

Insights

CLIMATE-RELATED FINANCIAL DISCLOSURES FOR LARGE UK CORPORATES: THE UK TCFD ROADMAP IN ACTION

25 March 2021

The UK government has made another stride in its green finance ambitions – a consultation on mandatory climate-related financial disclosures for UK large corporates. The proposals, based on the Financial Stability Board (FSB)’s Task Force on the Climate-related Financial Disclosures (TCFD) framework, follow the pathway set out in HM Treasury’s November 2020 TCFD Interim Report and Roadmap (in line with the expectations in the 2019 Green Finance Strategy).

For accounting periods from 6 April 2022, UK corporates within scope will have to make climate-related financial disclosures in their non-financial information statements as part of their Strategic Report, or Annual Report for large LLPs. Disclosures are to be in line with the 4 overarching pillars in the TCFD recommendations (on which practical guidance will follow) relating to Governance, Strategy, Risk Management and Metrics and Targets.

If a corporate does not disclose climate-related financial information, it must state why climate change is not expected to materially affect its business model or strategy and explain its reasoning.

UK corporates within scope include those that currently qualify as Public Interest Entities (with securities admitted to the Main Market, credit institutions and insurance undertakings); AIM-listed companies with more than 500 employees; and other UK companies and LLPs with more than 500 employees and turnover of more than £500 million. For some, for example premium listed issuers, these disclosures will be tiered with the new ‘comply or explain’ TCFD disclosures due to be included in annual reports from 1 January 2022.

We would make 3 comments on this consultation:

- First, it will be of interest to all those identified in HM Treasury’s Roadmap as the TCFD mandatory disclosures are implemented on a staggered and cross-sectoral basis – for instance, asset managers, along with life insurers and FCA-regulated pension providers in the UK. FCA consultations are expected in H1 2021 for this group (along with a wider scope of listed issuers) and policy is likely to dovetail with these BEIS proposals. The Roadmap expects 75% of UK-authorized asset managers to be covered by the regulatory/legislative requirements for TCFD reporting in 2022, increasing to 96% by 2023.

- Secondly, the commitment to mandatory climate-related financial disclosures is important in the context of the UK's leadership ahead of G7 and COP26 upcoming summits and our positioning as a competitive and resilient economy. It further complements a wider comprehensive package of reforms – including, for example, on audit and corporate governance, Lord Hill's recommendations on the UK Listing Review, and other initiatives on climate-related disclosures that impact occupational pension schemes and other PRA-regulated financial institutions.
- Thirdly, the consultation notes the need to align and co-ordinate TCFD disclosures with other projects, such as implementation of a UK green taxonomy (although the paper does not reference the EU taxonomy or sustainable finance package).

The consultation notes that mandatory disclosure of material climate-related financial information can help support investment decisions that are aligned with our transition to a low carbon economy. The benefits of increased transparency and efficient product comparability is likely to equip investors, stakeholders and corporates with the information they need to measure and manage physical and transition financial risks arising from climate change, drive positive behaviours and investment outcomes and allow market participants to take advantage of business opportunities associated with green finance.

Feedback is requested by 5 May 2021, with a view to the amending legislation being made in 2021 and coming into effect for accounting periods on or after 6 April 2022.

RELATED CAPABILITIES

- UK Public Company
- Environment
- Securities & Corporate Governance
- M&A & Corporate Finance
- Corporate Real Estate and Funds

MEET THE TEAM



Tessa Hastie

Co-Author, London

tessa.hastie@bclplaw.com

+44 (0) 20 3400 4516

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