Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers

Policy Statement
PS21/24

December 2021

This relates to

Consultation Paper 21/17
which is available on our website at
www.fca.org.uk/publications

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1 Summary

1.1 In June 2021, we consulted in CP21/17 on proposals for asset managers, life insurers and FCA-regulated pension providers to make climate-related disclosures consistent with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

1.2 We proposed that firms would be required to make mandatory disclosures on an annual basis at entity and product level.

1.3 In this Policy Statement (PS), we summarise the feedback we received to our consultation and confirm our final policy position. This PS also contains the final rules and guidance.

1.4 Our aim is to increase transparency on climate-related risks and opportunities and enable clients and consumers to make considered choices. We recognise, however, that there will be data and methodological challenges for a transitional period. In finalising our position, we have sought to find a balanced and proportionate approach that continues to mobilise the industry forward on climate-related disclosures and encourages the necessary investment in capabilities, while at the same time ensuring that disclosures remain fair, clear and not misleading.

1.5 Our final rules form part of a broader strategic theme to promote transparency on climate change and wider sustainability along the value chain. As elaborated in our Strategy for Positive Change, launched in November 2021, 'enhanced disclosures to clients and consumers will help them make more informed financial decisions – in turn enhancing competition between providers, protecting consumers from unsuitable financial products… and encourage the flow of funds to more sustainable projects and activities'.

1.6 Our work supports the UK's commitments to implement the TCFD's recommendations and its wider ambitions for sustainability disclosures. The Government has committed to work towards mandatory TCFD-aligned disclosure obligations across the UK economy by 2025. In October 2021, it published a Roadmap to Sustainable Investing, which builds on the implementation of TCFD-aligned disclosures. As part of this, the Government set out plans for economy-wide Sustainability Disclosure Requirements (SDR), including entity- and product-level disclosures by asset managers and asset owners, and in respect of investment products.

1.7 In developing our final rules and guidance, we have also had regard to the Government's commitment to achieve a net zero economy by 2050, in line with our remit letter from the UK Chancellor in March 2021.

Who this affects

1.8 Our rules will directly impact asset managers, life insurers and FCA-regulated pension providers. They relate to a firm's role as a fiduciary – that is, how it takes climate-related matters into account in its management or administration of assets on behalf of clients and consumers, both at entity level and for specific portfolios or financial products and services.

1.9 The types of firms in scope of our proposals are:

Asset managers:

- investment portfolio managers
- UK Undertakings for Collective Investment in Transferable Securities (UCITS) management companies
- full-scope UK Alternative Investment Fund Managers (AIFMs)
- small authorised UK AIFMs

Life insurers and FCA-regulated pension providers (collectively referred to as 'asset owners' in this PS):

- life insurers (including pure reinsurers) in relation to insurance-based investment products and defined contribution (DC) pension products
- non-insurer FCA-regulated pension providers, including platform firms and Self-invested Personal Pension (SIPP) operators, to the extent that SIPP operators provide a ready-made selection of investments

1.10 The target audience for the disclosures are firms' institutional clients (eg, pension scheme trustees, employers, corporate investors) and end-user consumers (eg, pension scheme members, retail investors), referred to in this PS as clients and consumers, respectively.

1.11 Some firms in scope of these rules may also be subject to climate-related disclosure requirements in their capacity as listed issuers (or entities within a listed issuer group). Those disclosures (set out in PS20/17 and PS21/23) are focused on how firms in scope manage climate-related risks and opportunities in their corporate business on behalf of their shareholders.

1.12 This PS will also be of interest to a broad range of other stakeholders, including:

- trustees, operators and managers of occupational pension schemes
- industry associations, trade bodies and civil society groups
- accountants and auditors
- investment consultants
- other regulators and policy makers
- industry experts and commentators
- academics and think tanks
- consumer groups

The wider context of this policy statement

Our consultation

1.13 The transition to a net zero economy will require high-quality information on how climate-related risks and opportunities are being managed along the investment chain – from companies in the real economy, to institutional investors and to consumers.

1.14 Better information will help clients and consumers make better informed decisions about their investments. This should, in turn, help to enhance competition in the interests of consumers, protect consumers from buying unsuitable products, and drive investment towards greener projects and activities.

1.15 There have been positive developments in climate-related disclosures. But the information needs of clients and consumers are not yet being met. We consider that regulatory intervention will accelerate progress.

1.16 In CP21/17 we set out proposals to introduce a climate-related financial disclosure regime for asset managers and asset owners consistent with the TCFD's globally accepted recommendations. This is also in line with the Government's Roadmap to mandatory TCFD-aligned disclosures across the economy by 2025.

1.17 The Government has since published a Roadmap setting out a path towards the introduction of SDR across the economy, including for asset managers and asset owners. SDR will build on the UK's implementation of TCFD. It will expand the scope (over time) to cover sustainability topics beyond climate change, and require disclosures beyond financial risks and opportunities to include the impact firms and their products have on sustainability.

1.18 In our CP, we anticipated that we would expand on our TCFD-aligned disclosure rules and guidance within the new Environmental, Social and Governance (ESG) Sourcebook, covering additional sustainability topics over time.

1.19 We are separately seeking feedback in a discussion paper (DP21/4) on how SDR can best build on our TCFD-aligned disclosure rules and guidance. The feedback we receive will inform detailed policy proposals for consultation in Q2 2022. In this PS we set out some interactions between our TCFD rules and prospective SDR proposals.

How it links to our objectives

1.20 By introducing disclosures consistent with the TCFD's recommendations, we intend to reduce potential harm arising from clients engaging firms that do not adequately manage climate-related risks and opportunities, and consumers buying unsuitable products. Without good transparency of how climate-related risks and opportunities are managed along the investment chain, competition may also be less effective and capital may be misallocated.

1.21 Intervention to address these harms flows directly from our strategic objective to ensure that the relevant markets function well, and also advances our operational objectives to:

- **Promote effective competition in the interests of consumers in the markets for regulated financial services.** Clients and consumers will be better enabled to take climate-related financial information into account when granting investment mandates and selecting investment products, and better able to distinguish between providers. This should support greater competition.
- **Secure an appropriate degree of protection for consumers.** Our proposals will help to improve transparency and therefore clients' and consumers' understanding of how climate-related risks might impact the products in which they invest.

- **Protect and enhance the integrity of the UK financial system.** Greater transparency and consistency on firms' climate-related investment policies and outcomes can improve the assessment of climate-related risks and opportunities across the market, and enhance asset pricing and capital allocation decisions.

What we are changing

1.22 In this PS, we confirm that we are introducing a new ESG Sourcebook to the FCA Handbook containing rules and guidance for asset managers and certain FCA-regulated asset owners to make disclosures consistent with the TCFD's recommendations.

1.23 Our rules require in-scope firms to make disclosures on an annual basis at:

- **Entity-level** – an annual TCFD entity report published in a prominent place on the main website of the firm's business setting out how they take climate-related matters into account in managing or administering investments on behalf of clients and consumers
- **Product-level** – disclosures (including a core set of climate-related metrics) on the firm's products and portfolios made publicly in a prominent place on the main website of the firm's business and included or cross-referenced in an appropriate client communication, or made upon request to certain eligible institutional clients

1.24 The rules are accompanied by guidance to help firms determine whether their disclosures are consistent with the TCFD's recommendations and recommended disclosures, and/or our requirements.

1.25 The instrument giving effect to the new rules is included in Appendix 1. The rules will apply to 34 asset management and 12 asset owner firms in the first phase of implementation from 1 January 2022. Once fully implemented they will apply to 140 asset management and 34 asset owner firms. The firms in scope represent £12.1 trillion in assets under management (AUM) and administered in the UK, capturing 98% of both the UK asset management market and held by UK asset owners.

Outcome we are seeking

1.26 By introducing our rules, we are creating a regulatory framework that will support in-scope firms' contribution to wider Government aims to achieve a net zero economy by 2050.

1.27 Figure 1 of CP21/17 sets out the causal chain by which we expect enhanced climate-related disclosures to help address potential harms and advance our objectives. As described in CP21/17, we want to achieve 3 outcomes:

- **Better outcomes for clients and consumers.** Greater transparency about how firms are managing climate-related risks and opportunities in their investment decisions will help clients and consumers take those factors into account when granting investment mandates and selecting products. It will also enable them to hold their providers to account. Better information on these factors should support a more competitive market. Given the global nature of many in-scope firms' asset management and administration business, rules consistent with the TCFD's recognised global framework are also likely to benefit clients' and consumers' decision-making internationally.

- **Deeper consideration of climate-related risks and opportunities by in-scope firms.** Our rules promote a structured approach to considering climate-related risks and opportunities by in-scope firms, improving investment outcomes for clients and consumers. This should also encourage an ecosystem of service providers to develop and deliver analytical tools, data, guidance and thought leadership. Better transparency about how firms are addressing climate-related risks and opportunities will help markets price assets more accurately and allocate capital more effectively. This should lead to a smoother transition to a lower-carbon economy.
- **Coordinated information flow along the investment chain.** The appropriate pricing of risks and efficient allocation of capital depends on all parties along the investment chain providing decision-useful information to one another. Our complementary TCFD-aligned disclosure rules and guidance for listed issuers aim to promote the flow of information from companies in the real economy to asset managers and asset owners, supporting their assessment of the climate-related risks and opportunities associated with their investments (or prospective investments). Our rules in this PS aim to support firms sharing onward information to clients and consumers. Clients may require this information to help fulfil their own regulatory obligations.

Measuring success

1.28 As discussed in CP21/17, we will measure the success of our intervention with:

- **Market outcomes.** We will be successful if new disclosures enable clients and consumers to make better informed decisions when granting mandates and selecting investment products. This may lead to markets rewarding those firms that have invested more in their capabilities to manage climate-related risks and opportunities, by driving capital towards those firms. This may help to encourage the transition to a net zero economy. However, it may not be straightforward to isolate the impact of our measures from other complementary initiatives to support the climate transition.
- **Supervision.** As set out in our Strategy for Positive Change, we are working to embed net zero and wider ESG considerations in all our policy work, as well as our market oversight, supervision, authorisations and enforcement. We expect authorised firms to adopt the standards effectively, not just in anticipation of supervisory attention. Nevertheless, we expect to conduct supervision in this area, both through resolving problems we identify and proactively once the first disclosures are made. We have also been exploring the role that data and analytics can play to help supervise sustainability-related disclosures, including via a Sustainability TechSprint held in October 2021.
- **Ongoing industry liaison.** We will gather views on the effectiveness of the new regime through ongoing industry liaison, including via the Climate Financial Risk Forum (CFRF).

Summary of feedback and our response

1.29 We received 87 responses to our consultation. Overall, there was good support for our proposals. However, several challenges were highlighted, most notably in relation to data gaps and methodological challenges.

- **Data availability and use of proxies/assumptions.** Several respondents agreed that data and methodological gaps shouldn't be a limiting factor to firms' making climate-related disclosures. However, many were concerned that the use of proxies and assumptions where data gaps and methodological challenges are severe could lead to potentially misleading, inconsistent, and inaccurate disclosures that do not provide clients and consumers with meaningful metrics. Further reflecting these concerns, many respondents did not consider that quantitative scenario analysis at product-level would be decision-useful at this stage.
- **Core and additional metrics.** Overall, there was broad support for disclosure of our proposed baseline of core metrics, subject to addressing concerns regarding data and methodological challenges. Most respondents did not agree that metrics must be disclosed according to both the TCFD and EU Sustainable Finance Disclosure Regulation (SFDR) methodologies. They considered that this would be confusing, particularly to retail investors. Respondents noted further challenges with our list of additional metrics, including that demonstrating 'best efforts' to disclose these additional metrics could be costly and burdensome, and this would not be proportionate to the output.
- **Transition plans.** Several respondents – mostly civil society stakeholders – strongly encouraged the FCA to mandate disclosure of transition plans. Since the publication of our CP, at COP26, the Treasury also announced its intention to require disclosure of transition plans across the financial sector.
- **'On demand' disclosures.** Several respondents anticipated that they would need to respond to multiple requests for disclosures 'on demand' at different reference points and in different formats, therefore creating a significant burden. Some suggested that we develop a 'common template' for these disclosures. Others were concerned about the provision of underlying data due to licensing considerations.
- **Scope.** Most respondents broadly agreed with our proposed scope of entities and products. We received several requests for clarifications regarding whether specific categories of firm or product were in scope. These included whether Occupational Pension Schemes (OPS) firms should be in scope given the potential duplication of disclosures with those under Department for Work and Pensions (DWP) regulations. In addition, we received strong feedback that our threshold for exemption (firms with less than £5 billion in AUM) should be reviewed and lowered now or in the near future.
- **Timing.** Although most respondents broadly agreed with our timing, many commented on the sequencing with respect to rules for both listed issuers and pension scheme trustees. Some also noted challenges in obtaining information from smaller firms due to the phasing of our implementation. A small number of respondents noted other challenges, such as work needed for system and process development and linking to financial reporting periods.
- **Cross-referencing to other related parties' disclosures.** Most respondents welcomed the flexibility to make disclosures at the level of consolidation most relevant to the business model of the in-scope firm. We received some feedback on accessibility and practicalities.
- **Audience.** Several respondents were concerned that a retail audience would not be able to understand climate-related disclosures under our rules, particularly the metrics. Some were also concerned about being able to make disclosures that both meet the granular needs of an institutional audience and retail investors' needs for simpler information.

1.30 Having considered the feedback received, we have finalised our rules with some changes and additional guidance as summarised below.

- **Data gaps and use of proxies/assumptions.** We have added further rules and guidance to clarify that we will not require firms to disclose information (eg, in relation to metrics or quantitative scenario analysis or examples) if data gaps or methodological challenges cannot be addressed through use of proxies and assumptions, or if to do so would result in disclosures that are misleading. We also clarify that we expect such data gaps or methodological challenges to be transitional and consider that they are only likely to arise in relation to certain asset classes. We require firms to explain where and why they have not been able to disclose, as well as the steps they will take to improve the completeness and the quality of disclosure.
- **Core and additional metrics.** Given our policy approach is to remain consistent with the TCFD framework, we are only mandating disclosure of core metrics using TCFD methodologies. We have also amended the requirement to disclose additional metrics from a 'best efforts' basis to 'as far as reasonably practicable'.
- **Transition plans.** We have added an additional guidance provision to clarify that a firm headquartered in, or operating in, a country that has made a commitment to a net zero economy is encouraged to consider the extent to which it has considered that commitment in developing and disclosing its transition plan.
- **On demand.** We have amended the 'on demand' obligation to require that firms provide a report to clients at a single reference point consistent with public disclosures, or at date agreed between the client and the firm, and in a 'reasonable' format. We reiterate that our rule on the provision of additional underlying climate-related data to clients is limited to where reasonably practicable and permitted under licensing arrangements.
- **Scope.** We have made some technical amendments to clarify our intended scope of firms and products. This includes limiting the requirement on OPS firms to make 'on demand' disclosures only. We will review the £5 billion AUM exemption threshold after 3 years of disclosures.

1.31 We elaborate on these changes and our response to other areas of feedback in Chapter 3.

Equality and diversity considerations

1.32 We have considered the equality and diversity issues that may arise from the actions set out in this PS.

1.33 Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010. We consider that, by helping to make relevant markets function well, improving climate-related disclosures will benefit all consumers.

1.34 However, we will continue to consider the equality and diversity implications of our regulations once the final rules are in force.

Next steps

1.35 Our new climate-related disclosure rules will apply from 1 January 2022 for the largest in-scope firms and 1 year later for smaller firms above the £5 billion exemption threshold. The first public disclosures in line with our requirements must be made by 30 June 2023.

1.36 Firms that are directly affected should familiarise themselves with the details of the rules and associated guidance, and consider what arrangements they need to ensure that they are able to meet the requirements. We acknowledge that many larger firms are already making voluntary TCFD-aligned disclosures. In-scope firms will need to ensure their reports or cross-referenced reports meet our requirements.

1.37 We recognise that the industry is still developing in terms of data, methodologies, and guidance. Some stakeholders called for technical and/or sector-/asset class-specific guidance in certain areas. We encourage an industry-led approach to developing such guidance and will continue to engage with such work, including in our role as co-chair of the CFRF.

2 The wider context of this policy statement

2.1 COP26 and developments leading up to it have highlighted the important steps policy-makers, regulators, industry and wider society are already taking to manage the risks and opportunities of climate change. But there is much more to do.

2.2 In this chapter, we summarise some key global and domestic developments that are relevant to this PS and the actions we are taking.

Updates from the TCFD

2.3 In 2017, the TCFD published a set of recommendations which have become the leading framework for climate-related financial disclosures, counting more than 2,800 supporters over 89 jurisdictions. This includes 1,069 financial institutions responsible for assets of $194 trillion, according to the latest TCFD Status Report.

2.4 A number of jurisdictions are also taking action to implement the TCFD's recommendations, including Japan, Singapore and Hong Kong. The US Securities and Exchange Commission has also committed to consulting on proposals to introduce climate-related disclosure requirements following overwhelming engagement (just under 6,000 responses) with its call for public input published earlier in the year.

2.5 Alongside the status report, the TCFD also published an updated implementation annex and guidance on climate-related metrics, targets and transition plans. This followed a consultation during the summer of 2021. These new documents provide:

- updates to specific elements of the TCFD's 2017 all-sector guidance and the supplementary guidance for the financial sector (for certain recommended disclosures within the 'Strategy' and 'Metrics and Targets' recommendations)
- additional guidance in a standalone document on metrics, targets and transition plans, to:
  - identify a set of climate-related metrics that all organisations should disclose;
  - provide guidance on selecting and disclosing climate-related targets;
  - describe how organisations might include information on their transition plans in their disclosures;
  - and to help preparers disclose decision-useful information on metrics, targets and transition plans and link those disclosures with estimates of financial impacts

2.6 As part of their consultation, the TCFD published a Technical Supplement, developed by the Portfolio Alignment Team (PAT), to gather feedback on portfolio alignment metrics. Following responses to the consultation, PAT published a final technical considerations report. However, this was published as a PAT document, and does not constitute a core document of the TCFD. We have therefore not referenced this document in our final guidance (see Chapter 3).

International standards and recommendations

2.7 During COP26, the International Financial Reporting Standards (IFRS) Foundation officially launched the International Sustainability Standards Board (ISSB) which will provide a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. These standards will build on the TCFD's recommendations, while adding specificity and granularity to meet the growing and urgent demand for consistent, comparable and reliable corporate sustainability disclosures.

2.8 The ISSB's future standards will begin with climate and expand to other sustainability factors over time. Alongside the launch of the ISSB, a working group established by the IFRS Foundation Trustees published a package of recommendations to give the new board a 'running start' in its development of standards.

2.9 We strongly welcome and are closely involved in these developments as co-chair of a workstream on issuers' sustainability disclosures under the International Organization of Securities Commissions (IOSCO). IOSCO welcomed the IFRS Foundation's progress and will look to endorse the future ISSB standards, subject to those standards meeting its expectations.

2.10 The UK joined Finance Ministers and Central Bank Governors from 40 other jurisdictions in welcoming the launch of the ISSB. Moreover, communiques from the G7 and G20 during the summer of 2021 both voiced members' support for mandatory implementation of the TCFD's recommendations and welcomed the work of the IFRS Foundation.

2.11 Although the ISSB standard is being developed for corporate reporting, some asset managers and asset owners will disclose against those standards where they form part of a corporate group. Firms will also rely on data disclosed by corporates to produce their own disclosures. We expect that our climate-related disclosure rules for listed issuers will be updated in due course to reference the ISSB's reporting standards, once endorsed for use in the UK.

2.12 In November, IOSCO published recommendations for regulators and policy makers to consider in developing sustainability-related regulations for asset managers. The areas covered are closely linked to our rules for TCFD-aligned disclosures and the development of proposals for SDR disclosures and investment labels.

2.13 We are also considering IOSCO's recommendations on ESG ratings and data products providers (published in November 2021). We sought feedback on these issues in a discussion chapter of CP21/18 and intend to publish a feedback statement in H1 2022. The Government is considering bringing ESG data and ratings providers into the scope of our authorisation and regulatory perimeter. It intends to set out further detail next year.

UK Government's Green Finance Strategy

2.14 The UK Government set its Green Finance Strategy in 2019, publishing a year later an indicative Roadmap to implementing TCFD-aligned disclosures across the whole UK economy.

2.15 Since then, we finalised our TCFD-aligned rule for premium listed issuers (PS20/17); the Department for Business, Energy & Industrial Strategy (BEIS) introduced into Parliament its regulations requiring climate-related financial disclosures within the Companies Act 2006; and DWP introduced requirements for trustees of occupational pension schemes. DWP's rules came into force on 1 October 2021, with the largest schemes and authorised master trusts required to publish their first TCFD-aligned disclosures within 7 months of the end of the scheme year.

2.16 We engaged closely with BEIS and DWP to ensure consistency of requirements, to support the flow of information along the investment chain.

2.17 In July 2021, the Chancellor announced further ambitions on green finance in his Mansion House speech, which were elaborated in October 2021 in the Government's Roadmap to Sustainable Investing. These included 2 key initiatives that will require action from us: SDR and sustainable investment labels (see below).

2.18 During COP26, the Chancellor also announced that the UK would be the first net zero-aligned financial centre. This means requiring listed companies, asset managers and asset owners to disclose transition plans that consider the Government's net zero commitment or explain why not. The Government will set up a high-level Taskforce to develop a 'gold standard' for transition plans, which we will be involved in. This Taskforce will coordinate with international efforts under the Glasgow Financial Alliance for Net Zero. We have set out our expectations for disclosure of transition plans as part of TCFD-aligned disclosures in Chapter 3.

SDR and investment labels

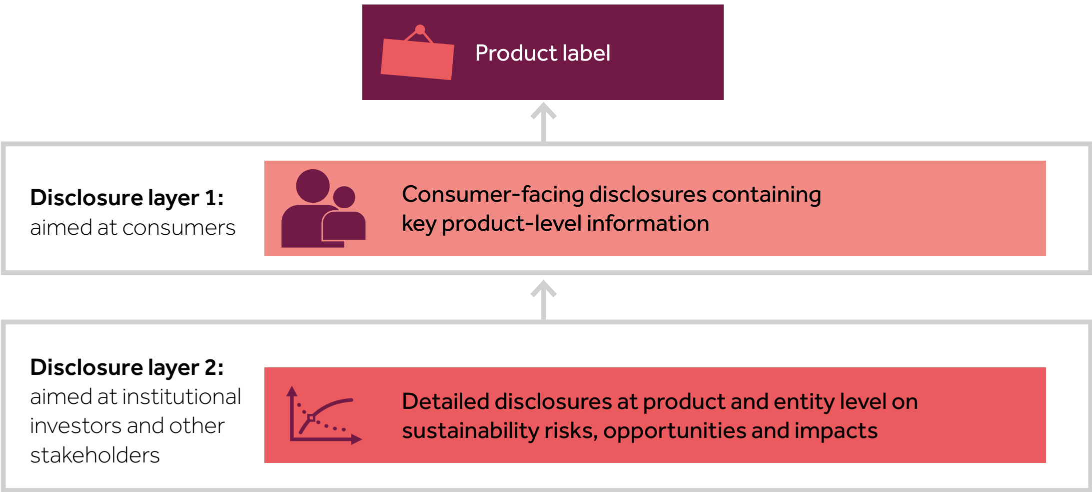
2.19 The Government's Roadmap to Sustainable Investing builds on the economy-wide implementation of the TCFD's recommendations. The Roadmap introduces an integrated and holistic regime, the SDR, that will bring together new and existing sustainability reporting requirements for businesses (including listed companies), the financial sector and investment products. The Government also set out the work to develop a labelling and classification regime for investment products.

2.20 Over time, the SDR will extend disclosure requirements beyond climate change and, with its link to the planned UK Green Taxonomy, cover sustainability impacts in addition to sustainability risks and opportunities. In the Roadmap, the Government clarifies the key role standards set by the ISSB are expected to play in delivering on the corporate reporting pillar.

2.21 We will have an important role to play in contributing to the implementation of the Government's ambitions in the Roadmap. We expect our TCFD-aligned entity- and product-level disclosure requirements to act as a foundation for the broader sustainability disclosures for asset managers and asset owners.

2.22 We currently envisage a 3-tiered system consisting of: product labels to help consumers navigate the range of investment products on offer; a consumer-friendly layer of disclosure containing key decision-useful information; and a more detailed layer of entity- and product-level disclosures building from TCFD requirements. We are seeking views on this approach in DP21/4.

Early views on a product labelling and disclosure system



3 Summarising feedback and our final approach

3.1 In this section we summarise the feedback we received on our proposed new rules and guidance for asset managers, life insurers and FCA-related pension providers to make disclosures consistent with the TCFD's recommendations and recommended disclosures. We also outline our response and approach to the final rules and guidance.

Feedback to our proposals

3.2 In CP21/17 we proposed to introduce a climate-related financial disclosure regime for asset managers, life insurers and FCA-regulated pension providers consistent with the TCFD's recommendations. In particular, we proposed the following:

- **Entity-level disclosures.** Firms would be required to publish, annually, a 'TCFD entity report' on how they take climate-related risks and opportunities into account in managing or administering investments on behalf of clients and consumers. We proposed that these disclosures be made in a prominent place on the main website for the firm's business, and cover the entity-level approach to all assets managed by the UK firm.
- **Product or portfolio-level disclosures.** Firms would be required to produce, annually, a baseline set of consistent, comparable disclosures in respect of their products and portfolios, including a core set of metrics. Depending on the type of firm and/or product or portfolio, we proposed that these disclosures would either:
  - be published in a TCFD product report in a prominent place on the main website for the firm's business, while also being included, or cross-referenced and hyperlinked, in an appropriate client communication, or
  - be made upon request to certain eligible institutional clients

3.3 We received 87 responses from a range of stakeholders: regulated firms; professional services firms; trade associations; civil society stakeholders; and others, including data providers.

3.4 A list of non-confidential respondents is set out in Annex 1. We also engaged extensively with stakeholders during the consultation period including via a series of roundtables. We thank respondents for their engagement.

3.5 The feedback we received is summarised in the rest of this chapter under the following themes:

- Data availability and use of proxies and assumptions (Q4)
- Core metrics and calculation methodologies (Q11 and Q12)
- TCFD guidance on metrics, targets and transition plans (Q13)
- Additional metrics (Q14)
- 'On demand' disclosures and underlying data to clients (Q10 and Q17)
- Scope – entity level (Q1)
- Scope – product level (Q2)
- Timing (Q3)
- Cross referencing to group, affiliate, or delegated managers' reports (Q5, Q8, and Q9)

- Entity level – governance, strategy, risk management, including scenario analysis (Q6)
- Targets (Q7)
- Product level – governance, strategy, risk management, including scenario analysis (Q15 and Q16)
- Specific proposals for asset owners (Q18 and Q19)
- Audience – institutional and retail
- Cost benefit analysis (Q20)
- Supervision and enforcement

3.6 Overall, there was broad support for most of our proposals. Respondents recognised the importance of increased transparency on climate risks and opportunities and welcomed consistency with the TCFD's globally accepted framework. Many stakeholders further encouraged the FCA to work with other domestic and international stakeholders to ensure consistency of disclosures, including on sequencing and timing.

3.7 A small number of respondents felt the proposals did not go far enough and would prefer mandatory climate-related disclosures, as well as transition plans, for all asset managers and asset owners. Some also queried the prioritisation of disclosures on climate risks and opportunities over other, perhaps more financially material, risks (eg other sustainability topics such as social factors).

3.8 On balance, given the positive support for most proposals and the direction of travel, we have decided to proceed to make final rules and guidance with a few changes to reflect feedback in certain areas.

Data availability and use of proxies/assumptions

3.9 In our CP, we acknowledged that there would be gaps in the data needed to calculate some of the metrics for disclosure – at least initially. However, rather than waiting until data were fully available – which could be many years, notwithstanding the good progress being made towards international sustainability reporting standards under the IFRS Foundation – we proposed that asset managers and asset owners rely as necessary on proxies and assumptions. They would be required to describe their methodologies, providing relevant contextual information and explaining any limitations of the approach.

3.10 We asked:

> **Q4:** ***Would there be significant challenges in using proxy data or assumptions to address data gaps? If so, please describe the key challenges and implications as well as any preferred alternative approach.***

3.11 We received 66 responses to this question. Many respondents (27) agreed with the use of proxy data or assumptions to address data gaps. They recognised that data and methodological gaps shouldn't be a limiting factor to firms' making climate-related disclosures and agreed that, pragmatically, we 'need to start somewhere', provided there is sufficient transparency and that the approach will be refined as data improve.

3.12 However, more respondents (32) were concerned that this approach could lead to misleading, inconsistent, incomparable and/or inaccurate disclosures that did not provide clients and consumers with decision-useful information.

3.13 A particular concern was those asset classes or companies for which there is limited information on which to base proxies and assumptions. Examples cited included: sovereigns; asset-backed securities; currencies; derivatives; commodities; private equity; private debt; green bonds; real estate; structured finance; venture capital; emerging market assets; and small/microcap companies. Respondents explained that it would be difficult to obtain data in several circumstances, including:

- where there is no linked issuer
- where investee company disclosures are not yet mandated
- for real estate properties occupied by tenants or with other contractual arrangements
- for small/microcap companies that are not yet making their own disclosures

3.14 Further, respondents noted that methodologies for proxies and assumptions are not transparent or verified and can vary over time. For instance: approaches may be subjective; the companies for which data are being estimated may not be comparable; underlying data may be missing, poor quality or qualitative; and firms can choose assumptions that flatter their circumstances. Some therefore called for FCA guidance on methodologies and expectations, or suggested focusing on industry solutions (eg via working groups) to address data gaps and consistency of methodologies.

3.15 In addition, some respondents were concerned about increasing firms' reliance on data from third-party providers, noting these providers are unregulated and questioning their liability/responsibility for accuracy. A small number of respondents sought reassurance from the FCA about the potential liability risks involved in disclosing assumptions, or clarity on a disclaimer that they could use. Some also raised concerns about the costs involved in estimating data using either third parties, consultants or in-house expertise.

Our response

We acknowledge the general support for the direction of travel in our approach and the proposed use of proxies and assumptions, provided these are transparent. However, we also recognise the concerns about reliance on proxies and assumptions in certain circumstances – especially for certain asset classes.

In finalising our rules, we have sought to find an approach that balances the risk of incomplete or misleading disclosures with the need to 'get started' and thereby encourage industry efforts to improve both data and methodologies. We consider that rolling back our proposals for mandatory disclosures on a whole-of-market baseline of core metrics would create the wrong incentives. Moreover, to do so would also prevent pension scheme trustees' ability to fulfil their obligations under DWP's TCFD-aligned disclosure regulations.

However, reflecting the feedback received, we agree that for certain asset classes it may not yet be possible to calculate meaningful, decision-useful climate-related metrics. Therefore, we have amended our rules to clarify that we will not require firms to disclose information (eg, in relation to metrics or quantitative scenario analysis or examples) if data gaps or methodological challenges cannot be addressed through the use of proxies and assumptions, or if to do so would result in disclosures that are misleading. We require firms to explain where and why they have not been able to disclose, as well as the steps they will take to improve the completeness and the quality of disclosure.

We have added guidance to clarify that we typically only expect missing disclosures where firms face transitional data and methodological challenges. We consider there to be 3 situations:

- Data availability is expected to increase in the near to medium term, for instance in respect of corporate debt and loans, private equity, real assets, and emerging markets. We therefore expect the proportion of missing disclosures to reduce accordingly.
- Data and methodological issues are a medium-term challenge, eg asset-backed securities. We expect the proportion of missing data to reduce in time owing to market pressure and we note ongoing initiatives including the Government's response following its call for evidence in relation to the Review of the Securitisation Regulation.
- Asset classes that present both methodological and interpretability challenges, eg currencies and certain derivatives. We anticipate these challenges to be resolved only over the longer term.

Where, in accordance with this guidance, a firm explains why it is unable to disclose this information under our rules for a particular asset class or product, we would not expect marketing materials relating to the asset class or product to contain quantitative climate-related data.

We have added guidance that firms' explanation of data gaps could state how much of the product/portfolio is covered by reported, estimated, and verified data, and how much is missing. This aims to increase the transparency of the metric disclosed and is consistent with many respondents' suggestions. It is also consistent with a 'data quality' metric, that trustees subject to DWP's regulations may choose to disclose.

We recognise that guidance on data, methodologies and sector- and/or asset class-specific considerations would be useful to in-scope firms. We consider the industry best placed to develop such guidance. We will continue to use our convening powers (eg through our role as co-chair of the CFRF) to encourage industry progress in developing guidance, tools and best practice, taking due account of international developments.

The CFRF is already engaged in relevant work, having published its second set of industry guides in October. This includes practical guidance on data and metrics, scenario analysis and management of legal risks in climate-related disclosures.

Core metrics and calculation methodologies

3.16 To promote consistency, and to support the flow of information along the investment chain, we proposed that a baseline of core carbon emissions and intensity metrics be disclosed on a mandatory basis, supported by contextual and historical information. These are considered the most widely established climate-related metrics. Occupational pension scheme trustees are also required to disclose these metrics under DWP's regulations. Recognising that data and methodologies for Scope 3 emissions are less developed, we proposed that this metric be disclosed from 2024 by all in-scope firms.

3.17 Given some differences in the calculation methodologies between the TCFD's recommendations and the EU SFDR – to which some UK firms are subject for their EU business – we proposed that metrics be calculated according to both the TCFD and SFDR methodologies. This would promote consistency of disclosures both across the EU and internationally.

3.18 We asked:

> **Q11:** ***Do you agree with the list of core metrics, including the timeframes for disclosure? If not, what alternative metrics and timeframes would you prefer and why?***
>
> **Q12:** ***Do you agree that firms should calculate metrics marked with an asterisk according to both formulas set out in columns A and B of Appendix 3? If not, please explain why, including any challenges in reporting in accordance with either or both regimes.***

3.19 Overall, most respondents (43 out of 72) agreed with our proposed baseline of core metrics and timings, particularly welcoming alignment with DWP's requirements. Nevertheless, many respondents echoed wider concerns regarding data and methodological challenges (see paragraphs 3.11–3.15). Suggestions to address this included excluding certain asset classes, applying a more flexible compliance basis, or initially only disclosing in respect of exposures to high emitting sectors.

3.20 We received mixed responses regarding the timing and challenges of Scope 3 disclosures. Many noted that there are still significant data gaps and differences in approaches. However, a small number of respondents encouraged disclosure from 2023, observing that Scope 3 is often the largest source of emissions.

3.21 We also received technical feedback and calls for more clarity and guidance on specific metrics (eg on the usefulness of the weighted average carbon intensity), or specific strategies or sectors (eg on short positions and calculating metrics for real estate). A small number of respondents also asked for guidance on the expected length of the time series for historical comparisons.

3.22 Most respondents to Q12, on our proposal that metrics be calculated according to both the TCFD and SFDR methodologies, disagreed (35 out of 63). Although respondents typically acknowledged the benefits of comparability both across the EU and internationally, they considered that disclosure of the same metrics according to 2 different methodologies would be confusing, particularly for retail investors. Some also noted that it could be costly and burdensome for firms.

3.23 Of the respondents that stated a preference, the majority favoured the TCFD's global methodology. Respondents emphasised the need for global alignment in the metrics and the underlying formulas and referenced the future ISSB standard in this regard. Many suggested that the EU SFDR methodology should only be used by firms in scope of those requirements, or if EU clients request it 'on demand'. A small number, however, pointed out that DWP's methodologies are more closely aligned with the EU SFDR approach.

Our response

Given the majority support for disclosure of our proposed baseline of core metrics, we have retained the full list as consulted on. We have also kept the implementation timeline unchanged, including for Scope 3 to be disclosed from 2024. This recognises the importance of Scope 3 disclosures while allowing slightly more time for data and methodologies to improve. We set out our response to data and methodological challenges in more detail from paragraph 3.11.

We acknowledge calls for more guidance on methodologies. However, we consider the industry to be best placed to develop such guidance. We note, in particular, the CFRF's guidance on Climate Data and Metrics. This organises metrics into 5 'use cases' according to how they are used or how they can be decision-useful.

Our rule requires historical disclosure of metrics after the first year of preparing a TCFD product report. We will consider if there should be a limit to the length of the time series as part of our post-implementation review.

We acknowledge respondents' concerns about disclosing metrics using 2 different methodologies. Given our overarching policy aim to promote international consistency through application of the widely adopted TCFD framework, we have amended the rule to require disclosure of metrics using the TCFD's methodologies only.

We note, however, that firms may still wish to disclose against both the TCFD and SFDR methodologies, for example to meet EU client needs or increase comparability with products domiciled in the EU. We are considering how to treat overseas funds marketing into the UK, including under the Overseas Funds Regime (OFR), as part of SDR. Firms may also wish to disclose against another methodology that is more common in a specific industry, such as real estate. Our rules do not preclude disclosure against any other methodology in addition to that specified by TCFD, provided that firms follow our guidance on the disclosure of 'other metrics' (ESG 2.3.14G).

We reference the methodologies in the TCFD Annex, the updated version of which includes different formulae for calculating the emissions of specific asset classes in line with the Partnership for Carbon Accounting Financials Standard. We note that firms may disclose metrics in disaggregated form for each asset class. However, they must also disclose the aggregated metric in line with our requirements.

TCFD's updated guidance, including transition plans

3.24 We proposed to reference 2 TCFD consultation documents in our final rules and guidance, provided that these were broadly consistent with the versions consulted on. These included:

- New proposed guidance on metrics, targets and transition plans. This document also proposed consequential edits to the TCFD's existing guidance contained in the TCFD Final Report and in the TCFD Annex.
- A separate proposed technical supplement on measuring portfolio alignment.

3.25 We asked:

> **Q13:** ***Do you agree that, subject to the final TCFD guidance being broadly consistent with that proposed in the current consultation, our proposed rules and guidance should refer to:***
>
> **a.** ***The TCFD Final Report and TCFD Annex in their updated versions, once finalised***
>
> **b.** ***The TCFD's proposed guidance on metrics, targets and transition plans and the proposed technical supplement on measuring portfolio alignment. If not, what other approach would you prefer and why?***

3.26 Most respondents (54 out of 65) agreed with this proposal. However, a small number did not consider that there was sufficient time for firms in scope of our requirements from 1 January 2022 to implement the updated TCFD guidance. Some suggested delaying implementation by a year, or phasing in the requirements. Some respondents preferred to reserve judgement until the TCFD's final guidance was published.

3.27 Some respondents also raised concerns about disclosing portfolio alignment in line with the TCFD's guidance. In particular, they expressed concerns about the complexity as well as the lack of data and standardised methodologies.

Our response

We have reviewed the TCFD's final guidance materials – the updated implementation annex and accompanying standalone guidance document on metrics, targets and transition plans – and consider that they are broadly consistent with those proposed, as reflected in the TCFD's overview of the changes between the consultation and finalised materials. In light of the positive feedback from respondents, we have referenced both in our rules and guidance respectively.

The final report on Portfolio Alignment Metrics was not formally adopted as a TCFD document. We have therefore not referenced this document in our final guidance.

We acknowledge concerns about the timeframe in which to incorporate the new guidance. However, given there is already an 18-month implementation timeframe before the deadline for firms in phase 1 to publish their disclosures, we have not introduced any further delay or flexibilities.

We will continue to keep any materials published by the TCFD under review. If there are further changes, we expect to consult on updates to our rules and guidance through our Quarterly Consultation Papers, as appropriate.

Transition plans
In their opening remarks and responses to various questions, several respondents – mostly civil society stakeholders – strongly encouraged the FCA to mandate disclosure of transition plans. We agree that this would provide important information to clients and consumers to help them understand how their providers are delivering against any decarbonisation targets they have set and support the transition to net zero. The Government subsequently announced at COP26 its ambition to make the UK the world's first net zero-aligned financial centre and its intention to move towards mandatory disclosure of transition plans.

The TCFD Annex has been updated to include additional guidance for all sectors under strategy b), stating that organisations should describe their plans for transitioning to a low-carbon economy in certain circumstances. Consistent with our consultation proposals, we have amended the definition of the TCFD Annex to refer to the TCFD's finalised version. Our rule (ESG 2.1.6R) now requires firms to take reasonable steps to ensure their disclosures are consistent with the TCFD's new all sector guidance, which includes disclosure of transition plans, to the extent relevant. We consider that these disclosures are most relevant at entity level. Our rules do not anticipate disclosure of transition plans at product level.

We have also included a guidance provision that elaborates on the TCFD's expectation that organisations make disclosures in line with its guidance on transition plans if 'operating in a jurisdiction with an emissions reduction commitment'. We clarify that a firm headquartered in, or operating in, a country that has made a commitment to a net zero economy – such as the UK's commitment under the Climate Change Act 2008 (Order 2019) – is encouraged to consider the extent to which it has considered that commitment when developing and disclosing its transition plan. A firm is further encouraged to explain if it has not considered this commitment.

This is our first step towards more detailed requirements on transition plans. As set out in our recent Strategy for Positive Change, we will do further work to promote well-designed, well-governed, credible and effective net zero transition plans by listed companies and regulated firms. We will also engage with the Transition Plan Taskforce announced by the Government, which will work towards developing 'a science-based 'gold standard' for transition plans'.

Additional metrics

3.28 In addition to a baseline of core metrics, we proposed that firms make 'best efforts' to disclose additional, mostly forward-looking, metrics (climate value-at-risk (VaR), portfolio alignment metrics, and any other metrics that they would consider decision-useful to disclose). We recognised that methodologies are still developing but considered that these metrics represent the direction of travel of the industry and are likely to be decision-useful to clients and consumers. For example, the CFRF references portfolio alignment as an advanced metric to demonstrate future portfolio decarbonisation.

3.29 Since the publication of our CP, DWP has consulted on amendments to its statutory guidance that would require trustees to disclose a portfolio alignment metric 'as far as they are able'.

3.30 We asked:

Q14: ***Do you agree with our approach to additional metrics and targets? If not, what alternatives would you suggest and why?***

3.31 We received 63 responses to this question. Many respondents agreed with the approach to additional metrics in principle but noted challenges relating to data availability and still-developing methodologies, as discussed from paragraph 3.11. Although some respondents considered climate VaR and portfolio alignment metrics to be useful, many reiterated the challenges and complexities. A small number of respondents suggested focusing only on portfolio alignment metrics as opposed to the full proposed list of metrics, which they considered to be 'more sophisticated'.

3.32 Some respondents considered that demonstrating 'best efforts' to disclose could be costly and burdensome as they would need to show that they had exhausted all avenues to disclose. They did not consider that the effort required would be justified by the usefulness and comparability of the metrics – particularly given data gaps and the ongoing work across the market to develop and embed methodologies. They asked for more clarity on what would be required or that we adopt a more flexible approach.

3.33 Several respondents to both Q11 and Q14 also suggested other metrics that may be decision-useful to disclose, targeting attributes such as climate solutions or stewardship outcomes, Scope 4 (avoided) emissions, real world impacts, and decarbonisation trends.

Our response

We recognise that data gaps and methodological challenges are a particular concern with respect to the proposed additional metrics. We acknowledge concerns about disclosing these metrics on a 'best efforts' basis and consider our aims can still be met by amending our requirement to 'as far as reasonably practicable'. While 'best efforts' requires all firms to demonstrate their effort to disclose these metrics, our revised approach acknowledges that, especially for certain asset classes, it may not yet be proportionate to do so. Our amendment requires that firms assess whether it is 'reasonably practicable' to disclose additional metrics taking into account matters such as the likely time, costs, resources, and practicalities.

We agree that there is value beyond backward-looking emissions and intensity metrics and we support disclosure of other metrics where relevant. We do not, however, propose to extend our minimum prescriptive list, which is restricted to metrics that we consider relevant to all and should be disclosed on a whole-of-market basis.

We had proposed that firms could disclose 'other' metrics that they considered decision-useful as part of our 'best efforts' rule. We have now removed this reference from the final rule but instead introduced guidance to clarify that a firm may disclose 'other' metrics that it considers an investor may find useful. Where a firm discloses 'other' metrics, it should clearly explain the methodology used and ensure that the 'other' metrics are not presented more prominently than the core metrics required under our rules.

The CFRF's Climate Data and Metrics guide has identified a set of metrics for 5 use cases: transition risk exposure; physical risk exposure; decarbonising portfolios; mobilising transition finance; and engagement. The metrics are set out in a Climate Disclosure Dashboard and include basic, stretch and advanced metrics. We consider this to be a potentially helpful resource for firms in determining other metrics that may be decision-useful to disclose.

In addition, firms may wish to refer to sector-specific guidance or best practice to determine which other metrics to disclose. For example, respondents engaged in real estate investment activity pointed to the Global Real Estate Sustainability Benchmark metrics and the Carbon Risk Real Estate Monitor tool.

'On demand' disclosures and underlying data to clients

3.34 We proposed that disclosures be published on firms' websites and that they be included in appropriate client communications. We also recognised that in some client relationships, public disclosures are not appropriate (eg firms that provide discretionary portfolio management services to individuals or institutional investors, and unlisted unauthorised AIFs). So we proposed that certain firms must provide product or portfolio-level information to eligible clients (those that need the information to meet their own climate-related disclosure obligations) 'on demand'.

3.35 To further support clients in meeting their climate-related regulatory obligations, we proposed that all firms must provide data on underlying holdings of their products to eligible clients, as well as underlying climate/carbon-related data where reasonably practicable and permitted under licensing agreements.

3.36 We asked:

Q10: ***Do you agree with our proposed requirements for product or portfolio-level disclosures, including the provision of data on underlying holdings and climate-related data to clients on demand? If not, what alternative approach would you prefer and why?***

Q17: ***Do you agree with our proposed approach that would require certain firms to provide product or portfolio-level information to clients on request? If not, what approach and what types of clients would you prefer and why?***

3.37 We received 71 responses to Q10 and 56 to Q17. Most respondents (48 to Q10 and 44 to Q17) broadly agreed with our proposals, particularly welcoming the acknowledgement that some disclosures are not suitable for the public domain. Respondents to Q10 echoed concerns about the availability of data and methodological challenges (see from paragraph 3.11).

3.38 Many respondents welcomed the overall approach to providing disclosures to institutional clients 'on demand'. Some noted that they already do this. However, several anticipated that they would need to respond to multiple requests for disclosures at different reference points and in different formats, creating a significant burden. Some called for a 'common template' for on-demand reporting.

3.39 Several respondents were concerned that our proposal to provide climate/carbon-related data to clients would conflict with licensing arrangements with data providers, or would not be useful due to data gaps and inconsistencies in methodologies. Many suggested providing data only at the level of the asset class, investment subsector, aggregated portfolio or (in one case) strategy level. A small number also raised challenges with providing basic data on underlying holdings, including when investing in residential real estate or pooled vehicles.

3.40 We also received a small number of technical comments regarding which products would be in scope of the 'on demand' disclosures and which clients would be eligible to request the information.

Our response

We acknowledge concerns regarding the potential burden associated with providing 'on demand' information to multiple clients at different reference dates and in different formats. So we have amended the 'on demand' rule to enable clients to request a product-level climate disclosure at a single reference point consistent with public disclosures, or at a date mutually agreed between the client and the firm. Firms must also provide the data in a 'reasonable' format, considering the needs of the client. We consider that the industry would be best placed to develop a standardised template, if deemed useful.

We acknowledge that, where a calculation date cannot be mutually agreed, some clients may not receive the information calculated on their preferred date. However, our rules aim to deliver a 'whole-of-market' solution that sets a minimum requirement for the provision of relevant climate-related information to clients that need it to meet their own disclosure obligations. Our rules do not preclude information being provided in a different form or at a different time under contractual arrangements.

We consider that it would be useful to clients to receive underlying data on holdings and climate-related data, for example to support bottom-up scenario analysis. We want to encourage the flow of such information to the extent possible. We note that the basic attributes of asset holdings as defined in the rule (eg unique security ID, name, holding size, current price or valuation) align closely with those already disclosed in client communications. So we expect firms to have, or readily have access to, basic information on those assets.

We acknowledge that there may be challenges in providing underlying climate- and carbon-related data in practice. As stated in ESG 2.3.8R, firms are not required to provide such data where this would not be reasonably practicable or would not be permitted under contractual arrangements. We consider this gives firms sufficient flexibility to assess whether it is practicable to provide the data depending on matters such as time, costs, resources, or practical challenges. To mitigate the risk that clients request bespoke data tailored to other jurisdictional requirements, we also specify that it must be 'reasonably' required to meet their disclosure obligations. We have not made any further amendments to this requirement.

We have not extended the 'on demand' obligation to other products as we consider that, in other cases, public disclosures are needed to meet our outcomes. We consider industry to be best placed to develop guidance relating to specific products and asset classes and we will continue engaging with stakeholders to promote the development of more targeted guidance.

In the case of an unauthorised AIF, we have made a small amendment to clarify that it is the investor in the AIF that is entitled to the information. This amendment is necessary since referring simply to a 'client' would fail to acknowledge that the client in this case could be the AIF itself.

Scope – entity level

3.41 We proposed that our rules apply to FCA-regulated asset management and asset owner firms in respect of their assets managed or administered from the UK (irrespective of the domicile of the client, product or portfolio). We set out the scope of asset managers and asset owners in Chapter 1.

3.42 In taking a proportionate approach, we proposed to exclude asset managers and asset owners with less than £5 billion in AUM or administration (calculated on a 3-year rolling average basis with respect to specified 'TCFD in-scope business').

3.43 We asked:

Q1: ***Do you agree with our proposed scope of firms, including the £5 billion threshold for asset managers and asset owners? If not, please explain any practical concerns you may have and what scope and threshold you would prefer.***

3.44 We received 70 responses to this question, the majority (52) of which were broadly supportive.

Thresholds

3.45 Although respondents recognised the need to take a proportionate approach, at least initially, many felt that the threshold should be reviewed or lowered, either now or in the near future. Respondents highlighted that all firms – including managers of boutique funds, for example – should be taking climate risks and opportunities into account irrespective of their size and disclosing accordingly. Some also noted the discrepancy with DWP's lower threshold. Several respondents therefore suggested either a phased or more flexible approach for smaller firms, or recommended encouraging those firms to disclose voluntarily.

3.46 Only a small number of respondents considered the threshold to be too low.

3.47 We also received a small number of requests from regulated firms, trade and professional bodies asking us to clarify how the threshold should be calculated.

Jurisdictional scope

3.48 Respondents generally welcomed the exclusion from scope of UK investment managers offering products in the UK via private placements. Some, however, sought a reciprocal approach to the EU SFDR whereby firms marketing into the UK should make product-level disclosures at least voluntarily. We also received a small number of requests for clarifications of the scope of our requirements.

OPS firms and Local Government Pension Scheme (LGPS) firms

3.49 Some respondents queried how useful and proportionate it would be for OPS firms to make climate-related disclosures under our rules. These respondents (including OPS firms, trade and professional bodies) noted that those firms were typically the investment management arm of the parent pension scheme, which was their sole client. Accordingly, the client would already be subject to disclosure requirements under DWP's regulations and could therefore obtain the necessary information.

3.50 Two trade associations noted similar considerations for firms that operate LGPS pools. These were in scope of our proposed rules in their capacity as asset managers but only have a narrow set of clients (the LGPS schemes) which will be subject to Department for Levelling Up, Housing and Communities (DLUHC) disclosure requirements in due course.

Portfolio management services

3.51 We received a small number of comments from regulated firms, trade and professional bodies on the definition of portfolio management services, including requests to clarify the scope of these services. Some also noted it would not add value to bring sub-advisory/investment management services provided to non-UK affiliates on limited, ad hoc, transactions into scope.

3.52 Several respondents also commented on, or sought clarification on, whether other types of firms were in scope. We have clarified this our response below.

Our response

Thresholds
We agree it is important for climate-related information to be made available by firms involved in investment decision-making processes. However, we must also consider a proportionate approach for the firms we regulate. We will review the threshold as part of our post-implementation review after 3 years of disclosures.

In the meantime, we encourage firms below the current threshold to make disclosures voluntarily where possible, or start building the capabilities to do so.

We note several requests for clarification on certain aspects of the thresholds. In particular:

- *£5 billion threshold for asset managers and asset owners.* We note that the £5 billion threshold is calculated on a 3-year rolling average basis, assessed annually, for both AUM and assets under administration. The assets to be included in the calculation are those related to the firm's 'TCFD in-scope business' (as defined in the Handbook).
- *£50 billion threshold for asset managers in implementation phase 1:* We proposed to use the same method of calculation as an 'enhanced scope Senior Managers and Certification Regime (SM&CR) firm' given that this is an already familiar method across the sector. We consider that this remains appropriate for the purposes of the transitional provision for asset managers. This method of calculation does not apply to asset owners or the £5 billion exemption threshold.

Jurisdictional scope
We note that our rules apply to in-scope FCA-authorised firms for their TCFD in-scope business carried out from an establishment maintained by it in the UK, irrespective of where the clients, products or portfolio are domiciled. They do not apply to third-country branches.

OPS firms and LGPS firms
Having considered the feedback regarding OPS firms, we have decided to exclude them from the scope of public entity- and product-level disclosure rules. They remain subject to the 'on demand' requirement to give clients a regulatory hook to obtain information as necessary to meet their own climate-related regulatory obligations.

We note that, given the relationship between LGPS pools and the underlying schemes, it would be appropriate for FCA-regulated firms operating the pools to make climate-related disclosures under our rules. We are coordinating with DLUHC to ensure that disclosures are not duplicative with any requirements under their prospective regulations.

Portfolio management services
We have amended the definition of portfolio management services to clarify that we intend to capture private equity and private market activities where investment advice is on a 'recurring' or ongoing basis.

This intends to reflect that those services might be provided on a recurring but sometimes irregular basis over the life of the fund at certain important points (eg investment, divestment and other lifecycle events).

We note that the definition of portfolio management in the ESG Sourcebook does not include sub-advisory/investment management services where these are ad hoc transactions.

Other clarifications
We received several other comments or requests for clarification regarding specific types of firms. We note that our policy position remains as proposed. Our intention is that TCFD reports cover, as far as possible, the full range of asset management activities conducted in the UK. For asset owners, our proposals would apply to firms involved in investment decision-making or investment oversight activities.

This does not generally include investment platforms, distributors or advisers, for example. However, we recognise the important roles of these firms and are seeking views on potential requirements for these and other market participants in DP21/4.

We acknowledge comments made regarding the specific nature of private equity and venture capital firms' structures, investment profiles and relationships with investors. We consider our rules provide sufficient flexibility to be applied to these firms, eg where their in-scope activities are above the threshold to make disclosures, the firm can choose to cross-reference as appropriate.

Scope – product level

3.53 We consulted on the basis that our rules and guidance would apply to the in-scope firm, which would be responsible for relevant disclosures at the product or portfolio level. These are:

- *Asset managers:* authorised funds (excluding feeder funds and sub-funds in the process of winding up or termination); unauthorised AIFs; and portfolio management services.
- *Asset owners:* insurance-based DC pension schemes (eg, personal pensions and stakeholder pensions, including both workplace and non-workplace pensions (unit-linked and with-profits)); non-insurance DC pension schemes (eg, funds-based, offered by platform firms or similar); and SIPPs, either insurance or non-insurance-based, where the SIPP operator offers investments to be held within its SIPP wrapper.

3.54 We asked:

Q2: ***Do you agree with our proposed scope of products? If not, what types of products should, or should not, be in scope and why?***

3.55 Of the 63 respondents to this question, 41 were broadly supportive. Some commented on certain aspects of the proposal without expressing clear support or disagreement.

3.56 Many stakeholders called out data and methodological challenges, which we discuss in more detail from paragraph 3.11. Some respondents also asked us to be clear on whether specific products would be in scope.

3.57 Similarly to Q1, some respondents commented or sought clarity on the jurisdictional scope of the requirements, noting that UK products would be subject to both UK and EU requirements.

3.58 A small number of respondents to Q1 and Q2 commented on, or sought clarity on, whether certain funds are in scope. These are inactive funds, smaller funds, legacy funds no longer offered in the UK, or those in operation for less than 12 months. They noted that it might be difficult to find data for funds that are closed to new investments, while costs may be disproportionate for smaller funds.

3.59 One respondent asked whether the rules include closed-ended AIFs that make no additional investments, as stated under article 74 of the UK Alternative Investment Fund Managers Regulations 2013, and are not, therefore, subject to any of the Alternative Investment Fund Managers Directive (AIFMD) requirements in FUND and the UK AIFM regulations.

3.60 Some respondents said that disclosing information at the level of a linked fund would be overly burdensome given that consumers may hold a number of such funds within a particular wrapper. They suggested that information on linked funds could be centralised in a hub that consumers can be referred to and/or a calculator could be provided to allow consumers to work out the overall impact of their portfolio.

Our response

We recognise that there may be data and methodological challenges, gaps and constraints, at least initially, in compiling the TCFD disclosures. We discuss the feedback and our response to these challenges in more detail from paragraph 3.11.

We acknowledge that while the EU SFDR regime requires disclosures for products marketing into the EU, we have not imposed reciprocal product-level disclosure requirements for TCFD disclosures. As set out in DP21/4, we are exploring how overseas funds marketing into the UK should be treated, including under the OFR, as part of SDR. We have not made any further changes to our rules at this stage.

UK firms must however include disclosures in respect of how they manage or administer assets, regardless of where the product is based, in their TCFD entity report. We have made a small amendment to our rules to clarify that in respect of unauthorised AIFs, only those that are managed by a UK AIFM will be in scope of TCFD product disclosure requirements. In respect of unauthorised AIFs listed on a recognised exchange, we have also clarified that this includes investment trusts. We note that listed funds are in scope of our rules for asset managers and asset owners rather than those for listed issuers (PS21/23).

We note the feedback on including in scope of our rules, inactive funds, legacy funds that are no longer offered by the fund manager in the UK, smaller funds and funds in operation for less than 12 months. We consider climate-related information will help clients and consumers make better informed decisions about their investments in all of these circumstances. The calculation date for product-level disclosures must be the most recent date for which data is available at the time of reporting and we expect disclosures on all in-scope products available at that time.

However, for closed-ended funds which operate under Regulation 74 of the UK AIFMD Regulation we agree these should not be in scope and have amended our rules to exempt them.

A firm could apply for a waiver if it considers that making disclosures for certain products in compliance with our rules would be unduly burdensome or not achieve the intended outcomes, and meets the other criteria set out in s.138A of the Financial Services and Markets Act.

We received several other comments or requests for clarification regarding specific types of products. Our intention is to capture investment-based products or portfolios that are managed or administered on behalf of clients and consumers. Therefore, products such as annuities are not in scope.

We do not believe that providing information at the level of the linked fund will be overly burdensome, and this is analogous to what we propose for authorised funds. In many cases, the linked fund will be linked to an authorised fund so firms will be able to refer to the report of the authorised fund. Our rules do not preclude firms from producing calculators or other tools to assist consumers.

Timing

3.61 We proposed a phased implementation, bringing our rules and guidance into force for the largest firms from 1 January 2022 and smaller firms (above the £5 billion threshold) 1 year later. The largest asset management firms are those with over £50 billion in AUM and asset owner firms are those with assets over £25 billion. This approach aimed to prioritise information flow on the largest part of AUM or administration, consistent with the Government's Roadmap towards mandatory TCFD-aligned disclosures, while remaining proportionate for firms.

3.62 We asked:

> **Q3:** ***Do you agree with our phased implementation and timings? If not, what approach and timings would you suggest and why?***

3.63 We received 73 responses to this question. Most (45) were broadly supportive of our proposals. However, they typically provided comments on some aspect of the timing or sequencing of our rules, including on the information flow between firms in scope of phases 1 and 2 of implementation. Fourteen did not express clear agreement or disagreement.

3.64 Many stakeholders suggested delaying mandatory requirements, or implementing a more flexible approach, for asset managers and asset owners given potential data challenges while TCFD-aligned disclosure rules for listed issuers are not yet mandatory. A small number supported a delayed approach given the significant work needed for system and process development.

3.65 Conversely, many pointed out that asset managers need to provide climate-related information to trustees subject to DWP's regulations earlier than required under our proposals. Several respondents called for a more ambitious implementation timeline such as bringing all firms into scope from 1 January 2022, or encouraging firms to publish before the 2023 deadline. They noted that some asset managers are already publishing climate-related disclosures voluntarily and data are improving rapidly.

3.66 Some called for the FCA to work with other regulators to minimise inconsistencies.

Our response

We note the broad-based support for our proposed timings and phased implementation. We are therefore proceeding with implementation of our rules and guidance effective from 1 January 2022 for the largest firms and from 1 January 2023 for smaller firms (above the £5 billion threshold).

Given the urgency of the climate challenge and the importance of climate-related information for decision-making, we consider it is the right time to introduce mandatory disclosure requirements for asset managers and asset owners. We consider they can use proxies and assumptions to address some of the data gaps until data improve (see more detail on this approach from paragraph 3.11). We expect this to encourage improvements in data and methodologies at a quicker pace.

We welcome the establishment of the ISSB at COP26 which is working towards a corporate reporting standard for sustainability in 2022. As set out in PS21/23, we consider that an appropriate time to consult on introducing mandatory climate-related disclosure requirements for listed issuers will be alongside proposals to adapt our rules to reference a UK-endorsed ISSB standard in our framework instead of the TCFD's recommendations.

In developing our rules, we sought a proportionate regulatory approach that allowed sufficient time for firms to prepare their first disclosures. However, we encourage firms to provide disclosures earlier where possible to meet the information needs of clients. Similarly, we encourage firms in scope of phase 2 of our implementation to provide information to firms in scope of the first phase. Although 30 June is the annual deadline for disclosures to be published – coinciding with the deadline for disclosures under SFDR – firms may choose to disclose earlier to meet their own reporting timelines or clients' information needs.

We worked with DWP to ensure broad consistency in the development of our respective TCFD-aligned rules. We continue to work with DWP, BEIS and other policy makers internationally to support the flow of consistent information along the investment chain. In particular, the Government's SDR Roadmap sets out a coordinated approach to building on TCFD-aligned disclosures to introduce SDR disclosures across the UK economy, taking into account international developments.

Cross referencing to group, affiliate or delegated managers' reports

3.67 We proposed that all in-scope FCA-authorised firms be required to publish a TCFD entity report, including a compliance statement confirming that the disclosures within the report comply with our requirements. We recognise that many firms sit within a group structure, perhaps with an overseas headquarters, and that their group organisational structures, strategies and activities will often be relevant to their climate-related disclosures. So we proposed that firms may cross-refer to disclosures made by the group, or an affiliate member of the group. The firm would be required to set out the rationale for doing so, any material deviations and clearly signpost to the relevant disclosures, including hyperlinks.

3.68 We also proposed that where an in-scope firm delegates investment management to a third-party portfolio manager, the firm could cross-refer to relevant climate-related financial disclosures by the third party. We clarified that the in-scope firm remains responsible for the disclosures, and proposed that the firm set out the rationale for cross-referencing, identify any material deviations from the approach set out in the cross-referenced report, and clearly signpost to the disclosures. The firm must also set out how its climate-related strategy influences its decisions around selecting delegates and relying on their services, strategies and products.

3.69 We asked:

Q5: ***Do you agree with our proposals for the provision of a TCFD entity report, including the flexibility to cross-refer to other reports? If not, what alternative approach would you prefer and why?***

Q8: ***Do you agree with our proposals for AFMs that delegate investment management services to third-party portfolio managers? If not, what alternative approach would you prefer and why?***

Q9: ***Do you agree with our proposals for asset owners to cross-refer to group-level, third-party or delegate reports, where relevant? If not, what alternative approach would you prefer and why?***

3.70 Most respondents to all 3 questions welcomed our proposed approach. 61 of the 70 respondents to Q5 agreed with the proposals to require a TCFD entity report.

3.71 Although most respondents agreed with our proposal to allow firms to cross-refer to relevant climate-related disclosures, some noted potential challenges with navigation and accessibility. To ensure the information is accessible, some suggested that firms write a short summary within the TCFD entity report to provide a baseline of information. Other suggestions included limiting the number of hyperlinks, ensuring they are only one-referral deep and not behind a paywall and making sure that cross-referenced disclosures are clearly signposted. Some also called for more guidance or examples, and to keep the situation under review. Some sought clarity on definitions such as 'material deviations'.

3.72 We received a small number of comments specifically on the compliance statement. Some considered that it shouldn't be needed; others asked about the status of the person that signs it.

3.73 Others noted a preference for a single report and compliance statement for all entities within a group as this would be less costly, require less governance, and be easier to navigate. A small number suggested that disclosures be in an annual report to ensure sufficient governance and consistency.

3.74 Other feedback related to the types of reports that can be cross-referenced and practical issues in cross-referencing to cross-border reports. Two respondents noted potential difficulties due to marketing requirements or restrictions on the use of proxy data in some jurisdictions. Some also recommended allowing firms to cross refer to other reports such as the Implementation Statement and Statement of Investment Principles.

3.75 With respect to cross-referencing to delegated managers' reports specifically, there was broad agreement with our proposals (47 out of 49 responses to Q8 (asset managers)); and 45 out of 52 responses to Q9 (asset owners)).

3.76 Several respondents to both questions reiterated the need for the responsibility of the reports to remain with the regulated entity, including that firms must disclose their governance and ongoing monitoring of the third party. Several respondents also noted that it may be difficult for in-scope firms to obtain information from third parties based overseas, or from those not in scope until phase 2.

Our response

There was broad support for our approach to provide for cross-referencing to other relevant climate-related reports. We are therefore proceeding with this flexibility in our final rules. However, we recognise that there are some practicalities to consider.

We agree that firms must publish climate-related disclosures in an accessible way for both clients and consumers. As proposed, our rule (ESG 2.1.3R) states that a firm must take reasonable steps to publish its TCFD entity and public reports in a 'way that makes it easy for prospective readers to locate and access'. We consider that doing so will avoid some of the potential concerns about accessibility noted in stakeholder feedback. For example, content behind a paywall would not be considered easy for prospective readers to access. We consider that the requirements for cross-referencing in our rules achieve a balance between producing a report that is attributable to the in-scope firm, avoiding duplication and excess burden, and remaining useful and accessible to readers.

To promote as much flexibility as possible, recognising that many firms are already making climate-related disclosures voluntarily or may be subject to other regulatory disclosure obligations, we have not specified the reports to which firms can cross-refer. They must, however, contain relevant climate-related disclosures, consistent with the TCFD's recommendations, in respect of the assets managed or administered on behalf of clients and consumers.

Where cross-referenced disclosures do not fully reflect the in-scope firm's asset management or administration activities – for example those made in respect of business operations and directed at shareholders – the in-scope firm is responsible for explaining any material deviations or providing additional information. Recognising the different structures and business models of in-scope firms we have not sought to define 'material deviations'. The in-scope firm must ensure disclosures reflect its own approach to climate-related matters.

We recognise that it may not be possible to take advantage of our cross-referencing flexibility if it conflicts with requirements in other jurisdictions. Where it is not possible or appropriate to link to group, affiliate or delegated managers' reports, the firm must produce its own disclosures.

Where firms are able to apply this flexibility, we emphasise that the FCA-regulated firm remains responsible for ensuring that cross-referenced disclosures in the TCFD entity report accurately reflect its own approach to climate-related matters. So it is important that each FCA-regulated firm provides a compliance statement confirming that disclosures in its report meet our requirements. We have specified that this must be signed by a 'member of senior management'. This need not be a Senior Manager under the SM&CR.

Entity level governance, strategy and risk management – including scenario analysis

3.77 We proposed that firms be required to make disclosures consistent with the TCFD's recommendations and recommended disclosures on governance, strategy and risk management. We further proposed that firms explain any material differences in their approaches to these pillars for specific investment strategies, asset classes or products, where relevant. We recognised that these disclosures were likely to be more suited to a sophisticated audience.

3.78 We also proposed that firms disclose their approach to climate-related scenario analysis and how it is applied in their investment risk and decision-making process, including quantitative examples where reasonably practicable.

3.79 We asked:

Q6: ***Do you agree with our proposed approach to governance, strategy and risk management, including scenario analysis? If not, what alternative approach would you prefer and why?***

3.80 Most respondents (54 out of 65) broadly agreed with our proposal. A small number of respondents noted specific considerations, including that the organisation's approach might differ across strategies and some might be subject to on-demand disclosures.

3.81 Many agreed that scenario analysis provides useful information at entity level. Respondents offered various suggestions for how to disclose scenario analysis, including disclosure of group-level analysis, promoting consistency with the Network for Greening the Financial System (NGFS) scenarios and/or the Bank of England's Climate Biennial Exploratory Scenario (CBES), detailing relevant assumptions and providing other explanatory information.

3.82 However, respondents repeated concerns about the availability of data and methodological challenges, as well as potential differences in requirements in other jurisdictions. Many therefore suggested either a more flexible compliance basis for scenario analysis, exclusion from scope, or inclusion only at a later stage. Two respondents suggested a form of collaboration with industry or other regulators to improve data or to set minimum expectations.

Our response

Given the support for our proposed approach, other than the broader concerns regarding data gaps and methodological challenges set out from paragraph 3.11, we have not made any further amendments in finalising our rules and guidance on these aspects. We have not sought to be prescriptive in our rules at this stage, as we consider that to do so could risk stifling innovation in this fast-developing area. However, we will continue to encourage industry to establish guidance and best practice.

We acknowledge the challenges relating to scenario analysis, particularly where there is a lack of data and where methodologies are still developing. However, we consider that firms can still benefit from the process of scenario analysis to produce qualitative information.

Accordingly, our rule requires that firms disclose their approach to scenario analysis and how it is used in decision-making at entity level, with quantitative outputs only 'where reasonably practicable'. Where quantitative outputs are disclosed, firms must take into account the additional rule on data gaps that we have included in response to consultation feedback (see from paragraph 3.11).

Our rules require the approach to scenario analysis to be disclosed on an annual basis. This aims to ensure that firms review and keep their analysis up to date regularly to ensure clients and consumers receive reliable and accurate information.

Targets

3.83 Given the direction of travel towards the setting of net zero targets across the industry and our remit to have regard to the Government's net zero commitment, we proposed that firms not yet setting climate-related targets at entity-level must explain why not. We acknowledged that some firms may not set such targets at the entity-level due to the particular profile of their business or client base.

3.84 We asked:

> **Q7:** ***Do you agree that firms not yet setting climate-related targets must explain why not? If not, what alternative approach would you prefer and why?***

3.85 We received strong support for this proposal. 60 out of 68 respondents broadly agreed. Respondents noted that while mandatory target setting is not appropriate the 'explain' element would provide greater transparency and could encourage firms to move to set targets quicker. A small number of firms considered that mandatory target setting should be the end goal, or that firms should include plans for setting targets in future.

3.86 Nevertheless, several respondents sought more clarity on how targets can be most useful, so as not to be misused for marketing or lead to divestment to meet them. Some sought guidance on suitable metrics and targets, methodologies and frameworks. Some frameworks and initiatives cited as useful include the Net Zero Investment Framework, the UN-convened Net Zero Asset Owner Alliance, and the Net Zero Asset Managers initiative.

3.87 Of the 7 respondents that disagreed with the proposal, most considered that targets should be mandatory for all firms as soon as possible. Two respondents, by contrast, did not support additional rules or guidance on targets.

Our response

Given the support for this proposal we are proceeding with our rule as proposed. As this is a fast-developing area and the body of guidance and frameworks continues to grow, we have finalised the rule without further prescription.

We note the TCFD's updated Annex states that organisations should disclose their plans for transitioning to a low-carbon economy where they have made greenhouse gas emissions reduction commitments. We have not added further guidance in this regard. We set out our feedback and approach to guidance on transition plan disclosures from paragraph 3.24.

Product level governance, strategy and risk management – including scenario analysis

3.88 We proposed that governance, strategy and risk management disclosures only be included in product- and portfolio-level disclosures where the approach is materially different from the entity-level approach. We specified that any disclosures in the product-level report should be capable of being read on a standalone basis, but that firms may cross-refer between their product-/portfolio- and entity-level reports.

3.89 In CP21/17, we explained that scenario analysis at product or portfolio level is a useful way for clients and consumers to understand the potential impact of climate change risks and opportunities on their products and portfolios over time. Our proposals also aimed to support the flow of information to trustees to meet their own scenario analysis obligations.

3.90 We proposed that firms disclose qualitative scenario analysis outcomes, including a summary of how climate change is likely to impact underlying assets under 3 specified scenarios (an 'orderly' and 'disorderly' transition consistent with limiting global warming to below 2°C and net zero emissions by 2050, and a 'hot house world' scenario), and the significant drivers/factors that contribute to making the product or portfolio more vulnerable to climate change or provide opportunities in the transition.

3.91 For portfolios with concentrated exposures or higher exposures to more carbon-intensive sectors, we proposed that firms additionally disclose quantitative scenario analysis outputs.

3.92 We also sought stakeholders' views on the costs and feasibility of requiring quantitative analysis more broadly.

3.93 We asked:

> **Q15:** ***Do you agree with our approach to governance, strategy and risk management, including scenario analysis at product or portfolio-level? If not, what alternative approach would you prefer and why?***
>
> **Q16:** ***What form(s) could quantitative scenario analysis outputs at product or portfolio-level take? What do you consider the cost and feasibility of producing such outputs might be? How useful would such outputs be for users' decision-making?***

3.94 We received 59 responses to Q15. The majority (42) broadly agreed with our proposed approach to governance, strategy and risk management, including scenario analysis. We received 51 responses with mixed feedback to Q16, most of which concluded that it is not yet feasible to produce quantitative scenario analysis outputs more broadly.

3.95 Two respondents commented on the approach to disclosing material deviations at product-level, seeking clarity as to what constitutes material deviations and noting challenges in producing reports for products with perhaps hundreds of underlyings.

3.96 Much of the feedback on scenario analysis related to matters discussed elsewhere in this chapter. This includes feedback on data availability, methodological challenges, high costs and resources, relevance and suitability for different asset classes/investment styles, and usefulness to retail investors. Some respondents offered input on relevant technical considerations. This feedback accounted for most responses across both questions. However, some respondents noted that quantitative scenario analysis is important and that it would be useful if sufficiently standardised. These respondents also considered that it would be feasible to produce.

3.97 A small number of respondents made technical suggestions for how scenario analysis could be disclosed. This included referencing a given temperature outcome, disclosing VaR, or the monetary impact on the portfolio. Some also suggested specifying alignment to a 1.5°C pathway instead of 'below 2 degrees' or '3°C or more' instead of 'hothouse world'.

3.98 A small number of respondents also sought clarity as to what constitutes 'concentrated' or 'high' exposures to carbon intensive sectors. One pointed to the

Net Zero Investment Framework criteria including those on the Climate Action 100+ list and operating in Transition Pathway Initiative sectors. Other frameworks cited as useful references for scenario analysis include: the NGFS, CBES, and Paris Agreement Capital Transition Assessment (although not for all asset classes).

Our response

We note the broad agreement for our approach to product-level governance, strategy and risk management, including scenario analysis. We welcome comments on the feasibility and costs of applying quantitative scenario analysis more broadly, including the suggestions as to how such analysis could be carried out and disclosed. Having considered feedback to the 2 questions together, we have not made any further changes to our rules and guidance, other than in response to wider feedback on data gaps and methodological challenges (from paragraph 3.11).

We have taken a broadly principles-based approach to our rules, consistent with the TCFD framework. We have not sought to define material deviations, or concentrated or higher exposures to carbon intensive sectors, as we consider that doing so may unduly constrain industry and policy development in this evolving area. We expect firms to consider what constitutes decision-useful disclosures according to their own business models, client base and products/portfolios. In time we expect industry guidance and best practice will emerge. We will continue to engage with industry on this, including through bodies such as the CFRF, and keep our rules and guidance under review.

Consistent with our intended outcomes, our rules would be sufficient to support the information flow to trustees to meet their requirement to produce, at a minimum, a qualitative, 'top down' scenario analysis. Our rules only require quantitative outputs for products and portfolios with concentrated exposures or higher exposures to more carbon-intensive sectors. We also draw firms' attention to the additional rule introduced in response to feedback on data gaps and methodological challenges, described from paragraph 3.11. We want to support industry progress towards more sophisticated, quantitative analysis, but consider that it may be premature to require this more broadly at this stage.

Meanwhile the body of industry and official sector guidance to help firms with scenario analysis continues to grow. We note that several frameworks have been cited by respondents. We also note in particular:

- CFRF scenario analysis implementation guide
- CFRF scenario analysis data and tools providers spreadsheet
- CFRF scenario analysis tool targeted at smaller firms, planned to launch in the first quarter of 2022.
- NGFS updated climate scenarios and portal
- TCFD technical supplement on the use of scenario analysis

Specific proposals for asset owners

3.99 In our CP we acknowledged some considerations for asset owners specifically and set out proposals accordingly. We proposed that product-level metrics be applied at the level of the individual fund or pre-set investment portfolio within a pension or life insurance wrapper.

3.100 We also proposed that life insurers mirroring a third-party asset manager's fund strategy could cross reference to the third party's disclosures, depending on their contractual arrangements.

3.101 Finally, with respect to pre-set strategies, we proposed that the smallest and least popular default strategies should be excluded from scope.

3.102 We asked:

> **Q18:** ***Do you agree with our proposed approach for life insurers when mirroring an external asset manager's strategy? If not, what alternative approach would you prefer and why?***
>
> **Q19:** ***Do you agree with our specific proposals for asset owners, including the proposed threshold to exclude the smallest default schemes? If not, what alternatives would you prefer and why?***

3.103 Most respondents broadly supported our specific proposals for asset owners, including our approach to default arrangements and the exclusion thresholds for these arrangements. However, a few respondents expressed diverging views on the proposed default threshold, some saying that it should be higher; others suggesting that it be brought down. One respondent asked whether the exclusion threshold would apply only to workplace pensions or also capture investment pathways and ready-made investment portfolios.

3.104 Several respondents also suggested excluding the so-called adviser-led default funds (defaults designed by either investment consultants or employment benefit consultants at the request of trustees or employers) and excluding default arrangements that are no longer marketed.

Our response

Having considered the feedback received, we are proceeding with our approach to require product-level metrics for default arrangements, and retaining the proposed exclusion threshold. We confirm that our rules require product-level disclosures for default strategies where these represent 10% or more of overall amounts in defaults, or £100 million or more in assets under administration in the default. The exclusion threshold only applies to the default arrangements of workplace pensions, where there is a large number of such products.

We disagree with suggestions to exclude adviser-led defaults and defaults that are no longer actively marketed. If insurers or pension providers are offering a default arrangement to the members of a scheme, we consider that they should be responsible for generating the relevant TCFD-aligned information even if that default has been designed by a third party. Furthermore, even if the default is no longer offered to new customers, those already invested in the product should be able to understand the climate-related characteristics of their arrangement, especially given that this requirement only applies where the size of this default is above the exclusion threshold.

Audience – institutional and retail

3.105 In responding to various questions throughout the consultation, several respondents raised concerns that our proposed disclosures would not be useful to a retail audience. They noted that retail investors may find it challenging to interpret the information, particularly the climate-related metrics.

3.106 Some were also concerned that it would be difficult to make disclosures that simultaneously meet the more granular needs of an institutional audience and retail investors' needs for accessible information.

3.107 Three firms cited the FCA's proposed New Consumer Duty. They stated that it would be difficult to satisfy the proposal; reiterated that disclosures must be 'fair, clear and not misleading'; and noted a preference for a 'layered' approach whereby detailed disclosures are made available without being added to already lengthy mandatory disclosures. A small number of respondents also suggested including disclosures in existing product literature such as the key investor information document or a fund factsheet. They noted that consumers are most engaged at the time of new business; and there is limited customer engagement with other periodic reports, such as annual or half-yearly reports.

Our response

In CP21/17, we noted that detailed entity-level disclosures are more likely to be suited to a sophisticated institutional audience, and that the product-level metrics could form the basis for more consumer-friendly ESG-related disclosures in future.

In building on TCFD to develop proposals for the Government's forthcoming SDR regime, we are working towards a tiered approach in which we envisage a separate layer of consumer-facing disclosures. This would be a subset of the more detailed disclosures aimed at a more sophisticated audience.

We will be testing consumer-facing disclosure templates with consumers to better understand what information they find decision-useful. We note that there are other related initiatives underway (including work by The Investing and Saving Alliance, on consumer communications; and work by the Investment Association, including its Responsible Investment Framework which aims to promote clarity and consistency to make it easier for investors to understand the range of products available to them).

We are engaging closely with these stakeholders and others through a newly-formed Disclosures and Labels Advisory Group, to ensure that we leverage effectively existing initiatives in designing the consumer-facing layer of SDR disclosures.

Cost benefit analysis

3.108 We sought views from respondents on the cost benefit analysis (CBA) for our proposed rules.

3.109 We asked:

> **Q20:** ***Do you agree with the analysis in our CBA? If not, we welcome feedback in relation to the one-off and ongoing costs you expect to incur and the potential benefits you envisage. Contextual information about your firm's size and structure would be helpful.***

3.110 We received 29 responses to this question. The majority (17) disagreed with at least some aspects of the analysis, though only a small number considered that the costs would be outweighed by the benefits.

3.111 Some respondents agreed that the analysis was reasonable or in line with expectations. Some also noted that firms will anyway need to incur these costs if they consider climate to be a material risk and to meet clients' and consumers' expectations. Others either reiterated support for the proposals, agreed that there would be benefits, or could not form a position due to lack of quantified benefits.

3.112 Of those who expressed some disagreement with the analysis, many respondents considered costs to be underestimated. Some pointed out that familiarisation costs were likely to be higher, and suggested that a range of resources (including a range of staff, operational, time and external consultants) would be needed to ensure compliance. However, additional quantified cost estimates were not provided.

3.113 Respondents also noted that costs to address data gaps and for scenario analysis would be high. Some expected the costs of third-party data to increase.

3.114 As noted, a small number of respondents considered that the costs would outweigh the benefits, with 2 of these anticipating that costs would be passed down to consumers and citing proportionality concerns for smaller firms.

Our response

In conducting our CBA, we gathered evidence from a range of sources, including roundtables with industry participants, a survey, and public reports on the status of climate-related disclosures. We clarified that the analysis was subject to several uncertainties and assumptions including on specific costs, which were estimated using internal data where quantitative costs could not be provided by stakeholders. Salary costs were based on 2018 Willis Towers Watson UK Financial Services survey.

We appreciate that while many firms would be familiar with the TCFD framework, based on their voluntary reporting, some firms may have been less familiar prior to the publication of our proposals. We sought to apply a discount factor to the costs to reflect the different levels of familiarisation. Furthermore, we estimated familiarisation and gap analysis costs using a standard approach supplemented by our CBA survey.

We acknowledge the feedback received on the potentially high cost of obtaining data to support the disclosure of metrics and scenario analysis. We welcome the establishment of the ISSB to develop a common baseline of sustainability reporting standards, which will support consistent corporate reporting internationally. As set out in PS21/23, we would expect to consult on moving to a mandatory compliance basis for listed companies' disclosures once the ISSB's new reporting standard had been introduced in the UK. We would expect to consult on amending our framework to introduce new rules referencing the new reporting standard rather than the TCFD's recommendations.

We sought feedback relating to the one-off and ongoing costs firms would expect to incur and the potential benefits, as well as contextual information about those firms' size and structure. Only one respondent provided information about their size (relative to our estimated costs). In the absence of more granular cost data, we do not consider we can carry out a revised CBA.

We do not consider a revised CBA to be necessary in relation to the amendments we are making to the final rules as we are not introducing substantive additional disclosure requirements. The additional requirement that firms explain where they are not disclosing certain metrics and scenario analysis due to data gaps and methodological challenges replaces the requirement to make those quantitative disclosures. It also builds on the requirement in the original proposals that firms explain when they are relying on proxies or assumptions. Our other changes are mostly technical clarifications or aimed at reducing the burden on in-scope firms. As a result, we do not consider these amendments would materially increase the costs.

Supervision and enforcement

3.115 A small number of – mostly civil society – respondents highlighted that we must ensure we are empowered to supervise and take appropriate enforcement action against firms making poor climate-related disclosures if needed.

Our response

As set out in the CP, Supervision will act reactively where needed and start carrying out work to assess firms' implementation of the rules once the first disclosures are published in 2023. Enforcement could consider taking action if firms failed to make disclosures or if these were misleading/constituted serious misconduct. In addition, we will support the implementation and embedding of the requirements with targeted and market-wide communications, as appropriate.

More broadly, we are working to embed ESG considerations across the FCA, including in authorisations, supervision and enforcement. This includes through the work our Transformation Programme has been leading on the development of Consumer and Market strategies. We have been exploring the role that data and analytics can play to help supervise sustainability-related disclosures. For example, in October 2021 we held a Sustainability TechSprint to foster ideas for how we can harness technology to monitor ESG data and disclosures more effectively.

Annex 1
List of non-confidential respondents

Abrdn

AllianzGI

Alternative Investment Management Association and the Alternative Credit Council

Association of Accounting Technicians

Association of British Insurers

Association of Financial Mutuals

Association of Investment Companies

Association of Pensions Lawyers

Association of Real Estate Funds

Baillie Gifford & Co.

Blackrock

Bloomberg

Brewin Dolphin

British Private Equity & Venture Capital Association

British Property Federation

Brunel Pension Partnership

Cardano

CBRE Global Investors

CDP

CFAUK

ClientEarth

CMS Cameron McKenna Nabarro Olswang LLP

Commercial Real Estate Finance Council

Deloitte

Depositary and Trustee Association

E3G

European Association for Investors in Non-Listed Real Estate Vehicles

EY

FCA Consumer Panel

Fundrock

Hermes

Hymans Robertson LLP

IHS Markit

Impact Investing Institute

Index Industry Association

Insight Investment

Institutional Investors Group on Climate Change

Interactive Investor

International Capital Market Association

International Organization for Standardization

Invesco

Investment and Life Assurance Group

Investment Association

Investment Property Forum

Lane Clark & Peacock LLP

London LGPS CIV

M&G

Make My Money Matter

Managed Funds Association

Moody's ESG Solutions

Morningstar

MSCI

Nest

Pensions and Lifetime Savings Association

Personal Investment Management & Financial Advice Association

Preqin

Principles for Responsible Investment

Railpen

Schroders

Securities Industry and Financial Markets Association

Seven Investment Management

ShareAction

Square Mile Investment Services

St. James's Place Wealth Management

Standards Board for Alternative Investments

State Street Global Advisors

Systematica Investments Limited

T Rowe Price

UK Finance

UK Sustainable Investment and Finance Association

Universities Superannuation Scheme

Value Reporting Foundation

Watt Money Ltd

WWF

9 respondents requested their answers to be treated as confidential. We have also decided to treat the 4 responses from individuals as confidential.

Annex 2
Abbreviations used in this paper

Abbreviation	Description
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Managers
AIFMD	Alternative Investment Fund Managers Directive
AUM	Assets Under Management
BEIS	Department for Business, Energy & Industrial Strategy
CBA	Cost Benefit Analysis
CBES	Climate Biennial Exploratory Scenario
CFRF	Climate Financial Risk Forum
CP	Consultation Paper
DB	Defined Benefit
DC	Defined Contribution
DLUHC	Department for Levelling Up, Housing and Communities
DWP	Department for Work and Pensions
ESG	Environmental, Social and Governance
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
ISSB	International Sustainability Standards Board
LGPS	Local Government Pension Schemes
NGFS	Network for Greening the Financial System
OFR	Overseas Funds Regime
OPS	Occupational Pension Schemes

Abbreviation	Description
PAT	Portfolio Alignment Team
PS	Policy Statement
TCFD	Taskforce on Climate-related Financial Disclosures
SDR	Sustainability Disclosure Requirements
SFDR	Sustainable Finance Disclosure Regulation
SIPP	Self-invested Personal Pension
SM&CR	Senior Managers and Certification Regime
UCITS	Undertakings for Collective Investment in Transferable Securities
VaR	Value-at-Risk

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Appendix 1
Made rules (legal instrument)

DISCLOSURE OF CLIMATE-RELATED FINANCIAL INFORMATION (ASSET MANAGER AND ASSET OWNER) INSTRUMENT 2021

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions in or under:

(1) the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(a) section 137A (The FCA's general rules);
(b) section 137T (General supplementary powers);
(c) section 139A (Power of the FCA to give guidance);
(d) section 247 (Trust scheme rules);
(e) section 248 (Scheme particulars rules);
(f) section 261I (Contractual scheme rules);
(g) section 261J (Contractual scheme particulars rules); and

(2) regulation 6(1) of the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228); and

(3) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA's Handbook.

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

Commencement

C. This instrument comes into force on 1 January 2022.

Amendments to the Handbook

D. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below.

(1)	(2)
Glossary of definitions	Annex A
Collective Investment Schemes sourcebook (COLL)	Annex C

Making the Environmental, Social and Governance sourcebook

E. The Financial Conduct Authority makes the rules and gives the guidance in accordance with Annex B to this instrument.

F. The Environmental, Social and Governance sourcebook (ESG) is added to the Business Standards block within the Handbook, immediately after the Product Intervention and Product Governance sourcebook (PROD).

Citation

G. This instrument may be cited as the Disclosure of Climate-Related Financial Information (Asset Manager and Asset Owner) Instrument 2021.

H. The sourcebook in the Annex B to this instrument may be cited as the Environmental, Social and Governance sourcebook (or ESG).

By order of the Board
16 December 2021

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text, unless otherwise stated.

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

climate-related reports	any report produced under *ESG* 2.
on-demand information	an *on-demand TCFD product report* or *underlying asset data*.
on-demand TCFD product report	a report produced in accordance with *ESG* 2.3 for a *person* who is entitled to such information under *ESG* 2.3.5R in respect of: (1) the *investments*, including rights to or interests in *investments*, in respect of which the *firm* provides *portfolio management* to that *person*; or (2) assets under management in an *unauthorised AIF* in which the *person* is an investor, but only in respect of an *unauthorised AIF* managed by a *UK AIFM* which is not listed on a *recognised investment exchange*.
pre-set investment portfolio	a combination of *investments* which is selected by a *firm* and offered to its *clients* as a single investment option, for example, a *default arrangement* in a *qualifying scheme*, a *drawdown pension investment pathway*, or a ready-made investment portfolio, but not including a *default arrangement* in a *qualifying scheme* comprising: (a) assets which make up less than 10% of the total assets held by a *firm* within *default arrangements* in *qualifying schemes*; or (b) assets which are under £100m in value.
public TCFD product report	a report produced in accordance with *ESG* 2.3 in respect of any of the following, insofar as it is a *TCFD product*: (1) an *authorised fund*; (2) a *with-profits fund*; (3) a *linked fund*; (4) a *pre-set investment portfolio*; (5) a *closed-ended investment fund*; or

(6) an *unauthorised AIF* managed by a *UK AIFM* that is listed on a *recognised investment exchange*; this includes an *investment trust*.

TCFD entity report — a public report regarding the overall assets managed or administered by the *firm* in relation to its *TCFD in-scope business* as per the requirements in *ESG* 2.2.

TCFD in-scope business — the following activities, as set out in more detail in *ESG* 1.2.1R:

(1) *portfolio management*;

(2) *managing a UK UCITS*;

(3) *managing an AIF*;

(4) providing *insurance-based investment products*;

(5) operating a *personal pension scheme* (excluding a *SIPP*) or *stakeholder pension scheme*; and

(6) operating a *SIPP*, but only in relation to *SIPPs* which contain an *insurance-based investment product*, a *unit*, an interest in a *closed-ended investment fund* or *a pre-set investment portfolio* provided by the *firm*.

TCFD product — any of the following:

(1) an *authorised fund*, but:

(a) excluding an *authorised fund* which is a *feeder UCITS* or a *feeder AIF*; and

(b) where the *authorised fund* is an *umbrella scheme*, each *sub-fund* of the *umbrella* is considered to be a *TCFD product*;

(2) in relation to an *insurance-based investment product*, *personal pension scheme*, *stakeholder pension scheme* or *SIPP* provided or operated by an *insurer* or *pure reinsurer*:

(a) *with-profits fund*;

(b) *linked fund*; or

(c) a *pre-set investment portfolio*;

(3) in relation to a *personal pension scheme*, *stakeholder pension scheme* or *SIPP* operated by a *firm* which is not an *insurer* or *pure reinsurer*:

(a) an *authorised fund*;

(b) a *closed-ended investment fund*; or

(c) a *pre-set investment portfolio*;

(4) an agreement or arrangement under which a *firm* provides the *client* with *portfolio management*; and

(5) an *unauthorised AIF* managed by a *UK AIFM*, unless it is a closed-ended *AIF* that makes no additional investments after 22 July 2013 (see regulation 74(1) of the *AIFMD UK Regulation*).

TCFD product report — a *public TCFD product report* or an *on-demand TCFD product report*.

underlying asset data — basic data on asset holdings underlying a *TCFD product*, including unique security ID such as ISIN, name, holding size, and current price or valuation, as reasonably required by the relevant *person* to produce their own amalgamated scenario analysis and otherwise satisfy their own disclosure obligations in relation to climate-related financial information.

Amend the following definitions as shown.

closed-ended investment fund — (in *LR* and *ESG*) an entity:

(a) which is an undertaking with limited liability, including a company, limited partnership, or *limited liability partnership*; and

(b) whose primary object is investing and managing its assets (including pooled funds contributed by holders of its *listed securities*):

(i) in property of any description; and

(ii) with a view to spreading investment risk.

portfolio management — (1) managing portfolios in accordance with mandates given by *clients* on a discretionary *client*-by-*client* basis where such portfolios include one or more *financial instruments*.

[Note: article 4(1)(8) of *MiFID*]

(2) (in *ESG*) a service provided to a *client* including:

(a) *managing investments*; or

(b) private equity or other private market activities consisting of either *advising on investments* or *managing investments* on a recurring or ongoing basis in connection with an arrangement the predominant purpose of which is investment in unlisted *securities*.

Annex B

Environmental, Social and Governance sourcebook (ESG)

In this Annex, all of the text is new and is not underlined

1.1 Purpose and application

Purpose

1.1.1 G The ESG sourcebook sets out *rules* and *guidance* concerning a *firm's* approach to environmental, social and governance matters.

1.1.2 G *ESG* 2 contains *rules* and *guidance* regarding the disclosure of climate-related financial information consistent with *TCFD Recommendations and Recommended Disclosures*.

1.1.3 G The disclosure requirements within *ESG* 2 relate to either the assets that a *firm* manages or administers generally, published in a *TCFD entity report*, or assets relating or corresponding to particular financial products or services, disclosed via *TCFD product reports*.

1.1.4 G The disclosures are intended to help meet the information needs of market participants, including a *firm's* institutional *clients* (e.g. pension trustees, employers and corporate investors) and *consumers* of their products (e.g. pension scheme members and retail investors), in relation to the climate-related impact and risks of a *firm's TCFD in-scope business*.

1.1.5 G The *FCA* recognises that at least for a transitional period there may be data and methodological challenges. Nevertheless, we expect *firms* to provide sufficient information to *clients* and *consumers*. *Firms* should still disclose metrics and quantitative scenario analysis or examples in accordance with the *rules* in this sourcebook where such disclosure would remain fair, clear and not misleading. *Firms* should also appropriately explain any limitations on their ability to disclose and the steps being taken to address those limitations.

1.2 General application

1.2.1 R (1) The *rules* in this sourcebook apply to a *firm* of a type listed in column 1 of the table at *ESG* 1.2.1 R(2) in relation to the *TCFD in-scope business* carried out from an establishment maintained by it in the *United Kingdom* as described in column 2.

(2) This table belongs to *ESG* 1.2.1R(1).

Column 1: Type of firm	**Column 2: TCFD in-scope business**
Part A: Asset managers	

<table>
<tr><td>Any firm</td><td colspan="2">Portfolio management</td></tr>
<tr><td>UK UCITS management company</td><td colspan="2">Managing a UK UCITS</td></tr>
<tr><td>ICVC that is a UCITS scheme without a separate management company</td><td colspan="2">Managing a UK UCITS</td></tr>
<tr><td>Full-scope UK AIFM</td><td colspan="2">Managing an AIF</td></tr>
<tr><td>Small authorised UK AIFM</td><td colspan="2">Managing an AIF</td></tr>
<tr><td colspan="3">Part B: Asset owners</td></tr>
<tr><td rowspan="3">Insurer or pure reinsurer</td><td colspan="2">Providing insurance-based investment products</td></tr>
<tr><td colspan="2">Operating a personal pension scheme (excluding a SIPP) or stakeholder pension scheme</td></tr>
<tr><td colspan="2">Operating a SIPP, but only in relation to SIPPs containing insurance-based investment products provided by the firm</td></tr>
<tr><td rowspan="5">Other asset owners (other than insurers or pure reinsurers)</td><td colspan="2">Operating a personal pension scheme (excluding a SIPP) or stakeholder pension scheme</td></tr>
<tr><td colspan="2">Operating a SIPP, but only in relation to SIPPs containing any of the following provided by the firm:</td></tr>
<tr><td>(a)</td><td>a unit</td></tr>
<tr><td>(b)</td><td>an interest in a closed-ended investment fund</td></tr>
<tr><td>(c)</td><td>a pre-set investment portfolio</td></tr>
</table>

1.2.2 R A *firm* is exempt from the disclosure requirements under *ESG* 2 if and for as long as the assets under administration or management in relation to its *TCFD in-scope business* amount to less than £5bn calculated as a 3-year rolling average on an annual assessment.

2 Disclosure of climate related financial information

2.1 Preparation of climate-related reports

2.1.1 R (1) A *firm* (excluding an *OPS firm)* must prepare and publish its *TCFD entity report* and any *public TCFD product reports* by 30 June of each calendar year.

(2) If a *firm* (including an *OPS firm*) receives a request for *on-demand information* from a *person* who is entitled to make such request under *ESG* 2.3.5R, it must prepare and provide the *on-demand information* to the *person* within a reasonable period of time and in a format which the *firm*, acting reasonably, considers appropriate to meet the information needs of that *person*.

2.1.2 R (1) A *firm* must cover a reporting period of 12 *months* starting no earlier than 1 January of the previous calendar year in its *TCFD entity report*.

(2) The reporting period in (1) may be changed by the *firm* in subsequent yearly reports, but the *firm* must ensure there is no period of time after 1 January 2022 which is not covered by its *TCFD entity report*, issuing an interim report if necessary.

(3) A *firm* must adopt a calculation date within the 12-*month* reporting period covered by the *TCFD entity report* in calculating any metrics and targets either for inclusion in its *TCFD entity report* or its *TCFD product reports*.

Publication of climate-related reports

2.1.3 R A *firm* must take all reasonable steps to publish its *TCFD entity report* and its *public TCFD product reports* in a way that makes it easy for prospective readers to locate and access, including, as a minimum, by making the most recent of these reports available in a prominent place on the main website for the business of the *firm*.

2.1.4 G Prominence may be achieved by adding hyperlinks to the reports which are accessible via the landing page of the main website for the business of the *firm*.

Consistency with TCFD Recommendations and Recommended Disclosures when preparing climate-related reports

2.1.5 R A *firm* must ensure the climate-related financial disclosures in its *climate-related reports* are consistent with the *TCFD Recommendations and Recommended Disclosures*, unless otherwise specified by *rules* in this chapter.

2.1.6 R In complying with *ESG* 2.1.5R, a *firm* must take reasonable steps to ensure its climate-related financial disclosures also reflect the following materials, to the extent they are relevant to the *firm's climate-related reports*:

(1) section C of the *TCFD Annex*, entitled "Guidance for All Sectors"; and, as applicable,

(2) part 3, section D of the *TCFD Annex*, entitled "Asset Owners"; or

(3) part 4, section D of the *TCFD Annex*, entitled "Asset Managers".

2.1.7 G The *FCA* considers that the following supplemental documents are also relevant in assessing whether climate-related financial disclosures are consistent with the *TCFD Recommendations and Recommended Disclosures*:

(1) the *TCFD Final Report* and the *TCFD Annex* to the extent not already referred to in this chapter;

(2) the *TCFD Technical Supplement*;

(3) the *TCFD Guidance on Risk Management Integration and Disclosure*; and

(4) the *TCFD Guidance on Metrics, Targets, and Transition Plans*.

Data considerations when preparing climate-related reports

2.1.8 R In satisfying its reporting and disclosure obligations under this chapter, a *firm* must, insofar as is reasonably practicable, use the most up to date information available.

2.1.9 R In preparing a *TCFD product report* or *underlying asset data*, a *firm* must select, from within the 12-*month* reporting period, the most recent calculation date for which up to date information is available.

2.1.10 R A *firm* must not disclose metrics or quantitative scenario analysis or examples where:

(1) there are gaps in underlying data or methodological challenges; and

(2) these data gaps or methodological challenges cannot be addressed using proxy data or assumptions without the resulting disclosure, in the reasonable opinion of the *firm*, being misleading.

2.1.11 G (1) The *FCA* expects a *firm* to make climate-related financial disclosures in its *climate-related reports* consistent with the *TCFD Recommendations and Recommended Disclosures* using proxy data or assumptions to address gaps in underlying data and methodological challenges, as appropriate, and should only omit disclosures in accordance with *ESG* 2.1.10R.

(2) The *FCA* expects such gaps in underlying data and methodological challenges to be transitional and considers that such gaps and challenges are only likely to arise in relation to certain asset classes,

such as asset-backed securities and currencies, and are likely to narrow over time.

2.1.12 R In addition, a *firm* must ensure its *climate-related report* includes an adequate explanation of:

(1) any gaps in the underlying data relied upon to make climate-related financial disclosures consistent with the *TCFD Recommendations and Recommended Disclosures*;

(2) how the *firm* has addressed these gaps, for example, by using proxy data or assumptions and briefly setting out any methodologies used in doing so, providing relevant contextual information and explaining any limitations of the approach;

(3) any metrics or quantitative scenario analysis or examples that the *firm* has not been able to disclose, in accordance with *ESG* 2.1.10R; and

(4) in respect of (3),

(a) the gaps in underlying data or methodological challenges that have resulted in the *firm* being unable to make the relevant disclosure;

(b) why the *firm* has not been able to address those gaps or challenges using proxy data or assumptions; and

(c) what steps the *firm* will take to address those gaps or challenges in the future.

2.1.13 G In addition, a *firm* may include in its *climate-related report* an explanation of the proportion of each *TCFD product* for which data are verified, reported, estimated or unavailable.

Cross-referencing climate-related financial disclosures

2.1.14 R (1) A *firm* may include hyperlinks and cross-references to relevant climate-related financial disclosures contained in a third party's climate reporting, where such information enables the *firm* to make climate-related financial disclosures consistent with the *TCFD Recommendations and Recommended Disclosures*.

(2) The *firm* must set out the rationale for relying on these third party disclosures, and any deviations between the third party's approach and that of the *firm*, where relevant to the *TCFD Recommendations and Recommended Disclosures*.

(3) An *insurer* or *pure reinsurer* which operates *linked funds* which mirror funds operated by a third party (but which are not close-matched by an *insurer's* or *pure reinsurer's* direct investment in that third party's fund) must consider the extent to which it is

appropriate to rely wholly or partly on disclosures by that third party.

2.1.15 R Where relevant, a *firm* may also draw links and make reference to its *TCFD product report* from its *TCFD entity report* and vice versa.

2.2 TCFD entity report

Content of a TCFD entity report

2.2.1 R (1) Subject to *ESG* 2.2.5R and *ESG* 2.2.6R, a *firm* must include in its *TCFD entity report* climate-related financial disclosures regarding the overall assets managed or administered by the *firm* in relation to its *TCFD in-scope business* as defined under *ESG* 1.2.1R.

(2) A *firm* must explain, either in its *TCFD entity report* or in a cross-referenced *TCFD product report*, where its approach to a particular investment strategy, asset class or product is materially different to its overall entity level approach to governance, strategy or risk management under the *TCFD Recommendations and Recommended Disclosures*.

(3) A *firm* must briefly explain in its *TCFD entity report* how the *firm's* strategy under the *TCFD Recommendations and Recommended Disclosures* has influenced the decision-making and process by which it delegates functions, selects delegates, and relies on services, strategies or products offered or employed by third parties, including delegates.

2.2.2 G Where making disclosures on transition plans as part of its strategy disclosures under the *TCFD Recommendations and Recommended Disclosures*, a *firm* that is headquartered in, or operates in, a country that has made a commitment to a net zero economy, such as the *UK*'s commitment in the Climate Change Act 2008 (2050 Target Amendment) Order 2019, is encouraged to assess the extent to which it has considered that commitment in developing and disclosing its transition plan. Where it has not considered this commitment in developing and disclosing its transition plan, we encourage a *firm* to explain why it has not done so.

Approach to climate-related scenario analysis

2.2.3 R (1) When preparing information for a *TCFD entity report* in a manner consistent with recommended disclosure (c) under the strategy recommendation in the *TCFD Recommendations and Recommended Disclosures*, a *firm* must explain:

(a) its approach to climate-related scenario analysis; and

(b) how the *firm* applies climate-related scenario analysis in its investment and risk decision making process.

(2) Where reasonably practicable, a *firm* must provide quantitative examples to demonstrate its approach to climate-related scenario analysis.

Approach to targets and key performance indicators (KPIs)

2.2.4 R (1) In producing its *TCFD entity report* and considering recommended disclosure (c) under the metrics and targets recommendation in the *TCFD Recommendations and Recommended Disclosures*, a *firm* must describe any targets it has set to manage climate-related risks and opportunities, including the KPIs it uses to measure progress against these targets, in a manner consistent with the *TCFD Recommendations and Recommended Disclosures*.

(2) Where a *firm* has not yet set such targets, it must explain why in its *TCFD entity report*.

Approach to relevant climate-related financial disclosures contained in other reports at an entity-level

2.2.5 R (1) If a *firm* is a member of a *group*, it may rely on climate-related financial disclosures consistent with the *TCFD Recommendations and Recommended Disclosures* made by its *group* or a member of its *group* when producing its *TCFD entity report*, but only to the extent that those group disclosures are relevant to the *firm* and cover the assets the *firm* administers or manages as part of its *TCFD in-scope business*.

(2) If a *firm* does rely on such group disclosures, it must ensure that its *TCFD entity report*:

(a) includes cross-references, including hyperlinks, to any climate-related financial disclosure contained within the *group* or *group* member's report that relate to assets managed or administered by the *firm* in relation to its *TCFD in-scope business* on which the *firm* is relying to meet its disclosure obligations under this section; and

(b) sets out the rationale for relying on the disclosure made by its *group* or a member of its *group* and why the disclosure is relevant to the assets managed or administered by the *firm* in relation to its *TCFD in-scope business*.

(3) The *firm* must also ensure that any material deviations between its approach under the *TCFD Recommendations and Recommended Disclosures* and the climate-related financial disclosures contained within the *group* report are clearly explained, either in its *TCFD entity report* or in the report made by its *group* or a member of its *group*.

2.2.6 R (1) If a *firm* or a member of its *group* produces a document, other than its annual financial report, which includes climate-related financial disclosures consistent with the *TCFD Recommendations and Recommended Disclosures* in compliance with *LR* 9.8.6R(8) for its *TCFD in-scope business*, the *firm* may cross-refer to these disclosures in its *TCFD entity report* where this information is relevant to *clients* or a *person* who is an investor in an *unauthorised AIF* managed by a *UK AIFM*, including hyperlinks to where the relevant disclosures are available.

(2) Where a *firm* so refers, it must explain in its *TCFD entity report* the rationale for relying on the disclosures in the supplementary document and how such disclosures are relevant to the *clients* or a *person* who is an investor in an *unauthorised AIF* managed by a *UK AIFM* of the *firm's TCFD in-scope business*.

Compliance statement

2.2.7 R A *firm's TCFD entity report* must include a statement, signed by a member of senior management of the *firm*, confirming that the disclosures in the report, including any third party or group disclosures cross-referenced in it, comply with the requirements under this chapter.

2.3 Product-level reporting

Public TCFD product reports

2.3.1 R In addition to the publishing obligation in *ESG* 2.1.3R, a *firm*, other than a *UK AIFM* to which *ESG* 2.3.2R applies, must include its *public TCFD product report*, or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in any one of the following communications which follow most closely after the annual reporting deadline of 30 June, as applicable:

(1) the annual report or half-yearly report of an *authorised fund* as required under *COLL* 4.5.3R, *COLL* 8.3.5R or *COLL* 15.5.2R, provided that its *public TCFD product report*, or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, is always included in the annual report;

(2) a periodic *client* report under *COBS* 16.3.1R, *COBS* 16.4.1R, *COBS* 16A.4.2AR or *COBS* 16A.5.1R;

(3) a report to *with-profits policyholders* under *COBS* 20.4.7R; or

(4) an annual pension benefit statement or an annual *drawdown pension* statement under *COBS* 16.6.8R.

2.3.2 R A *UK AIFM* that manages an *unauthorised AIF* listed on a *recognised investment exchange* must include its *public TCFD product report*, or an adequately contextualised and prominent cross-reference and hyperlink to this report, in its *TCFD entity report*.

2.3.3 R A *firm* is not required to prepare a *public TCFD product report* in respect of a product which is a wrapper, provided that it has issued *public TCFD product reports* for the *TCFD products* available within the relevant wrapper.

2.3.4 R A *firm* is not required to prepare a *TCFD product report* in respect of an *authorised fund*, or where the *authorised fund* is an *umbrella scheme* the relevant *sub-fund*, which is in the process of winding up or termination.

On-demand TCFD product reports and underlying data

2.3.5 R (1) A *client* who requires *on-demand information* in order to satisfy climate-related financial disclosure obligations, whether under this chapter or as a result of other legal or regulatory requirements, is entitled to request such information from, and be provided with it by, the *firm* and to receive a response to that request in accordance with *ESG* 2.1.1R(2).

(2) On receipt of a request from a *client* under (1), a *firm* must provide *on-demand information* as at a calculation date determined in accordance with *ESG* 2.1.9R or at an alternative calculation date where this has been agreed between the *client* and the *firm*.

(3) The request by a *client* in (1) may be made no earlier than 1 July 2023 in respect of any reporting period of the *firm* under *ESG* 2.1.2R(1) which starts after 1 January 2022 or, if later, with effect from the reporting period in which the *client's* arrangements with the *firm* concerning the *TCFD product* commenced;

(4) This *rule* also applies in respect of a *person* who is an investor in an *unauthorised AIF* managed by a *UK AIFM* which is not listed on a *recognised investment exchange*.

2.3.6 R The entitlement in *ESG* 2.3.5R(1) is limited to one request for an *on-demand TCFD product report* or *underlying asset data* or both in respect of each *TCFD product* in each of the *firm's* reporting periods under *ESG* 2.1.2R(1).

2.3.7 G A *firm* is encouraged to consider, where practicable, making available to a *client* disclosures broadly equivalent to an *on-demand TCFD product report* irrespective of the *client's* eligibility to request such report under *ESG* 2.3.5R.

2.3.8 R If a *person* in *ESG* 2.3.5R requests additional climate or carbon-related data which are reasonably required in order to satisfy climate-related financial disclosure obligations, a *firm* must provide the data if doing so is reasonably practicable and permitted under any contractual arrangements governing the *firm's* use of the data.

Content of TCFD product reports

2.3.9 R (1) A *firm* must include in its *TCFD product report* for each *TCFD product* information according to the following metrics, using the calculations contained in the *TCFD Annex* and having regard to the *TCFD Guidance on Metrics, Targets, and Transition Plans*, as relevant:

(a) scope 1 and 2 greenhouse gas emissions;

(b) scope 3 greenhouse gas emissions;

(c) total carbon emissions;

(d) total carbon footprint; and

(e) weighted average carbon intensity.

(2) A *firm's TCFD product report* must also include:

(a) relevant contextual information such as explaining how the metrics should be interpreted and their associated limitations, for example, if particular assumptions or proxies have been used;

(b) historical annual calculations of the metrics in (1), after the first year of preparing a *TCFD product report*; and

(c) any disclosures under the Governance, Strategy and Risk Management recommendations under the *TCFD Recommendations and Recommended Disclosures*, where the *firm*'s approach in relation to a *TCFD product* materially deviates from the *firm's* overarching approach disclosed in the *firm's TCFD entity report*.

2.3.10 R If a *firm* discloses material deviations under *ESG* 2.3.9R(2)(c), it may refer to the relevant sections of its *TCFD entity report*, and similarly its *TCFD entity report* may refer to these disclosures in the *TCFD product report*.

2.3.11 R (1) Where a *TCFD product report* relates to a *TCFD product* that has concentrated exposures or high exposures to carbon intensive sectors, the *firm* must describe these and disclose:

(a) a qualitative summary of how climate change is likely to impact the assets underlying the relevant *TCFD product* under ‘orderly transition’, ‘disorderly transition’ and ‘hothouse world’ scenarios;

(b) a discussion of the most significant drivers of impact on that *TCFD product*; and

(c) a quantitative analysis of 'orderly transition', 'disorderly transition' and 'hothouse world' scenarios.

(2) Where a *firm* manages *TCFD products* that do not have concentrated exposures or high exposures to carbon intensive sectors, a *firm* must still make the disclosures under (1)(a) and 1(b).

(3) For the purposes of (1)(a) and 1(c):

(a) 'orderly transition' scenarios assume climate policies are introduced early and become gradually more stringent, reaching global net zero CO2 emissions around 2050 and likely limiting global warming to below 2 degrees Celsius on pre-industrial averages;

(b) 'disorderly transition' scenarios assume climate policies are delayed or divergent, requiring sharper emissions reductions achieved at a higher cost and with increased physical risks in order to limit temperature rise to below 2 degrees Celsius on pre-industrial averages; and

(c) 'hothouse world' scenarios assume only currently implemented policies are preserved, current commitments are not met and emissions continue to rise, with high physical risks and severe social and economic disruption and failure to limit temperature rise.

2.3.12 R (1) Where a *firm* prepares a *public TCFD product report* in relation to a *default arrangement* or other fund in a *qualifying scheme* which uses life-styling or differing target retirement dates for different cohorts of members, a *firm* may calculate the information in *ESG* 2.3.9R to *ESG* 2.3.11R and, where relevant, *ESG* 2.3.13R, in relation to the most representative member profile in that *default arrangement* or fund.

(2) However, where relevant, the *firm* must include a qualitative explanation in its *public TCFD product report* of how this information might vary between cohorts.

Other elements of a TCFD product report

2.3.13 R When preparing a *TCFD product report*, a *firm* must, as far as reasonably practicable, also include the following calculations for each *TCFD product*:

(1) climate value-at-risk;

(2) metrics that show the climate warming scenario with which a *TCFD product* is aligned, such as using an implied temperature rise metric.

2.3.14 G A *firm* may also disclose in a *TCFD product report* any other metrics that the *firm* considers an investor will find useful when deciding whether to select a particular *TCFD product* (including metrics set out in the *TCFD Annex* and under *ESG* 2.3.9R calculated in accordance with recognised alternative methodologies). However, to the extent that a *firm* chooses to disclose such metrics, it should clearly explain the methodology used in providing each relevant metric and ensure that the metrics calculated under *ESG* 2.3.9R in accordance with the *TCFD Annex* are at least as prominently presented.

TP 1 Transitional provisions

(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
1.1	*ESG* 2 as it applies to *firms* falling within Part A (asset managers) of the table in *ESG* 1.2.1R(2)	R	*ESG* 2 is disapplied where a *firm* does not meet the requirements of an *enhanced scope SMCR firm* pursuant to *SYSC* 23 Annex 1 8.2R paragraph 1.	From 1 January 2022 to 31 December 2022	Effective date of instrument
1.2	*ESG* 2 as it applies to *firms* falling within Part B (asset owners) of the table in *ESG* 1.2.1R(2)	R	*ESG* 2 is disapplied where a *firm* has assets under management or administration in relation to *TCFD in-scope business* of less than £25bn calculated as a 3-year rolling average on an annual assessment.	From 1 January 2022 to 31 December 2022	Effective date of instrument
1.3	*ESG* 2.1.1R(1)	R	(1) For a *firm* to whom the disapplication in *ESG* TP 1.1 or *ESG* TP 1.2 is available, the first publication deadline for a *TCFD entity report* and a *public TCFD product report* is 30 June 2024.	From 1 January 2022	Effective date of instrument
			(2) For other *firms*, the first publication		

			deadline for these reports is 30 June 2023.		
1.4	*ESG* 2.1.2R(2)	R	For a *firm* to whom the disapplication in *ESG* TP 1.1 or *ESG* TP 1.2 is available, the reporting period that must be covered by one or more *TCFD entity reports* is to commence from 1 January 2023.	From 1 January 2022	Effective date of instrument
1.5	*ESG* 2.3.5R(3)	R	For a *firm* to whom the disapplication in *ESG* TP 1.1 or *ESG* TP 1.2 is available, (a) the earliest reporting period for which a *person* can request *on-demand information* is to commence from 1 January 2023, and (b) the earliest a *person* can request *on-demand information* is 1 July 2024.	From 1 January 2022	Effective date of instrument
1.6	*ESG* 2.3.9R(1)(b)	R	The first reporting deadline for scope 3 greenhouse gas emissions is 30 June 2024.	From 1 January 2022	Effective date of instrument

Annex C

Amendments to the Collective Investment Schemes sourcebook (COLL)

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

4 Investor Relations

…

4.5 Reports and accounts

…

Contents of the annual long report

4.5.7 R (1) An annual long report on an *authorised fund*, other than a *scheme* which is an *umbrella*, must contain:

(a) …

…

(d) the report of the *depositary* in accordance with *COLL* 4.5.11R (Report of the depositary); ~~and~~

(e) the report of the auditor in accordance with *COLL* 4.5.12R (Report of the auditor)~~.~~<u>; and</u>

<u>(f) its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 2.3.1R.</u>

(2) An annual long report on a *scheme* which is an *umbrella* must be prepared for the *umbrella* as a whole and must contain:

(a) for each *sub-fund*:

(i) …

(ii) the report of the *authorised fund manager* in accordance with *COLL* 4.5.9R; ~~and~~

(iii) comparative information in accordance with *COLL* 4.5.10R; <u>and</u>

<u>(iv) its *public TCFD product report* or an adequately contextualised and prominent cross-reference and</u>

hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 2.3.1R;

…

…

…

Contents of the half-yearly long report

4.5.8 R (1) A half-yearly long report on an *authorised fund*, other than for a *scheme* which is an *umbrella*, must contain:

(a) the accounts for the *half-yearly accounting period* which must be prepared in accordance with the requirements of the *IMA SORP*; ~~and~~

(b) the report of the *authorised fund manager* in accordance with *COLL* 4.5.9R (Authorised fund manager's report)~~.~~; and

(c) its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website in accordance with *ESG* 2.3.1R, where the half-yearly long report most closely follows the reporting deadline of 30 June, under *ESG* 2.1.1R(1).

(2) A half-yearly long report on a *scheme* which is an *umbrella*, must be prepared for the *umbrella* as a whole and must contain:

(a) for each *sub-fund*:

(i) the accounts for the *half-yearly accounting period* which must be prepared in accordance with the requirements of the *IMA SORP*; ~~and~~

(ii) the report of the *authorised fund manager* in accordance with *COLL* 4.5.9R; and

(iii) its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 2.3.1R, where the half-yearly long report most closely follows the reporting deadline of 30 June, under *ESG* 2.1.1R(1).

…

…

…

8 Qualified investor schemes

…

8.3 Investor relations

…

Contents of the annual report

8.3.5A R (1) An annual report, other than for a *scheme* which is an *umbrella*, must contain:

(a) …

…

(c) the report of the *depositary* in accordance with *COLL* 8.3.5DR (Report of the depositary); ~~and~~

(d) the report of the auditor in accordance with *COLL* 4.5.12R (Report of the auditor)~~.~~; and

(e) its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 2.3.1R.

(2) An annual report on a *scheme* which is an *umbrella* must be prepared for the *umbrella* as a whole and must contain:

(a) for each *sub-fund*:

(i) …

(ii) the report of the *authorised fund manager* in accordance with *COLL* 8.3.5CR; ~~and~~

(iii) comparative information in accordance with *COLL* 4.5.10R (1A) and (2A); and

(iv) its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 2.3.1R;

…

…

…

Contents of the half-yearly report

8.3.5B R (1) A half-yearly report on an *authorised fund* or *sub-fund* must contain:

(a) the accounts for the *half-yearly accounting period* which must be prepared in accordance with the requirements of the *IMA SORP*; ~~and~~

(b) the report of the *authorised fund manager* in accordance with *COLL* 8.3.5CR~~.~~; and

(c) its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to where the report's location on the *firm's* website, in accordance with *ESG* 2.3.1R, where the half-yearly report most closely follows the reporting deadline of 30 June, under *ESG* 2.1.1R(1).

…

…

15 Long-term asset funds

…

15.5 Annual report and investor relations

…

Contents of the annual report

15.5.3 R (1) An annual report, other than for a *scheme* which is an *umbrella*, must contain:

(a) …

…

(d) the report of the *depositary* in accordance with *COLL* 15.5.7R (Report of the depositary); ~~and~~

(e) the report of the auditor in accordance with *COLL* 4.5.12R (Report of the auditor)~~.~~; and

(f) its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to where the report's location on the *firm's* website, in accordance with *ESG* 2.3.1R.

(2) An annual report on a *scheme* which is an *umbrella* must be prepared for the *umbrella* as a whole and must contain:

(a) for each *sub-fund*:

(i) …

(ii) the report of the *authorised fund manager* in accordance with *COLL* 15.5.6R; ~~and~~

(iii) comparative information in accordance with *COLL* 4.5.10R (1A) and (2A); <u>and</u>

<u>(iv)</u> <u>its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on *firm's* website, in accordance with *ESG* 2.3.1R;</u>

…

…

…

Contents of the half-yearly report

15.5.5 R (1) A half-yearly report on an *authorised fund* or *sub-fund* must contain:

(a) the accounts for the *half-yearly accounting period* which must be prepared in accordance with the requirements of the *IMA SORP*; ~~and~~

(b) the report of the *authorised fund manager* in accordance with *COLL* 15.5.6R~~.~~<u>; and</u>

<u>(c)</u> <u>its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in accordance with *ESG* 2.3.1R, where the half-yearly report most closely follows the reporting deadline of 30 June, under *ESG* 2.1.1R(1).</u>

…

Pub ref: 007760

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