFD's framework for asset managers. Alongside other industry guidance, the materials shortly to be published by the CFRF will promote best practice and assist regulated firms in making these disclosures.

4.19 We welcome stakeholders' views on this proposed approach.

Q3: Do you agree with our approach?

Design of our proposed new rule

Our proposal

4.20 We propose to include a rule in LR 9.8 referencing the TCFD's 4 recommendations and 11 supporting recommended disclosures (see Figure 3 in Chapter 3). Our proposed rule will require commercial companies with a UK premium listing (including sovereign-controlled commercial companies) to include a statement in their annual financial report, setting out:

a. whether they have made disclosures consistent with the TCFD's recommendations and recommended disclosures in their annual financial report
b. where they have:
   i. not made disclosures consistent with some or all of the TCFD's recommendations and/or recommended disclosures, or
   ii. included some or all of the disclosures in a document other than their annual financial report

   an explanation of why
c. where in their annual financial report (or other relevant document) the various disclosures can be found

4.21 Items (a) and (b) reflect the proposed 'comply or explain' compliance basis for our rule (see below). Item (c) is intended to help users to more easily locate the disclosures by requiring that issuers explicitly indicate where in their annual financial report (or other relevant document) they have made their disclosures.

4.22 To support issuers in their implementation of the rule, we propose to introduce Handbook guidance in LR 9.8 referencing the TCFD's "guidance for all sectors" as well as the "supplemental guidance for the financial sector" and "supplemental guidance for non-financial groups". The guidance materials are reproduced or sign-posted for reference in Appendix 3.

4.23 We consider that the wider set of materials published by TCFD will also be helpful in navigating the proposed new rule. We therefore propose to say in our Handbook that the wider set of materials contained in the TCFD's final report, as well as the accompanying documents referenced in paragraph 3.6, may also be relevant.

Consistency with global standards

4.24 As already highlighted in Chapter 2 and 3, we want to build on existing global standards. We consider that this will reduce the burden on issuers by avoiding unnecessary duplication. We anticipate that this will also enhance the benefit to investors by improving global comparability.

4.25 The TCFD's recommendations and recommended disclosures have benefited from extensive expert inputs and a wide-ranging consultation process. We are confident that they will operate effectively in the UK context.

4.26 We propose that our new rule and guidance provisions will reference specific versions of the TCFD's publications; i.e. the documents published by TCFD in June 2017. Should these documents be revised in the future, we will consider whether it would be appropriate to update our rules and guidance provisions. If so, we would consult on proposed changes to the Handbook in the usual way.

4.27 We note that the language of some of the recommended disclosures is relatively high-level, raising the possibility that they are interpreted differently across issuers. As a result, we may not achieve fully consistent and comparable disclosures at the outset.

4.28 However, we consider that the TCFD's recommendations and recommended disclosures provide an appropriate, principles-based framework for issuers to consider and report on climate change impacts in a systematic and coherent way. We also consider that adding further prescription or tailoring the recommendations at the national level would risk unnecessarily deviating from global standards and risk stifling innovation in this area.

4.29 The TCFD plans to produce further guidance, notably in relation to scenario analysis and metrics and targets. Industry is also developing practical tools to help implement the TCFD's recommendations, including, as noted, via the CFRF. We do not want to pre-empt this ongoing work.

4.30 We could consider adding further specificity over time as the TCFD's additional guidance is finalised and as industry initiatives to support implementation conclude. Any further work will also benefit from supervisory experience.

Q4: **Do you agree that our rule should reference the 4 recommendations and 11 supporting recommended disclosures included in the TCFD's June 2017 final report? If not, what alternative approach would you prefer, and why?**

Q5: **Do you agree that we should make explicit reference in Handbook guidance to the TCFD's "guidance for all sectors" as well as the "supplemental guidance for the financial sector" and the "supplemental guidance for non-financial groups" accompanying each recommended disclosure? If not, what alternative approach would you prefer, and why?**

Q6: **Do you agree that we should include additional guidance which references the wider set of materials that have been published both within and alongside the TCFD's final report, as useful sources of guidance and interpretation when complying with our proposed rule?**

Proportionality: ability to explain

4.31 As explained earlier in this CP, we note that practices in respect of climate-related disclosures are still evolving, that inputs for modelling may not be readily available, and that some issuers' capabilities – at least in respect of certain recommended disclosures – are still developing. Accordingly, we propose to take an approach that will foster best practice but will not force issuers into making disclosures they cannot confidently support, or discourage them from making best efforts.

4.32 Therefore, we propose to introduce the new rule on a 'comply or explain' basis, at least initially. A comply or explain approach will allow in-scope issuers to either make TCFD-aligned climate related disclosures or explain publicly why they have not done so.

4.33 In particular, this will mean that in-scope issuers will have to include a statement of compliance in their annual financial report, setting out whether or not they have made disclosures consistent with some or all of the TCFD's 4 recommendations and the 11 supporting recommended disclosures.

4.34 If an issuer has not made such disclosures, or not made them in their annual financial report, that issuer will have to provide a reasoned explanation.

4.35 We expect to consult on strengthening the compliance basis in the future, once ongoing guidance initiatives have made further progress and capabilities are in place across the issuer community. We want to do this at the right pace.

> **Q7:** **Do you agree that we should introduce the new rule on a 'comply or explain' basis? If not, what alternative approach would you prefer, and why?**

Materiality assessment for governance and risk management disclosures

4.36 Most information included in financial filings is subject to some form of materiality assessment. Consistent with this, the TCFD recommends that the supporting recommended disclosures under the "strategy" and "metrics and targets" recommendations should be provided in annual reports when the information is deemed material.

4.37 The TCFD considers that disclosures related to its "governance" and "risk management" recommendations should always be included in annual financial filings, irrespective of any materiality assessment. The TCFD notes that investors will want to understand the governance and risk management context within which their investee companies assess climate-related risks and opportunities.

4.38 We consider this an appropriate and proportionate approach. Transparency from all in-scope issuers on governance and risk management matters should help the market understand the arrangements that issuers have in place to manage climate-related risks and opportunities.

4.39 Furthermore, we expect that issuers should ordinarily be able to make the recommended disclosures under the governance and risk management recommendations. Dedicated organisational structures ought already to exist to analyse and manage those aspects of an issuer's business.

4.40 We therefore expect that non-disclosure of these elements would occur only on an exceptional basis. We do not, however, propose to include specific guidance in our Handbook to this effect.

> **Q8:** **Do you agree that the recommended disclosures under the "governance" and "risk management" recommendations should not be subject to a materiality assessment? If not, what alternative approach would you prefer, and why?**

> **Q9:** **Do you agree that issuers should ordinarily be able to make the recommended disclosures under the "governance" and "risk management" recommendations?**

Q10: Do you agree that no explicit guidance is needed to clarify that it would be acceptable for an issuer to explain non-disclosure of these recommended disclosures only on an exceptional basis?

Location of disclosures, assurance and statement of compliance

4.41 The TCFD recommends that climate-related disclosures be made in organisations' mainstream financial filings, in the narrative reporting sections. It is only when this approach is incompatible with the rules applicable in a specific jurisdiction that the TCFD recommends disclosures be made via another vehicle, which could be a separate, stand-alone, report.

4.42 We agree with this approach. For instance, this will bring climate-related disclosures under the systems, controls and governance frameworks that apply more widely for mainstream filings (see paragraph 3.7). We therefore encourage this approach in our new rule.

4.43 Our proposed rule will also require that the statement of compliance – including the explanation of where the relevant disclosures can be found – be situated in the annual financial report. It will also require that the issuer discloses where in its annual financial report (or other document) it has made TCFD-aligned disclosures.

4.44 Under this approach, auditors will have to satisfy themselves of the internal consistency of the narrative reports with the wider set of financial statements. When climate-related risks are financially material for a company, auditors may consider whether and how these should be reflected in the issuer's annual accounts.

4.45 Some company directors may choose to engage with auditors and verifiers beyond this. That is, they may wish to instruct professional firms to provide additional due diligence on their climate-related disclosures.

4.46 We have considered the case for requiring that climate-related disclosures be subject to third-party assurance. We do see an important role for assurance of these disclosures in time. However, our current view is that introducing mandatory requirements around verification or assurance would be premature, especially noting ongoing reviews of the role of audit and acknowledging the still largely evolving reporting practices among issuers. It would also add to cost.

Q11: Do you agree that the statement of compliance and the proposed disclosures should be made within the issuer's annual financial report? If not, what alternative approach would you prefer and why?

Q12: Do you agree that an issuer should be required to include within the statement of compliance a description of where in its annual financial report (or other relevant document) its TCFD-aligned disclosures can be found? If not, what alternative approach would you prefer and why?

Q13: **Do you agree that the FCA should not require third-party assurance of issuers' climate-related disclosures at this time? More generally, we welcome views on the role of assurance for climate-related disclosures.**

The duties of sponsors

4.47 Premium listed issuers or companies seeking a premium listing are required to appoint a sponsor or obtain a sponsor's guidance in a number of circumstances which are set out in LR 8.2R.

4.48 The sponsor's role is to guide the company through the initial public offering and in other prescribed situations. At the same time, the sponsor is required to provide assurances to the FCA that the company has complied with various aspects of our rules. Sponsors are experts on the premium listing regime and play an important role in helping to maintain the high standards required of premium listed issuers. This includes standards in relation to a company's ongoing disclosure obligations.

4.49 A sponsor who has been appointed by a company has to satisfy itself that the company's directors understand their responsibilities and obligations under the LR and DTR. A sponsor is also required to come to a reasonable opinion, after having made due and careful enquiry, that a company seeking a premium listing has established procedures to enable it to comply with its obligations under these rules on an ongoing basis.

4.50 Similarly, a sponsor is required to confirm that a significant transaction will not have an adverse impact on a listed company's ability to comply with its obligations under these rules. These requirements are set out in LR 8.2R and LR 8.4R.

4.51 We have published Technical Notes (708.3, 718.1, 719.1 and 720.1) which provide guidance on how sponsors should approach their work in these areas.

4.52 Sponsors will need to consider whether companies have established procedures to enable them to comply with the new rule as part of the work they undertake in order to make these declarations.

Q14: **Do you have any feedback on the interactions between our proposed rule and the role of sponsors in assisting premium listed issuers?**

Application of established concepts and principles

4.53 In Chapter 2, we briefly introduced some of the existing legislative and regulatory requirements and industry standards and practices that may already require consideration and disclosure of climate-related and ESG matters in certain circumstances. We are confident that our new proposals can work within the existing reporting framework. Neither our proposed rules, nor our proposed guidance, are intended to impact those provisions.

4.54 There are, however, some areas of interaction between our proposed rule and existing requirements. Preparers will need to consider these interactions carefully. We set out below three examples of existing transparency requirements (mostly pursuant to the Companies Act 2006 and related Regulations) that may overlap with the disclosures we intend to promote. The list should not be regarded as exhaustive.

- There is interaction between existing requirements under the Companies Act 2006 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 on the reporting of GHG emissions and the TCFD's recommended disclosure on Scope 1 and 2 emissions (Metrics and Targets (c)). Preparers should note the different, albeit probably very similar in practice, standards of disclosure.
- Similarly, under existing rules,[3] issuers incorporated in the UK may exclude certain energy and carbon information from their Directors' Report either because the directors consider that such disclosures would be seriously prejudicial to the interests of the organisation, or the relevant energy and carbon information is not practical to obtain. The directors must still state that the disclosure is not made for one of those two reasons and explain why. However, the Government's guidance on the relevant rules states that such situations are expected to be very rare and may be questioned by the FRC. Preparers should consider how this interacts with our proposed rule and whether an explanation in the proposed TCFD statement of compliance (rather than disclosure) would be sufficient for the purposes of obligations under other legislation.
- As an additional example, under existing regulations[4] we note that UK incorporated quoted companies may need to provide certain disclosures (e.g. a description of their strategy and business model) in their Strategic Report, irrespective of the directors' view of the materiality of such disclosures. This could in practice mean that some premium listed issuers will have to make disclosures on the strategic impact of climate risks on their business for the purposes of those regulations, irrespective of what is required under the TCFD's framework.

4.55 More generally, the backdrop to our proposals is one in which thinking continues to evolve on several matters that will affect how issuers disclose. This dynamic reporting environment includes concepts and practices in relation to non-financial reporting, materiality judgements in the context of narrative reports, and the push for standards convergence.

> **Q15: Do you have any other feedback related to the interaction between our proposed rule and existing legislative and regulatory requirements and industry standards and practice?**

Managing challenges, risks and unintended consequences

4.56 There are inevitably challenges in implementing our proposed rule. For instance, there are various interdependencies that we and other stakeholders need to be aware of:

3 The Companies Act 2006 and related Regulations.
4 The Companies Act (Strategic Report and Directors' Reports) Regulations 2013

- *Informational*: Issuers need a good flow of information to support their assessment of climate-related risks and opportunities – both physical and transitional. For issuers, this includes data on assets and supply chains, under alternative scenarios, which may not be readily available.
- *Institutional*: The development of TCFD-aligned disclosures will often depend on inputs from others, including consultants, software and data providers. Building capabilities and the quality of disclosures may depend on the emergence of service providers to commoditise data and methodological inputs and support activities such as scenario analysis and risk analytics.
- *Structural*: Climate change as a topic is structurally complex. In assessing and reporting on climate-related risks and opportunities, organisations will have to keep reasonably abreast of developing scientific knowledge and understanding of the issue.
- *Legal and Regulatory*: Climate-related disclosures are required under a range of regulatory rules, codes and standards. This represents a challenge from an informational and analytical perspective. The legal liability associated with forward-looking statements has also historically been of some concern to company directors and preparers.

4.57 Our proposal to proceed initially with a comply or explain compliance basis reflects some of the uncertainties and interdependencies referenced above. We will continue to monitor developments and encourage industry guidance initiatives to support implementation.

4.58 The strategic nature of some disclosures may also give rise to concerns about commercial sensitivity, potentially resulting in caveated or non-specific language. We will engage with issuers to consider how such concerns can be overcome, so as to ensure that disclosures provide sufficient information to support decision making.

Q16: Do you consider that our proposals adequately address the challenges, risks and unintended consequences described above? If not, what additional measures would you suggest?

Timing of implementation

4.59 We propose that the new rule takes effect for accounting periods beginning on or after 1 January 2021. This will mean that the first reports to have to be issued in compliance with the proposed rule would be published in 2022.

4.60 Acknowledging that we have already set a clear direction of travel in FS 19/6, we consider this timeframe to be adequate – particularly given the proposed comply or explain basis for compliance.

4.61 We consider that a longer timeframe for implementation would be inconsistent with the public interest in this issue and the urgency and scale of the changes needed to support the transition to a low carbon economy.

4.62 However, we welcome stakeholders' views on the timeframe in light of the practical challenges that some issuers might encounter in providing certain aspects of the proposed disclosures.

Q17: **Do you agree that our new rule should take effect for accounting periods beginning on or after 1 January 2021? If you consider that we should set a different timeframe, please explain why?**

Q18: **Do you agree with the conclusion and analysis set out in our cost benefit analysis (Annex 2)?**

5 Guidance on existing disclosure obligations

The case for clarifying existing disclosure obligations

5.1 Under existing rules in our Handbook and EU legislation, listed issuers, issuers with securities admitted to trading on regulated markets and other entities in scope of requirements under the MAR and the PR must meet a range of disclosure requirements, including when securities are offered to the public, first listed or admitted to trading, and on an ongoing basis.

5.2 These existing disclosure obligations may already require issuers to report the implications of ESG factors where these are financially material, or in certain other circumstances. These disclosure obligations are intended, among other things, to help markets reach an informed view on the value of traded securities.

5.3 In feedback to DP 18/8, stakeholders acknowledged that existing disclosure obligations for issuers already require the disclosure of financially material climate-related risks. However, respondents cited a number of practical, methodological and data-related difficulties in determining materiality.

5.4 In light of feedback received, we committed to clarifying our expectations in relation to the application of existing rules and legislation in this area. We propose to do so by consulting on a Technical Note and adding it to the Knowledge Base once finalised. Technical Notes are a source of guidance on our LR and DTR, and on the PR and MAR, designed to help issuers and practitioners interpret these rules.

5.5 Our proposed Technical Note is presented in Appendix 2. It lists provisions in the LR and DTR sourcebooks, the PR and the MAR, and indicates how these may be relevant to ESG matters.

The materiality of climate-related and other ESG matters

5.6 Making judgements on financial materiality, particularly in the context of climate-related impacts, can be challenging.

5.7 As awareness and understanding of the threat of climate change has deepened – and with the UK and other countries committing to ambitious targets for emissions reduction – it is increasingly likely that issuers will need to consider climate-related risks and opportunities in the context of fulfilling their existing obligations.

5.8 As noted in Chapter 2, the International Accounting Standards Board published an article in November 2019 to help companies in forming materiality judgements.

The scope of our proposed Technical Note

5.9 Our proposed Technical Note lists the relevant provisions in LR, PR, DTR and MAR and explains their application. In each case, referencing the language in the provision itself, we indicate where ESG matters may need to be taken into consideration.

5.10 See Table 1 for a summary of the relevant provisions.

Table 1: Summary of existing legislation and Handbook provisions that may require or relate to ESG-related disclosures

Sourcebook	Provision	Summary
Listing Rules	***Listing Principle 1 (LR 7.2.1 R)***	Provides that a listed company must take reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with its obligations.
	LR 7.2.2 G	Clarifies that Listing Principle 1 is intended to ensure that listed companies maintain adequate procedures, systems and controls to enable them to comply with their obligations under the LR, disclosure requirements, transparency rules and corporate governance rules.
	LR 7.2.3 G	Further elaborates in relation to Listing Principle 1, emphasising that timely and accurate disclosure of information to the market is a key obligation.
	Premium Listing Principle 6 (LR 7.2.1A R)	Provides that a premium-listed issuer must communicate information to holders and potential holders of its premium listed securities and its listed equity shares in such a way as to avoid the creation or continuation of a false market.
	LR 4.2	Contains details on Listing Particulars and their content.
	LR 9.8.6R (5) and (6)	Requires that a premium listed issuer include within its annual financial report: (a) a statement of how the company has applied the Principles set out in the UK Corporate Governance Code; and (b) a statement setting out the extent of its compliance with the UK Corporate Governance Code (providing reasons for instances of non-compliance).
	LR 13.3.1R (1) and (3)	Requires every circular sent by a premium listed company to holders of its listed securities to contain: (a) a clear and adequate explanation of its subject matter giving due prominence to its essential characteristics, benefits and risks; and (b) if action is required, all information necessary to allow the security holders to make a properly informed decision.
	LR 1.3.3R	Requires that an issuer take reasonable care to ensure that any information it notifies to a regulatory information service (RIS) or makes available through the FCA is not misleading, false or deceptive and does not omit anything likely to affect the import of the information.

Sourcebook	Provision	Summary
Prospectus Regulation	***Art. 6***	Provides that the prospectus must contain the necessary information which is material to an investor for making an informed assessment of (among other things) the assets and prospects of the issuer.
	Art. 14	Establishes a lesser test for secondary issuances.
	Articles 7/14	Requires the inclusion of material risk factors. Recital 54 makes specific reference to ESG factors.
	ESMA Guidelines on risk factors	Contains guidelines on the presentation and categorisation of risk factors, noting that ESG risks could form a specific category.
	Annexes to the Delegated Regulation	Various annexes to the L2 Regulation require descriptions of: • any environmental issues that may affect the issuer's utilisation of the tangible fixed assets • the regulatory environment that the issuer operates in and that may materially affect its business, together with information regarding any governmental, economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, directly or indirectly, the issuer's operations For the EU Growth prospectus, Annex 24 specifically addresses environmental matters.
	ESMA update of the CESR recommendations on consistent implementation of Commission Regulation (EC) No 809/2004	Contains guidance in relation to: • environmental and employee key performance indicators in the context of the operating and financial review • factors to consider when preparing profit forecasts • requirements for mineral companies Appendices II and III also contain specific requirements for the Mining and Oil and Gas Competent Persons' Report.
Disclosure Guidance and Transparency Rules	***DTR 4.1.8 R***	Provides that the management report in the annual financial report must contain a description of the principal risks and uncertainties facing the issuer and a fair review of the issuer's business.
	DTR 4.1.9 R	Provides that the review required in DTR 4.1.8R must include (to the extent necessary for an understanding of the development, performance or position of the issuer's business) analysis using key performance indicators, including (where appropriate) information relating to environmental matters and employee matters.
	DTR 4.2.7 R (2)	Provides that the interim management report in the half yearly financial report must include at least a description of the principal risks and uncertainties for the remaining six months of the financial year.
	DTR 7.2	Requires an issuer to include a corporate governance statement in its directors' report, or in a separate report published with its annual report or made available on its website; this will include information on any relevant corporate governance code and the issuer's diversity policy.
	DTR 1A.3.2R	Requires an issuer 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.

Sourcebook	Provision	Summary
Market Abuse Regulation	***Art. 17***	Requires an issuer to publicly disclose inside information that directly concerns them as soon as possible; this will include any inside information that relates to climate change and other ESG matters.
	Art 12	Sets out behaviours that constitute market manipulation, including the dissemination of information that gives false or misleading signals.
	Art. 15	Sets out the prohibition on market manipulation.

5.11 Our proposed Technical Note does not introduce new or novel expectations for issuers. Rather, it clarifies existing obligations that issuers should already be meeting. Accordingly, consistent with FSMA requirements and our stated approach, we have not performed a CBA for the Technical Note.

Q19: Do you agree with the guidance provided in the draft Technical Note set out in Appendix 2? Are there any changes that you would suggest? If so, please describe.

Annex 1
Questions

Q1: **Do you agree that our new rule should apply only to commercial companies with a premium listing, at least initially? If not, what alternative scope would you consider to be appropriate, and why?**

Q2: **Do you agree that sovereign-controlled commercial companies with a premium listing should also be in scope? If not, why should these companies not be included?**

Q3: **Do you agree with our approach?**

Q4: **Do you agree that our rule should reference the 4 recommendations and 11 supporting recommended disclosures included in the TCFD's June 2017 final report? If not, what alternative approach would you prefer, and why?**

Q5: **Do you agree that we should make explicit reference in Handbook guidance to the TCFD's "guidance for all sectors" as well as the "supplemental guidance for the financial sector" and the "supplemental guidance for non-financial groups" accompanying each recommended disclosure? If not, what alternative approach would you prefer, and why?**

Q6: **Do you agree that we should include additional guidance which references the wider set of materials that have been published both within and alongside the TCFD's final report, as useful sources of guidance and interpretation when complying with our proposed rule?**

Q7: **Do you agree that we should introduce the new rule on a 'comply or explain' basis? If not, what alternative approach would you prefer, and why?**

Q8: **Do you agree that the recommended disclosures under the "governance" and "risk management" recommendations should not be subject to a materiality assessment? If not, what alternative approach would you prefer, and why?**

Q9: **Do you agree that issuers should ordinarily be able to make the recommended disclosures under the "governance" and "risk management" recommendations?**

Q10: **Do you agree that no explicit guidance is needed to clarify that it would be acceptable for an issuer to explain non-disclosure of these recommended disclosures only on an exceptional basis?**

Q11: **Do you agree that the statement of compliance and the proposed disclosures should be made within an issuer's annual financial report? If not, what alternative approach would you prefer and why?**

Q12: **Do you agree that an issuer should be required to include within the statement of compliance a description of where in its annual financial report (or other relevant document) its TCFD-aligned disclosures can be found? If not, what alternative approach would you prefer and why?**

Q13: **Do you agree that the FCA should not require third-party assurance of issuers' climate-related disclosures at this time? More generally, we welcome views on the role of assurance for climate-related disclosures.**

Q14: **Do you have any feedback on the interactions between our proposed rule and the role of sponsors in assisting premium listed issuers?**

Q15: **Do you have any other feedback related to the interaction between our proposed rule and existing legislative and regulatory requirements and industry standards and practice?**

Q16: **Do you consider that our proposals adequately address the challenges, risks and unintended consequences described above? If not, what additional measures would you suggest?**

Q17: **Do you agree that our new rule should take effect for accounting periods beginning on or after 1 January 2021? If you consider that we should set a different timeframe, please explain why?**

Q18: **Do you agree with the conclusion and analysis set out in our cost benefit analysis (Annex 2)?**

Q19: **Do you agree with the guidance provided in the draft Technical Note set out in Appendix 2? Are there any changes that you would suggest? If so, please describe.**

Annex 2
Cost benefit analysis

1. The Financial Services and Markets Act 2000 (FSMA), as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

2. This analysis presents estimates of the significant impacts of our proposed rule changes. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we describe the nature of the impacts qualitatively.

3. In July 2018, we published a paper setting out how we analyse costs and benefits of our policies. We noted that FSMA mandates that we conduct a CBA for new rules but not for guidance. We explained that we do not produce a CBA if the detailed steps mentioned in the guidance are the kind of detailed steps that follow predictably from the rule and that one would reasonably expect firms to take to comply with the rule. We consider that this is the case for our proposed Technical Note clarifying existing climate change and other ESG-related obligations in our Handbook. For this reason, we have not carried out a CBA for the proposed Technical Note.

Our analytical approach

4. To understand the impact of the proposed rule change set out in Chapter 4, this CBA considers:

- the likely compliance costs to issuers
- the likely benefits to issuers and the wider market

5. As regulator, we will also incur costs from supervising against the new rule. We will assess the resource implications as part of our annual business planning.

6. The analysis presented below has been produced using evidence from the following sources:

- Analysis carried out by a team at LSE to examine the current status of premium-listed issuers' climate-related disclosures[5]
- Reports on the current status of climate-related disclosures and other non-financial reporting published by the FRC, the TCFD, Ernst and Young, the Department for Business, Energy and Industrial Strategy (BEIS) and the French AMF
- Engagement with a sample of issuers that have already voluntarily adopted the TCFD's recommendations to better understand how they approached the development of their disclosures, the specific steps they took to enhance their capabilities, and the challenges they faced

5 This work was carried out as an FCA-supported project. The FCA specified the aim of the project and engaged frequently with the group over the duration of the work.

- Discussions with other relevant stakeholders, including the Institute of Chartered Accountants in England and Wales

Problem and rationale for intervention

7. We describe the problem and rationale for intervention in Chapters 1 and 2. We note that there is evidence that many issuers, including many premium-listed issuers in the UK, are not yet making climate-related disclosures that provide markets with the information they need in order to make informed decisions.

8. As set out in Chapter 2, if issuers' disclosures of climate-related risks and opportunities are insufficient, assets could be mispriced and capital misallocated. Issuers themselves may also face harms if they are unable to access financial markets at a cost of capital that appropriately reflects their management of climate-related risks and opportunities.

9. We also describe consequential harms that might arise for consumers of financial products.

10. We consider that these harms arise from market failures, which include:

- *Asymmetric information*. A lack of visibility of issuers' climate-related exposures to investors reflects, at its core, the principal-agent problem that arises where there is a separation of ownership and control. Issuers may voluntarily disclose less than investors might prefer, due to the coordination failures mentioned below and the cost of making extensive disclosures. Directors may also have concerns about legal liability for forward-looking projections or the commercial sensitivity of disclosed information.
- *Coordination failure among issuers*. An issuer may have a disincentive to be a 'first-mover' in making voluntary disclosures. They may fear reputational damage or an adverse market response if they are perceived not to have invested sufficiently to manage the impacts of climate change.
- *Coordination failure among investors*. Investors may be unable to coordinate effectively to encourage a market-led improvement in climate-related disclosures across issuers. Issuers' disclosures will then be determined by their own private incentives.

11. The causal chain set out in Chapter 1 (Figure 1) shows how by introducing a new rule promoting TCFD-aligned disclosures by premium-listed issuers (and providing clarity on existing obligations), we expect to advance our objectives in respect of market integrity and consumers and mitigate the harms described above.

Baseline and key assumptions

12. To establish the baseline for the CBA, we have considered the current status of premium-listed issuers' climate-related disclosures.

Summary of proposals

13. Our proposals are set out in Chapter 4.

14. We propose to introduce a new rule in the LR referencing the recommendations and recommended disclosures in the TCFD's final report, as published in June 2017.

15. Our proposed rule will apply to commercial companies (including sovereign-controlled commercial companies) with a UK premium listing. The rule will be introduced, at least initially, on a comply or explain basis.

The current status of premium-listed issuers' climate-related disclosures

16. As set out in Chapters 2 and 4, issuers already face a number of obligations to disclose climate-related impacts, where these are financially material to the company's prospects.

17. A number of existing obligations, including under the Companies Act, further require directors, as stewards, carefully to consider all factors that could be material to their companies' prospects. These may include climate-related factors.

18. However:

- existing disclosure obligations do not cover the full scope of disclosures contemplated by the TCFD's recommendations and do not specify a consistent form or structure for these disclosures
- even where companies have established governance, strategy and risk management arrangements that help directors to assess climate-related impacts on their businesses, they often do not fully describe the nature and scope of these arrangements in their disclosures; this may be due to the incentives and coordination failures described above.

19. The LSE's study of existing climate-related disclosures provides us with a baseline for the calculation of costs for our CBA. According to the LSE study, there is considerable variability in existing climate-related disclosures by premium-listed companies.

20. For a representative stratified sample of 100 of the 480 UK premium-listed companies, the study assesses climate-related disclosures against a framework comprising 80 discrete disclosure items. Each company is scored on the number of items present in its public reports.

21. Drawing on the results of this analysis, we have mapped 66 of the disclosure items in the LSE study to the TCFD's 11 recommended disclosures. This is by no means an exhaustive set of disclosure items. The analysis nevertheless provides a helpful indication of consistency with the TCFD's recommendations and recommended disclosures. The TCFD's recommended disclosures are introduced in Chapter 3 and presented in Figure 3. Figure 5 below presents an estimate of the percentage of issuers in the sample that already include disclosure items consistent with each recommended disclosure in their public reports.[6]

6 For each disclosure item, we calculate the number of issuers that include that item in their public reports. We then sum the scores for all disclosure items mapped to a particular recommended disclosure and divide by the number of mapped disclosure items. This gives us the average number of issuers that disclose each mapped disclosure item. Expressed as a percentage, this is our estimate of the percentage of issuers that disclose in line with that recommended disclosure.

22. As a point of reference, we compare the results for the sample of premium-listed issuers with global results presented in the TCFD's 2019 Status Report. In most cases, UK premium-listed companies' disclosures seem to be consistent with those in the TCFD's global sample.

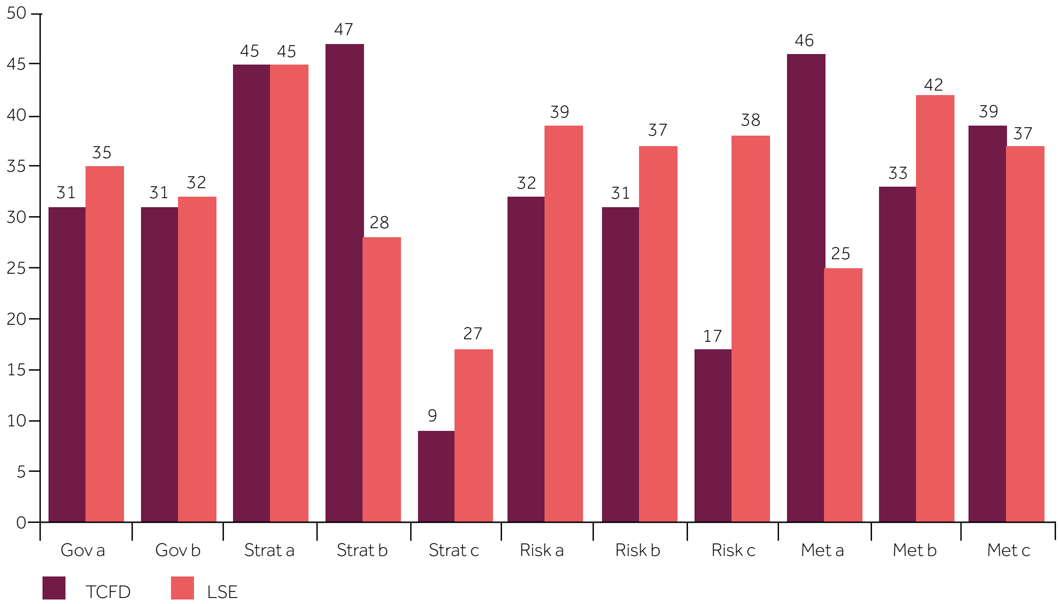
23. It is clear from Figure 5 that many premium-listed issuers are already making disclosures consistent with some of the TCFD's recommended disclosures. However, on average, across all 11 of the TCFD's recommended disclosures, only around a third of companies in the sample are already making these disclosures.

24. The LSE study also finds substantial sectoral differences in disclosures. On average, companies in the energy, health care, utility and real estate sectors had the most extensive climate-related disclosures. Two companies in the LSE sample had disclosures aligned with more than 60 of the 66 disclosure items. Twelve companies had disclosures aligned with more than 50 of the items.

25. These sectoral differences may reflect matters such as the size and complexity of companies and their resources. They may also reflect differences in the materiality of climate-related risks and opportunities to their businesses, and the degree of scrutiny particular sectors face from investors and civil society groups.

26. Where these drivers are strong, companies may take a more sophisticated approach to the consideration and management of climate-related risks, and may face more pressure to disclose. Where companies operate in less carbon-intensive industries, and perhaps have fewer and more domestically-focused fixed assets, these drivers may be weaker. For example, in their risk and strategic analysis, telecommunications and technology companies may prioritise matters such as data and cyber security over climate-related risks and opportunities.

Figure 5: The percentage of companies making TCFD-aligned disclosures



Note: Gov a – board oversight; Gov b – management role; Strat a – identified climate-related risks and opportunities; Strat b – resilience of strategy/ scenario analysis; Risk a – identifying climate risks; Risk b – managing climate risks; Risk c – integration of climate risk management; Met a – metrics applied; Met b – Scope 1, 2 and (if appropriate) 3 emissions; Met c – targets.
Source: TCFD Status Report, June 2019; LSE; the values depicted in the figure are the percentage of companies found in the LSE study to be making disclosures aligned with each of the 11 recommended disclosures, as introduced in Figure 3. For each recommended disclosure, the value presented is an average across all of the disclosure items mapped to that recommended disclosure.

27. Two of the least developed areas of disclosure among UK premium-listed companies seem to be:

- climate scenario analysis to assess the resilience of the organisation's strategy (Strategy (c))
- disclosure of business-relevant climate metrics and targets (Metrics and Targets (a) and (c)).

28. This finding is broadly consistent with evidence in other studies and reports, including that by the FRC, as well as our liaison with issuers and other stakeholders.

29. In respect of Metrics and Targets (b), existing UK regulations require the disclosure of Scope 1 and 2 emissions (*under the Companies Act 2006* and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018).

30. Hence, a larger number of issuers are already disclosing in line with this recommended disclosure. Where gaps on this item are observed in issuers' current disclosures, they generally reflect the absence of more granular breakdowns and methodological information.

31. In respect of the other recommended disclosures, as noted, it is likely that companies already have in place many relevant governance, strategy and risk management arrangements to assess and manage climate-related risks and opportunities. However, these are not currently fully disclosed.

Summary of costs and benefits

32. Compliance costs to premium-listed issuers are estimated in Table 2 below.

Table 2: Estimated compliance costs to issuers

<table>
<tr><th>Category of cost</th><th>No. issuers impacted</th><th>One-off cost per issuer (£m)</th><th>Total one-off cost (£m)</th><th>Ongoing cost per issuer (£m, pa)</th><th>Total ongoing cost (£m, pa)</th></tr>
<tr><td>Familiarisation and legal review</td><td>480</td><td>0.01</td><td>5.9</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Coordination of disclosure inputs across functions (Governance (a) and (b), Strategy (a) and (b), and Risk Management (a)-(c))</td><td>307</td><td>0.15</td><td>45.4</td><td>0.07</td><td>21.4</td></tr>
<tr><td>Scenario analysis (Strategy (c))</td><td>418</td><td>0.07</td><td>27.5</td><td>0.03</td><td>13.8</td></tr>
<tr><td>Metrics/Targets (a), (c)</td><td>331</td><td>0.09</td><td>28.6</td><td rowspan="2">0.04</td><td rowspan="2">14.3</td></tr>
<tr><td>Metrics/Targets (b)</td><td>278</td><td>0.04</td><td>12.0</td></tr>
<tr><td>Total</td><td></td><td>0.36</td><td>119.5</td><td>0.1</td><td>49.5</td></tr>
</table>

33. We do not consider that it is reasonably practicable to quantify the benefits of our proposals. We have therefore not sought to quantify the benefits to the market from reducing the identified harms. Rather, we have estimated the minimum net benefit required in order to justify the intervention.

34. In particular, since the estimated costs of compliance are small relative to market capitalisation, even only a small improvement in price efficiency flowing from these benefits would be sufficient to outweigh the cost and produce a net benefit.

35. The remainder of this section describes in more detail the approach we have taken and the assumptions that we have made.

Calculating compliance costs

36. Our proposed rule will impact the 480 commercial companies that are currently admitted to the Official List with a premium listing. These companies comprise over 60% of the total market capitalisation of the Main Market of the London Stock Exchange.

37. A breakdown of in-scope companies, by size, sector, etc. is introduced in Chapter 4. They include all of the companies in the FTSE 100 index – and therefore the largest UK-headquartered companies. However, around half of in-scope companies have a market capitalisation of less than £1 billion.

38. The principal costs of compliance will be incurred by these issuers. These will include both initial one-off costs and ongoing compliance costs.

Sources of incremental costs

39. Based on our analysis of the current status of disclosures, we consider the following to be the key areas in which incremental costs of compliance will be required.

- *Coordination of inputs*. Successful implementation of the TCFD's recommendations will require a multi-disciplinary approach. According to discussions with a number of issuers, this is likely to entail coordination of inputs from across various functions in the organisation (e.g., finance, legal, risk), and the integration of climate reporting with existing reporting and governance arrangements.
- *Climate scenario analysis* (Strategy (c)). This is the least developed area of disclosure and we expect that most issuers will need to make initial investments to build their capabilities.
- *Climate metrics and targets* (Metrics and Targets (a) and (c)). We expect that many issuers will also need to make initial investments to enhance their capability to monitor a range of business-relevant climate-related metrics.
- *Scope 1 and 2 emissions* (Metrics and Targets (b)). While there are already UK regulations that require disclosures in this area, some issuers are likely to need to enhance these.

40. Issuers will incur one-off costs to enhance their disclosures to ensure that they are consistent with the TCFD's recommendations in each of these areas. In addition, issuers will incur one-off costs in familiarising themselves with our new rule and the TCFD's publications.

41. In building their capabilities, issuers will be able to draw on the growing body of guidance and tools to support implementation of these recommended disclosures.

42. Once issuers have built capabilities across all of the recommended disclosures, they will continue to incur some costs to support their coordination, information management and reporting activities on an ongoing basis. Furthermore, as industry know-how and data availability improve, and issuers' own capabilities evolve, we anticipate that issuers will make further enhancements to their disclosures.

Assumptions

43. We engaged with a number of issuers who have already implemented voluntarily disclosures aligned with the TCFD's recommendations. These issuers were able to give us insights into the types of one-off and ongoing incremental costs associated with implementing the recommendations. However, in general, these issuers were unable to quantify the incremental costs that they had occurred.

44. We note that in a recent study on stakeholder perceptions of non-financial reporting commissioned by BEIS (*Stakeholder Perceptions of Non-financial Reporting*, October 2019), the authors were similarly unable to collect information to reliably quantify the costs of compliance. The research suggests that companies do not routinely measure the costs of complying with non-financial reporting requirements. One reason suggested in the study is that such reporting may well be absorbed into day-to-day work and not be identified as a specific cost.

45. The study reports mixed views on costs of compliance among stakeholders. Some argued that additional costs of non-financial reporting requirements would be minimal, since the information should be collected by companies anyway as part of their day-to-day operations. Others, however, thought that the costs could be substantial, particularly for smaller companies.

46. For the purposes of our CBA, therefore, we have made a number of assumptions, based on the qualitative inputs we received from issuers.

- *Resourcing*. We assume that the main source of incremental costs is the cost of hiring or reallocating staff resources to coordinate inputs and develop capabilities. We recognise that there are a number of different approaches that issuers may wish to take to comply with our proposed rule. For instance, depending on their existing resources, capabilities and access to data, some issuers may rely on hiring new staff or reallocating existing staff and other resources, while others may rely more heavily on external consultants. Our assumptions constitute just one possible approach.
- *Source data*. We have not included incremental data sourcing costs, as data needs will differ by issuer, by sector, and by chosen metric and scenario analysis methodology. It is therefore not practicable to estimate these costs. We recognise that access to some relevant data are likely to be challenging, at least initially. Some issuers may choose to subscribe to data services to facilitate access to these public sources, and many issuers already do so. However, many data items are likely to be available from public sources – including from Government and non-Government organisations. The completeness of data to support issuers' analysis is likely to evolve over time.
- *Board engagement*. We also recognise that companies' boards and executive management are likely to need to deepen their engagement climate-related issues. They will also need to invest more time in reviewing and challenging the issuer's climate-related disclosures once produced. We have not specifically quantified and attributed this as a compliance cost. As climate-related risks and opportunities become more material, we consider that enhancing board engagement on these issues will be integral to directors' being good stewards of their businesses. We therefore consider that this is something directors will increasingly need to do under existing Companies Act expectations, irrespective of our proposed new

rule. We do not therefore consider that this should be regarded as a cost directly attributable to our proposals.

- *Issuer characteristics*. As described in Chapter 4, premium-listed issuers vary in size, sector and complexity of business. We recognise that the cost of compliance may depend, at least in part, on these factors – including, for instance, the characteristics of the issuer's fixed asset base, its cross-border operations and its supply chain. However, we do not have a reasonable basis to quantify compliance costs on these dimensions. For the purposes of our analysis, we have assumed an average cost of compliance across in-scope issuers. Based on our discussions with a cross-section of issuers, we consider that, aggregated across issuers, our cost assumptions are likely to be representative.

Calculating one-off costs

47. Reflecting these assumptions, Table 3 summarises the approach we have taken to calculate initial one-off compliance costs to issuers for the first year.

48. For each category of cost, we have adjusted the number of issuers impacted to account for the number of issuers that are already making relevant disclosures aligned with the TCFD's recommendations. That is, for each category of cost, the number of issuers impacted is calculated as the total number of in-scope issuers (480) multiplied by the average proportion of issuers that are not already making disclosures aligned with the recommended disclosures relevant to that category of cost (according to the outcome of the LSE study presented in Figure 5).

49. For example, for scenario analysis (Strategy c), below, the number of issuers is calculated as: (1-0.17) x 480 = 418.

Table 3: Approach to calculating one-off compliance costs in the first year

Category of cost	Estimation methodology	Total
Familiarisation and legal review costs	Assume two compliance/regulatory analysis staff review the consultation paper to familiarise themselves with the proposals; and two legal/regulatory analysis staff review the legal text in annex and the relevant TCFD documents. Staff costs for this review are calculated according to our Standard Cost Model:[7] • Approximately 3 hours for each compliance/ regulatory analysis staff member to review the consultation paper (based on the size of the document) at an hourly-equivalent salary of £63 p/h • 86 hours for each legal/regulatory analysis staff member to review the legal text and the relevant TCFD documents (based on the size of the documents) at an hourly-equivalent salary of £69 That is, we calculate these staff costs as: 480x[(2x3x63)+(2x86x69)]. We take an equivalent approach for all other cost items. Number of issuers impacted: **480**	**£5,878,080**

7 In applying our Standard Cost Model, we have applied relevant salary estimates for 'medium-sized' companies, for all 480 companies. We have done this for simplicity and there is little material difference in the salary estimates for the relevant functions between medium-sized companies and large companies. Using different estimates would not materially change the assessment in our cost benefit analysis.

Category of cost	Estimation methodology	Total
Coordination of disclosure inputs across functions *(relevant recommended disclosures: Governance (a) and (b), Strategy (a) and (b), and Risk Management (a)-(c))*	Based on our discussions with a cross-section of issuers, we have made assumptions about the approach to coordinating inputs from across the organisation to inform recommended disclosures on governance, strategy and risk management. The issuers we spoke to typically allocated central responsibility to a small team of people and established some mechanism for multi-disciplinary input. While the issuers consulted were unable to quantify the proportion of time allocated by functional specialists across the organisation, our assumptions are consistent with the qualitative input received: • two FTEs (in the Finance Department) are responsible for developing the approach to disclosures, coordinating inputs across the organisation and preparing the disclosures; annual salary costs for these individuals are estimated as £52,790.[8] • inputs are sought from the following functions: Strategy; Finance; Risk; Reporting; Company Secretariat; Sustainability; Investment Relations; Senior Management • the issuer establishes a cross-functional Working Group of 8 people, with representatives of each of the functions listed above; the working group agrees a joined-up strategic approach to disclosure across the organisation • each member of the Working Group allocates 5% of time to TCFD disclosures in the first year; annual salary costs for this time allocation are estimated as 0.05 x £105,983 (based on the average senior manager (all functions) salary in our Standard Cost Model) Number of issuers impacted: **307**	**£45,427,772**
Scenario analysis *(relevant recommended disclosures: Strategy (c))*	We assume that: • the issuer appoints one FTE quantitative analyst to: develop a scenario analysis methodology tailored to the circumstances of the business; source relevant data; and build a systems capability to support systematic analysis and reporting • annual salary costs for this time allocation are estimated as: £65,791[9] Number of issuers impacted: **418**	**£27,500,638**
Metrics/Targets *(relevant recommended disclosures: Metrics and Targets, (a) and (c))*	Again, based on qualitative input from discussions with a cross-section of issuers, we assume that: • the issuer appoints one FTE risk/sustainability analyst to develop a set of business-relevant metrics and targets; source relevant data; and build a systems capability to support systematic analysis and reporting • annual salary costs for this time allocation are £86,518 (based on the average risk management salary in our Standard Cost Model) Number of issuers impacted: **331**	**£28,637,458**

8 This estimate is based on a review of representative salaries across vacancies for Finance Manager roles on online platforms.

9 This estimate is based on a review of representative salaries across vacancies for quantitative analyst roles in the UK on online platforms.

Category of cost	Estimation methodology	Total
Metrics/Targets – Scope 1 and 2 emissions *(relevant recommended disclosure: Metrics and Targets (b)*	Again, based on qualitative input from discussions with a cross-section of issuers, we assume that: • the issuer appoints 0.5 FTE risk/sustainability analyst to enhance its disclosures of Scope 1 and 2 emissions; the salary costs for this time allocation are estimated as 0.5 x £86,518 (based on the average annual risk management salary in our Standard Cost Model) Number of issuers impacted: **278**	**£12,026,002**
Total one-off cost		**£119,469,950**

Calculating ongoing costs

50. Table 3 summarises our approach to calculating ongoing compliance costs to issuers. Our baseline assumption is that those issuers that are currently already disclosing voluntarily would have continued to do so even in the absence of our proposed new rule. Accordingly, we apply the same assumptions as above in respect of the number of impacted issuers for each category of cost.

51. Our assumptions are based on our discussions with a subset of issuers, and build from the assumptions in Table 2 around necessary skillsets and the arrangements an issuer may put in place to gather multi-disciplinary input. For each category of cost, however, we scale back the resource requirement on the basis that fewer resources are likely to be required on an ongoing basis to evolve the organisation's capabilities and approach and prepare the disclosures.

Table 3: Approach to calculating ongoing compliance costs

Category of cost	Estimation methodology	Total
Coordination of disclosure inputs across functions	We assume that: • one FTE (in either the Finance or Sustainability Department) remains responsible for evolving the approach to disclosures, coordinating inputs across the organisation, and preparing the disclosures; as before, annual salary costs for this individual are estimated as £52,790 • on an ongoing basis, the 8 members of the cross-functional Working Group allocate 2% of time to TCFD disclosures after the first year; salary costs for each member are estimated as 0.02 x £105,983 (based on the average senior manager (all functions) salary in our Standard Cost Model) Number of issuers impacted: **307**	**£21,412,415**
Scenario analysis *(relevant recommended disclosures: Strategy (c))*	We assume that: • the issuer allocates 0.5 FTE quantitative analyst to evolve the approach to scenario analysis and run the scenarios to feed into ongoing disclosures; salary costs are estimated as 0.5 x £65,791[10] Number of issuers impacted: **418**	**£13,750,319**

10 This estimate is based on a review of representative salaries across vacancies for quantitative analyst roles in the UK on online platforms.

Category of cost	Estimation methodology	Total
Metrics/Targets *(relevant recommended disclosures: Metrics and Targets, (a), (b) and (c))*	We assume that: • the issuer allocates 0.5 FTE risk/sustainability analyst to manage the ongoing compilation and reporting of all business-relevant metrics (including those under Metrics and Targets (b)) and evolve the approach to setting targets; salary costs are estimated as 0.5 x £86,518 (based on the average risk management salary in our Standard Cost Model) Number of issuers impacted: **331** (based on the number of issuers impacted by Metrics and Targets (a) and (c))	**£14,318,729**
Total ongoing cost		**£49,481,463**

Benefits to issuers and the wider market

52. We do not consider that it is reasonably practicable to quantify the benefits of our proposals. As described in our causal chain analysis, by their nature, many of the benefits will be indirect, operating via better market functioning. Attempting to quantify the benefits is likely to produce an estimate that could not be relied upon to provide reliable insight.

53. We have therefore not sought to quantify the benefits to the market from reducing the identified harms. Rather, we have estimated the minimum net benefit required in order to justify the intervention.

Sources of benefits

54. The channels by which we expect our intervention to help advance our objectives are illustrated in the causal chain set out in Figure 1.

55. The benefits derive from better-informed decision-making both within companies (due to more systematic consideration of climate-related risks and opportunities) and in financial markets. We consider that this will lead to improved market functioning and market access for issuers at a cost of capital that more appropriately reflects their management of climate-related risks and opportunities.

56. The finance literature identifies a number of benefits to the efficiency of asset pricing arising from public disclosure of information relevant to investment decisions. There is also academic evidence in support of the notion that better transparency lowers the cost of capital.[11]

57. We have noted that the financial impacts of climate-related risks and opportunities are relevant to all issuers, and likely to be material for many of them. The findings in several recent studies – such as the CDP report and the work included in the NGFS report, referenced in Chapter 2 – is that even near-term financial impacts could be substantial.

58. There is also some evidence that issuers increasingly see material private benefits to improving their own climate-related disclosures – including from enhancing their reputation and proactively meeting investors' demands for information.

59. This was the message in a survey of board members of some of the UK's largest companies, published by the Carbon Trust in January 2019. The survey was conducted by Ipsos Mori as part of its annual Captains of Industry research study. Around a third

11 Barth, Konchitchi and Landsman (2013), Cost of capital and earnings transparency, Journal of Accounting and Economics; Lang and Maffett (2010), Economic effects of transparency in international equity markets: A review and suggestions for future research, Foundation and Trends in Accounting, Vol 5, No. 3, pp175-241

of companies perceived a positive financial impact from improving their disclosures, arising from factors such as improved access to capital, a lower cost of capital and a stronger credit rating.

60. More generally, benefits are expected to accrue to the market and to society through better allocation of capital and a smoother and faster transition to a zero-carbon economy.

Estimating the minimum net benefit required

61. The total one-off compliance cost of £119.5 million equates to 0.005% of the £2.3 trillion total market capitalisation of issuers in the UK premium listing category; or 0.002% on an ongoing annual basis (calculated with reference to ongoing compliance costs). Since the estimated costs of compliance are small relative to market capitalisation, even only a small improvement in price efficiency flowing from these benefits would be sufficient to outweigh the cost and produce a net benefit.

62. But the benefits might reasonably be expected to be *substantially* in excess of the costs of compliance if more informed asset pricing encourages capital flows to those companies that better manage climate related risks and opportunities. If this occurs, the likelihood that the more severe forward projections of the economic and human costs of climate change crystallise may be reduced.

Annex 3
Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the FSMA.

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (s. 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s. 1JA FSMA about aspects of the economic policy of Her Majesty's Government to which we should have regard in connection with our general duties.

5. This Annex includes our assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: compatibility statement

7. The proposals set out in this consultation are primarily intended to advance our operational objective of protecting and enhancing the integrity of the UK financial system. They are also relevant to our consumer protection objective and the competition objective. By improving the quality and depth of the disclosures made by premium listed issuers, the introduction of the new rule (promoting disclosures aligned with the TCFD framework) should improve the efficiency of asset pricing and capital allocation, reduce consumer harm and increase public confidence in financial markets.

8. We consider that these proposals are compatible with our strategic objective of ensuring that relevant markets function well. For the purposes of the FCA's strategic objective, 'relevant markets' are defined by s. 1F FSMA.

9. In preparing the proposals set out in this consultation, we have had regard to the regulatory principles set out in s. 3B FSMA.

The need to use our resources in the most efficient and economic way

10. Referencing the TCFD framework in our proposals allows us to introduce new measures in a complex and novel area of policy in the most efficient manner.

The principle that a burden or restriction should be proportionate to the benefits

11. The Cost Benefit Analysis in Annex 2 sets out the costs and benefits for the proposals in this CP. We consider that the benefits of these proposals outweigh the costs.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

12. Better disclosures by issuers will facilitate better allocation of capital throughout the economy, thus facilitating a smoother transition to a net-zero carbon economy.

The general principle that consumers should take responsibility for their decisions

13. Better information from issuers will allow firms to tailor their products to consumers more effectively. Consumers will benefit from an improved choice of products and more reliable information on their climate-related characteristics.

The responsibilities of senior management

14. We believe our proposals will enhance the ability of senior management of issuers to take responsibility for their decisions by providing a framework that will encourage them to think about the governance, risk management and strategy of their companies. Where issuers are themselves regulated entities, we believe setting out the new rule as we propose to will help senior managers to discharge their obligations under the Senior Managers and Certification Regime, where relevant.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

15. We have sought to be proportionate by introducing 'comply or explain' as the basis for compliance.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

16. This principle is not relevant to the proposals in our consultation

Expected effect on mutual societies

The principle that we should exercise our functions as transparently as possible

17. In the development of our proposals we have acted as transparently as possible. We published a Discussion Paper on Climate Change and Green Finance in October 2018 and a Feedback Statement in which we committed to consult on proposals to improve climate-related financial disclosures by listed issuers in October 2019. We have also gathered evidence from issuers on the costs of our proposed rule prior to publication.

18. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies.

Compatibility with the duty to promote effective competition in the interests of consumers

19. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers. We consider that the availability of richer data will improve competition. Firms will be enabled more reliably to disclose how their portfolios and products are exposed to climate-related risks and opportunities, helping consumers to assess which products best meet their needs.

Equality and diversity

Treasury recommendations about economic policy

20. We have had regard to the Treasury's recommendations under section 1JAFSMA. Our proposals are consistent with these recommendations, as they aim to ensure that financial services markets make a positive contribution to sustainable economic growth in the UK economy in the medium and long term, while supporting competition between firms operating in this market. Clear disclosure expectations on climate change can also help further underpin the reputation of the London market as a leading venue for high-quality listings thus ensuring that the UK remains an attractive domicile for internationally active financial institutions, and that London retains its position as the leading international financial centre. We are confident that our proposals do not have equality and diversity implications, but we welcome your comments if you have any concerns.

Legislative and Regulatory Reform Act 2006 (LRRA)

21. We consider that the proposals here have regard to the 5 LRRA principles – that regulatory activities should be carried out in a way which is transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed. We have also had regard to the Regulators' Code, particularly the requirement for regulatory activity to be proportionate and targeted.

Annex 4
Abbreviations used in this paper

AMF	Autorité des Marchés Financiers
BEIS	Department for Business, Energy and Industrial Strategy
CA	Companies Act
CBA	Cost-Benefit Analysis
CDP	Carbon Disclosure Project
CDSB	Climate Disclosure Standards Board
CP	Consultation Paper
CRFR	Climate Financial Risk Forum
DP	Discussion Paper
DTR	Disclosure Guidance and Transparency Rules
DWP	Department for Work and Pensions
ESMA	European Securities and Markets Authority
ESG	Environmental, Social and Governance
EU	European Union
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FS	Feedback Statement
FSB	Financial Stability Board
FSMA	Financial Services and Markets Act
GHG	Greenhouse Gas
IAS	International Accounting Standard
LR	Listing Rules

LRRA	Legislative and Regulatory Reform Act
LSE	London School of Economics
MAR	Market Abuse Regulation
NFRD	Non-Financial Reporting Directive
NGFS	Network for Greening the Financial System
PR	Prospectus Regulation
PRA	Prudential Regulation Authority
TCFD	Taskforce on Climate-related Financial Disclosures

We have developed the policy in this Consultation Paper in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 7066 7948 or email: publications_graphics@fca.org.uk or write to: Editorial and Digital team, Financial Conduct Authority, 12 Endeavour Square, London E20 1JN

Appendix 1
Draft Handbook text

LISTING RULES (DISCLOSURE OF CLIMATE-RELATED FINANCIAL INFORMATION) INSTRUMENT 2020

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 73A (Part 6 Rules);
(2) section 96 (Obligations of issuers of listed securities);
(3) section 137A (The FCA's general rules);
(4) section 137T (General supplementary powers); and
(5) section 139A (Power of the FCA to give guidance).

B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

D. The Glossary of definitions is amended in accordance with Annex A to this instrument.

E. The Listing Rules sourcebook (LR) is amended in accordance with Annex B to this instrument.

Citation

F. This instrument may be cited as the Listing Rules (Disclosure of Climate-Related Financial Information) Instrument 2020.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

TCFD Annex	the document entitled "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures" published in June 2017 by the Task Force on Climate-related Financial Disclosures, available at: https://www.fsb-tcfd.org/publications/.
TCFD Final Report	the report entitled "Recommendations of the Task Force on Climate-related Financial Disclosures" published in June 2017 by the Task Force on Climate-related Financial Disclosures, available at: https://www.fsb-tcfd.org/publications/.
TCFD Technical Supplement	the technical supplement entitled "The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities" published in June 2017 by the Task Force on Climate-related Financial Disclosures, available at: https://www.fsb-tcfd.org/publications/.

Annex B

Amendments to the Listing Rules sourcebook (LR)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

9 Continuing obligations

…

9.8 Annual financial report

…

Additional information

9.8.6 R In the case of a *listed company* incorporated in the *United Kingdom*, the following additional items must be included in its annual financial report:

…

(6) a statement as to whether the *listed company* has:

…

(b) …

(iii) the *company's* reasons for non-compliance; ~~and~~

(7) a report to the shareholders by the Board which contains the information set out in *LR* 9.8.8R~~.~~; and

(8) a statement setting out:

(a) whether the *listed company* has included in its annual financial report climate-related financial disclosures consistent with the four recommendations and the eleven recommended disclosures set out in Section C of the *TCFD Final Report*;

(b) in cases where the *listed company* has:

(i) made climate-related financial disclosures consistent with the recommendations and recommended disclosures set out in Section C of the *TCFD Final Report*, but has included some or all of these disclosures in a document other than the annual financial report:

(A) the recommendations and/or recommended disclosures for which it has included disclosures in that other document;

(B) a description of that document and where it can be found; and

(C) the reasons for including the relevant disclosures in that document and not in the annual financial report;

(ii) not included climate-related financial disclosures consistent with all of the recommendations and recommended disclosures set out in Section C of the *TCFD Final Report*, either in its annual financial report or other document as referred to in (i):

(A) the recommendations and/or recommended disclosures for which it has not included such disclosures; and

(B) the reasons for not including such disclosures; and

(c) where in its annual financial report or (where appropriate) other document the climate-related financial disclosures referred to in (a) can be found.

…

9.8.6B G For the purposes of *LR* 9.8.6R(8), in determining whether climate-related financial disclosures are consistent with the recommendations and the recommended disclosures set out in the *TCFD Final Report*, a *listed company* should have regard to:

(a) Section C of the *TCFD Annex* entitled "Guidance for All Sectors";

(b) (where appropriate) Section D of the *TCFD Annex* entitled "Supplemental Guidance for the Financial Sector"; and

(c) (where appropriate) Section E of the *TCFD Annex* entitled "Supplemental Guidance for Non-Financial Groups".

9.8.6C G For the purposes of *LR* 9.8.6R(8), in determining whether a *listed company's* climate-related financial disclosures are consistent with the recommendations and the recommended disclosures set out in the *TCFD Final Report*, the *FCA* considers that the following documents are relevant:

(a) the *TCFD Final Report* and the *TCFD Annex*, to the extent not already referred to in *LR* 9.8.6R(8) and *LR* 9.8.6BG; and

(b) the *TCFD Technical Supplement*.

9.8.7 R An *overseas company* with a *premium listing* must include in its annual report and accounts the information in *LR* 9.8.6R(5), *LR* 9.8.6R(6), *LR* 9.8.6R

(8) and *LR* 9.8.8R.

…

15 Closed-Ended Investment Funds: Premium listing

…

15.4 Continuing obligations

…

Annual financial statement

15.4.29 R A *closed-ended investment fund* is not required to comply with *LR* 9.8.4R(14) and *LR* 9.8.6R(8).

…

16 Open-ended investment companies: Premium listing

…

16.4 Requirements with continuing application

16.4.1 R An *open-ended investment company* must comply with:

(1) *LR* 9 (Continuing obligations) except *LR* 9.2.2AR to *LR* 9.2.2GR, *LR* 9.2.6BR, *LR* 9.2.6CR, *LR* 9.2.6DR, *LR* 9.2.15R, *LR* 9.2.20R, *LR* 9.2.21R, *LR* 9.2.23R, *LR* 9.2.24R, *LR* 9.2.25R, *LR* 9.3.11R ~~and~~, *LR* 9.8.4R(14) and *LR* 9.8.6R(8);

…

…

Appendix 1 Relevant definitions

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

TCFD Annex	the document entitled "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures" published in June 2017 by the Task Force on Climate-related Financial Disclosures, available at: https://www.fsb-tcfd.org/publications/.
TCFD Final Report	the report entitled "Recommendations of the Task Force on Climate-related Financial Disclosures" published in June 2017 by the Task Force on Climate-related Financial Disclosures, available at: https://www.fsb-tcfd.org/publications/.

TCFD Technical Supplement	the technical supplement entitled “The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities” published in June 2017 by the Task Force on Climate-related Financial Disclosures, available at: https://www.fsb-tcfd.org/publications/.

Insert the following new TR as TR 14A, after TR 14 (Transitional Provisions in relation to DTR 7.3 (Related party transactions)). The text is not underlined.

TR 14A Transitional Provisions in relation to climate-related financial disclosures under LR 9.8.6R (8)

(1)	**(2) Material to which the transitional provision applies**	**(3)**	**(4) Transitional provision**	**(5) Transitional provision: dates in force**	**(6) Handbook provision: coming into force**
1.	*LR* 9.8.6R(8)	R	*LR* 9.8.6R (8) applies in relation to a financial year of a *listed company* beginning on or after 1 January 2021.	From [TBC]	[TBC]

Appendix 2
Draft Technical Note

Disclosures in relation to ESG matters, including climate change

Listed issuers, other issuers with securities admitted to trading on regulated markets and other entities in scope of requirements under the Market Abuse Regulation (MAR) and the Prospectus Regulation (PR) are subject to a range of disclosure requirements. The purpose of these requirements is to ensure that shareholders, investors and markets more generally are enabled to make informed decisions.

For example, pursuant to the PR, issuers must consider what disclosures they should make to enable investors to assess (among other things) the assets and prospects of the issuer.

A wide range of factors may impact a company's prospects. Climate-related risks and opportunities are widely understood to be financially material to many issuers' assets and therefore 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. Accordingly, issuers should consider ESG matters carefully when determining what should be disclosed under the PR, as well as under the other disclosure regimes.

More broadly, disclosure obligations arise under the Listing Rules (LR) and PR when an issuer's securities are offered to the public, first listed or admitted to trading on a regulated market.

On an ongoing basis, disclosure obligations arise pursuant to the LR, Disclosure Guidance and Transparency Rules (DTR) and MAR:

- in relation to announcements and financial reporting
- on an event-driven basis given that issuers must inform the public as soon as possible of inside information which directly concerns them.

We also note that issuers should assess climate-related risks and opportunities and other ESG considerations carefully in informing their disclosures, both in respect of equity and non-equity securities.

We discuss specific FCA Handbook and EU requirements and how they apply in respect of ESG issues below. The examples of relevant provisions that we provide are not intended to be exhaustive.

Listing Rules

Listed issuers need to have appropriate arrangements in place to support their disclosure obligations under various regimes. The Listing and Premium Listing Principles are particularly relevant in this respect.

Listing Principle 1 requires that: *"A listed company must take reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with its obligations."*

Related guidance in LR 7.2.2 G further explains that this principle is intended to ensure that listed companies: *"have adequate procedures, systems and controls to enable them to comply with their obligations under the listing rules, disclosure requirements, transparency rules and corporate governance rules. In particular, the FCA considers that listed companies should place particular emphasis on ensuring that they have adequate procedures, systems and controls in relation to, where applicable [...] the timely and accurate disclosure of information to the market."*

In considering whether their procedures, systems and controls are adequate to enable them to comply with their obligations under these various regimes, including the timely and accurate disclosure of information to the market, an issuer should consider whether there is a need to access and draw on specific data sources when disclosing climate-related and other ESG-related risks and opportunities.

An issuer should also consider whether there is a need to develop specific systems, analytical instruments or organisational arrangements to collate and assess the information required to enable it to comply with its obligations.

This recognises that the appropriate consideration of climate-related and other ESG-related matters may require that an issuer accesses data sources that, unlike other indicators of organisational performance, may not typically be used for other business purposes. Furthermore, such data may need to be assessed and analysed using bespoke techniques.

In this respect, LR 7.2.3 G further elaborates: "*Timely and accurate disclosure of information to the market is a key obligation of listed companies. For the purposes of Listing Principle 1, a listed company should have adequate systems and controls to be able to:*

1. *ensure that it can properly identify information which requires disclosure under the listing rules, disclosure requirements, transparency rules or corporate governance rules in a timely manner; and*
2. *ensure that any information identified under (1) is properly considered by the directors and that such a consideration encompasses whether the information should be disclosed."*

Additionally, a premium-listed issuer should consider Premium Listing Principle 6. This requires that: *"A listed company must communicate information to holders and potential holders of its premium listed securities and its listed equity shares in such a way as to avoid the creation or continuation of a false market in those premium listed securities and listed equity shares."*

LR 9.8.6R (5) requires that a premium-listed issuer includes within its annual financial report a statement of how the company has applied the Principles set out in the UK Corporate Governance Code 2018, in a manner that would enable shareholders to evaluate how the principles have been applied.

Relatedly, LR 9.8.6R (6) requires the inclusion in its annual financial report of a statement as to whether *"the listed company has (a) complied throughout the accounting period with all relevant provisions set out in the UK Corporate Governance Code; or (b) not complied throughout the accounting period with all relevant provisions set out in the UK Corporate Governance Code and if so, setting out: (i) those provisions, if any, it has not complied with; (ii) in the case of provisions whose requirements are of a continuing nature, the period within which, if any, it did not comply with some or all of those provisions; and (iii) the company's reasons for non-compliance."*

The UK Corporate Governance Code 2018 and its supporting guidance explicitly recognise companies' responsibilities to wider society and provides authoritative guidance on how Boards can ensure strategic importance is given to ESG considerations that are critical to many investors.

LR 13.3.1R (1) requires every circular sent by a premium listed company to holders of its listed securities to *"provide a clear and adequate explanation of its subject matter giving due prominence to its essential characteristics, benefits and risks"*. In addition, LR 13.3.1R (3) requires every such circular to *"contain all information necessary to allow the secuirty holders to make a properly informed decision"* if voting or other action is required.

In both cases, this may require the inclusion of information on ESG matters.

LR 1.3.3R requires that *"An issuer must take reasonable care to ensure that any information it notifies to a RIS or makes available through the FCA is not misleading, false or deceptive and does not omit anything likely to affect the import of the information."* Again, ESG matters may be relevant here too.

Prospectus Regulation

Article 6 of the Prospectus Regulation

When a prospectus is required, it must contain the necessary information which is material to an investor for making an informed assessment of (among other things) the assets and prospects of the issuer.

In order to provide adequate information to the market for this purpose, information on climate change and other ESG-related matters may need to be provided where relevant to the issuer. For instance, in the context of the UK Government's target to achieve net-zero carbon emissions by 2050 and to achieve the goals of the Paris Agreement more generally, many companies are likely to need to consider significant changes to their business. Such changes may be material to an investor's assessment of the prospects of the company and the risks and opportunities shaping it.

Article 14 of the Prospectus Regulation

As a derogation from Article 6, the relevant reduced information to be presented in the simplified prospectus for secondary issuances is that necessary to enable investors to understand the prospects of the issuer and any significant changes in the business and financial position of the issuer since the end of the last financial year. This information should be written and presented in such a way as to allow investors to make an informed investment decision.

Recital 54 of the Prospectus Regulation addresses risk factors that are required by the PR and makes specific reference to environmental, social and governance factors. The recital states:

"The primary purpose of including risk factors in a prospectus is to ensure that investors make an informed assessment of such risks and thus take investment decisions in full knowledge of the facts. Risk factors should therefore be limited to those risks which are material and specific to the issuer and its securities and which are corroborated by the content of the prospectus. A prospectus should not contain risk factors which are generic and only serve as disclaimers, as those could obscure more specific risk factors that investors should be aware of, thereby preventing the prospectus from presenting information in an easily analysable, concise and comprehensible form. Among others, environmental, social and governance circumstances can also constitute specific and material risks for the issuer and its securities and, in that case, should be disclosed. To help investors identify the most material risks, the issuer should adequately describe and present each risk factor in the prospectus. A limited number of risk factors selected by the issuer should be included in the summary."

Relatedly, in 2019, ESMA published a set of Guidelines on risk factors under the Prospectus Regulation. Guideline 7 on the presentation of risk factors across categories is accompanied by explanatory paragraph 35 which notes that ESG-related risks could form a specific category. Climate change and other ESG factors might also be relevant to other suggested categories of risks, including 'Legal and regulatory'. The ESMA Guidelines provide an example of how ESG risk factors could be disclosed.

Annexes to the Delegated Prospectus Regulation

Various annexes to the Commission Delegated Prospectus Regulation (EU 2019/980) require relevant disclosures including an overview of the business and a description of the regulatory environment.

Item 5.7.4. Annex 1 requires a description of any environmental issues that may affect the issuer's utilisation of its tangible fixed assets. Item 9.1 requires, on the other hand, a description of the regulatory environment that the issuer operates in and that may materially affect its business, together with information regarding any governmental, economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, directly or indirectly, the issuer's operations. Therefore, if the regulatory environment includes environmental matters, they will have to be disclosed, if material.

Item 2.5.1 in Annex 24, requires smaller issuers adopting the new EU Growth prospectus specifically to address environmental matters in covering, to the extent necessary for an understanding of the issuer's business as a whole, an analysis of the development and performance of the issuer's business and its position. The analysis shall include both financial and, where appropriate, non-financial Key Performance

Indicators relevant to the particular business, including information relating to environmental and employee matters. This analysis shall, where appropriate, also include references to, and additional explanations of, amounts reported in the annual financial statements.

Similarly, FSMA requires Listing Particulars to contain all such information as investors and their professional advisers would reasonably require, and reasonably expect to find there, for the purpose of making an informed assessment of the prospects of the issuer of the securities.

ESMA's update of the CESR recommendations, which continue to apply to the extent that they are compatible with the Prospectus Regulation, contains helpful guidance in a number of areas relevant to ESG considerations. This includes guidance on environmental and employee key performance indicators in the context of the operating and financial review (paragraph 28) and identifying factors to consider when preparing profit forecasts (paragraph 50). Specific requirements for mineral companies are set out in paragraphs 131-133 and in Appendices I, II and III. Appendices II and III also contain specific requirements for the Mining and Oil and Gas Competent Persons' Report.

LR 4.2 contains further detail on the Listing Particulars and their content, including minimum information requirements.

Disclosure Guidance and Transparency Rules (DTR)

Issuers have a number of ongoing disclosures obligations. These disclosures are primarily intended to allow shareholders, investors and the market at large to form a view on the value of traded securities. Implicit in this is that investors need to be put in a position to be able to assess the prospects of the company and the risks and opportunities shaping it.

In order to provide adequate information to the market for this purpose, information on climate change and other ESG-related matters may need to be provided where relevant to the issuer. For instance, in the context of the UK Government's target to achieve net-zero carbon emissions by 2050 and to achieve the goals of the Paris Agreement more generally, many companies are likely to need to consider significant changes to their business. Such changes may be material to an investor's assessment of the prospects of the company and the risks and opportunities shaping it.

The Disclosure Guidance and Transparency Rules (DTR) require that the Management Report in the Annual Financial Report and the Interim Management Report in the Half-Yearly Financial Report contain a description of the principal risks and uncertainties facing the issuer (DTR 4.1.8 R and DTR 4.2.7 R, respectively).

The Management Report in the Annual Financial Report must also contain a fair review of the issuer's business. DTR 4.1.9 R requires the inclusion in that review, to the extent necessary for an understanding of the development, performance or position of the issuer's business, of analysis using key performance indicators. This should include information relating to environmental matters and employee matters where appropriate.

DTR 7.2 requires an issuer to include a corporate governance statement in its directors' report, or in a separate report published with its annual report or made available on its website. DTR 7.2 includes information requirements in relation to any relevant corporate governance code (DTR 7.2.2R and DTR 7.2.3R), the issuer's internal control and risk management systems in relation to the financial reporting process (DTR 7.2.5R), and the diversity policy applied to the issuer's administrative, management and supervisory bodies (DTR 7.2.8AR).

DTR 1A.3.2R requires an issuer 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."* This may include information on ESG matters.

Market Abuse Regulation (MAR)

Pursuant to Article 17 of MAR, an issuer must publicly disclose inside information that directly concerns them as soon as possible, unless the conditions for delay are met. This includes any inside information that relates to climate change and other ESG-related matters.

Article 17(1) clarifies that *"The issuer shall ensure that the inside information is made public in a manner which enables fast access and complete, correct and timely assessment of the information by the public…"*

When disclosing climate-related and other ESG-related information, an issuer must not do so in a way (for example by omitting information) that breaches the prohibition of market manipulation under Article 15 of MAR, noting the relevant behaviours defined in Article 12 of MAR that amount to market manipulation. These include, but are not limited to, dissemination of information which is likely to give false or misleading signals as to the supply of, demand for, or price of a financial instrument.

In this regard, recital 47 adds: *"The manipulation or attempted manipulation of financial instruments […] may consist in the invention of manifestly false information, but also the wilful omission of material facts, as well as the knowingly inaccurate reporting of information."*

Appendix 3
The TCFD Recommendations, Supporting Recommended Disclosures, Guidance for All Sectors and Supplemental Guidance for the Financial Sector and Non-Financial Groups

Figure A – The 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.

Source: Final Report, Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017.

Figure B – Governance: Guidance for All Sectors

Governance Disclose the organization's governance around climate-related risks and opportunities.	
Recommended Disclosure a) Describe the board's oversight of climate-related risks and opportunities.	**Guidance for All Sectors** In describing the board's oversight of climate-related issues, organizations should consider including a discussion of the following: – processes and frequency by which the board and/or board committees (e.g., audit, risk, or other committees) are informed about climate-related issues, – whether the board and/or board committees consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans as well as setting the organization's performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions, and divestitures, and – how the board monitors and oversees progress against goals and targets for addressing climate-related issues.
Recommended Disclosure b) Describe management's role in assessing and managing climate-related risks and opportunities.	**Guidance for All Sectors** In describing management's role related to the assessment and management of climate-related issues, organizations should consider including the following information: – whether the organization has assigned climate-related responsibilities to management-level positions or committees; and, if so, whether such management positions or committees report to the board or a committee of the board and whether those responsibilities include assessing and/or managing climate-related issues, – a description of the associated organizational structure(s), – processes by which management is informed about climate-related issues, and – how management (through specific positions and/or management committees) monitors climate-related issues.

Source: Final Report, Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017.

Figure C – Strategy: Guidance for All Sectors

Strategy

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.

Recommended Disclosure a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	**Guidance for All Sectors** Organizations should provide the following information: – a description of what they consider to be the relevant short-, medium-, and long-term time horizons, taking into consideration the useful life of the organization's assets or infrastructure and the fact that climate-related issues often manifest themselves over the medium and longer terms, – a description of the specific climate-related issues for each time horizon (short, medium, and long term) that could have a material financial impact on the organization, and – a description of the process(es) used to determine which risks and opportunities could have a material financial impact on the organization. Organizations should consider providing a description of their risks and opportunities by sector and/or geography, as appropriate. In describing climate-related issues, organizations should refer to Tables 1 and 2 (pp. 10-11).
Recommended Disclosure b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	**Guidance for All Sectors** Building on recommended disclosure (a), organizations should discuss how identified climate-related issues have affected their businesses, strategy, and financial planning. Organizations should consider including the impact on their businesses and strategy in the following areas: – Products and services – Supply chain and/or value chain – Adaptation and mitigation activities – Investment in research and development – Operations (including types of operations and location of facilities) Organizations should describe how climate-related issues serve as an input to their financial planning process, the time period(s) used, and how these risks and opportunities are prioritized. Organizations' disclosures should reflect a holistic picture of the interdependencies among the factors that affect their ability to create value over time. Organizations should also consider including in their disclosures the impact on financial planning in the following areas: – Operating costs and revenues – Capital expenditures and capital allocation – Acquisitions or divestments – Access to capital If climate-related scenarios were used to inform the organization's strategy and financial planning, such scenarios should be described.

Recommended Disclosure c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	**Guidance for All Sectors** Organizations should describe how resilient their strategies are to climate-related risks and opportunities, taking into consideration a transition to a lower-carbon economy consistent with a 2°C or lower scenario and, where relevant to the organization, scenarios consistent with increased physical climate-related risks. Organizations should consider discussing: – where they believe their strategies may be affected by climate-related risks and opportunities; – how their strategies might change to address such potential risks and opportunities; and – the climate-related scenarios and associated time horizon(s) considered. Refer to Section D for information on applying scenarios to forward-looking analysis.

Source: Final Report, Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017.

Figure D – Risk Management: Guidance for All Sectors

Risk Management Disclose how the organization identifies, assesses, and manages climate-related risks.	
Recommended Disclosure a) Describe the organization's processes for identifying and assessing climate-related risks.	**Guidance for All Sectors** Organizations should describe their risk management processes for identifying and assessing climate-related risks. An important aspect of this description is how organizations determine the relative significance of climate-related risks in relation to other risks. Organizations should describe whether they consider existing and emerging regulatory requirements related to climate change (e.g., limits on emissions) as well as other relevant factors considered. Organizations should also consider disclosing the following: – processes for assessing the potential size and scope of identified climate-related risks and – definitions of risk terminology used or references to existing risk classification frameworks used.
Recommended Disclosure b) Describe the organization's processes for managing climate-related risks.	**Guidance for All Sectors** Organizations should describe their processes for managing climate-related risks, including how they make decisions to mitigate, transfer, accept, or control those risks. In addition, organizations should describe their processes for prioritizing climate-related risks, including how materiality determinations are made within their organizations. In describing their processes for managing climate-related risks, organizations should address the risks included in Tables 1 and 2 (pp. 10-11), as appropriate.

Recommended Disclosure c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	**Guidance for All Sectors** Organizations should describe how their processes for identifying, assessing, and managing climate-related risks are integrated into their overall risk management.

Source: Final Report, Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017.

Figure E – Metrics and Targets: Guidance for All Sectors

Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	
Recommended Disclosure a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	**Guidance for All Sectors** Organizations should provide the key metrics used to measure and manage climate-related risks and opportunities, as described in Tables 1 and 2 (pp. 10-11). Organizations should consider including metrics on climate-related risks associated with water, energy, land use, and waste management where relevant and applicable. Where climate-related issues are material, organizations should consider describing whether and how related performance metrics are incorporated into remuneration policies. Where relevant, organizations should provide their internal carbon prices as well as climate-related opportunity metrics such as revenue from products and services designed for a lower-carbon economy. Metrics should be provided for historical periods to allow for trend analysis. In addition, where not apparent, organizations should provide a description of the methodologies used to calculate or estimate climate-related metrics.
Recommended Disclosure b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	**Guidance for All Sectors** Organizations should provide their Scope 1 and Scope 2 GHG emissions and, if appropriate, Scope 3 GHG emissions and the related risks.[39] GHG emissions should be calculated in line with the GHG Protocol methodology to allow for aggregation and comparability across organizations and jurisdictions.[40] As appropriate, organizations should consider providing related, generally accepted industry-specific GHG efficiency ratios.[41] GHG emissions and associated metrics should be provided for historical periods to allow for trend analysis. In addition, where not apparent, organizations should provide a description of the methodologies used to calculate or estimate the metrics.

Recommended Disclosure c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	**Guidance for All Sectors** Organizations should describe their key climate-related targets such as those related to GHG emissions, water usage, energy usage, etc., in line with anticipated regulatory requirements or market constraints or other goals. Other goals may include efficiency or financial goals, financial loss tolerances, avoided GHG emissions through the entire product life cycle, or net revenue goals for products and services designed for a lower-carbon economy. In describing their targets, organizations should consider including the following: – whether the target is absolute or intensity based, – time frames over which the target applies, – base year from which progress is measured, and – key performance indicators used to assess progress against targets. Where not apparent, organizations should provide a description of the

Source: Final Report, Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017.

Figure F: Supplemental Guidance for the Financial Sector and Non-Financial Groups

		Governance		Strategy			Risk Management			Metrics and Targets		
	Industries and Groups	a)	b)	a)	b)	c)	a)	b)	c)	a)	b)	c)
Financial	Banks			■			■			■		
Financial	Insurance Companies				■	■	■	■		■		
Financial	Asset Owners				■	■	■	■		■	■	
Financial	Asset Managers				■		■	■		■	■	
Non-Financial	Energy				■	■				■		
Non-Financial	Transportation				■	■				■		
Non-Financial	Materials and Buildings				■	■				■		
Non-Financial	Agriculture, Food, and Forest Products				■	■				■		

Source: Final Report, Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017.

Figure G: Location of Supplemental Guidance for Financial Sector and Non-Financial Groups in the document entitled "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures"

		Governance		Strategy			Risk Management			Metrics and Targets		
	Industries and Groups	a)	b)	a)	b)	c)	a)	b)	c)	a)	b)	c)
Financial	**Banks**			p24			p25			p26		
	Insurance Companies				p29	p30	p30	p31		p31		
	Asset Owners				p35	p35	p35	p36		p36	p37	
	Asset Managers				p39		p40	p 40		p41	p42	
Non-Financial					p48	p48				p50		

Pub ref: 007094

FINANCIAL CONDUCT AUTHORITY

12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk