SQUIRE PATTON BOGGS

Climate-related Financial Disclosures (TCFD)

Interim Report of the UK's Joint Government-Regulator TCFD Taskforce

What Is the Taskforce?

In the 2019 Green Finance Strategy, the government established a taskforce to explore the most effective approach to implementing the recommendations of the TCFD. This strategy included an expectation that all UK listed issuers and large asset owners would be making disclosures in accordance with the TCFD's recommendations by 2022, and stated that the government would consider the case for mandatory TCFD-aligned disclosures. Sectoral consultations have followed, such as in relation to premium listed companies and pension funds, but Chancellor Rishi Sunak announced on 9 November that the UK will become the first country in the world to make TCFD-aligned disclosures fully mandatory across the economy by 2025, going beyond the "comply or explain" approach. The UK Taskforce's Interim Report, which includes a detailed roadmap, sets out an indicative pathway to achieve that.

> "We are starting a new chapter in the history of financial services and renewing the UK's position as the world's pre-eminent financial centre. By taking as many equivalence decisions as we can in the absence of clarity from the EU, we're doing what's right for the UK and providing firms with certainty and stability.
>
> "Our plans will ensure the UK moves forward as an open, attractive and well-regulated market, and continues to lead the world in pioneering new technologies and shifting finance towards a net zero future."
>
> Rt. Hon. Rishi Sunak

What Is the Report?

The UK Taskforce's Interim Report sets out proposals to introduce fully mandatory climate-related financial disclosure requirements across the UK economy. While the deadline is 2025, most of the requirements will be in place by 2023.

The Roadmap

Roadmap Overview

The roadmap towards mandatory climate-related disclosures report sets out an "indicative path" over the next five years, with most action occurring over the first three years. The strategy is split into seven categories of organisation, each of which will be governed by its regulatory body – either the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA), Department for Work & Pensions (DWP) or Department for Business, Energy and Industrial Strategy (BEIS).

Here is a brief calendar of when different categories of entity could be covered by the relevant proposals:

2021

- Occupational pension schemes (>£5 billion)
- Banks, building societies and insurance companies
- Premium listed companies

2022

- Occupational pension schemes (>£1 billion)
- Largest UK-authorised asset managers, life insurers and FCA-regulated pension providers
- UK-registered companies
- Wider scope of listed companies

2023

- Other UK-authorised asset managers, life insurers and FCA-regulated pension providers

2024-25

- Other occupational pension schemes
- Potential refinements across categories

Although not reflected in the roadmap, the Ministry of Housing, Communities and Local Government intends to consult in 2021 on implementation in the Local Government Pension Scheme by 2023.

Roadmap by Category

Because any disclosure requirements that are put in place will be decided and regulated by each specific regulatory body, the timeline is best split into categories.

Listed Commercial Companies (FCA)

How: TCFD-aligned disclosure rules to be included in the FCA Listing Rules.

- **March – October 2020**: Consultation on TCFD-aligned disclosure rules for companies with UK premium listing.
- **End of 2020**: Aiming to finalise and publish a Policy Statement.
- **1 January 2021**: UK premium listed companies required to state whether they have disclosed in line with TCFD recommendations, or explain why not.
- **First half of 2021**: Consult on whether to make disclosure mandatory, and whether to widen the scope to all issuers of listed shares.

UK-registered Companies (BEIS)

How: Disclosure obligation to be included in the Companies Act 2006.

- **Early 2021**: BEIS to issue consultation on new obligations.
- **Mid-2021**: Regulations laid in the House of Commons and (subject to parliamentary time) made, which would change the relevant legislation.
- **2022**: Regulations come into force.
- **2023**: Potentially expand the scope of the regulations following public consultation.

Any change to the Companies Act 2006 will also affect listed commercial companies not already included in the "premium" category, as well as private limited companies.

Banks, Building Societies and Insurance Companies (PRA)

How: Reviewing disclosures made in line with the PRA-issued Supervisory Statement 3/19 (SS3/19). This sets out that firms are expected to disclose their risks from climate change.

- **April 2019**: SS3/19 issued.
- **July 2020**: Letter to CEOs setting a deadline for implementing SS3/19.
- **31 December 2021**: Deadline for "fully embedding" SS3/19 – i.e. for disclosing risks from climate change.
- **2022**: Review quality of climate change disclosures, and implement mandatory requirements, if necessary.

Many of the larger firms under this category will also be governed by the FCA and/or BEIS as above.

Asset Managers, Life Insurers and FCA-regulated Pension Schemes (FCA)

How: TCFD-aligned disclosure rules directed at clients and end-investors. It is anticipated that proposals would include disclosure of strategy, policies and processes at the firm level, covering relevant recommended disclosures, complemented by more targeted disclosures at the fund or portfolio level.

- **First half of 2021**: Publish consultation paper.
- **End of 2021**: Aim to finalise rules.
- **2022**: Finalised rules come into force (although FCA is also considering phasing any obligations by initially introducing fully TCFD-aligned disclosure rules for the largest or most interconnected firms).

Occupational Pension Schemes (DWP)

How: Amendments to the Pension Schemes Bill, to include powers to make regulations and issue statutory guidance to implement TCFD. These regulations would allow DWP to map the TCFD recommendations into pensions law.

- **August 2020**: Consultation on initial proposals.
- **Early 2021**: Consultation on draft regulations.
- **From October 2021**: First governance requirements to apply for occupational pension schemes with at least £5 billion in assets under management (subject to Royal Assent).
- **From October 2022**: Occupational pension schemes with at least £1 billion in assets under management to also come under disclosure requirements.
- **2024**: Consult on proposals to bring schemes with less than £1 billion in assets within the scope.

Trustees would be required to comply "as far as they are able" when obtaining data.

"High-quality disclosure about how organisations and assets will be impacted by – and impact – environmental change will improve transparency, encouraging better informed pricing and capital allocation."

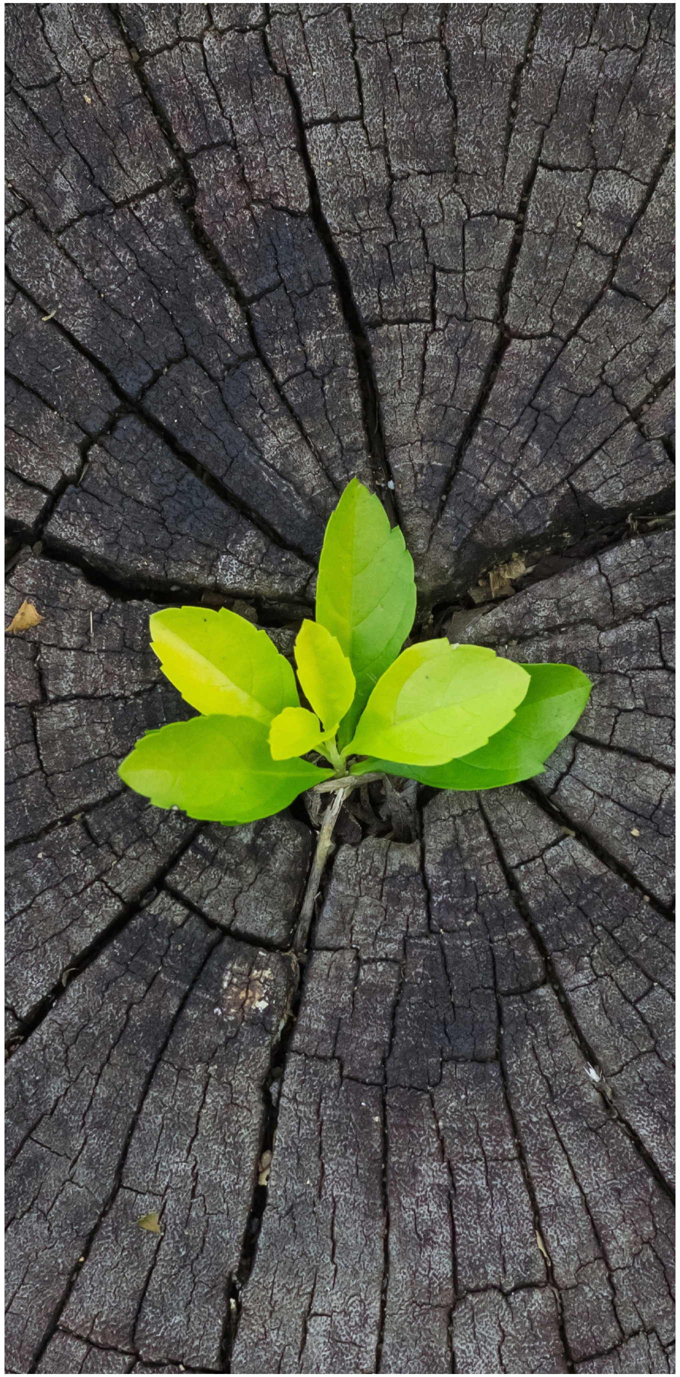
What Are the Disclosure Requirements? What Needs to Be Disclosed?

Both the consultation and the UK's report refer to the TCFD's recommendations – which are the 2017 Recommendations, summarised below.

However, as discussed in the next section, there is a current consultation in relation to establishing a metric to standardise the nature of disclosures. Some of the UK disclosure requirements may come into force before the results of the consultation (which closes on 27 January 2021), but the disclosure requirements are likely to continue to evolve and develop.

Overview of a TCFD-aligned Disclosure

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



What Is the TCFD Consultation?

When the TCFD first released disclosure recommendations in 2017, it suggested a specific metric should be disclosed by the financial sector – weighted average carbon intensity. This was viewed as a first step in the development of metrics, given the limitations of carbon footprinting.

The TCFD is now seeking to find what it calls "decision-useful, forward-thinking metrics". The purpose is to try to shift the nature of the disclosure metrics from being institutions' **previous** climate-related financial impact to what their **future** impact will be, based on their current practices.

Which Metrics Does the Consultation Consider?

There is no exhaustive list – the consultation is open to all suggestions of useful metrics. In fact, the consultation only really mentions two:

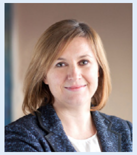
- **Climate value-at-risk (climate VaR)** – Estimates the risk of loss for investments and has become a standard for measuring financial risk.
- **Implied temperature rise (ITR)** – Estimates the global temperature rise associated with the greenhouse gas emissions of a single entity, which is then translated into a projected increase in global average temperature above preindustrial levels if all companies in corresponding sectors had the same carbon intensity as the selected entity. This can then be broken down further into individual assets the entity holds/trades in, etc.

ITR is the main metric considered by the consultation. However, it is acknowledged that, as a relatively new metric, methodologies for working it out are inconsistent and still evolving.

"Mandatory TCFD-aligned disclosures would require that organisations provide decision-useful information to help:

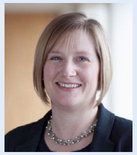
- Build awareness of climate-related risks, opportunities and impacts across the economy
- Integrate assessment and management of these risks, opportunities and impacts
- Inform investment decisions, improving market effectiveness through more efficient pricing and allocation of capital, empowering stewardship and driving economic change to support the transition to a lower carbon economy and resilience to physical climate risks
- Stimulate the development of green financial products – and competition between providers of these products – with follow on benefits for consumers."

Key Contacts



Hannah Kendrick
Partner, Leeds
T +44 113 284 7620
M +44 7717 488 461
E hannah.kendrick@squirepb.com

Clifford Sims
Partner, London
T +44 20 7655 1193
M +44 7837 680072
E clifford.sims@squirepb.com



Anita Lloyd
Director, Birmingham
T +44 121 222 3504
M +44 7545 935764
E anita.lloyd@squirepb.com

Louise Barber
Director, Manchester
T +44 161 830 5258
M +44 754 593 5596
E louise.barber@squirepb.com