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

Consultation Paper
CP21/17**

June 2021

How to respond

We are asking for comments on this Consultation Paper (CP) by **10 September 2021**.

You can send them to us using the form on our website at: www.fca.org.uk/cp21-17-response-form

Or in writing to:

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Telephone:
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1 Summary

Why we are consulting

1.1 As we emerge from the pandemic, we cannot lose sight of the climate challenge ahead. To tackle it, society needs to accelerate the transition to cleaner energy and a less carbon-intensive economy.

1.2 This will require high-quality information on how climate-related risks and opportunities are being managed, right along the investment chain – from companies in the real economy, to institutional investors and to consumers. 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.

1.3 In November 2020, the Government published a Roadmap towards mandatory climate-related disclosures across the UK economy by 2025, aligned with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). We are playing our part in the delivery of this Roadmap.

1.4 This Consultation Paper (CP) sets out our proposals to introduce climate-related financial disclosure rules and guidance for asset managers, life insurers, and FCA-regulated pension providers, consistent with the TCFD's recommendations and recommended disclosures (in this CP, we refer to these collectively as the 'TCFD's recommendations').

1.5 We are introducing a new 'Environmental, Social and Governance (ESG) Sourcebook' in the FCA Handbook to set out our proposed rules and guidance. While the proposals in this CP relate solely to climate-related disclosures, we anticipate that the ESG Sourcebook will expand over time to include new rules and guidance on other climate-related and wider ESG topics.

Who this applies to

1.6 Our proposed climate-related financial disclosure rules will apply to asset managers, life insurers and FCA-regulated pension providers.

1.7 The proposals in this CP relate either to the assets the firm manages or administers overall, at entity level, or to the assets relating to particular financial products or services. The target audience for the disclosures are the investors, including institutional clients (eg, pension scheme trustees, employers, corporate investors) and end-user consumers (eg, pension scheme members, retail investors), referred to in this CP as *clients* and *consumers*, respectively.

1.8 Some firms in scope of our proposals may also be subject to disclosure requirements in their capacity as listed issuers (or entities within a listed issuer group). Those disclosures are focused on how firms in scope manage climate-related risks and opportunities in their corporate business on behalf of their shareholders.

1.9 Specifically, 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 CP)

- 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 Our CP will also be of interest to a wide range of 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

What we want to change

1.11 We are proposing to introduce a climate-related financial disclosure regime for asset managers, life insurers, and FCA-regulated pension providers consistent with the TCFD's recommendations. Our proposals aim to increase transparency and enable clients and consumers to make considered choices, while remaining proportionate for firms.

1.12 Given the global reach of firms operating in the UK, we have approached the design of our regime with international consistency in mind. For this reason, our proposals reference the TCFD's recommendations, which are now widely accepted internationally.

1.13 We recognise that climate-related risks and opportunities are relevant to assets managed and administered across the breadth of firms' global business activities. Our proposals therefore provide flexibilities that allow firms to make disclosures in respect of their group-wide or global business activities and products, even where these activities and products may not strictly be within the scope of the proposed rules.

1.14 Better transparency through our proposed disclosure regime is therefore likely to benefit clients' and consumers' decision-making internationally. Given the urgency and scale of the changes needed to support a transition to a low-carbon economy, we consider this to be a good outcome.

1.15 Our approach also aims to support the flow of information along the investment chain. In particular, we have sought to support disclosures required under the Department for Work and Pensions' (DWP) draft regulations and statutory guidance ('DWP's draft regulations') for in-scope trustees of occupational pension schemes.

1.16 We recognise that we are consulting against the backdrop of other sustainability-related disclosure initiatives. Notably, some firms subject to our proposed rules will already be subject to the EU Sustainable Finance Disclosure Regulation (SFDR) in respect of their cross-border EU business. We note that the Government has agreed to match the ambitions of the EU Sustainable Finance Action Plan, of which the SFDR forms part.

1.17 Accordingly, in making our proposals, we have focused on outcomes and taken into account other related requirements that firms face internationally, including the EU SFDR. We will continue to consider the interaction with those rules as the Government further develops its policy position.

1.18 The key elements of our proposals are:

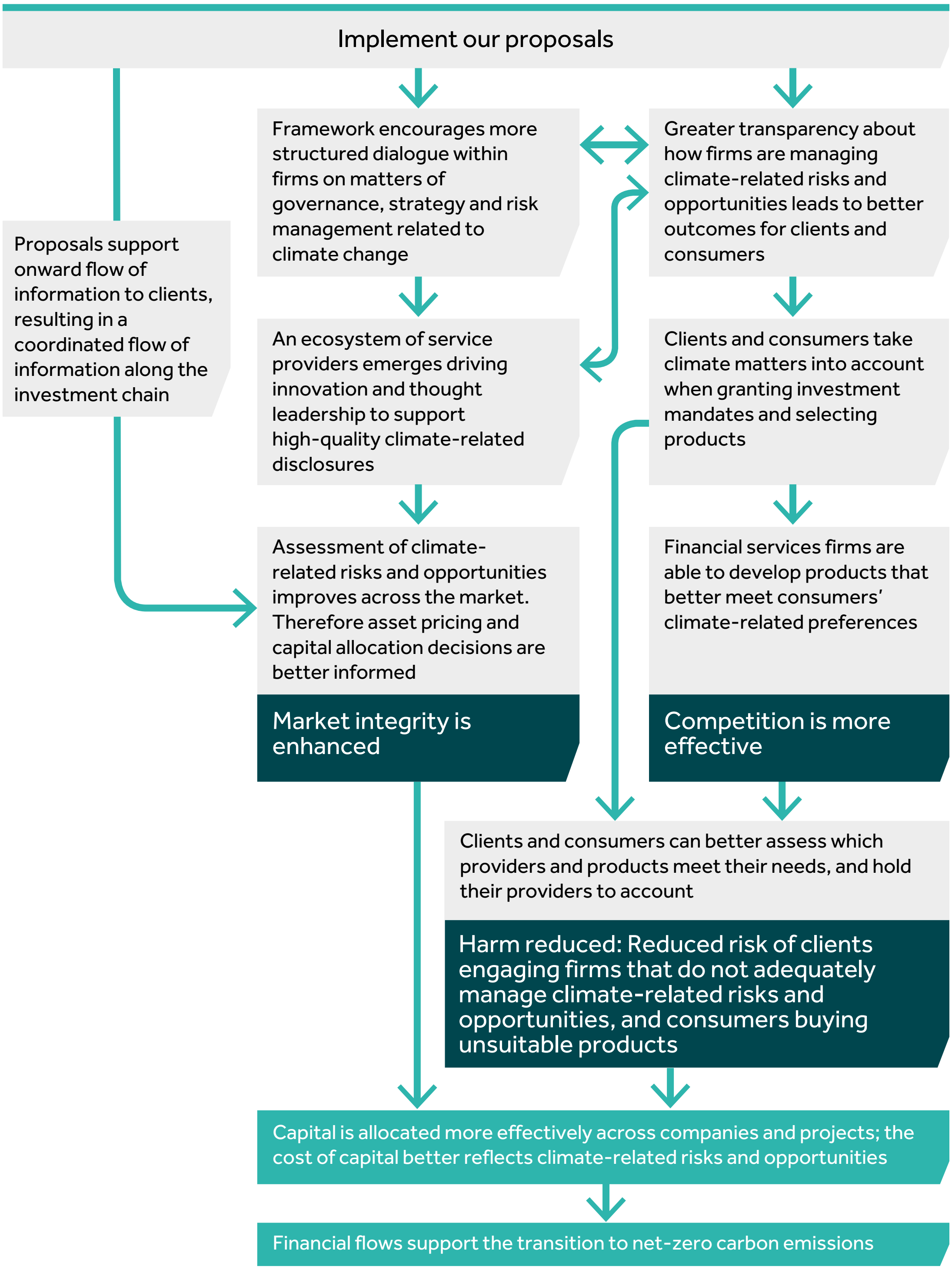
- *Entity-level disclosures.* Firms would be required to publish, annually, an entity-level TCFD report (TCFD entity report) on how they take climate-related risks and opportunities into account in managing or administering investments on behalf of clients and consumers. These disclosures must be made in a prominent place on the main website for the firm's business, and would 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, 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.

1.19 Our proposed scope will cover 98% of assets under management in both the UK asset management market and held by UK asset owners, representing £12.1 trillion in assets managed in the UK. Our proposals would not apply to firms with less than £5 billion in assets relating to relevant activities.

1.20 We anticipate that some firms may need to make additional investments and adjust their business to meet our proposed requirements. However, we expect the benefits to investors and the wider market to outweigh the costs. We discuss the costs and benefits in more detail in Annex 2 (cost benefit analysis).

1.21 By introducing our proposals, we intend to reduce potential harm such as clients engaging firms that do not adequately manage climate-related risks and opportunities, and consumers buying unsuitable products.

1.22 There may also be wider market integrity and market functioning benefits. Improved transparency enables clients and consumers to hold their financial services providers to account. This should encourage them to manage climate-related risks and opportunities effectively and direct capital towards projects and activities that better support the transition to a more sustainable, low-carbon economy.



Outcomes we are seeking

1.23 By introducing our proposals, we would be creating a regulatory framework that aims to ensure in-scope financial services firms contribute to wider Government aims to achieve a net-zero economy by 2050. This is consistent with expectations in our remit letter from the Chancellor, clarifying that we should consider the Government's net-zero commitments when we work to advance our objectives and perform our functions as a regulator.

1.24 We are seeking 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, advancing our objective to promote effective competition in the interests of consumers. Given the global nature of many in-scope firms' asset management and administration business, our proposals are also likely to benefit clients' and consumers' decision-making internationally.
- *Deeper consideration of climate-related risks and opportunities by in-scope firms.* Our proposals will 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. Furthermore, 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 with less exposure to abrupt market corrections. This, in turn, should contribute to the overall efficiency and stability of the financial markets, and advance our market integrity objective.
- *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 proposals aim to support firms sharing onward information on how they are taking climate-related risks and opportunities into account in the management of investments on behalf of clients and consumers. Clients may also require climate-related information to help fulfil their own regulatory obligations.

Measuring success

1.25 We will measure the success of our intervention with:

- *Market outcomes.* We will have been successful if new disclosures made in line with our rules 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 low-carbon economy. We note, however, that it may not be straightforward to isolate the impact of our measures from other complementary initiatives to support the climate transition.

- *Supervision.* Our regulatory approach aims to ensure in-scope firms recognise their responsibility to produce high-quality climate-related disclosures, to facilitate the transition to a more sustainable low-carbon economy. 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 in the coming years, both through resolving problems we identify and proactively in line with our *Approach to Supervision*. We will also consider how best to use data analytics tools to help us assess firms' implementation of the requirements. Our supervision work will form part of the evaluation process of how successful the new measures have been at delivering their intended outcomes. This includes assessing whether firms are acting in investors' best interests, and whether their disclosures meet our requirements.
- *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).

Next steps

1.26 We invite interested stakeholders to provide feedback by 10 September 2021. Please use the online response form on our website or write to us at the address/e-mail address on page 2 of this document.

1.27 We will consider the feedback received and engage directly with stakeholders on these matters. Subject to feedback, we aim to publish a policy statement later in 2021.

2 The wider context

2.1 This chapter provides an overview of the context in which we are making our proposals.

Climate change risks and opportunities

2.2 For firms managing or administering investments on behalf of clients and consumers, the most relevant and material exposures to climate-related risks and opportunities typically lie in the assets the firm manages, rather than in the assets on its own balance sheet.

2.3 The financial risks of climate change are usually categorised as:

- *Physical risks.* These may arise as a result of more frequent extreme weather events, such as storms and flooding, potentially leading to increased business disruption and losses for corporates. This would impact the value of portfolios managed on behalf of clients and consumers. For example, the Principles for Responsible Investment (PRI) published its Technical Guide: TCFD for real assets investors in April 2021. In it, the PRI cited First Street Foundation's estimate that from 2005 to 2017, flooding in the US caused by sea level rise led to a $7.4 billion fall in home values across five coastal states.
- *Transition risks.* These arise from ongoing and potential future policy (including tax and legal), technological, market and behavioural changes as economies transition to net zero. This may impact corporates' business models, strategies and operating costs, impacting the value of investments – particularly longer-term investments such as pension funds. The PRI's Technical Guide also cited insurance company Euler Hermes' estimate that between 1997 and 2017, the value of energy sector assets in the US depreciated by approximately $1.4 trillion.

2.4 There are also opportunities associated with climate change. For example, the PRI's Technical Guide references the International Renewable Energy Agency's Global Landscape of Renewable Energy Finance 2020 report, which states that investments into renewables must reach '$800 billion per year by 2050 to fulfil key global decarbonisation and climate goals'.

The Task Force on Climate-related Financial Disclosures

2.5 The TCFD was established in December 2015 to identify the climate-related information needs of financial services firms (investors, lenders, insurance underwriters) and develop a set of climate-related disclosure recommendations to support these needs.

2.6 The TCFD has set out 11 recommended disclosures under 4 overarching recommendations, covering governance, strategy, risk management and metrics and targets. These were published in a final report in June 2017, which also includes guidance for all sectors. The TCFD also published a separate annex on implementation of the recommendations, which includes supplemental guidance on sector-specific considerations. We refer to this document as the TCFD Annex. Extracts are reproduced in Appendix 2 for reference.

2.7 The TCFD's recommendations provide structure to climate-related financial disclosures along the investment chain and a 'foundation to improve investors' and others' ability to appropriately assess and price climate-related risks and opportunities'.

2.8 The TCFD has also produced technical guidance to further assist preparers in developing their disclosures. A Technical Supplement, entitled The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities was published alongside the final report. This was followed in 2020 by Guidance on Scenario Analysis for Non-Financial Companies and Guidance on Risk Management Integration and Disclosure.

2.9 The TCFD's recommendations have benefited from extensive expert inputs and wide-ranging consultation process. The TCFD has continued to engage with stakeholders to support the development of further guidance.

2.10 In 2020, it published a consultation on forward-looking financial sector metrics. In June 2021, the TCFD published 2 further documents for consultation:

- New proposed guidance on metrics, targets and transition plans. This document also proposes amendments 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.

2.11 On the assumption that the TCFD's finalised guidance and technical supplement are broadly consistent with that published in these consultation documents, we consider that it would be appropriate to reference these materials when we finalise our policy position. We intend to take account of the proposed updates to existing TCFD materials. We set out how we propose to do this in Chapter 5.

Adopting the TCFD's recommendations

2.12 The TCFD's recommendations have attracted widespread support in the UK and internationally. As at April 2021, over 2000 organisations had publicly declared their support for the recommendations, including over 880 financial firms responsible for $178 trillion in assets. The TCFD anticipates that, as countries work toward achieving net-zero emissions by 2050, many may legislate disclosure of climate-related information.

2.13 Some examples of the strong support among regulators and policy makers globally include:

- *Local regulatory initiatives.* The New Zealand Government has announced plans to mandate TCFD-aligned disclosures. Japan's Financial Services Agency is proposing to revise Japan's Corporate Governance Code to, among other things, enhance climate-related disclosure based on the TCFD's recommendations. The US Securities and Exchange Commission has both sought public input and initiated a review on climate-related disclosure. The European Commission adopted a proposal for a Corporate Sustainability Reporting Directive (amending reporting requirements currently under the Non-Financial Reporting Directive) which builds on the TCFD's recommendations and other existing content.

- *International standards.* A key initiative in this space is the International Financial Reporting Standards (IFRS) Foundation's work towards establishing an International Sustainability Standards Board (ISSB) to sit alongside the International Accounting Standards Board. It has established a Technical Readiness Working Group, which is exploring how it can best leverage the TCFD's recommendations and other existing content to develop a sustainability reporting standard, initially focusing on climate. As part of this, the working group is considering how a prototype published by an alliance of the leading sustainability reporting organisations may be further developed to give the ISSB a 'running start'. We are closely involved in these developments as co-chair of a workstream on issuers' sustainability disclosures under the International Organization of Securities Commissions (IOSCO), which welcomes the IFRS Foundation's work in this area. Consistent with the proposals in this CP, IOSCO has in parallel work also been considering how the TCFD's recommendations could form the basis for a client-facing sustainability disclosure regime for asset managers. IOSCO will shortly publish a consultation paper, seeking feedback on draft recommendations.
- *International forums.* The TCFD's recommendations and the IFRS Foundation's initiative have also been important areas of focus for the G7, under the UK's presidency. At their meeting in June 2021, G7 finance ministers and central bank governors committed to a 'transformative effort to tackle climate change and biodiversity loss' and emphasised 'the need to green the global financial system so that financial decisions take climate considerations into account'. As part of this, they agreed to support moving towards mandatory climate-related disclosures based on the TCFD framework. They also welcomed the IFRS Foundation's programme of work to develop a baseline global reporting standard for sustainability, built from the TCFD framework and the work of sustainability standard-setters.
- The private finance agenda of the UN Climate Change Conference of the Parties 2021 (COP26), which the UK will host in partnership with Italy in November, also features TCFD adoption under its reporting deliverables. Key goals include improving the quantity and quality of climate-related financial disclosures, establishing pathways to mandatory disclosure and promoting alignment of disclosure globally around the TCFD framework.

UK Government's Green Finance Strategy

2.14 In the Green Finance Strategy, published in 2019, the Government set an expectation that all listed issuers and large asset owners would be disclosing in line with the TCFD's recommendations by 2022.

2.15 In November 2020, the Government announced its intention to make TCFD-aligned disclosures mandatory across the economy by 2025, with a significant portion in place by 2023. An indicative pathway for the introduction of regulatory and legislative requirements was set out in an accompanying Roadmap, outlining steps to be taken by DWP, the Department for Business, Energy & Industrial Strategy (BEIS), the Prudential Regulation Authority (PRA) and us.

2.16 The Roadmap signalled our intention to take further implementation measures. It set indicative timelines for consulting on and introducing TCFD-aligned disclosure rules and guidance for a wider scope of listed commercial companies, as well as asset managers, life insurers and FCA-regulated pension providers. The proposals in this CP are consistent with the high-level approach outlined out in the Roadmap.

2.17 DWP has also brought forward draft regulations and statutory guidance that would see the largest occupational pension schemes, as well as authorised multi-employer schemes (master trusts) reporting in line with the TCFD's recommendations from 1 October 2021. The draft regulations will be debated in Parliament in the coming months.

Existing climate-related disclosure requirements

2.18 The firms in scope of our proposals may be subject to existing climate-related disclosure requirements in the UK or in other jurisdictions. Since climate change is an urgent global issue, we consider it appropriate to use a widely accepted global framework as the basis for our rules and guidance. By aligning our proposals with the TCFD's recommendations, we aim to promote consistency in disclosures, both in the UK and globally.

2.19 Given complementary and, in some cases, partially overlapping requirements under existing climate-related disclosure rules, our proposals also aim to ensure coherence with these regimes as far as possible.

2.20 Some examples of existing disclosure regimes include:

- *FCA TCFD-aligned Listing Rule.* We are consulting in an accompanying consultation paper (CP21/18) on proposals to extend the application of our existing TCFD Listing Rule for premium listed companies to commercial companies with a UK standard listing of equity shares (excluding standard listed investment entities and shell companies). Some firms in scope of the proposals in this CP will also be subject to our Listing Rule in their capacity as listed companies (or as part of a listed group). While those disclosures are focused on enterprise risks and directed at shareholders, the proposals in this CP focus on assets managed or administered by the firm and are directed at clients and consumers.
- *Reporting to the PRI.* The PRI introduced TCFD-aligned indicators to its reporting framework in 2018. In 2020, indicators on governance and strategy became mandatory for signatories to report to the PRI and in 2021 they became mandatory to disclose publicly. Although many asset managers and asset owners will already be making those disclosures publicly available, our proposals would require mandatory disclosures across all 4 of the TCFD pillars by a wider scope of firms (ie, beyond PRI signatories).
- *EU SFDR and Taxonomy.* The SFDR applies to a wide range of financial market participants. It introduces transparency requirements relating to sustainability risks, adverse sustainability impacts and the provision of information for certain sustainable finance products. The Taxonomy Regulation establishes criteria for determining whether an economic activity is environmentally sustainable and amends SFDR with regard to certain disclosure requirements. The substantive provisions that apply to firms were not onshored and so there is no obligation for UK-authorised firms, carrying on business in the UK, to comply. However, firms conducting business on a cross-border basis are likely to have considered their obligations under SFDR in those jurisdictions where they carry on business. Where disclosure requirements under EU rules cover matters similar to those under the TCFD's recommendations (eg, certain carbon emissions metrics), we aim to ensure consistency both with the EU and internationally as far as possible.

- *DWP's draft regulations.* DWP's draft regulations require occupational pension scheme trustees to embed climate-related risks and opportunities into their governance, strategy and risk management processes, and to make disclosures in line with the TCFD's recommendations. We have engaged closely with DWP in developing our proposals to ensure they align with trustees' information needs. DWP's draft regulations also include certain governance and organisational requirements associated with the assessment and management of climate-related risks and opportunities. We expect FCA-authorised firms to be managing climate-related risks and opportunities within the context of existing regulatory expectations on governance and risk management. Our proposals are therefore focused on disclosure requirements only.

Rationale for intervention

2.21 According to the TCFD's 2020 Status Report, TCFD-aligned reporting by asset managers and asset owners has increased over the last 3 years (2018-2020). Nevertheless, the TCFD concluded that reporting by those firms to their clients and beneficiaries may not be sufficient to ensure they have the right information to make financial decisions.

2.22 Analysis conducted by the PRI in 2020 also indicated that too few firms are yet making disclosures that clients need to inform their own risk and investment decisions. Among UK asset manager and asset owner signatories, 330 included information consistent with the TCFD's recommendations in their signatory reports, while only 61 of those signatories opted to make their climate-related disclosures public.

2.23 The disclosures guide published by the CFRF in 2020 describes asset managers' disclosures on risk management arrangements and metrics and targets as 'still at an emergent stage'.

2.24 Against this backdrop, we consider that regulatory intervention will help to promote complete, consistent and decision-useful disclosures to clients and consumers. We are proposing a climate-related financial disclosure regime, aligned with the TCFD's internationally accepted framework, that will ensure a 'whole of market' approach.

2.25 Given the global nature of assets under management and global reach of risks and opportunities posed by climate change, it is important that asset managers and asset owners consider the implications in their investment decision-making.

2.26 Our proposals provide a structured framework for the consideration of these risks and opportunities, to support better informed investment, as well as a consistent framework in which to disclose to clients and consumers. This should also help to reduce the burden in-scope firms may currently face in responding to multiple requests for different types of climate-related information.

2.27 We also consider that the product-level information included in firms' disclosures under our proposals could be used as a basis for potential future product labels. Such labels could help consumers navigate investment products in a consumer-friendly way, consistent with recent recommendations in the Treasury Select Committee's Net Zero and the Future of Green Finance report.

How it links to our objectives

2.28 In Chapter 1, Figure 1, we set out the potential harm our proposals are seeking to address and the potential benefits to markets for regulated financial services.

2.29 If firms do not make sufficient climate-related financial disclosures, clients and consumers may be unable to make informed decisions. As a result, clients may engage firms that do not adequately manage climate-related risks and opportunities and consumers may buy unsuitable products. Furthermore, without good transparency of how climate-related risks and opportunities are managed along the investment chain, capital may be misallocated.

2.30 Intervention to address these harms flows directly from our strategic objective to ensure that the relevant markets function well, as well as advancing 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 selecting providers and investment products, and 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 that they are investing in.
- **Protect and enhance the integrity of the UK financial system.** More information on firms' climate-related investment policies and outcomes being available can improve asset pricing and capital allocation decisions.

2.31 When advancing the operational objectives set out above, we have had regard to the Government's commitment to achieve a net-zero economy by 2050 in accordance with the most recent remit letter by the UK Chancellor. Our proposals aim to increase transparency and competition – encouraging capital flows towards firms that better manage climate risks and opportunities and resource allocation towards transitioning the economy to net zero.

Equality and diversity considerations

2.32 We have considered the equality and diversity issues that may arise from the proposals in this CP.

2.33 Overall, we do not consider that the proposals materially affect any of the groups with protected characteristics under the Equality Act 2010. But we will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules.

2.34 In the meantime, we welcome your input to this consultation on this.

3 Design, scope, timing of implementation and compliance basis

3.1 In this chapter, we set out the overarching design of our proposed climate-related disclosures and details of our proposed scope, timeframe for implementation and compliance basis. We outline our entity- and product-level disclosure rules and guidance in Chapters 4 and 5, respectively, including specific proposals relating to asset managers and asset owners.

Design of our proposed rules and guidance

3.2 We are proposing to introduce a climate-related financial disclosure regime for asset managers, life insurers, and FCA-regulated pension providers consistent with the TCFD's recommendations.

3.3 Specifically, we are proposing requirements for disclosures to be made at 2 levels:

- *Entity-level disclosure requirements.* These require firms to make disclosures, annually, on how they take climate-related risks and opportunities into account in managing or administering assets on behalf of their clients and consumers. These disclosures must be made on the firm's main website. The contents of the report must be consistent with the TCFD's recommendations – covering governance, strategy (including scenario analysis), risk management and metrics and targets. Although the requirements apply to FCA-regulated entities, in Chapter 4 we set out proposed flexibilities for firms to make their entity-level disclosures in a group-level report should they wish to do so.

  The purpose of these requirements is to provide clients and consumers with information to understand the firm's approach to climate-related risks and opportunities. This will enable them to make informed decisions when granting mandates and selecting providers.

- *Product or portfolio-level disclosure requirements.* These require firms to make disclosures, annually, in respect of the individual products or portfolio management services they offer. This must be done on their website *and* in appropriate client communications or upon client request in specific cases (see paragraphs 5.55 to 5.61). These disclosures would comprise a baseline set of core, mandatory carbon emissions and carbon intensity metrics, additional metrics where possible, and scenario analysis. Firms must include disclosures on governance, strategy and risk management insofar as they are materially different to disclosures made at entity level and where firms consider that more detailed information would be decision-useful to clients and consumers.

  The purpose of these requirements is to provide clients and consumers with reliable information about the assets to which they have economic exposure. This will enable them to make informed decisions about their investments and hold their providers to account.

3.4 We directly reference the TCFD's recommendations in our proposed rules. This should help to make our expectations clear and help firms to take a structured, internationally-consistent approach to reporting on climate-related matters.

Scope: Firms in scope of our proposals

3.5 Our proposals at entity level would apply to FCA-regulated firms with respect to their assets managed or administered from the UK, notwithstanding where the client, product or portfolio is based.

Asset managers

3.6 Our proposals would apply to FCA-regulated firms responsible for managing investments. These would include:

- a portfolio manager
- a UK UCITS management company
- a full-scope UK AIFM
- a small authorised UK AIFM

3.7 Our intention is that TCFD reports should, as far as possible, cover the full range of asset management activities conducted in the UK. This approach is consistent with the way in which we understand global firms prepare TCFD disclosures, as well as their underlying arrangements for climate governance, strategy and risk management. Broad coverage will provide greater transparency so that clients and consumers can make considered choices. It will also support the necessary flow of information to clients – such as trustees of occupational pension schemes – that are themselves subject to climate-related reporting obligations. While we have sought to capture as broad a scope as possible in our proposals, there may be some products marketed in the UK by non-UK asset managers – and in which occupational pension scheme trustees invest – for which less information will be available. Ultimately this may also affect how trustees choose investments.

3.8 We propose to bring into scope the different types of fund management activities, as well as portfolio management defined more broadly. This includes, for instance, investment advice provided by a UK entity to institutional clients within a group where substantive investment decisions are based on that advice. The proposed approach aims to bring into scope asset management activities conducted by private equity and other private market firms.

3.9 Where asset managers provide discretionary portfolio management services to institutional clients that are themselves (or their clients or customers) subject to climate-related financial disclosure obligations (whether under our rules or as a result of other legal or regulatory requirements), our rules enable 'on demand TCFD product reports' to be requested (see paragraph 5.55 to 5.61).

3.10 We propose to bring discretionary portfolio management activities conducted for retail clients as well as institutional clients subject to their own climate transparency requirements into scope of the requirements for entity-level reports.

3.11 Our proposed rules will not apply directly to overseas firms, including those currently in the Temporary Permissions Regime (TPR). Firms within the TPR are required to seek full authorisation by us or the PRA to continue to access the UK market. As the TPR is due to end in December 2023, firms that apply for UK (FCA) authorisation would be brought into scope of our proposed rules accordingly.

3.12 However, we are proposing flexibilities that would allow firms to make disclosures at a group-level, in respect of their global business, if they choose to do so.

Asset owners

3.13 Our proposals would apply to firms involved in investment decision-making or investment oversight activities. The aim is to provide clients and consumers with information about how climate-related risks and opportunities are considered and managed, to enable them to make informed decisions. These firms often manage assets with longer investment horizons, such as pension savings, which may be particularly affected by the risks and opportunities associated with climate change.

3.14 The types of firms in scope would include:

- life insurers (and pure reinsurers) in relation to insurance-based investment products and DC pension products (unit-linked and with-profits)
- non-insurer FCA-regulated pension providers, including platform firms and SIPP operators, to the extent that SIPP operators provide a ready-made selection of investments

3.15 Our proposals would not apply to defined benefit (DB) schemes. These are trust-based occupational pension schemes and, as such, fall within the scope of DWP's draft regulations. Scheme trustees that are subject to these regulations will need to produce their own entity-level TCFD disclosures for both DC and DB occupational schemes. However, where trustees delegate investment management to asset managers or life insurers, our rules would capture these investments at the product or portfolio level.

Exemptions

3.16 We do not propose to apply our proposals to asset managers and asset owners that have less than £5 billion in assets under management or administration on a 3-year rolling average, to be assessed annually, with respect to their business activities relating to the products and portfolios set out from paragraph 3.18. In conducting our cost benefit analysis (CBA), we observed that the incremental costs of implementing our proposals would potentially be high, as a proportion of the firms' assets under management or administration. This could lead to the unintended outcome that firms increase fees to meet the higher costs, passing these on to clients, and potentially undermining competition in the interests of consumers.

3.17 The threshold we are proposing would capture 98% of both the UK asset management market and held by UK asset owners (covering £10.4 trillion and £1.7 trillion in assets, respectively). 140 asset management and 34 asset owner firms would be in scope, with the very smallest firms excluded. Accordingly, we do not consider that this would materially impede the onward flow of relevant information to clients and consumers (including occupational pension scheme trustees in scope of DWP's draft regulations). We therefore believe this is a proportionate approach, while remaining aligned with our outcomes.

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.

Scope: Products and portfolios in scope of product or portfolio-level requirements

3.18 Our proposed rules and guidance would apply to the firm, which would be responsible for relevant disclosures at product or portfolio level.

Asset managers

3.19 The products and portfolios directly within scope of our proposed rules for asset managers are:

- authorised funds, excluding:
  - feeder funds
  - sub-funds in the process of winding up or termination
- unauthorised Alternative Investment Funds (AIFs)
- portfolio management services

3.20 As noted above (see paragraph 3.5), our proposed entity-level disclosures would capture in-scope UK firms' asset management activities in respect of overseas funds and other overseas assets. Overseas funds would also fall within scope in certain other circumstances.

3.21 For example, a non-listed unauthorised AIF managed in the UK by an in-scope UK-authorised firm would be covered by the disclosures, as follows.

- *Entity-level disclosures.* The UK-authorised firm would be in-scope of entity-level disclosure requirements in respect of its management of the unauthorised AIF.
- *On-demand product-level disclosures.* Note that the unauthorised AIF would not be subject to public disclosure obligations under our proposals. However, a client that needs product-level information on the unauthorised AIF to meet its own (or its clients' or customers') climate-related disclosure requirements would be able to request the relevant information from the in-scope UK firm 'on demand' (see paragraphs 5.55-5.61).

Asset owners

3.22 The scope of activities to which our proposals would apply relates to the firm's role as a manager or administrator of the underlying assets for clients and consumers, as is the case for unit-linked and with-profits investment and DC pension products. The products in scope include:

- 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)
- SIPPs, either insurance or non-insurance-based, where the SIPP operator offers investments to be held within its SIPP wrapper

3.23 Noting that DWP's draft regulations apply to trust schemes, our proposals will ensure that consumers receive broadly consistent climate-related financial information about their pension products, irrespective of whether they are offered by providers subject to our or DWP's requirements.

> **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?**

Timing of implementation

3.24 We are proposing a phased implementation beginning with the largest, most interconnected firms and extending the application 1 year later to the remaining firms above the proposed £5 billion threshold for assets under management or administration. We consider this a balanced and proportionate approach which prioritises information flow on the largest part of assets under management or administration.

3.25 We acknowledge that many larger firms are already making – or planning to make – voluntary TCFD-aligned disclosures and have therefore already invested in capabilities. As discussed in the CBA (Annex 2), initial costs are likely to be proportionally higher for smaller firms that need to build capabilities. The phased approach therefore gives smaller firms more time to prepare.

3.26 Overall, the proposed timing is consistent with the Government's commitment to achieve a net-zero economy by 2050. A longer timeframe for implementation would be incompatible with the urgency and scale of the changes needed to support the transition to a low-carbon economy.

3.27 In line with the timelines indicated in the Government's Roadmap, published in November 2020, we are proposing the following 2 phases:

First phase

3.28 **Effective from 1 January 2022** – rules would come into force for the largest, most interconnected firms comprising:

- Asset managers with assets under management (AuM) of more than £50 billion
  - We propose to use the enhanced Senior Manager & Certification Regime (SM&CR) threshold as a proxy given that this is already used and understood by industry. This is based on the firm's AuM calculated as a 3-year rolling average (see SYSC 23 Annex 1).
  - This would capture 34 firms with £8 trillion in AuM.
- Asset owners with £25 billion or more in assets under management or administration in relation to in-scope business

  - This lower threshold reflects the different, more concentrated market structure of these sectors and takes a proportionate approach to introducing disclosures, while still ensuring wide market coverage within a realistic timeframe.
  - This would capture 12 firms with £1.2 trillion in AuM.

3.29 **Publication deadline 30 June 2023** – first disclosures to be made. Subsequent disclosures would be made by 30 June each calendar year.

- *Entity-level disclosures.* These disclosures would be made with reference to activities over the previous 12 months, using the most up-to-date information available. We are proposing to give firms the flexibility to select the 12-month reporting period for their first entity-level TCFD report, provided that the period begins no earlier than 1 January 2022 and that the first disclosures are published on their website by 30 June 2023. Firms may change the reporting period in subsequent years provided that there is no period of time which is not covered by the firm's TCFD entity reports (eg, by issuing an interim report if necessary) and that the reports are published by 30 June each calendar year.
- *Product and portfolio-level disclosures.* Firms required to make public disclosures would be required to publish them on their websites by 30 June of each calendar year. These disclosures would be made using the most up-to-date data available at the time of reporting. The data must be calculated within the 12-month reporting period covered by the TCFD entity report. Firms would be required to publish disclosures on their website, by 30 June, then include (or cross-reference to) the website disclosures in the appropriate client communication which follows most closely after the reporting deadline. In the case of 'on demand' disclosures to institutional clients, firms must provide the requested information from 1 July 2023.

Second phase

3.30 **Effective from 1 January 2023** – rules would take effect for the remaining firms above our proposed £5 billion threshold for both asset managers and asset owners.

- Asset managers
  - This would capture 106 firms with £2.4 trillion in AuM.
- Asset owners
  - This would capture 22 firms with £0.5 trillion in AuM.

3.31 **Publication deadline 30 June 2024** – first disclosures to be made. Subsequent disclosures would be made by 30 June each calendar year thereafter. In the case of 'on demand' disclosures to institutional clients, firms must provide the requested information from 1 July 2024.

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

Compliance basis

3.32 In Chapter 1, we outline the potential harm our intervention aims to address and the outcomes we are seeking to achieve. We note that clients rely on high-quality information to inform asset pricing, risk management and capital allocation; while consumers need clear disclosures from firms so they can choose the right products. To meet the needs of both clients and consumers, we require a 'whole-of-market' solution such that disclosures are complete and consistent across the investment chain.

3.33 We have framed our proposals in a manner broadly consistent with DWP's. Given that occupational pension scheme trustees will face mandatory TCFD-aligned obligations under DWP's draft regulations, only a mandatory regime for asset managers will support the required flow of information. Our proposed approach also aligns with the Government's ambition that TCFD-aligned disclosures should be mandatory across the UK economy by 2025.

3.34 Nevertheless, we are providing limited flexibility for firms to provide some disclosures on a 'best efforts' basis, for example where methodologies for certain metrics are not yet widely established. We believe this will enable firms to make a reasonable judgement as to whether the data are sufficient to disclose, and also allow for continuous improvement.

Data availability

3.35 We welcome global initiatives aimed at improving the consistency, coherence and reliability of issuers' sustainability-related disclosures. In particular, the IFRS Foundation is working towards potentially establishing the new ISSB ahead of COP 26 in November, with a view to making quick progress to introduce a corporate reporting standard for sustainability. The IFRS Foundation Trustees have signalled that the initial focus will be on climate change.

3.36 We acknowledge that initially there will be data gaps at the investee company level for as long as relevant climate-related disclosures are not mandatory, either in the UK or internationally. However, since in-scope firms aggregate investee company data, rather than produce primary disclosures, we consider they may use proxy data or make assumptions to address any gaps. Where proxy data or assumptions are applied, these must be transparent and the methodologies briefly set out, providing relevant contextual information and explaining any limitations of the approach.

3.37 We also recognise the data limitations in respect of instruments that are not traded on public markets, where reporting and capabilities are less advanced. Similarly, we consider that in-scope firms may use proxy data or make assumptions to fulfil their disclosure requirements, with the additional explanations as set out above.

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.**

4 Entity-level disclosure rules and guidance

4.1 In this chapter we set out our more detailed proposals for entity-level disclosures, including the provision and content of the TCFD entity report and specific proposals for asset managers and asset owners.

4.2 The purpose of these disclosures is to provide greater transparency to clients and consumers about how firms manage climate-related risks and opportunities. This will enable clients and consumers to make more considered choices when granting mandates and selecting providers, resulting in further benefits and reducing potential harm as set out in the causal chain (see Chapter 1).

TCFD entity report and compliance statement

4.3 In-scope firms' asset management and administration businesses are global in nature, often operating across jurisdictions. Given this, and the global reach of climate change impacts, we consider disclosures on climate-related risks and opportunities to be important and meaningful to a worldwide audience. We also recognise that the FCA-authorised firms in scope of our proposals may make disclosures with respect to assets managed or administered beyond the UK, and for the attention of clients and consumers outside of the UK. We are proposing flexibilities that would enable them to do so.

4.4 We therefore favour retaining the largely principles-based approach in the TCFD's recommendations as the basis for our proposed entity-level disclosure rules. Adding further prescription or otherwise adapting the TCFD's recommendations would not only deviate from a globally-accepted framework, but also risk stifling innovation in this area. A principles-based approach provides flexibility to keep pace with ongoing regulatory developments and advances in climate science. It also takes into account the competitiveness of the UK asset management, life insurance and pensions sectors.

4.5 Further, referencing the TCFD's recommendations also helps to ensure that our approach is coherent with that of DWP (which is also aligned with TCFD) to support a consistent flow of information along the investment chain.

TCFD entity report

4.6 We propose to require each in-scope firm to publish a TCFD entity report, consistent with the TCFD's recommendations and recommended disclosures, on an annual basis by 30 June each calendar year. The report must be published in a prominent place on the main website for the business of the firm (eg, with a link from the homepage to ensure that it is easily accessible).

4.7 For the purposes of the instrument, the TCFD entity report is defined as a public report regarding the overall assets managed or administered by the firm in relation to its 'TCFD in-scope business' (see Appendix 1).

4.8 We are proposing a flexible approach to the TCFD entity report which allows firms to cross-refer to disclosures made in another report where those cover the relevant content. These include circumstances where:

- disclosures are made as part of a group report or another member of the group's report (see paragraphs 4.16 to 4.20)
- disclosures are made as part of a complementary report to the annual financial report (see paragraphs 4.21 and 4.22)
- investment decisions are taken by another entity in the same group (see paragraphs 4.16 to 4.20) or a delegated manager (see paragraphs 4.40 to 4.47)

4.9 Where the firm chooses to cross-refer to disclosures in another report, the firm would be required to set out the rationale for doing so in its TCFD entity report. The firm must also clearly signpost to those disclosures and include relevant hyperlinks.

4.10 In providing these flexibilities we recognise that the TCFD entity report may be relatively short for some firms. The report should be proportionate to the circumstances of the firm.

4.11 Our approach aims to strike a balance between producing a report that is clearly attributable to the in-scope firm, while recognising that disclosures at a group level (or at another level of consolidation) or by a delegated manager may be more appropriate for some firms and more decision-useful for clients and consumers. We welcome views on practical considerations or concerns with implementing this proposal.

Compliance statement

4.12 As we are proposing a flexible approach, our proposals require the TCFD entity report to include a statement, signed by a member of senior management, confirming that the disclosures comply with the requirements set out in the relevant chapter of our Handbook.

4.13 In determining whether the disclosures are consistent with the TCFD's recommendations, firms should take reasonable steps to ensure their disclosures reflect the TCFD's all-sector guidance and supplemental guidance for asset managers and asset owners, as appropriate. These have been reproduced for reference in Appendix 2 in addition to the TCFD's recommendations and recommended disclosures.

4.14 Our proposed guidance references other relevant documents produced by the TCFD that may be helpful for firms in preparing their disclosures.

4.15 As discussed in Chapter 5, we may reference guidance that is currently being consulted on by the TCFD when we finalise our policy position.

Cross-referencing to group or affiliate reports

4.16 Our proposed entity-level disclosure rules apply to in-scope, FCA-authorised firms. However, we acknowledge that many firms sit within a group structure, where governance, strategy and risk management arrangements may take place at the parent level or be shared with other members of the group. We also recognise that disclosures on climate-related matters are likely to be relevant to the firm's global business activities, rather than its UK business only.

4.17 Accordingly, our rules will permit firms to make disclosures at a level of consolidation that the group considers would be most decision-useful for clients and consumers. This will also help to manage the burden on firms by avoiding potentially costly duplication of disclosures across entities within a group.

4.18 In particular, we are proposing that an in-scope firm's TCFD entity report may cross refer to climate-related disclosures made by the group or an affiliate member of the group. The in-scope firm's TCFD entity report must, however, set out the rationale for doing so and how the disclosures are relevant to its activities. It must also clearly signpost to where the disclosures can be found and include the relevant hyperlinks and cross references. This flexibility would only apply where group or affiliate disclosures are relevant to the assets managed or administered by the firm.

4.19 Where the TCFD entity report cross refers to a group report or another group member's report, the in-scope firm's compliance statement (see paragraphs 4.12 to 4.15) would in effect confirm that the disclosures made in another report accurately reflected the firm's own approach to the TCFD's recommendations.

4.20 If a firm's approach to the TCFD's recommendations *materially deviates* from the climate-related financial disclosures contained within the group, or another member of the group's, report, any deviation must be clearly explained (in either the TCFD entity report or group report). This would include, for example, cases where the firm has a different governance structure, or a different approach to risk management or climate-related strategy, to that of its parent.

Cross-referencing to a complementary report to the annual financial report

4.21 As noted in Chapter 1, some in-scope firms will also be, or be part of, a corporate group that is subject to our existing or proposed TCFD-aligned Listing Rule. The existing Listing Rule (LR 9.8.6R(8)) provides for disclosures consistent with the TCFD's recommendations to be made on a 'comply or explain' basis in a firm's annual financial report. Some firms may choose to make more detailed disclosures in a complementary standalone document. The primary audience for these disclosures is the firm's shareholders.

4.22 We are proposing that firms should have the flexibility to make shareholder and client-focused disclosures in the same complementary report, and cross-reference to these disclosures from their TCFD entity report. Where doing so, the firm's TCFD entity report must set out the rationale for doing so, how the disclosures are relevant to clients, and include relevant hyperlinks.

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?

Contents of the TCFD entity report

4.23 The following sections refer to the TCFD's recommendations, recommended disclosures, all-sector and supplemental guidance for asset managers and asset owners (see Appendix 2).

Governance, strategy and risk management

4.24 Investment management and administration activities span a broad spectrum of strategies, asset classes and products. We acknowledge that disclosures made under the governance, strategy and risk management pillars (including the TCFD's supplemental guidance) may either be broad, covering a wide range of investment strategies, asset classes or products, or may need to be more tailored.

4.25 We are proposing that firms must explain any *material differences* in their approach to governance, strategy, or risk management for specific investment strategies, asset classes or products, where relevant.

4.26 Depending on the number and nature of its different investment strategies, asset classes or products, a firm may make more tailored disclosures or highlight material differences within its product or portfolio-level disclosures (see Chapter 5). However, where this is the case, the firm must include a cross-reference so that the disclosures are easily accessible from the TCFD entity report.

4.27 We recognise that the nature and content of entity-level disclosures consistent with the TCFD's recommendations are likely to be most suited to a sophisticated institutional audience.

4.28 We would however encourage firms to make disclosures accessible to a less sophisticated audience, as far as possible. For example, firms could consider providing information on the tangible outcomes from their governance and risk management arrangements via case studies.

Scenario analysis (recommended disclosure (c) under the 'strategy' pillar)

4.29 Scenario analysis involves the consideration of various plausible future scenarios under a set of assumptions and constraints, to arrive at a range of hypothetical outcomes.

4.30 With respect to climate change, the purpose is to explore and better understand the potential impact of climate-related risks and opportunities over time. The process and outputs can help firms to identify key drivers of climate-related exposure and thereby enhance their risk and investment decisions.

4.31 We note that scenario analysis tools and capabilities are still evolving across the industry. In June 2020, the CFRF's scenario analysis working group published practical guidance on 'how to use scenario analysis to assess climate-related financial risks to inform firms' strategy and business decisions'. This year it is building on the recommendations in that guide, while also progressing, in conjunction with other working groups, a cross-cutting project on climate data and metrics. Until best practice is established and widely adopted, methodologies and approaches are likely to continue to differ between firms, investment strategies and asset classes.

4.32 Nevertheless, we consider entity-level discussion of a firm's approach to scenario analysis to be decision-useful to clients and consumers. In particular, this would give institutional clients reassurance that different climate-related scenarios are considered in the investment decision-making process.

4.33 We therefore propose that firms must disclose:

- their approach to climate-related scenario analysis
- how they apply climate-related scenario analysis in their investment and risk decision-making process
- quantitative examples to demonstrate their approach to climate-related scenario analysis, where reasonably practicable

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?

Metrics and Targets

4.34 The UK Government has made a legislative commitment to achieve net-zero emissions by 2050. As discussed in Chapter 2, there is a clear focus on driving forward the transition under both the UK's G7 presidency and work towards COP26. Many asset managers and asset owners have also already publicly committed to transitioning their portfolios to net-zero emissions by 2050.

4.35 For instance, as at April 2021 the Net Zero Asset Managers Initiative's membership had increased to 87 signatories with $37 trillion in AuM, and at May 2021 the Net-Zero Asset Owner Alliance's membership increased to 42 signatories with $6.6 trillion in AuM.

4.36 The Institutional Investors Group on Climate Change also launched the Net Zero Investment Framework in March 2021 to support investors in implementing net-zero strategies. At the time of publication, 38 asset managers and asset owners managing $8.5 trillion in assets had adopted the Framework.

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

4.38 Consistent with the TCFD's recommendations, where a firm has set a climate-related target, the firm must describe the target, including the key performance indicators (KPIs) it uses to measure progress, in its TCFD entity report.

4.39 We acknowledge that firms may manage a range of diverse assets on behalf of clients and consumers to reflect their needs and preferences. Accordingly, it is likely to be important to complement disclosure of carbon emissions on an aggregate AuM basis at entity level with more targeted information, such as information relating to a specific asset class, investment strategy or product. We have set out further requirements at product or portfolio-level in Chapter 5.

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?

Specific proposals for asset managers

4.40 Where an in-scope firm is an authorised fund manager (AFM), it may delegate investment management to a third-party portfolio manager which is not in the same group (often as part of a host AFM arrangement). In this case the authorised fund manager will remain responsible for producing a TCFD entity report that sets out its approach to the TCFD's recommendations, including a signed compliance statement.

4.41 The firm must also briefly explain the reasons for selecting the delegate, where relevant to the TCFD's recommendations. This must include how climate-related matters have been taken into account in selecting delegates and relying on their products and services.

4.42 However, we propose to give these firms the flexibility to include hyperlinks and cross references in their entity-level TCFD report to relevant climate-related financial disclosures made by delegated managers, where available.

4.43 Any material deviations from the firm's own approach must be clearly identified and explained, as well as the firm's rationale for relying on the delegate's disclosures.

4.44 We recognise that it may not always be possible to link to delegated managers' reports, for instance if these are overseas firms that do not have mandatory climate-related disclosure obligations. Where this is the case, the firm should produce its own disclosures according to the rules and guidance set out earlier in this chapter.

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?

Specific proposals for asset owners

4.45 We propose that asset owners must produce an entity-level TCFD report that sets out their approach to managing climate-related risks and opportunities for the part of their business offering products where the performance of the underlying investments impacts the benefits accruing to consumers. This is in effect where the life insurer or FCA-regulated pension provider acts as a manager or administrator of the underlying assets for consumers.

4.46 Firms providing in-scope products would be required to produce a TCFD entity report. However, the level of detail required in the report would largely depend on the extent to which the asset owner takes an active role in investment decisions and product design.

4.47 We propose to allow asset owners to cross-reference to other group-level, third-party or delegate reports, where relevant. For example, where a firm's underlying funds are managed by an external asset manager (or more than 1 asset manager), the firm would be able to cross-refer to the appointed asset manager's TCFD disclosures.

4.48 However, the asset owner remains responsible for monitoring the asset manager and its TCFD entity report must, at a minimum, explain how climate-related considerations have influenced its decisions, such as:

- asset manager selection
- judgements on the range of funds offered to clients
- how these judgements reflect the firm's overarching climate change strategy

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?

5 Product or portfolio-level disclosure rules and guidance

5.1 In this chapter, we outline in more detail our proposals for product or portfolio-level disclosures. This includes the timing, location and content of the disclosures, noting in particular the core and additional metrics that we are proposing.

Product or portfolio-level disclosure requirement, timing and location

5.2 We are proposing a *minimum baseline set of consistent, comparable product or portfolio-level disclosures*, including a core set of metrics. This aims to meet the needs of clients and consumers to have reliable and comparable information about the assets to which they have economic exposure. It also aims to support consistent onward disclosure to clients that may be subject to their own disclosure obligations.

Public TCFD product reports

5.3 We propose that, for many firms, product or portfolio-level disclosures would be made annually in a prominent place on the firm's main website, using the most up-to-date data at the time of reporting.

5.4 These firms will *also* need to include their product or portfolio-level disclosures in the appropriate form of client communication which follows most closely after the annual reporting deadline of 30 June. This would be either:

- the annual long report or half-annual report of an authorised fund, provided that the disclosures are always included in the annual report
- a periodic client report
- an annual report to with-profits policyholders
- an annual pension benefit statement or pension drawdown statement

5.5 Firms that manage a listed unauthorised AIF must include their product or portfolio-level disclosures in the TCFD entity report.

5.6 To avoid duplicative disclosures and an increased burden on firms, firms would be allowed to hyperlink to the relevant product or portfolio-level disclosures made on their website in the appropriate client communications, provided that these disclosures are prominently cross-referenced and adequately contextualised.

5.7 Where a firm delegates the management of assets to a third-party portfolio manager, it may choose to cross-refer to disclosures made by the delegate. Where doing so, the firm would need to set out the rationale, outline any material deviations where appropriate and include the relevant hyperlinks.

On-demand TCFD product reports

5.8 In some client relationships, public disclosures are not appropriate. For example, firms that provide discretionary portfolio management services to individuals or institutional investors. Where this is the case, and firms' clients need the information to satisfy their own (or their clients' or customers') climate-related financial disclosure obligations, we are proposing that disclosures be made to the client *upon request*, once a year. The first disclosures under this rule would be made no earlier than 1 July 2023. We set out further details of this proposal from paragraph 5.55.

Provision of data

5.9 In addition, we are proposing that all in-scope firms should provide data on the underlying holdings of their products to clients that request it to satisfy their own climate-related financial reporting obligations.

5.10 Firms would be required to respond to a single request within the annual reporting period, beginning no earlier than 1 July 2023 (and 1 July 2024 for firms in the second phase of implementation). However, if a client relationship starts after 1 July 2023, the client would not be able to request data that precedes the start of the relationship. Firms must also disclose the relevant climate, emissions or carbon-related data where possible eg, depending on the contractual status of the information.

5.11 This proposal aims to further support the flow of information along the investment chain, so that clients can carry out their own scenario analysis based on consolidated holdings across their investment products and mandates.

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?

Content of product or portfolio-level disclosures

Core metrics

5.12 We are proposing a baseline set of core, mandatory, carbon emissions and carbon intensity metrics that in-scope firms would be required to disclose. Our approach aims to promote consistency and comparability and to support the flow of information along the investment chain, in particular to occupational pension scheme trustees.

5.13 We consider that our proposed core metrics would both provide clients and consumers with decision-useful information about their investments and support the onward flow of information to clients. Clients and consumers would be able to compare the carbon-related attributes of their products over time, to measure progress and hold their providers to account for any claims made. As discussed in Chapter 2, metrics and other product-level information could also be used as a basis for future product labels. These would help consumers navigate investment products in a more consumer-friendly way and make choices accordingly.

5.14 The metrics we are proposing are a subset of the metrics listed in the TCFD's recommendations. These are among the most widely established climate-related metrics in the market. Firms should refer to the TCFD's supplemental guidance for further information, including descriptions, formulas and methodologies.

5.15 As noted in Chapter 1, there are some common elements in the TCFD's recommendations and the EU SFDR, including certain metrics. In some cases, there are differences in the calculation methodologies (marked with an asterisk in the table below). Further detail on the different formulas, including a side-by-side comparison, is set out in Appendix 3.

5.16 Our proposed core metrics are set out in the table below:

Table 1: Core metrics

Metric	Proposal
Scope 1 and 2 Greenhouse gas (GHG) emissions	These metrics are widely used in the market, including as part of disclosure regimes in the UK and internationally. We propose to mandate this metric from when our proposed rules enter into force.
Scope 3 GHG emissions	Although this is a widely recognised metric, we acknowledge that methodologies differ and there may be significant data gaps among investee companies, at least in the short term until the implementation of further disclosure requirements in the UK and internationally. We are therefore proposing that firms should disclose Scope 3 emissions from no later than 30 June 2024. This is 1 year later than the deadline for the first disclosures in accordance with the rest of our proposals.
*Total carbon emissions	As total carbon emissions are the sum of the GHG emissions referenced above, we consider it appropriate to mandate that this metric be disclosed to the same timeframes. Scope 3 emissions would therefore need to be included in the total figure from 30 June 2024.
*Carbon footprint	This is a widely used metric in the market. We propose that this be disclosed on a mandatory basis from when our proposed rules enter into force.
*Weighted average carbon intensity (WACI)	In its final report, the TCFD acknowledged limitations with this form of carbon footprinting due to data availability. As such the TCFD is currently proposing that asset managers and owners should disclose a financed-emissions metric based on WACI and the Partnership for Carbon Accounting Financials (PCAF) methodology, if relevant, or a comparable methodology. The PCAF provides methodologies for asset managers, asset owners and banks to measure or estimate financed emissions for different asset classes. It also provides for alternative solutions when data is not available.

5.17 Where prescribed calculation methodologies differ between the TCFD's recommendations and the final report on draft Regulatory Technical Standards (RTS) for the SFDR (eg, the choice of normalisation factors in the denominator), we are proposing that they be reported according to the formulas under *both* regimes. This would promote consistency and comparability with both EU and international firms and reflect the global reach of many in-scope firms' assets under management.

5.18 We are proposing that all metrics be supported by contextual information to explain how they should be interpreted and any limitations. This aims to ensure that all disclosures are fair, clear and not misleading. This is particularly important where assumptions and proxies have been used to address data gaps.

5.19 In addition, we propose that metrics be accompanied by a historical time series for comparison, after the first year that product or portfolio-level climate disclosures are reported in accordance with our rules.

5.20 As mentioned in paragraph 2.10, in June 2021 the TCFD published 2 documents for consultation:

- New proposed guidance on metrics, targets and transition plans. This document also proposes amendments 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.

5.21 On the assumption that the TCFD's finalised updates to the TCFD Final Report and to the TCFD Annex are broadly consistent with those proposed in the current TCFD consultation, we consider that it would be appropriate to reference the updated versions of these documents when we finalise our policy position (see in particular proposed rules ESG 2.1.5R, 2.1.6R and related guidance in 2.1.7G). In CP21/18, which is being published alongside this consultation paper, we propose to amend the definition of 'TCFD Final Report' and 'TCFD Annex' currently set out in our Handbook Glossary. If and when made, these amendments would mean that our proposed rules require firms to consider the updated versions of the TCFD Final Report and TCFD Annex (once the updates are published in final form).

5.22 Similarly, subject to the final guidance on metrics, targets and transition plans (as currently set out in Sections A-E of the consultation document) and the proposed technical supplement on measuring portfolio alignment being broadly consistent with the materials currently undergoing consultation by the TCFD, we consider that it would also be appropriate to reference these new documents in our final guidance.

5.23 We may also update the list of product metrics to remain aligned with the metrics in the TCFD's finalised guidance.

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.

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?

Data availability

5.24 We want to drive good data, but we also recognise the limitations that firms may encounter.

5.25 As discussed in Chapter 3, while data limitations persist, we propose that in-scope firms must address such gaps using assumptions and proxies. Firms must identify where they have done so and briefly explain the methodologies used, in addition to any contextual information and limitations of the approach.

5.26 We acknowledge that this approach may limit comparability between different products offered by different providers, given the scope for a range of different methodologies to be used. Nevertheless, clients and consumers will be able to compare a single product over time, to monitor the product's carbon profile and hold their provider to account.

Additional metrics

5.27 We propose that firms must supplement the core, mandatory, metrics with certain additional metrics on a 'best efforts' basis.

5.28 These are less established, mostly forward-looking, metrics for which methodologies are still evolving. Nevertheless, they represent the direction of travel of the industry and are likely to be decision-useful to clients and consumers.

5.29 The metrics and rationale are set out below:

Table 2: Additional metrics

Metric	Rationale
Climate Value-at-Risk (VaR)	Climate VaR could be a useful metric for assessing the potential future financial impact of a product's or portfolio's climate exposure. It may be particularly helpful for institutional investors that are subject to their own regulatory obligations, particularly in supporting scenario analysis. It may also help to disclose the outcome of scenario analysis to retail investors in a more accessible way.
Metrics that show the climate warming scenario with which a product or portfolio is aligned eg, Implied Temperature Rise	These metrics provide a forward-looking view of a product's or portfolio's carbon exposure. They could provide useful visibility over the progress funds are making towards any climate-related targets they have set.
Other metrics	Consistent with the TCFD's supplemental guidance, firms should provide other metrics that they consider would be helpful for decision-making. Firms may refer to the list of recommended metrics in the CFRF disclosure guide. The CFRF's disclosure working group is currently developing a Climate Risk Dashboard made up of a more focused list of key decision-useful metrics to be published later in 2021. We will reference any further guidance in our policy statement accordingly.

5.30 To support the adoption of more consistent, robust and decision-useful portfolio alignment approaches, in June 2021 the TCFD's Portfolio Alignment Team published a technical supplement on measuring portfolio alignment. The technical supplement sets out emerging best practice on portfolio alignment tools and forward-looking measurements of financial portfolio alignment with the goals of the Paris Agreement. It also provides recommendations and identifies future research priorities, noting that they should be viewed as a 'first step' as approaches will continue to evolve.

5.31 The TCFD is seeking public comment on this document. As discussed from paragraph 5.20, subject to the final version being consistent to that consulted on, we are proposing to reference this in our final guidance.

Targets

5.32 Where a firm makes a claim as regards plans to achieve certain climate-related targets at product-level, we expect the firm to determine and communicate the key performance indicators it uses to measure progress against those targets, in accordance with the TCFD's recommendations.

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

Governance, strategy and risk management

5.33 We consider that where an overarching approach to governance, strategy and risk management (which applies broadly across all products/portfolios, asset classes or investment strategies) has been set out in the TCFD entity report, those disclosures would provide sufficient information for a client and consumer audience.

5.34 However, we are proposing that if the approach for specific products or portfolios, asset classes or investment strategies is materially different from any overarching approach described in the entity-level TCFD report, the deviations must be set out or referenced in the product or portfolio-level disclosures.

5.35 Our proposals will give firms the flexibility to provide more tailored or detailed information relating to individual products or portfolios in the product-level report, particularly where the TCFD's supplemental guidance sets out specific product-related guidance. This approach also takes into account that it may be open to clients to enter new contractual terms with firms for the provision of more detailed information.

5.36 Any disclosures on material differences, or other detailed information, provided in product-level disclosures should be capable of being read on a standalone basis. However, firms may cross refer to further information in the entity-level TCFD report and vice versa.

5.37 All information relating to each product or portfolio should be clear and easily accessible.

Scenario analysis (recommended disclosure (c) under the 'strategy' pillar)

5.38 Scenario analysis involves considering various plausible future scenarios under a set of assumptions and constraints, to arrive at a range of hypothetical outcomes. From an entity-level perspective, climate-related scenario analysis may be used to inform strategic thinking. Asset managers and asset owners also conduct scenario analysis to test the resilience of their portfolios against a range of climate issues.

5.39 We consider scenario analysis at product or portfolio-level to be 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. Clients and consumers will be better informed and better able to challenge their provider on their approach to any risks or opportunities that may arise.

5.40 As one of the targeted outcomes of our proposals is to support the flow of information along the investment chain with a view to more informed investment decisions, our proposals have taken into consideration the DWP's draft regulations and the information needs of trustees.

5.41 DWP requires trustees to assess and disclose the potential impacts and resilience of their scheme's assets in at least 2 climate-related scenarios, one of which is based on a temperature rise of between 1.5°C to 2°C (in line with the goals of the Paris Agreement). Further statutory guidance explains that scenario analysis may be qualitative and/or quantitative, and that trustees may find it easier to perform a 'top down' analysis of the scheme-level risks to their scheme's aggregated portfolio.

5.42 DWP's statutory guidance also states that trustees of all schemes in scope should progress towards developing the sophistication of their scenario analysis and to using quantitative analysis, especially where they believe that climate change could pose significant risks to their scheme.

5.43 We consider that quantitative disclosures will allow comparison between an individual firm's products. They may also allow indicative comparisons between different firms' products.

5.44 We want to support industry progress towards more sophisticated scenario analysis, and to support those trustees that want to produce quantitative scenario analysis now. We would like to understand stakeholders' views on requiring in-scope firms to provide quantitative scenario analysis outputs as soon as practicable. We would welcome feedback on: the decision-usefulness to trustees; the feasibility and cost for in-scope firms to include quantitative scenario analysis outputs in their product or portfolio-level disclosures; and the form such outputs could take.

Our proposal

5.45 We are proposing an approach that would be sufficient to support trustees in producing, at a minimum, a qualitative, 'top down' scenario analysis in accordance with DWP's draft regulations, while remaining proportionate to firms.

5.46 We propose that for portfolios with concentrated exposures or higher exposures to more carbon-intensive sectors, firms must describe these and disclose:

- a qualitative summary of how climate change is likely to impact the underlying assets under 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
- a discussion of the significant drivers/factors that contribute to making the product or portfolio more vulnerable to climate change or provide opportunities in the transition

- quantitative analysis of an 'orderly', 'disorderly' and 'hot house world' transition scenario

5.47 These scenarios can be linked to the short, medium and long-term horizons that the firm has identified under the TCFD's recommended disclosures (Strategy (a)).

5.48 For portfolios that do not have such concentrated exposures or higher exposures to more carbon-intensive sectors, firms must, at a minimum, provide qualitative scenario analysis outcomes, as set out in the first 2 bullet points of paragraph 5.46.

5.49 We have not defined thresholds for 'concentrated' or 'higher' exposures, as we consider that doing so may unduly constrain industry and policy development in this area. We consider that setting thresholds at this stage may unintentionally establish a category of products that is considered negatively by investors, irrespective of the risk/return profile, or other relevant factors. This could, in turn, create unintended incentives to divest from certain assets with potentially distortionary market implications. It would also subject UK firms to more prescriptive requirements than overseas firms.

5.50 Our approach aims to promote consideration by asset managers and asset owners as to what their concentrated and higher exposures are, without setting a blanket threshold that may not be appropriate across the industry.

5.51 As discussed in paragraph 5.9, to further support clients subject to their own climate-related disclosure requirements, firms should also provide data on underlying holdings and climate-related data, where possible.

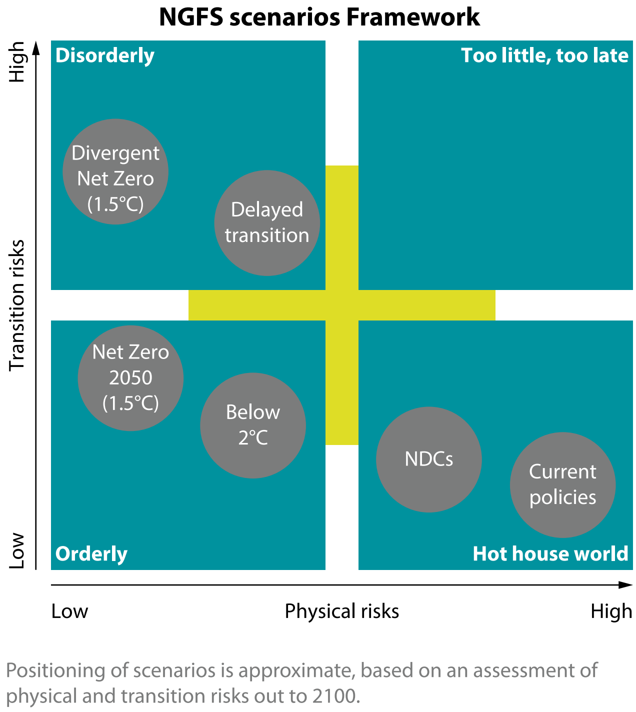
5.52 We acknowledge that scenario analysis may depend on inputs from third parties such as software and data providers. We therefore recognise that quantitative scenario analysis may be more costly for firms, particularly those that have not yet begun to build such capabilities or need to rely on third parties. This is discussed in more detail in our cost benefit analysis (Annex 2).

5.53 However, we note that specialist service providers are available to help firms in conducting their scenario analysis or building capabilities to do so. The body of industry and official sector guidance internationally also continues to grow. For example:

- The CFRF is currently developing an online narrative tool based on scenarios developed by the Network for Greening the Financial System (NGFS) to help firms with their analysis. The NGFS climate scenarios were first published in June 2020 and updated in June 2021 to 'provide a common starting point for analysing climate risks'. The 3 dimensions are consistent with those we are proposing (Figure 2).
- The TCFD also published a technical supplement alongside its final report to help firms with their scenario analysis: The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities.

5.54 We would encourage firms to consider using these practical tools and guides to help further develop their approaches to scenario analysis.

Figure 2: NGFS Climate Scenarios Framework



Source: NGFS Climate Scenarios for central banks and supervisors, June 2021

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?**

Specific proposals for asset managers

Reporting to clients on demand

5.55 We acknowledge that for some client relationships, public disclosures are not appropriate. These are:

- investment portfolio managers in respect of discretionary portfolio management services
- full-scope UK AIFMs or small authorised UK AIFMs in respect of non-listed unauthorised AIFs

5.56 We are proposing that their product or portfolio-level disclosures must be made available upon request to clients that need the information to satisfy their own (or their clients' or customers') climate-related financial disclosure obligations.

5.57 Firms would be required to provide product or portfolio-level disclosures to those clients once in each 12-month period, specifying a calculation date no earlier than 1 July 2023. However, if a client relationship starts after 1 July 2023, the client cannot request data that precedes the start of the relationship. A firm must respond to an eligible client's request in a reasonable time and a reasonably acceptable format.

5.58 Our rules set minimum standards that firms must comply with. We note that it may be open to clients to agree new contractual terms with firms for the provision of additional information.

5.59 As we consider this information to be decision-useful to all types of clients, we also encourage firms to provide broadly equivalent disclosures to any client who requests them.

5.60 Clients may want to specify the format of the disclosure to meet their needs and firms may have formats that they regularly use to provide information to clients. So, we do not intend to be prescriptive, provided that a reasonable format is used. Our aim is to give firms the flexibility to decide how best to deliver the disclosures to clients. Our proposed rules do not prevent managers from including appropriate contextual information or arranging for this communication to be combined with any other annual communication from the manager to their client.

5.61 If a manager does not have the information necessary to provide portfolio disclosures, they should use proxies and assumptions, and briefly explain the methodologies, context and limitations.

> **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?**

Specific proposals for asset owners

5.62 Our proposed requirements for life insurers and FCA-regulated pension providers as asset owners would apply at the level of an individual fund or pre-set investment portfolio within a particular investment or pension product.

5.63 As discussed, product-level disclosures are primarily numerical carbon exposure and carbon intensity metrics. These metrics cannot always be applied at the level of the investment or pension products because most of these products are structured as investment or pension wrappers for which individual funds are selected. Metrics cannot be calculated at the product level because each investor will include different funds within their wrapper, resulting in different carbon profiles at the product level.

5.64 Therefore, we are proposing that these product-level metrics should instead be applied at the level of the individual fund or pre-set investment portfolio within the pension or life insurance wrapper. By looking at the metrics for each separate fund or portfolio, an investor should be able to get a picture of the metrics across their product (portfolio/wrapper) as a whole.

5.65 The life insurer or FCA-regulated pension provider would prepare product-level disclosures for all funds or investment strategies that they design or manage. In cases where underlying funds are managed by appointed asset managers, the in-scope firm may cross-refer to relevant disclosures.

Mirroring an external asset manager's strategy

5.66 Where a life insurer is mirroring a selected third-party asset manager's fund strategy, there is the possibility that the assets held by the insurer are slightly different, albeit that the intended investment outcome is the same. The insurer's disclosures would be expected to capture any exercise of judgement by the insurer in mirroring that strategy.

5.67 However, if there is no exercise of judgement or discretion, dependent upon their contractual arrangements with the third-party asset manager, the insurer may be able to rely solely on disclosures by the mirrored fund and simply cross-reference these.

> **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?**

Pre-selected portfolios

5.68 In many cases, investors do not select individual funds to include in their wrapper but instead opt for an investment portfolio which is pre-selected by the provider as is, for example, the case with default pensions arrangements. This strategy might consist of a single fund or a combination of different funds. Where a strategy is a combination of funds, fund-level metrics and targets would not capture the strategy as a whole.

5.69 Therefore, we are proposing that the metrics calculated at the level of the fund should also be reported by asset owners at the level of these pre-set strategies – such as default pension arrangements, investment pathways and pre-set investment portfolios. This would make it easier for pre-set strategy investors to access metrics for their investment choices within the wrapper.

5.70 The pre-selected investment portfolios in scope for product-level disclosures would include:

- default strategy in workplace pensions (excluding the smallest and least popular defaults)
- investment pathways in drawdown pension products
- ready-made investment portfolios

5.71 To maintain a proportionate approach, we are proposing a threshold at the strategy level that would exclude the smallest and least popular default strategies from scope. We are proposing that only default strategies with at least 10% of overall amounts in defaults, or with £100 million or more in assets under management and administration in the default, should be in scope for product-level disclosures.

5.72 In line with DWP's approach, providers may calculate metrics and targets based on the most representative profile, if the default pension arrangements use life-styling or a number of target date funds for different age profiles. However, they should identify risks and opportunities which affect particular cohorts more strongly and provide at least qualitative narrative around this.

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?**

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.**

Annex 1
Questions in this paper

Questions

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 would you prefer.**

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?**

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

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.**

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?**

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?**

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?**

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?**

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?**

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.**

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?

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

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?**

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?**

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?

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.

Annex 2
Cost benefit analysis

Introduction

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

2. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide estimates of outcomes in other dimensions. Our proposals are based on carefully weighing up these multiple dimensions and reaching a judgement about the appropriate level of consumer protection, taking into account all the other impacts we foresee.

Our analytical approach

3. To understand the impact of the proposed rule changes set out in Chapters 3-5, this CBA considers:

- the likely compliance costs to asset managers and asset owners
- the likely benefits to asset managers, asset owners, their clients and the wider market

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

5. The analysis presented below has been produced using data and evidence from the following sources:

- Information gathered from roundtables with industry participants, as well as a survey of a sample of asset managers and asset owners that have already voluntarily adopted, or are on the pathway to adopting, the TCFD's recommendations. We surveyed 23 firms and received responses from 15. Some responses were at group level and therefore covered a number of UK firms, including those with funds in the UK and overseas. The aim of our engagement was to better understand how firms approached the development of their disclosures, the specific steps they took to build the necessary capabilities, and the challenges they faced.
- Various reports and other publications that reference the current status of firms' climate-related disclosures, most notably the Principles for Responsible Investment (PRI) Climate change snapshot 2020, and TCFD 2020 Status Report.
- Solvency II Data on Life Insurers.
- FCA internal data on Self-Invested Pension Plan (SIPP) operators.

6. We describe the problem and rationale for intervention in Chapters 1 and 2. As noted, we consider that firms are not yet making sufficient disclosures to enable clients and consumers to make informed investment decisions. This could give rise to potential harm such as clients engaging firms that do not adequately manage climate-related risks and opportunities and consumers buying unsuitable products. There is also a risk that capital is not allocated efficiently towards less carbon intensive projects and activities.

7. These arise from a number of market failures, including:

- **Asymmetric information:** Clients and consumers do not receive sufficient visibility of the climate-related risks and opportunities associated with the assets that are being managed on their behalf. When making disclosures voluntarily, asset managers and asset owners may disclose less information than clients and consumers might need to make informed decisions.
- **Coordination failure among firms:** Asset managers and asset owners may be disincentivised to make voluntary disclosures. They may fear reputational damage or loss of business if they are perceived not to have considered climate-related risks and opportunities appropriately.
- **Coordination failure among clients and consumers:** Clients and consumers may have insufficient bargaining power, and may be unable to coordinate effectively to encourage a market-led improvement in climate-related disclosures across asset managers and asset owners. Firms' voluntary disclosures may not be aligned with the information that is decision-useful for clients and consumers.

8. The causal chain set out in Chapter 1 (Figure 1) shows that introducing new TCFD-aligned disclosure rules will advance our objectives and lead to better outcomes for consumers.

9. Intervention to address the harms flows directly from our strategic objective to ensure that the relevant markets function well, as well as advancing 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 selecting providers and investment products, and 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 that they are investing in.
- **Protect and enhance the integrity of the UK financial system.** More information on firms' climate-related investment policies and outcomes being available can improve asset pricing and capital allocation decisions.

10. We also note our remit letter from the Chancellor, which sets expectations for the FCA to 'have regard to the Government's commitment to achieve a net-zero economy by 2050 under the Climate Change Act 2008 (Order 2019) when considering how to advance its objectives and discharge its functions'.

11. Based on our engagement with firms, we recognise that implementing TCFD-aligned disclosures may have a significant impact on how some firms operate. Where firms have not already taken steps to implement the TCFD's recommendations voluntarily, we expect that our proposed rules will lead to some organisational changes and investments in capabilities to be able to do so.

Summary of proposals

12. Our detailed proposals are set out in Chapters 3-5.

13. We propose to consult on 2 categories of rules requiring in-scope firms to make disclosures consistent with the TCFD's recommendations:

- *Entity-level disclosures.* Firms would be required to publish, annually, an entity-level TCFD report (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. These disclosures should be made in a prominent place on the main website for the business of the firm, and would 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, 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 available upon request to certain institutional clients.

14. We expect to phase-in the requirements, initially applying these to the largest, most interconnected firms on a mandatory basis. For in-scope firms that are already considering some, or all, of the elements we set out in our proposals, the changes in behaviour will be smaller. For in-scope firms that have not yet considered these matters at all, we require them to start doing so.

Firms in scope of the requirements

15. A breakdown of in-scope firms is introduced in Chapter 3. We estimate that a total of:

- 34 asset owners (life insurers and FCA-regulated pension providers) will be affected by the proposals in this consultation. This is based on analysis of Solvency II data on life insurers and FCA internal data on pension providers, such as SIPP operators and platform firms. The asset owners in scope of our proposals represent 98% of UK asset owners' assets under management.
- 140 asset managers will fall within the scope of our rules. These 140 firms represent over 98% of assets under management in the UK asset management sector.

16. The firms in-scope of the proposals represent £12.1 trillion in total assets under management and administered in the UK. Given the global reach of in-scope firms, we recognise that our proposals will facilitate climate-related financial disclosures that cover assets managed and administered under their global business activities.

Baseline and key assumptions

17. To establish the baseline for the CBA, we have considered the current status of asset managers' and asset owners' climate-related disclosures.

The status of asset managers' and asset owners' climate-related disclosures

18. Asset managers and asset owners have a fiduciary responsibility to protect and enhance the value of assets for clients and consumers. This includes accounting for all financially-material risks. As set out in Chapter 2, asset managers and asset owners are not currently disclosing sufficient climate-related information to enable clients and consumers to make informed financial decisions and hold their providers to account.

19. According to the latest TCFD Status Report, the 2 least developed areas of disclosure among asset managers and asset owners are:

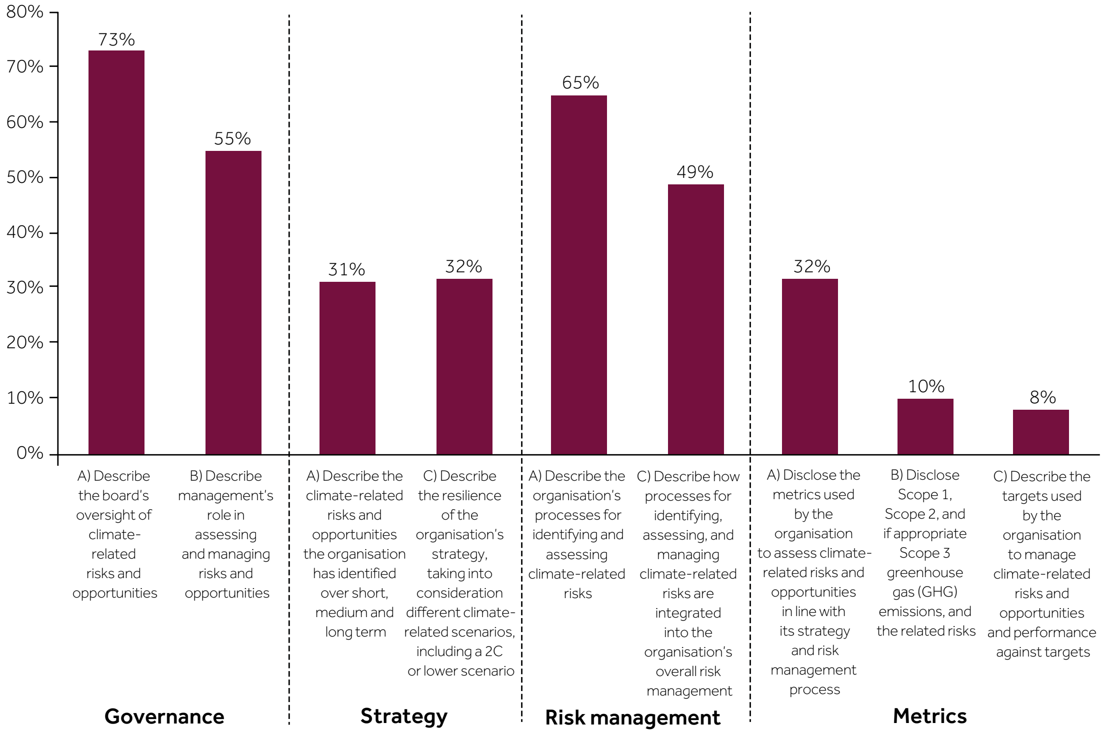
- climate scenario analysis to assess the resilience of the organisation's strategy (Strategy (c))
- disclosure of business-relevant climate targets (Metrics and Targets (c)).

20. From 2020, signatories to the PRI have been required to report on strategy and governance indicators aligned with the TCFD's recommendations as part of their signatory reporting.

21. According to PRI's analysis of signatories' progress on climate reporting, a total of 330 UK signatories reported on a number of TCFD indicators in 2020. 61 (18%) made their reports public. 44 of these firms are FCA-regulated asset managers and asset owners that will be in scope of our proposed rules. A further 10 PRI signatories that made public reports on TCFD indicators are headquartered either in Europe or the USA but are also doing business in the UK and have UK-registered legal entities that will be within the scope of our proposed rules.

22. In its report, the PRI identifies the level of progress by UK asset managers in reporting against the TCFD's recommendations. Firms' progress against measures for governance, strategy, risk management and metrics is shown below in Figure 3. Since many in-scope firms are also PRI signatories, we consider that the findings of the PRI's analysis provide a representative illustration of firms' readiness. The findings are therefore a useful starting point for our CBA.

Figure 3: Level of TCFD reporting by UK Asset Managers



Source: PRI

23. With reference to the PRI's findings, we have considered the extent to which our proposals will result in additional incremental costs for firms. We note that some firms that are already partially aligned with the TCFD's recommendations will incur lower costs. We have therefore included a discount factor across the different cost elements to reflect that many firms are already familiar with the TCFD framework, are likely to have relevant internal systems and processes in place, and have already developed capabilities to collate and report on key TCFD-aligned metrics.

Assumptions

24. Our CBA is subject to several uncertainties and assumptions:

- *Calculating costs:* Only some of the respondents to our survey were able to quantify the incremental costs that they had incurred in developing voluntary disclosures aligned with the TCFD's recommendations. Two firms indicated that they were in the nascent stages of making relevant investments. Another firm that had signalled support for the TCFD's recommendations had not yet reported and was therefore unable to quantify costs. Accordingly, we have considered qualitative responses from firms when estimating costs. We have also estimated costs using internal data, including the Standardised Cost Model.
- *Presenting information:* Where part of a group, we assume the asset managers and asset owners in scope of our rules will produce a single report across all of their UK subsidiaries.
- *Sourcing data:* We assume that a key incremental cost for firms relates to obtaining and gathering data. We recognise that access to some relevant data is likely to be challenging, at least initially. However, the completeness of data to support asset managers' and owners' analysis is likely to evolve over time. Where data already exist, some firms may choose to subscribe to data services to facilitate access to the public sources, and many firms already do so.

- *Resourcing:* We assume that the other main source of incremental costs is the cost of hiring or reallocating staff resources to coordinate inputs and develop capabilities. We recognise that there are a number of different approaches that firms may wish to take to comply with our proposed rules. For instance, depending on their existing resources and capabilities, some firms may rely on hiring new staff or reallocating existing staff and resources, while others may rely more heavily on external consultants.

25. In the sections below, we have assessed the one-off and ongoing (annual) compliance costs arising from each of the elements of the proposed framework. These include compliance costs directly arising from our intervention. They reflect the incremental changes that firms would not have undertaken had we not introduced our proposals.

Table 3: Estimated compliance costs to asset managers and asset owners

Category of cost	Total one-off cost (£m)	Total ongoing cost (£m)
Asset Managers		
Familiarisation and legal review	*0.5*	*N/A*
Coordination of disclosure inputs across functions	*85.5*	*39.1*
Scenario analysis (Strategy (c))	*56.1*	*47.3*
Metrics/Targets	*60.1*	*30.0*
Total	***202.2***	***116.3***
Asset Owners		
Familiarisation and legal review	*0.1*	*N/A*
Coordination of disclosure inputs across functions	*8.1*	*1.8*
Scenario analysis (Strategy (c))	*14.1*	*4.0*
Metrics/Targets	*7.0*	*3.3*
Total	***29.2***	***9.1***

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

27. The estimated costs of compliance are small relative to total assets under management of in-scope asset managers and asset owners. Total one-off and ongoing costs represent 0.002% and 0.001% of total assets under management for asset managers and asset owners, respectively.

28. Greater transparency about how firms are managing climate-related risks and opportunities will lead to better outcomes for clients and consumers. They will be better able to take those factors into account when granting investment mandates and selecting products, and to hold their providers to account.

29. A small improvement in the benefits arising from these proposals would be sufficient to outweigh the cost and produce a net benefit.

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

Calculating compliance costs to asset managers and asset owners

31. Based on our analysis of the current status of disclosures, firms will incur one-off and ongoing costs.

32. We expect the overall aggregate cost of compliance with our proposed rules, across the 140 in-scope asset managers, to be around £202.2 million in one-off compliance costs, and £116.3 million in ongoing annual costs. The average one-off and ongoing costs for an individual large firm are £1.7 million and £1.2 million, respectively; and for an individual medium-sized firm, these costs are £1.4 million and £0.7 million, respectively.

33. For the 34 in-scope asset owners, we estimate the overall aggregate costs to be around £29.2 million for one-off costs, and £9.1 million for ongoing annual costs. The average one-off cost for an individual large firm is estimated to be £1 million, with ongoing annual costs of £400,000; for a medium-sized firm, these costs are estimated to be £800,000 and £200,000, respectively.

34. We consider the following to be the key areas of incremental compliance costs. The magnitude of costs will differ between asset managers and asset owners:

- *Familiarisation and legal review of the new requirements*
- *Coordination of disclosure inputs:* Asset managers and asset owners will incur costs related to gathering inputs from across their organisations in order to develop their TCFD-aligned governance, strategy and risk management disclosures. In-scope asset managers will have to source a variety of data and inputs relevant to their disclosures. In contrast, in-scope asset owners will in most instances rely on the information provided by asset managers or cross-reference to reports produced at group level.
- *Climate scenario analysis (Strategy (c)):* We expect that firms (particularly asset managers) will need to make investments to develop their capabilities for climate scenario analysis. In contrast, asset owners will have the option, in most cases, to cross-reference to the relevant scenario analyses produced by delegated asset managers.
- *Climate metrics and targets:* We expect in-scope firms to produce specified product and portfolio-level metrics. They will therefore need to enhance their capability to calculate these metrics.

Costs of familiarisation and legal review

35. We expect asset managers and asset owners to incur one-off familiarisation costs related to reviewing the new requirements and undertaking a legal review.

36. We assume that it would take all asset managers and asset owners approximately 1.5 hours to read policy documentation in this CP and understand the requirements. The draft instrument and CP are approximately 100 pages. It is further assumed that 20 staff at large firms and 5 staff at medium firms will read the document. Using data on salaries from the 2018 Willis Towers Watson UK Financial Services survey, the hourly compliance staff salary, including 30% overheads, is estimated to be £60 at large and medium firms.

37. Following familiarisation with the proposals, we expect firms to conduct a legal review and an accompanying gap analysis to check their current practices against our expectations. We assume that 4 legal staff at large firms and 2 legal staff at medium firms will review the legal instrument, which is around 20 pages. Using the same source as above, the hourly salary for legal staff, including 30% overheads, is estimated to be £69 at large and medium firms.

38. We therefore estimate the total industry-wide cost for familiarisation and legal review to be around £520,000 for asset managers and £140,000 for asset owners.

39. The costs presented in this category have been estimated based on the assumption that a firm knows very little or nothing at all about the TCFD's reporting framework. However, as mentioned, PRI's report notes that some asset owners and asset managers are already familiar to some extent with the TCFD's recommendations. We have therefore applied a discounting factor for each of the relevant costs below.

Calculating one-off compliance costs

40. Table 4 summarises the approach we have taken to calculating initial one-off compliance costs for asset managers and asset owners for the first year. Each category of cost has an associated estimate of the likely aggregate cost to in-scope asset managers and asset owners.

41. As noted above in Figure 3, we recognise that some large in-scope asset managers and asset owners are already making TCFD-aligned disclosures to some extent. We therefore applied a discount factor, to in-scope large firms only, of:

- 51% to costs associated with coordinating disclosure inputs. This discount factor has been calculated by taking an average of asset managers' current TCFD-aligned disclosures across the governance, strategy and risk management pillars, according to the PRI's analysis.
- 17% for scenario analysis and 17% for metrics and targets. The TCFD 2020 Status Report noted that scenario analysis, along with metrics and targets, were the least developed areas by firms when disclosing TCFD-aligned information. We have therefore applied the same discount rate to both scenario analysis and metrics and targets.

42. However, we also acknowledge that some elements of our proposals will be new and therefore incur costs (eg, product-level requirements).

Table 4: Approach to calculating one-off compliance costs in the first year for asset managers and asset owners

Category of cost	Estimation methodology	Total
Familiarisation and legal review	We assume that it would take all asset managers and asset owners approximately 1.5 hours to read policy documentation in this CP and understand the requirements. The draft instrument and CP are approximately 100 pages. It is further assumed that 20 staff at large firms and 5 staff at medium firms will read the document. The hourly compliance staff salary, including 30% overheads, is estimated to be £60 at large and medium firms. Following familiarisation with the proposals, we expect firms to conduct a legal review and an accompanying gap analysis to check their current practices against our expectations. We assume that 4 legal staff at large firms and 2 legal staff at medium firms will review the legal instrument, which is around 20 pages. The hourly legal staff salary, including 30% overheads, is estimated to be £69 at large and medium firms.	**Average cost per asset manager: £4,000** **Average cost per asset owner: £4,000** **Total cost to Asset Managers: £520,000** **Total cost to Asset owners: £140,000**

Coordination of disclosure inputs across functions (relevant recommended disclosures: Governance (a) and (b), Strategy (a) and (b), and Risk Management (a)-(c))	Based on our information request and discussions with asset managers and asset owners, we have made assumptions about the approach to coordinating inputs from across the organisation to inform recommended disclosures on governance, strategy and risk management.
	• The asset managers and asset owners we spoke to typically had established 2 coordination functions:
	  ◦ a 'Climate Working Group' to coordinate inputs from across the organisation
	  ◦ employ staff to oversee governance and risk management considerations
	• The asset managers and asset owners consulted were unable to quantify the proportion of time allocated by functional specialists across the organisation. However, our assumptions are consistent with the qualitative input received:
	• Asset managers and asset owners would employ, on average 6, full-time employees (FTEs) at large firms and 2.5 FTEs at medium firms. These staff would be responsible for developing the approach to disclosures, coordinating inputs across the organisation and preparing the disclosures. Annual salary costs have been estimated using our standardised cost model.
	• Inputs are sought from the following functions: Strategy; Finance Reporting; Audit and Risk; Legal and Compliance; Product Development and Pricing; Senior Management; Marketing and Editing. Asset managers also appoint a Senior Officer responsible for identification of climate-related risks and opportunities and delivery of disclosures.
	• Large and medium asset management and asset owner firms establish a cross-functional working group of 6 people and 4 people respectively. The working group agrees a joined-up strategic approach to disclosure across the organisation.	

Category of cost	Estimation methodology	Total
Coordination of disclosure inputs across functions *(continued)*	• Each member of the working group allocates 5% of their time to TCFD disclosures in the first year; annual salary costs have been estimated using our standardised cost model. • The average costs of project change related to coordination of disclosure are therefore: ◦ £180,000 and £190,000 for large and medium asset managers ◦ £180,000 and £190,000 for large and medium asset owners (large firms have a lower average cost due to the application of a discount factor) • We have attributed the costs of data and modelling to the costs of coordination even though they are also essential inputs for scenario analysis and metrics and targets. Including these costs here does not affect the total costs. ◦ For asset managers, costs associated with sourcing climate data and building models for analysis range between £135,000 to £1.5 million per annum, with an average cost of £520,000 for large firms, and an estimated average cost of £330,000 for medium firms. Furthermore, we expect appointing an external consultant to cost £50,000 for both large and medium firms. ◦ We assume that asset owners will not incur material data sourcing and analysis costs on the basis that data will be sourced from external asset managers or managed at a group level (ie, included under asset management costs for the group). However, we assume costs associated with appointing an external consultant of £50,000 for both large and medium firms. As noted above, we have applied a discount factor of 51% to the coordination costs for large asset managers and asset owners.	**Average cost per asset manager: £610,000** **Average cost per asset owner: £240,000** **Total cost to Asset Managers: £85,500,000** **Total cost to Asset owners: £8,100,000**

Category of cost	Estimation methodology	Total

Scenario analysis (relevant recommended disclosures: Strategy (c))	Based on our information request and discussions with asset managers and asset owners we assume that:
	• Staff training of 5 FTEs at large firms and 2–3 FTEs at medium firms will be required.
	• A large firm appoints 5 FTEs and medium firms appoint 2.5 quantitative analysts to: develop a scenario analysis methodology tailored to the circumstances of the business, source relevant data, and build capabilities to support systematic analysis and reporting.
	• Annual salary costs for this time allocation are estimated using our standardised cost model.
	• The average costs of project change related to scenario analysis are:
	  ◦ £468,000 and £379,000 for large and medium asset managers
	  ◦ £470,000 and £383,000 for large and medium asset owners
	• Appointment of one consultant with subject matter expertise at an average cost of £144,000 for asset managers and £148,000 for asset owners.
	As noted above, we have applied a discount factor of 17% to the scenario analysis costs for large asset owners and asset managers.
		Average cost per asset manager: £400,000
		Average cost per asset owner: £410,000
		Total cost to Asset managers: £56,100,000
		Total cost to Asset owners: £14,100,000

Metrics/Targets (relevant recommended disclosures: Metrics and Targets)	Based on our information request and discussions with asset managers and asset owners we assume that:
	• A large asset manager appoints 4 FTE and a medium asset manager appoints 2.5 FTE risk/sustainability analysts to develop a set of business-relevant metrics and targets, source relevant data, and build capabilities to support systematic analysis and reporting. A large and medium asset owner appoints 2 and 1 FTE risk/sustainability analysts, respectively.
	• A large asset manager will, on average, appoint 4 FTE, and a medium will appoint 2.5 FTE, risk/sustainability analysts to enhance its disclosures of Scope 1 and 2 emissions. A large asset owner will appoint 2 FTE and a medium will appoint 1 FTE risk/sustainability analyst to enhance its disclosures of Scope 1 and 2 emissions.
	• Annual salary costs are taken from our standard cost model.
	• The average costs of project change related to metrics and targets are:
	  ◦ £510,000 and £400,000 for large and medium asset managers
	  ◦ £260,000 and £170,000 for large and medium asset owners
	As noted above, we have applied a discount factor of 17% to the metrics and targets costs for large asset owners and asset managers.
		Average cost per asset manager: £430,000
		Average cost per asset owner: £200,000
		Total cost to Asset managers: £60,100,000
		Total cost to Asset owners: £7,000,000

Category of cost	Estimation methodology	Total
Total one-off cost (incl. familiarisation cost)		**Average cost per asset manager: £1,450,000** **Average cost per asset owner: £850,000** **Total cost to Asset managers: £202,200,000** **Total cost to Asset owners: £29,200,000**

Calculating ongoing costs

43. The below table summarises our methodological approach to calculating ongoing costs for asset managers and asset owners. Each category of cost has an associated estimate of the likely aggregate cost.

Table 5: Approach to calculating ongoing compliance costs for asset managers and asset owners

Category of cost	Estimation methodology	Total

Coordination of disclosure inputs across functions	Although the asset managers and asset owners we engaged with noted the difficulty of accurately quantifying the exact resource dedicated to climate financial reporting, our approach below is broadly consistent with the approximations provided.
	Based on our information request and discussions with asset managers and asset owners, we have used the following inputs:
	• Large and medium-sized firms will employ, on average, 1 FTE in and 0.75 FTE respectively. They will be responsible for the continued coordination of inputs across the organisation and preparing the disclosures as well as evolving the approach to disclosures over time.
	• The 6 members of the cross-functional working group at large firms allocate 2% of their time to TCFD disclosures after the first year while medium firms' working groups consist of 4 members allocating 2% of their time.
	• Annual salary costs are estimated using the standardised cost model.
	• The average ongoing costs related to coordination of disclosure inputs are:
	  ◦ £290,000 and £280,000 for large and medium asset managers
	  ◦ £70,000 and £40,000 for large and medium asset owners
	• Asset managers will incur an average subscription to third-party climate data services of £217,500 (as in the one-off cost section above, we have assigned these data subscription costs to coordination even though they are relevant to scenario analysis and metrics and targets).
		Average cost per asset manager: £280,000
		Average cost per asset owner: £50,000
		Total cost to Asset managers: £39,100,000
		Total cost to Asset owners: £1,750,000

Category of cost	Estimation methodology	Total

Scenario analysis (relevant recommended disclosures: Strategy (c))	Based on our information request and discussions with asset managers and asset owners we have used the following inputs when assessing ongoing costs related to scenario analysis:
	• To assess different scenarios, incorporate them into ongoing disclosures and evolve the approach to scenario analysis over time:
	  • A large asset manager allocates between 6-10 FTE and a medium asset manager allocates 2-3 FTE quantitative analysts
	  • A large asset owner allocates between 1-3 FTE and a medium asset owner allocates 0.5-1.5 FTE quantitative analysts
	• Annual salary costs are estimated using the standardised cost model.
	• The average ongoing costs related to scenario analysis are:
	  • £660,000 and £230,000 for large and medium asset managers
	  • £170,000 and £90,000 for large and medium asset owners
		Average cost per asset manager: £340,000
		Average cost per asset owner: £120,000
		Total cost to Asset managers: £47,300,000
		Total cost to Asset owners: £4,000,000

Metrics/Targets (relevant recommended disclosures: Metrics and Targets)	Based on our information request and discussions with asset managers and asset owners we have used the following inputs when assessing ongoing costs related to metrics and targets:
	• To manage the ongoing compilation and reporting of all business-relevant metrics (including those under Metrics and Targets (b)) and evolve the approach to setting targets:
	  • a large asset manager allocates 3–5 FTE and a medium asset manager 2–3 FTE risk/sustainability analysts
	  • a large asset owner allocates 1–3 FTE and a medium asset owner 0.5–1.5 FTE risk/sustainability analysts
	• Salary costs are estimated using the standardised cost model
	• The average ongoing costs related to metrics and targets are:
	  • £300,000 and £190,000 for large and medium asset managers
	  • £170,000 and £90,000 for large and medium asset owners
		Average cost per asset manager: £210,000
		Average cost per asset owner: £100,000
		Total cost to Asset managers: £30,000,000
		Total cost to Asset owners: £3,300,000

Total ongoing cost		**Average cost per asset manager: £830,000** **Average cost per asset owner: £270,000** **Total cost to Asset managers: £116,300,000** **Total cost to Asset owners: £9,100,000**

Benefits

44. This section covers the potential benefits that arise from the wider impact of our proposals. This is a summary of the outcomes and benefits discussed in Chapters 1 and 2 of the CP.

- **More informed decisions by 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 allow them to hold their providers to account. Given the global reach of firms operating in the UK and flexibilities we are providing in our proposals, better transparency is likely to benefit clients' and consumers' decision-making internationally.
- **Better informed capital allocation and asset pricing.** A disclosure framework should promote a more structured approach to the consideration of climate-related risks and opportunities. This should encourage an ecosystem of service providers to emerge, driving innovation and thought leadership to support high-quality climate-related disclosures. It should also support a coordinated flow of information along the investment chain, resulting in better assessment of climate risk and opportunities across the market. Better transparency will therefore help markets price assets more accurately and allocate capital more effectively.
- **Product and services offerings are developed that meet consumers' climate-related preferences.** With greater transparency, clients and consumers will be better enabled to take climate-related financial information into account when selecting providers and investment products, and to distinguish between providers. This will, in turn, help financial services firms to develop products that better meet consumers' climate-related preferences.
- **Better transparency can help facilitate an orderly transition to a net-zero economy.** More informed pricing of assets and allocation of capital will lead to a smoother transition to a lower-carbon economy with less exposure to abrupt market corrections. In addition, clients and consumers will be able to hold their financial services providers to account. This should encourage them to manage climate-related risks and opportunities effectively and direct capital towards projects and activities that better support the transition to a more sustainable, low-carbon economy.

Estimating the minimum net benefit required

45. The total one-off compliance cost of £231.4 million equates to 0.002% of the £12.1 trillion in total assets under management of in-scope asset managers and asset owners; or 0.001% on an ongoing annual basis (calculated with reference to ongoing compliance costs). As the estimated costs of compliance are low relative to assets under management, only a small improvement in investment decision-making as a result of these proposals would be sufficient to outweigh the costs and produce a net benefit.

Annex 3
Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

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

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

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

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

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

The FCA's objectives and regulatory principles: Compatibility statement

7. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of promoting competition in the interests of consumers. They are also relevant to the FCA's consumer protection and market integrity objectives.

8. Our proposals aim to increase transparency and enable clients and consumers to make better informed decisions. With access to the climate-related information disclosed in accordance with our proposed rules and guidance, clients and consumers will be better enabled to take climate-related information into account when selecting providers and products, and to hold their providers to account. This should support a more competitive market. Consumers will be better able to interrogate firms' offerings and better protect themselves against unsuitable products. In addition, better information on firms' climate-related investment policies and outcomes should improve asset pricing and capital allocation decisions. This, in turn, should contribute to the overall efficiency and stability of financial markets, and thus advance our market integrity objective.

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

10. We have also had regard to the Government's commitment to achieve a net-zero economy by 2050. Our proposals aim to increase transparency and competition, thus encouraging capital flows towards firms that better manage climate risks and opportunities and, in turn, resource allocation towards transitioning the economy to net zero. In addition, by introducing requirements on a mandatory basis from 1 January 2022 for the largest firms and 1 January 2023 for smaller firms, we have taken account of the urgency and scale of the changes needed to support the transition to a low-carbon economy.

11. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s. 3B FSMA.

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

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

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

13. The cost benefit analysis in Annex 2 sets out the costs and benefits for the proposals in this CP. We consider that the benefits of these proposals outweigh the costs.

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

14. Better disclosures across the investment chain will facilitate better allocation of capital throughout the economy, facilitating a smoother transition to a net-zero economy.

The general principle that consumers should take responsibility for their decisions

15. With better climate-related information, consumers will be better able to assess how well firms integrate climate risks and opportunities into their investment strategies and validate the climate-related characteristics of their products. This will enable them to make better-informed decisions when selecting their providers and products.

The responsibilities of senior management

16. We believe our proposals will enhance the ability of senior management of in-scope firms to take responsibility for their decisions by providing a framework that will encourage them to think about the governance, risk management and strategy of their investments in a systematic and considered way.

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

17. To achieve the outcomes set out in Chapter 1, we require a whole-of-market solution. However, we have sought to be proportionate by proposing a threshold of £5 billion of AuM that would exclude the smallest firms from the scope of our proposals, while still capturing a large percentage (98%) of the AuM in both the UK asset management market and held by UK asset owners. In addition, we propose a phased implementation, recognising that smaller firms within the scope of our proposals may need longer to build capabilities.

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

18. Our proposals would require firms to make disclosures largely in the public domain, or in some cases provide disclosures to clients upon request. We do not propose that the information be reported to the FCA. As such, this principle is not relevant to the proposals in this CP.

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

19. In developing our proposals, we have acted as transparently as possible. We published a Discussion Paper on Climate Change and Green Finance in October 2018 (DP18/8) in which we sought views on climate-related disclosures by regulated firms, including asset managers and asset owners. The Feedback Statement (FS19/6) was published in 2019. We committed to consulting on TCFD-aligned disclosure rules for asset managers, life insurers and FCA-regulated pension providers in the Government's TCFD Roadmap, published in November 2020. This commitment was reaffirmed in our Policy Statement on proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations (PS20/17).

20. We gathered evidence from asset managers, life insurers and FCA-regulated pension providers on the costs of our proposed rules prior to publication. We also engaged closely with external stakeholders as we developed our proposals and will continue to engage as we seek to finalise our rules.

21. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA).

Expected effect on mutual societies

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

Compatibility with the duty to promote effective competition in the interests of consumers [delete if dealt with separately]

23. In preparing the proposals discussed in this consultation paper, we have had regard to the FCA's duty to promote effective competition in the interests of consumers. With access to better information on climate-related risks and opportunities, both clients and consumers will be better enabled to take these factors into account when selecting providers and investment products, and to distinguish between providers. They will also be better enabled to hold their providers to account. This should support greater competition.

Equality and diversity

24. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.

25. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered.

26. We are confident that our proposals do not have equality and diversity implications, but we welcome your comments if you have any concerns.

Legislative and Regulatory Reform Act 2006 (LRRA)

27. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance. We consider that our proposals are consistent with LRRA principles – that regulatory activities should be carried out in a way which is transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed.

28. For example, we have followed a consistent regulatory approach in developing our proposals. We have clearly set out our proposed rules in a transparent way. Our proposals are proportionate in referencing the TCFD's globally adopted framework, by allowing smaller firms an additional year to prepare and excluding the very smallest firms from the scope of our proposals.

29. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance, particularly the requirement for regulatory activity to be proportionate and targeted.

Annex 4
Abbreviations used in this paper

Abbreviation	Description
AFM	Authorised fund manager
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AuM	Assets Under Management
BEIS	Department for Business, Energy & Industrial Strategy
CBA	Cost Benefit Analysis
COP26	UN Climate Change Conference of the Parties
CP	Consultation Paper
DB	Defined Benefit
DC	Defined Contribution
DWP	Department for Work and Pensions
ESG	Environmental, Social and Governance
FTE	Full-time Employee
GHG	Greenhouse gas
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
ISSB	International Sustainability Standards Board
KPI	Key Performance Indicators
NGFS	Network for Greening the Financial System
PCAF	Partnership for Carbon Accounting Financials
PRI	Principles for Responsible Investment

Abbreviation	Description
PRA	Prudential Regulation Authority
RTS	Regulatory Technical Standards
SFDR	Sustainable Finance Disclosure Regulation
SIPP	Self-invested personal pension
SM&CR	Senior Manager & Certification Regime
TCFD	Task Force on Climate-related Financial Disclosures
TPR	Temporary Permissions Regime
UCITS	Undertakings for Collective Investment in Transferable Securities
WACI	Weighted average carbon intensity

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

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

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Appendix 1
Draft Handbook text

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 [*date*].

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
Environmental, Social and Governance Sourcebook (ESG)	Annex B
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.

By order of the Board
[*date*]

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 *client* 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 *client*; or (2) assets under management in an *unauthorised AIF* in which the *client* is an investor, but only in respect of an *unauthorised AIF* 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 reports	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* that is listed on a *recognised investment exchange*.
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 *SIPP*s 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*.

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 *client* 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 an 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]

1.1.2 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, corporate investors) and consumers of their products (e.g. pension scheme members, retail investors), in relation to the climate-related impact and risks of a *firm's TCFD in-scope business*.

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 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	
Any *firm*	*Portfolio management*

[1] ESG 1.1.1 remains in brackets as we are consulting on the creation of this Sourcebook and presently the Sourcebook will only contain climate related financial disclosure rules and guidance, rather than broader environmental, social and governance matters. It is anticipated that the sourcebook may be expanded in the future.

UK UCITS management company	*Managing a UK UCITS*
ICVC that is a *UCITS scheme* without a separate management company	*Managing a UK UCITS*
Full-scope UK AIFM	*Managing an AIF*
Small authorised UK AIFM	*Managing an AIF*
Part B: Asset owners	
Insurer or *pure reinsurer*	Providing *insurance-based investment products*. Operating a *personal pension scheme* (excluding a *SIPP*) or *stakeholder pension scheme*. Operating a *SIPP*, but only in relation to *SIPPs* containing *insurance-based investment products* provided by the *firm*.
Other asset owners (other than *insurers* or *pure reinsurers*)	Operating a *personal pension scheme* (excluding a *SIPP*) or *stakeholder pension scheme*. Operating a *SIPP*, but only in relation to *SIPP*s containing any of the following provided by the *firm*: (a) a *unit*; (b) an interest in a *closed-ended investment fund*; (c) a *pre-set investment portfolio*.

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* 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* receives a request for *on-demand information* from a *client* who is entitled to make such request under *ESG* 2.3.5R, it must prepare and provide the *on-demand information* to the *client* within a reasonable period of time and in a format that is reasonably acceptable to the *client*.

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 preparing 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 reports*, 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 *public TCFD product report*.

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*;

(4) [*the TCFD Technical Supplement on Measuring Portfolio Alignment*; and

(5) 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, unless, in relation to *on-demand information*, the *client* requests a specific calculation date.

2.1.10 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*; and

(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.

Cross-referencing climate-related financial disclosures

2.1.11 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.

2.1.12 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* 2.2.4R and *ESG* 2.2.5R, 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.

Approach to climate-related scenario analysis

2.2.2 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)

2.2.3 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

2.2.4 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*.

2.2.5 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*, 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* of the *firm's TCFD in-scope business*.

Compliance statement

2.2.6 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*, unless it is a *firm* 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 where the report may be found in the *firm's* website, in any one of the following *client* 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 or *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 where the report may be found in the *firm's* website, is always included 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 *firm* 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*.

(2) The request by a *client* in (1) may specify a calculation date no earlier than 1 July 2023, or, if later, the start date of the *client's* arrangements with the *firm* concerning the *TCFD product*;

2.3.6 R The *client* 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 every 12-*month* rolling period.

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 *client* in *ESG* 2.3.5R(1) requests additional climate- or carbon-related data which is 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 *ESG* 2 Annex 1 [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 an '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 an 'orderly transition', 'disorderly transition' and 'hothouse world' scenario.

(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 CO_2 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* 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*.

(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, on a best efforts basis, 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; and

(3) any other metrics that the *firm* considers an investor will find useful when deciding whether to select a particular *TCFD product*.

ESG 2 Annex 1 TCFD Product Report Metrics

	TCFD (see page 43 of the TCFD Final Report)	**SFDR (please see annex I of the draft RTS)**
Weighted average carbon intensity (WACI)	Portfolio's exposure to carbon-intensive companies, expressed in tons CO_2e / \$M revenue. *Metric recommended by the Task Force.* $$\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{current portfolio value}} * \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{issuer's \$M revenue}_i}\right)$$	$$\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{current value of all investments (€M)}} \times \frac{\text{investee company's Scope 1, 2 and 3 carbon emissions}_i}{\text{investee company's €M revenue}_i}\right)$$
Total carbon emissions	The absolute greenhouse gas emissions associated with a portfolio, expressed in tons CO_2e. $$\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{issuer's market capitalization}_i} * \text{issuer's Scope 1 and Scope 2 GHG emissions}_i\right)$$	$$\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's Scope 1, 2 and 3 carbon emissions}_i\right)$$
Carbon footprint	*Description* Total carbon emissions for a portfolio normalized by the market value of the portfolio, expressed in tons CO_2e / \$M invested. *Formula* $$\frac{\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{issuer's market capitalization}_i} * \text{issuer's Scope 1 and Scope 2 GHG emissions}_i\right)}{\text{current portfolio value (\$M)}}$$	$$\frac{\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's Scope 1, 2 and 3 carbon emissions}_i\right)}{\text{current value of all investments (€M)}}$$
Scope 1, 2 and 3 GHG emissions, disclosed separately	Scope 1 refers to all direct GHG emissions. Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam. Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include: the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (eg, transmission and distribution losses), outsourced activities, and waste disposal (see page 63 of the TCFD Final Report).	The scope 1, 2 and 3 definitions are contained in the low carbon benchmark regulation: (i) Scope 1 carbon emissions, namely emissions generated from sources that are controlled by the company that issues the underlying assets; and (ii) Scope 2 carbon emissions, namely emissions from the consumption of purchased electricity, steam, or other sources of energy generated upstream from the company that issues the underlying assets. (iii) Scope 3 carbon emissions, namely all indirect emissions that are not covered by points (i) and (ii) that occur in the value chain of the reporting company, including both upstream and downstream emissions, in particular for sectors with a high impact on climate change and its mitigation.

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* 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(1) and *ESG* 2.3.5R(2)	R	For a *firm* to whom the disapplication in *ESG* TP 1.1 or *ESG* TP 1.2 is available: (a) the specified calculation date of *on-demand information* must be no earlier than 1 July 2024; and (b) the earliest a *client* 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[2]

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)~~.~~; and

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

(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; and

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[2] Further consequential changes may be required to *COLL* 15.5 if the proposed rules in guidance in the Long-Term Asset Fund Instrument 2021, as part of "A new authorised fund regime for investing in long term assets" Consultation https://www.fca.org.uk/publication/consultation/cp21-12.pdf are made.

(iv) its *public TCFD product report* or an adequately contextualised and prominent cross-reference and hyperlink to where the report may be found in 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 where the report may be found in 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 where the report may be found in 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 where the report may be found in 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 where this report may be found in 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 may be found in 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).

…

Appendix 2
TCFD recommendations, recommended disclosures and supplemental guidance

This Appendix sets out the TCFD's recommendations, recommended disclosures and associated guidance (including supplemental guidance for asset managers and asset owners, as appropriate) in Figures A to E.

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

Figure A – the TCFD Recommendations and Recommended Disclosures

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

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

Figure B – Governance: Guidance for all sectors

Governance

Disclose the organization's governance around climate-related risks and opportunities.

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

Source: Final TCFD Annex, Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017

Figure C – Strategy: Guidance for all sectors and supplemental guidance for asset owners and asset managers

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

Supplemental Guidance for Asset Owners

Asset owners should describe how climate-related risks and opportunities are factored into relevant investment strategies. This could be described from the perspective of the total fund or investment strategy or individual investment strategies for various asset classes.

Supplemental Guidance for Asset Managers

Asset managers should describe how climate-related risks and opportunities are factored into relevant products or investment strategies. Asset managers should also describe how each product or investment strategy might be affected by the transition to a lower-carbon economy.

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

Supplemental Guidance for Asset Owners

Asset owners that perform scenario analysis should consider providing a discussion of how climate-related scenarios are used, such as to inform investments in specific assets.

Source: Final TCFD Annex, Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017

Figure D – Risk Management: Guidance for all sectors and supplemental guidance for asset owners and asset managers

Risk Management

Disclose how the organization identifies, assesses, and manages climate-related risks.

Recommended Disclosure a) Describe the organization's processes for identifying and assessing climate-related risks.	**Guidance for All Sectors** Organizations should describe their risk management processes for identifying and assessing climate-related risks. An important aspect of this description is how organizations determine the relative significance of climate-related risks in relation to other risks. Organizations should describe whether they consider existing and emerging regulatory requirements related to climate change (e.g., limits on emissions) as well as other relevant factors considered. Organizations should also consider disclosing the following: – processes for assessing the potential size and scope of identified climate-related risks and – definitions of risk terminology used or references to existing risk classification frameworks used.

Supplemental Guidance for Asset Owners

Asset owners should describe, where appropriate, engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks to improve data availability and asset owners' ability to assess climate-related risks.

Supplemental Guidance for Asset Managers

Asset managers should describe, where appropriate, engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks in order to improve data availability and asset managers' ability to assess climate-related risks.

Asset managers should also describe how they identify and assess material climate-related risks for each product or investment strategy. This might include a description of the resources and tools used in the process.

Recommended Disclosure b) Describe the organization's processes for managing climate-related risks.	**Guidance for All Sectors** Organizations should describe their processes for managing climate-related risks, including how they make decisions to mitigate, transfer, accept, or control those risks. In addition, organizations should describe their processes for prioritizing climate-related risks, including how materiality determinations are made within their organizations. In describing their processes for managing climate-related risks, organizations should address the risks included in Tables 1 and 2 (pp. 10-11), as appropriate.

Supplemental Guidance for Asset Owners

Asset owners should describe how they consider the positioning of their total portfolio with respect to the transition to a lower-carbon energy supply, production, and use. This could include explaining how asset owners actively manage their portfolios' positioning in relation to this transition.

Supplemental Guidance for Asset Managers

Asset managers should describe how they manage material climate-related risks for each product or investment strategy.

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

Source: Final TCFD Annex, Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017

Figure E – Metrics and Targets: Guidance for all sectors and supplemental guidance for asset owners and asset managers

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Recommended Disclosure a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	**Guidance for All Sectors** Organizations should provide the key metrics used to measure and manage climate-related risks and opportunities, as described in Tables 1 and 2 (pp. 10-11). Organizations should consider including metrics on climate-related risks associated with water, energy, land use, and waste management where relevant and applicable. Where climate-related issues are material, organizations should consider describing whether and how related performance metrics are incorporated into remuneration policies. Where relevant, organizations should provide their internal carbon prices as well as climate-related opportunity metrics such as revenue from products and services designed for a lower-carbon economy. Metrics should be provided for historical periods to allow for trend analysis. In addition, where not apparent, organizations should provide a description of the methodologies used to calculate or estimate climate-related metrics.

Supplemental Guidance for Asset Owners

Asset owners should describe metrics used to assess climate-related risks and opportunities in each fund or investment strategy. Where relevant, asset owners should also describe how these metrics have changed over time.

Where appropriate, asset owners should provide metrics considered in investment decisions and monitoring.

Supplemental Guidance for Asset Managers

Asset managers should describe metrics used to assess climate-related risks and opportunities in each product or investment strategy. Where relevant, asset managers should also describe how these metrics have changed over time.

Where appropriate, asset managers should provide metrics considered in investment decisions and monitoring

Recommended Disclosure b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	**Guidance for All Sectors** Organizations should provide their Scope 1 and Scope 2 GHG emissions and, if appropriate, Scope 3 GHG emissions and the related risks.[39] GHG emissions should be calculated in line with the GHG Protocol methodology to allow for aggregation and comparability across organizations and jurisdictions.[40] As appropriate, organizations should consider providing related, generally accepted industry-specific GHG efficiency ratios.[41] GHG emissions and associated metrics should be provided for historical periods to allow for trend analysis. In addition, where not apparent, organizations should provide a description of the methodologies used to calculate or estimate the metrics.

Supplemental Guidance for Asset Owners

Asset owners should provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each fund or investment strategy.

In addition, asset owners should provide other metrics they believe are useful for decision making along with a description of the methodology used. See Table 2 (p. 43) for common carbon footprinting and exposure metrics, including weighted average carbon intensity.

Note: The Task Force acknowledges the challenges and limitations of current carbon footprinting metrics, including that such metrics should not necessarily be interpreted as risk metrics. The Task Force views the reporting of weighted average carbon intensity as a first step and expects disclosure of this information to prompt important advancements in the development of decision-useful, climate-related risk metrics. The Task Force recognizes that some asset owners may be able to report weighted average carbon intensity for only a portion of their investments given data availability and methodological issues.

Supplemental Guidance for Asset Managers

Asset managers should provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each product or investment strategy.

In addition, asset managers should provide other metrics they believe are useful for decision making along with a description of the methodology used. See Table 2 (p. 43) for common carbon footprinting and exposure metrics, including weighted average carbon intensity.

Note: The Task Force acknowledges the challenges and limitations of current carbon footprinting metrics, including that such metrics should not necessarily be interpreted as risk metrics. The Task Force views the reporting of weighted average carbon intensity as a first step and expects disclosure of this information to prompt important advancements in the development of decision-useful, climate-related risk metrics. The Task Force recognizes that some asset managers may be able to report weighted average carbon intensity for only portion of the assets they manage given data availability and methodological issues.

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

Source: Final TCFD Annex, Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017

Appendix 3
Formulas for calculating certain core metrics

In Chapter 5, we outline our proposals to require disclosure of a baseline set of core, mandatory, carbon emissions and carbon intensity metrics. We indicate that there are some overlapping metrics in the TCFD's recommendations and the final report on draft RTS for the SFDR, and in some cases the calculation methodologies differ.

We welcome stakeholders' feedback on an approach that would require overlapping metrics to be reported according to the formulas under both regimes. This Appendix provides a comparison of the formulas in both the TCFD's recommendations and RTS for reference.

	A: TCFD	B: SFDR
Weighted average carbon intensity (WACI)	Portfolio's exposure to carbon-intensive companies, expressed in tons CO_2e / \$M revenue. *Metric recommended by the Task Force.* $\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{current portfolio value}} * \frac{\textit{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\textit{issuer's \$M revenue}_i}\right)$	$\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{current value of all investments (€M)}} \times \frac{\textit{investee company's Scope 1, 2 and 3 carbon emissions}_i}{\textit{investee company's €M revenue}_i}\right)$
Total carbon emissions	The absolute greenhouse gas emissions associated with a portfolio, expressed in tons CO_2e. $\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{issuer's market capitalization}_i} * \textit{issuer's Scope 1 and Scope 2 GHG emissions}_i\right)$	$\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{investee company's enterprise value}_i} \times \textit{investee company's Scope 1, 2 and 3 carbon emissions}_i\right)$
Carbon footprint	Total carbon emissions for a portfolio normalized by the market value of the portfolio, expressed in tons CO_2e / \$M invested. $\frac{\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{issuer's market capitalization}_i} * \textit{issuer's Scope 1 and Scope 2 GHG emissions}_i\right)}{\textit{current portfolio value (\$M)}}$	$\frac{\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{investee company's enterprise value}_i} \times \textit{investee company's Scope 1, 2 and 3 carbon emissions}_i\right)}{\textit{current value of all investments (€M)}}$
Scope 1, 2 and 3 GHG emissions, disclosed separately	Scope 1 refers to all direct GHG emissions. Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam. Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include: the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (eg, transmission and distribution losses), outsourced activities, and waste disposal (see page 63 of the TCFD Final Report).	The scope 1, 2 and 3 definitions are contained in the low carbon benchmark regulation: (i) Scope 1 carbon emissions, namely emissions generated from sources that are controlled by the company that issues the underlying assets; (ii) Scope 2 carbon emissions, namely emissions from the consumption of purchased electricity, steam, or other sources of energy generated upstream from the company that issues the underlying assets; (iii) Scope 3 carbon emissions, namely all indirect emissions that are not covered by points (i) and (ii) that occur in the value chain of the reporting company, including both upstream and downstream emissions, in particular for sectors with a high impact on climate change and its mitigation;

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