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# DISCLOSURE OF CLIMATE-RELATED INFORMATION BY LISTED COMPANIES: NEW RULES

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For financial years starting on or after 1 January 2021, premium listed commercial companies will, as expected, have to make climate-related (CR) disclosures in their annual reports based on the framework established by the Task Force on Climate-related Financial Disclosures (TCFD). Disclosures will not be mandatory, but if a company does not include a disclosure then it will need to explain why. The first annual financial reports under the new rule will therefore be published in early 2022.

For the time being, the new Listing Rule will not apply to premium segment investment companies or any standard segment companies. However, the FCA intends to consult in H1 of 2021 on extending the scope of the new rule. The consultation will also consider whether TCFD disclosures should be mandatory - i.e. whether the option to explain, rather than comply, should be removed.

## What is the TCFD's disclosure framework?

The TCFD was established in December 2015 by the Financial Stability Board with the purpose of developing a set of voluntary climate-related disclosure standards for companies across all sectors. In its Final Report published in June 2017 (the Final Report), the TCFD recommended four high-level types of CR disclosure, and 11 more specific 'recommended disclosures' (together, the "TCFD Recommended Disclosures"):

| Governance | Strategy | Risk Management | Metrics and Targets |
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| Disclose the organisation's governance around climate-related risks 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**<br>a) Describe the board's oversight of climate-related risks and opportunities<br>b) Describe management's role in assessing and managing climate-related risks and opportunities | **Recommended disclosures**<br>a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term<br>b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning<br>c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario | **Recommended disclosures**<br>a) Describe the organisation's processes for identifying and assessing climate-related risks<br>b) Describe the organisation's processes for managing climate-related risks<br>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management | **Recommended disclosures**<br>a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process<br>b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks<br>c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets |

## TCFD Guidance

The Final Report also includes:

- *Guidance for All Sectors*, which specifies at a more granular level CR disclosures that companies should make, or should consider making (see the box below).
- *Fundamental Principles for Effective Disclosure*, which sets out general principles for companies to follow in making disclosures – for example, that disclosures should be sufficiently detailed to enable investors to assess the company's response to CR issues, consistent over time, and comparable to other organisations in the sector or industry.

At the same time as the Final Report, the TCFD also published an Annex entitled "*Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*" (the Annex). In addition to material replicated from the Final Report, the Annex also includes:

- *Supplemental Guidance for the Financial Sector*, which is based on the *Guidance for All Sectors* but tailored to banks, insurance companies, asset owners and asset managers.
- *Supplemental Guidance for Non-Financial Groups*, which is also based on the *Guidance for All Sectors* but tailored for non-financial businesses that are particularly exposed to CR risks – namely businesses in the energy, transportation, materials, construction, agriculture, food, and forestry sectors.
- Appendices: these include examples of CR risks and opportunities and how they might impact on a company's financial position and prospects.

More recently the TCFD has published:

- *Guidance on Scenario Analysis for Non-Financial Companies*.
- *Guidance on Risk Management Integration and Disclosure*.

And in October 2020 the TCFD published a consultation paper on forward-looking financial sector metrics. Further guidance is likely to be published by the TCFD and other organisations over the next few years.

The Final Report, Annex, Technical Supplements, TCFD status reports, and other TCFD resources can be found on its website.

## TCFD and the wider context

The TCFD Recommended Disclosures have attracted widespread support internationally, with more than 1,500 companies having now publicly expressed their support. In the UK, the Government has made TCFD reporting a central part of its Green Finance Strategy: it intends to make reporting in line with the TCFD framework mandatory across the UK economy over the next 5 years, with most of the measures to be introduced by 2023. Improved disclosure of companies' exposure to CR risks and opportunities is designed to lead to more informed pricing, risk management and capital allocation and drive investment towards greener projects and activities. For further details of support for the TCFD framework and recent developments in the UK and EU on the reporting of CR and other ESG issues see the Appendix to this briefing.

### Guidance for All Sectors

The guidance specifies (i) information that a company "should" disclose; and (ii) information that a company should "consider" disclosing. Examples of information that should be disclosed include:

- How identified CR issues have affected the company's business, strategy, and financial planning.
- What the company considers to be the relevant short, medium, and long-term time horizons (taking into consideration the useful life of the company's assets and infrastructure, and the fact that CR issues often manifest themselves over the medium and longer terms) and what CR issues could potentially arise in each time horizon that could have a material financial impact.
- How resilient the company's strategy is to CR risks and opportunities, taking into consideration a transition to a lower-carbon economy consistent with a 2°C or lower scenario and, where relevant, scenarios consistent with increased physical CR risks.
- The risk management processes used to identify, assess and manage CR risks, including how the relative significance of CR risks is assessed in comparison to other risks.
- The key metrics used to measure and manage CR risks and opportunities including, where relevant, internal carbon prices and CR opportunity metrics such as revenue from products and services that are designed for a lower-carbon economy. Metrics should include Scope 1 and Scope 2 GHG emissions and, if appropriate, Scope 3 GHG emissions and the related risks.
- Key CR targets such as those related to GHG emissions, water usage and energy usage, in line with anticipated regulatory requirements or market constraints or other goals.

Examples of information that a company should consider disclosing include:

- The processes and frequency by which the board and/or board committees are informed about CR issues.
- Whether the board and/or board committees consider CR issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans.
- How CR issues could impact on the company's products and services, supply chain and/or value chain, investment in research and development, operations, and location of facilities.
- How the company's strategy might change to address potential CR risks and opportunities, and the CR scenarios and associated time horizon(s) considered.
- In relation to CR targets, whether the target is absolute or intensity based, the time frames over which the target applies, the base year from which progress is measured, and KPIs used to assess progress against targets.

## New Listing Rule

Under a new Listing Rule (LR 9.8.6(8)) introduced on 21 December 2020, a premium listed commercial company will have to include in its annual report for each financial year starting on or after 1 January 2021:

- A statement as to whether the annual report includes CR-related financial disclosures that are consistent with all the TCFD Recommended Disclosures.
- If any such information is included instead in another document - such as a Sustainability Report - details of which information is included in that other document, where it can be found and an explanation of why the information was not included in the annual report.
- Details of where in the annual report or other document such information can be found.
- Where the company has not included, either in the annual report or in another document, information that is consistent with all the TCFD Recommended Disclosures:
  - details of which TCFD Recommended Disclosures it has not provided;
  - an explanation as to why (see "Comply or explain" below); and
  - details of any steps it is taking or plans to take in order to be able to make those disclosures in the future, and the timeframe within which it expects to be able to make those disclosures.

For the purposes of determining whether its CR-related financial disclosures are consistent with the TCFD Recommended Disclosures, a company will have to undertake a detailed assessment of its disclosures taking into account the TCFD's *Guidance for All Sectors* and, where relevant, the *Supplemental Guidance for the Financial Sector* or *Supplemental Guidance for Non-Financial Groups*. The FCA also considers the following TCFD documents to be "relevant":

- the other parts of the Final Report and Annex;
- the *Technical Supplement on The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities*;
- the *Guidance on Risk Management Integration and Disclosure*; and
- (where appropriate) the *Guidance on Scenario Analysis for Non-Financial Companies*.

However, companies will not be required to report on the extent to which they have complied with or applied the guidance in these documents.

For the time being, a company's auditors will not be required to check that the disclosures comply with the new Listing Rule. But this could change in future, particularly if an international non-financial reporting standard emerges.

### Comply or explain

As noted above, a company will either have to include in its annual report or another document all the information specified in the TCFD Recommended Disclosures or explain why not. However, the new Rule says the FCA would ordinarily expect a company to be able to make CR financial disclosures consistent with all the TCFD Recommended Disclosures "*except where the company faces transitional challenges in obtaining relevant data or embedding relevant modelling or analytical capabilities*". In particular, the FCA expects companies should ordinarily be able to make all the TCFD Recommended Disclosures relating to (i) **governance**; and (ii) **risk management**; and, in relation to **strategy**, at least TCFD Recommended Disclosures (a) and (b), to the extent that the listed company does not face such transitional challenges.

But it will be acceptable for companies to "explain" non-compliance with:

- TCFD Recommended Disclosure c) relating to **risk management**, which broadly requires a company to describe the resilience of its strategy taking into consideration different climate-related scenarios. Here, the FCA recognises that companies may be reluctant to disclose details of their resilience testing – i.e. how their strategy, profits, revenue, asset values etc. might be affected in different CR scenarios - particularly because, as the Final Report acknowledges, scenario analysis is a relatively new tool that presents a number of challenges, and companies may be concerned about publishing commercially-sensitive information (such as details of new products or services the company plans to develop in order to exploit CR opportunities) and/or the risks of publishing forward-looking information (see the section below, "Managing the risks of liability").

- The TCFD Recommended Disclosures relating to the **metrics and targets** used by the company to assess and manage CR risks and opportunities. The FCA recognises that in this area companies may still be developing the data and capabilities needed to model and report CR information, and may be reluctant to disclose key metrics for measuring and managing CR risks and opportunities, or CR targets.

Even in these areas, though, the option of explaining non-compliance may soon disappear: the FCA intends to publish a consultation paper in the first half of 2021 on proposals to make the TCFD Recommended Disclosures mandatory. The consultation will also include proposals to extend the new rule to other listed issuers.

### How much detail to provide?

A company must consider whether its disclosures provide sufficient detail to enable users to assess the company's exposure to and approach to addressing CR issues. This is based in part on Principle 1 of the TCFD's *Fundamental Principles for Effective Disclosure*. But how much detail to include is a matter for each company to decide, taking into account factors such as:

- the level of its exposure to CR risks and opportunities; and
- the scope and objectives of its CR strategy, which in turn will reflect the nature, size and complexity of the company's business (see further below).

At this stage, the FCA does not intend to impose more prescriptive requirements. But it will continue to work with the Government and other UK regulators, the IFRS Foundation and industry to drive progress towards an international reporting standard on non-financial reporting.

## What companies need to do

While climate change affects nearly all economic sectors, the level of exposure and the impact of CR risks differ by sector, industry, geography, and organization. In addition, as the Annex acknowledges:

> *"The financial impacts of climate-related issues on organisations are not always clear or direct, and, for many organisations, identifying the issues, assessing potential impacts, and ensuring the material issues are reflected in financial filings may be challenging. Key reasons for this are likely because of (1) limited knowledge of climate-related issues within organisations, which may inhibit the identification of such risks; (2) the tendency to focus mainly on near-term risks without paying adequate attention to risks that may arise in the longer term; and (3) the difficulty in quantifying climate-related risks."*

Different companies will of course be at different stages in developing their response to CR issues. For a company with a calendar year end, the first time it will need to disclose the information specified in the TCFD disclosure framework, or explain why it is not doing so, will be in its annual report for the year ended 31 December 2021, which will be published in the first few months of 2022.

Between now and the end of 2021, companies may therefore want to develop their existing processes and resources relating to CR issues. The table below provides some high-level guidance on issues for companies and to consider: more detailed guidance can be found in the TCFD documents referred to above.

### Areas for focus and development

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| Gap analysis | Consider establishing a cross-functional team, including business unit managers, the reporting team, investor relations and sustainability managers, to identify what the company already does, and what it already discloses in relation to CR issues, and where it falls short of the company's own objectives and the TCFD Recommended Disclosures. |
| Roadmaps | Create or refine a "roadmap" to engage with CR issues, including what the company wants to achieve. Determine priorities, taking into account materiality to the company, its investors and other stakeholders and ease of delivery, and agree key milestones. Allocate resources to train relevant staff and raise awareness. |
| Identify risks and opportunities presented by climate change | Assess the company's exposure to transitional, litigation, reputational and physical CR risks, and the commercial opportunities that could arise from transitioning to a low carbon environment, including from using cleaner energy and more sustainable products and practices. Ideally this should be done on an asset-by-asset basis. How could the company's business model be affected by climate change? What changes to strategy may be needed – e.g. to reach net zero by 2050? |
| Scenario analysis and resilience | Consider different possible scenarios (scenario analysis), and how to improve the company's resilience in each scenario (resilience testing) - especially on the company's exposure to physical risks in its key strategic locations - and decide how much information on this to disclose. The FRC Lab Report says that although the TCFD disclosure framework recommends modelling a rise in global temperatures of 2°C or lower, investor expectations are beginning to coalesce around modelling a rise of 1.5°C, as envisaged by the Paris Agreement. Are there any scenarios that might affect the company's viability? |
| Horizons | Determine what "short", "medium" and "long" term mean for the company, bearing in mind its business model, the life of the company's assets, the profile of the CR risks it faces and the sectors and geographies in which the business operates. |
| Targets | Identify and set CR targets, agree the assumptions to be made and put in place processes to obtain all the relevant data needed to measure and report against those targets. |
| Metrics | Identify which metrics should be used to quantify and assess CR risks and opportunities and the company's progress in meeting its CR targets, the methodology that should be used and which metrics should be publicly disclosed. Examples of metrics can be found in table 1 on page 8 of the Annex. The Government has also published detailed guidance on complying with the statutory Streamlined Energy and Carbon Reporting (SECR) requirements which came into force on 1 April 2019, including guidance on determining appropriate KPIs, collecting and verifying data, setting targets and measuring performance against them, and reporting publicly in relation to GHG emissions, water use, waste, materials and resource efficiency, biodiversity/ecosystem services, and emissions to air, land and water. |
| Embedding CR issues in decision-making | "*Senior management and board engagement is necessary to ensure a co-ordinated approach, that a strategic view is taken, and that resources are appropriately allocated*" (2019 FRC Lab report). Consider how to embed into board and management decision-making processes both the risks the opportunities presented by CR issues. Determine what kind of reports on CR issues the board, Audit Committee and Executive Committee should receive, and how frequently. Which individuals should have primary responsibility for CR issues? Should they be a member of the main board? Or a member of the Executive Committee? Who should report to them? Should climate and other ESG issues be incorporated into the terms of reference of a board committee? |

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| Style, structure and context of disclosures | Decide how the company wants to report on CR risks and opportunities and what it is doing in response; how disclosures in the annual reports and accounts should be structured; and how they should cross-refer or inter-relate with information elsewhere in the annual reports and accounts (such as the description of principal risks and uncertainties; the viability statement and, perhaps, the section 172 statement). Consider also how best to use other channels, such as the company's website and investor days, to communicate its plans on CR and other ESG issues. From a liability perspective, putting the TCFD Recommended Disclosures into the directors' report or strategic report may reduce the risk of liability for misleading statements: see below, "Managing the risks of liability". |
| Materiality | Identify how materiality should be determined for the purposes of disclosing CR information in the annual report. The Annex cautions against prematurely concluding that CR risks and opportunities are immaterial based on perceptions of the longer-term nature of some CR risks. |
| Reputation and investability | Ensure that the company is effectively communicating what it is doing in response to CR issues, in order to improve its reputation, competitive position and attractiveness to investors. |
| Shareholder vote | Consider whether to put the company's climate transition plan to a regular shareholder vote. |
| Asset impairment | Ensure business and finance teams consider whether carbon-related assets need to be written off, depreciated more rapidly or impaired in light of changes in government or regulatory policy, changes in customer preferences etc. |
| Suppliers | Embed CR considerations into supply chains and procurement processes. |
| Contingency planning | Carry out contingency planning, both for one-off physical events (such as flooding, storms, unexpected material increases in energy costs, and interruptions to supply chains or distribution networks) and longer-term shifts in climate (such as sea level rises or water shortages). |
| Carbon footprint | Review internal policies on carbon-intensive activities, such as business travel. |
| Workforce engagement | Encourage staff to adopt sustainable practices and to suggest new initiatives. |
| Transition to more energy-efficient equipment and processes | Consider allocating more resources to investing in new energy-efficient technologies and processes. |
| Executive remuneration | Consider incorporating CR metrics into remuneration policies. |

### Managing the risks of liability

Companies will naturally be concerned about potential legal liability for misleading statements and omissions in their annual reports and other public disclosures: for example, the risk of failing to identify and disclose sufficiently the risks presented by climate change, or the risk of presenting too rosy a picture of the company's resilience in different scenarios. Predicting resilience is a particularly difficult and uncertain exercise.

Some protection is afforded to directors by the safe harbour in section 463 of the Companies Act 2006. This protects directors from liability to investors under UK law in respect of disclosures made in one of the reports to which the section applies – such as the directors' report or the strategic report. However, it is not clear whether the protection extends to disclosures that are not specifically required by the Act; and the section may not protect directors from liability to investors under overseas securities law. In any event, if disclosures are misleading the company itself could be liable to pay damages to investors under schedule 10A of the Financial Services and Markets Act 2000; and both the company and directors personally could be fined for breaching the Listing Rules, including the obligation to ensure that misleading information is not published.

In practice, companies can mitigate the risks of liability by taking the type of precautions that are usually taken where a company publishes a profit forecast in a prospectus or a takeover offer document. For example: ensuring that the information disclosed is clear, unambiguous and prepared carefully and supported by appropriate evidence; ensuring that the assumptions made are reasonable; that any targets or aspirations are realistic; and that, where necessary and feasible, verification or assurance is obtained from a suitable third party. Companies should also consider adding to the standard disclaimer in their annual report about forward-looking information an explanation of the purpose and limitations of disclosures relating to possible future scenarios and the company's resilience to them.

Where a company is still concerned about the risks of making a disclosure that is mandated by the TCFD framework – for example, because the underlying data or methodology is not considered sufficiently reliable, or the assumptions used cannot be sufficiently tested – the company can (at least for now) choose not to disclose it and explain why.

## New FCA Technical Note

The FCA has also published a new Technical Note highlighting other provisions in the Listing Rules, and provisions of the Disclosure Guidance and Transparency Rules, MAR, prospectus regime and the UK Corporate Governance Code that may require companies to disclose information on CR and other ESG issues. In addition, UK-incorporated companies are already required to include certain CR information in their annual reports, such as principal risks and uncertainties facing the company and information on GHG emissions, energy use and energy efficiency. The new Technical Note applies immediately.

## FCA Policy Statement and Consultation Paper

Details of the rule change and the new Technical Note, and the FCA's comments on points raised by respondents to its March 2020 consultation, are set out in FCA Policy Statement PS20/17, published on 21 December 2020.

The proposals set out in the FCA's consultation paper, "*Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations*" (CP 20/3), and the background to them, were discussed in our briefing ("Disclosure of climate-related information by listed companies", 6 May 2020).

If you would like further information about this topic, please speak to your usual Slaughter and May contact.

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# Appendix: TCFD and the wider context

## Why TCFD?

The FCA believes that the TCFD disclosure framework provides an appropriate benchmark for listed companies. It notes that the TCFD disclosure framework was the subject of extensive consultation, is already widely recognised by the financial industry and more broadly, and a number of companies are already following it. In addition:

- A number of other disclosure frameworks, both nationally and internationally, have aligned with the TCFD disclosure framework.
- In its Green Finance Strategy, published in July 2019, the UK Government endorsed the TCFD disclosure framework and a Taskforce was charged with analysing various means of implementing it. The Taskforce published an Interim Report and a Roadmap in November 2020.
- Discussions between the FRC Lab and investors in 2019 revealed that investors are very supportive of TCFD reporting and, as a result, the Lab's October 2019 report on CR corporate reporting was structured around the TCFD disclosure framework. The report also set out questions for companies to ask themselves. A follow-up report published in November 2020 confirmed that investors remain supportive of the TCFD framework, but they also expect to see disclosures regarding the financial implications of climate change. Both reports include examples of best practice disclosures.
- As part of its October 2020 status report, the TCFD reviewed the financial filings, annual reports and sustainability reports of over 1,700 companies from 69 countries across a range of industries for fiscal years 2017, 2018 and 2019. The TCFD found a six percentage-point increase in disclosure over these three years, on average, across the TCFD Recommended Disclosures. Nearly 700 organisations have become TCFD supporters since the Task Force issued its TCFD 2019 Status Report (an increase of more than 85%, with 1,500 organisations now having expressed support); and nearly 60% of the world's 100 largest public companies support the TCFD framework, report in line with it, or both.
- According to analysis by PLC What's Market of FTSE 350 companies that made TCFD disclosures in their 2020 annual reports and accounts, 50 FTSE 100 companies and 39 FTSE 250 companies out of the 185 companies reviewed included a statement on TCFD reporting in their annual reports. Some companies summarised their climate-related financial disclosures in a single page summary that followed the TCFD pillars of governance, strategy, risk management, and metrics and targets. Other companies are making more detailed disclosures. Companies in the financial and insurance sectors are the current market leaders in this area.
- Over 110 regulators and government organisations are TCFD supporters, including the UK Government, Bank of England and the FCA. The private finance agenda of the UN Climate Change Summit 2021 (COP26) also features TCFD implementation as an objective.

## Recent developments in reporting of CR and other ESG issues

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| Government 10 point plan for a green industrial revolution | In November the Prime Minister announced a plan for the UK to eradicate its contribution to climate change by 2050. Among other things, the Government plans to invest £12 billion to create and support up to 250,000 highly-skilled green jobs in the UK. Also included are plans to:<br>– produce enough offshore wind to power every home<br>– increase production capacity of low carbon hydrogen<br>– accelerate the transition to electric vehicles<br>– make homes, schools and hospitals greener, warmer and more energy efficient<br>– become a world-leader in carbon capture and storage technology<br>– make the City of London the global centre of green finance. |
| Government and regulators' roadmap | Also in November HMT, BEIS, BoE, DWP, TPR and FCA jointly published an Interim Report and a Roadmap towards mandatory climate-related disclosures across the UK economy aligned with the TCFD recommendations. Among other things:<br>– The Government intends to introduce fully mandatory climate-related financial disclosure requirements across the UK economy by 2025, with a significant portion of mandatory requirements in place by 2023. Disclosure requirements will be introduced on a sector by sector basis by relevant regulators and Government departments, subject to consultation in the usual way.<br>– In early 2021 BEIS to consult on amendments to CA 2006 to require larger private companies to make TCFD-aligned disclosures in their annual report and accounts. BEIS is currently developing detailed policy proposals and engaging in pre-consultation, and it expects to issue a public consultation in early 2021. Regulations will be laid in the House of Commons and (subject to Parliamentary time) made in mid-2021. BEIS will review the case for expanding the scope of the Regulations in 2023.<br>– In 2021 the FCA plans to consult on potential client-focused TCFD-aligned disclosures by UK-authorised asset managers, life insurers and FCA-regulated pension providers. |
| FRC review | Also in November the FRC published a report summarising the findings of its 2020 review of how boards, companies, auditors, professional bodies and investors are addressing CR considerations. The report essentially says that all parties involved need to do more. The FRC also published separate reports on its detailed findings on governance; corporate reporting; audit; and Investor reporting and better practice reporting under the TCFD Disclosures. The reports include examples of best practice. |
| Guidance for financial services firms on the risks and opportunities presented by climate change | In June 2020, the Climate Financial Risk Forum (CFRF) published guidance to help FCA- and PRA-regulated firms of all sizes understand the risks and opportunities that arise from climate change and to support firms in integrating these risks and opportunities into their own risk, strategy and decision-making processes. The guidance provides practical recommendations across four climate-related (CR) areas: risk management; scenario analysis; disclosures; and innovation. The guidance is not mandatory, but firms are expected to take it into account from now on. It is partly designed to help firms meet the expectations on how banks and insurers should address the financial risks from climate change set out in the PRA's Supervisory Statement SS3/19, which was published in April 2019 along with Policy Statement PS11/19. For further details see our briefing ("Climate Financial Risk Forum publishes guidance for firms on climate-related risks and opportunities", 29 Jul 2020). |

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| Larger pension schemes to comply with the TCFD Recommendations | In August 2020, the DWP published proposals that effectively will require trustees of larger occupational pension schemes, authorised master trusts and collective DC schemes to comply with the TCFD Recommendations. Trustees of such schemes will be required to (i) address climate change risks and opportunities through effective governance and risk management measures; and (ii) publish an annual report on such measures (to be known as a TCFD report). The new rules will come into effect in stages, with the largest schemes affected first. For further details see our briefing ("Improving governance and reporting of climate-related issues in occupational pension schemes: government publishes proposals", 25 Sep 2020) |
| PCAF draft Global Carbon Accounting Standard for the Financial Industry | Also in August 2020, the Partnership for Carbon Accounting Financials (PCAF) published a draft Global Carbon Accounting Standard for the Financial Industry. It is designed to be a global accounting standard for the measurement and disclosure of financed emissions (i.e. greenhouse gas emissions financed by banks, investment managers and insurers through their investment and lending activities), which will in turn enable financial institutions to set science-based targets and to align their portfolios with the Paris Climate Agreement to keep global temperature rises this century below 2 degrees Celsius above pre-industrial levels. The proposed new Standard has already attracted commitments from several high-profile institutions. For further details see our briefing ("PCAF publishes draft global carbon accounting standard for the financial sector", 21 Aug 2020). |
| EU developments in ESG reporting | There are various initiatives currently moving forward or due to come into effect soon. These include possible changes to the Non-Financial Reporting Directive; a Regulation on sustainable finance disclosures; and the Taxonomy Regulation. Notably, the SFDR and the Taxonomy Regulation will impose extensive ESG disclosure obligations on asset managers and financial advisers, who can be expected to ask companies to provide them with more granular levels of ESG data than at present. Some of these obligations will apply from as early as 10 March 2021. Although the UK Government has so far not committed to replicating these developments in UK law post-Brexit, continued alignment between the UK and EU in this area seems likely. For further details see our briefing ("Asset Managers and the ESG Tsunami: Get ready for the tide of ESG disclosures", 28 Jul 2020). |
| Increasing investor engagement with CR and wider ESG issues | 2020 saw shareholders requisition resolutions on climate change at three FTSE 350 companies and although such drastic measures remain unusual, many investors are keen to see companies "do the right thing", especially in light of the Covid-19 pandemic.<br><br>Mark Carney, speaking at the Green Horizon Summit in November 2020, endorsed moves by investors to force companies to submit their climate change plans to an annual shareholder vote, stating that such a mechanism could improve oversight of company commitments to reduce GHG emissions. In October 2020, following investor pressure, the Spanish airport infrastructure operator, Aena SME SA, became the first company to amend its articles to require the board to publish a plan to mitigate the effects of climate change and an annual report, drawn up in line with the TCFD framework, on the company's progress in meeting the goals set, with each being put to an advisory vote at the annual shareholders' meeting. And in December Unilever became the first FTSE 100 company to commit voluntarily to put its climate transition plan to a shareholder vote. The plan, which will be updated on a rolling basis, will similarly be put to a non-binding advisory vote at the company's AGM, starting in 2021, with shareholders being given an advisory vote every three years on any material changes made or proposed to the plan. |