Environmental, Social and Governance sourcebook
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Chapter 1

Purpose and application
1.1 Purpose and application

Purpose

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

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

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

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

1.2.1

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

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

<table>
<thead>
<tr>
<th>Column 1: Type of firm</th>
<th>Column 2: TCFD in-scope business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part A: Asset managers</td>
<td></td>
</tr>
<tr>
<td>Any firm</td>
<td>Portfolio management</td>
</tr>
<tr>
<td>UK UCITS management company</td>
<td>Managing a UK UCITS</td>
</tr>
<tr>
<td>ICVC that is a UCITS scheme without a separate management company</td>
<td>Managing a UK UCITS</td>
</tr>
<tr>
<td>Full-scope UK AIFM</td>
<td>Managing an AIF</td>
</tr>
<tr>
<td>Small authorised UK AIFM</td>
<td>Managing an AIF</td>
</tr>
<tr>
<td>Part B: Asset owners</td>
<td></td>
</tr>
<tr>
<td>Insurer or pure reinsurer</td>
<td>Providing insurance-based investment products</td>
</tr>
<tr>
<td></td>
<td>Operating a personal pension scheme (excluding a SIPP) or stakeholder pension scheme</td>
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<tr>
<td></td>
<td>Operating a SIPP, but only in relation to SIPPs containing insurance-based investment products provided by the firm</td>
</tr>
<tr>
<td>Other asset owners (other than insurers or pure reinsurers)</td>
<td>Operating a personal pension scheme (excluding a SIPP) or stakeholder pension scheme</td>
</tr>
<tr>
<td></td>
<td>Operating a SIPP, but only in relation to SIPPs containing any of the following provided by the firm:</td>
</tr>
<tr>
<td></td>
<td>(a) a unit</td>
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<tr>
<td></td>
<td>(b) an interest in a closed-ended investment fund</td>
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<tr>
<td></td>
<td>(c) a pre-set investment portfolio</td>
</tr>
</tbody>
</table>
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.
Chapter 2

Disclosure of climate related financial information
2.1 Preparation of climate-related reports

Application

2.1.1 R

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

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

2.1.2 R

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

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

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

Publication of climate-related reports

2.1.3 R

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

2.1.4 G

Prominence may be achieved by adding hyperlinks to the reports which are accessible via the landing page of the main website for the business of the firm.
ESG 2 : Disclosure of climate related financial information

Knowsley 2 : Preparation of climate-related financial information

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

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

   (2) the TCFD Technical Supplement;

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

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

Data considerations when preparing climate-related reports

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

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

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

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

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

(2) The FCA expects such gaps in underlying data and methodological challenges to be transitional and considers that such gaps and challenges are only likely to arise in relation to certain asset classes, such as asset-backed securities and currencies, and are likely to narrow over time.

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

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

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

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

(4) in respect of (3),
   (a) the gaps in underlying data or methodological challenges that have resulted in the firm being unable to make the relevant disclosure;
   (b) why the firm has not been able to address those gaps or challenges using proxy data or assumptions; and
   (c) what steps the firm will take to address those gaps or challenges in the future.

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

Cross-referencing climate-related financial disclosures

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

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

(3) An insurer or pure reinsurer which operates linked funds which mirror funds operated by a third party (but which are not close-matched by
an insurer’s or pure reinsurer’s direct investment in that third party’s fund) must consider the extent to which it is appropriate to rely wholly or partly on disclosures by that third party.

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

Content of a TCFD entity report

2.2.1 [R]

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

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

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

2.2.2 [G]

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

Approach to climate-related scenario analysis

2.2.3 [R]

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

   a. its approach to climate-related scenario analysis; and

   b. how the firm applies climate-related scenario analysis in its investment and risk decision making process.
(2) Where reasonably practicable, a firm must provide quantitative examples to demonstrate its approach to climate-related scenario analysis.

### Approach to targets and key performance indicators (KPIs)

#### 2.2.4

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

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

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

#### 2.2.5

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

2. If a firm does rely on such group disclosures, it must ensure that its TCFD entity report:
   
   (a) includes cross-references, including hyperlinks, to any climate-related financial disclosure contained within the group or group member’s report that relate to assets managed or administered by the firm in relation to its TCFD in-scope business on which the firm is relying to meet its disclosure obligations under this section; and

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

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

#### 2.2.6

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

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

Compliance statement

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

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

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

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

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

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

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

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

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

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

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

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

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

Content of TCFD product reports

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

(a) scope 1 and 2 greenhouse gas emissions;
(b) scope 3 greenhouse gas emissions;
(c) total carbon emissions;
(d) total carbon footprint; and
(e) weighted average carbon intensity.

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

(a) relevant contextual information such as explaining how the metrics should be interpreted and their associated limitations, for example, if particular assumptions or proxies have been used;
(b) historical annual calculations of the metrics in (1), after the first year of preparing a TCFD product report; and
2.3.10 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 (1) Where a TCFD product report relates to a TCFD product that has concentrated exposures or high exposures to carbon intensive sectors, the firm must describe these and disclose:

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

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

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

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

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

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

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

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

2.3.12 (1) Where a firm prepares a public TCFD product report in relation to a default arrangement or other fund in a qualifying scheme which uses life-styling or differing target retirement dates for different cohorts of members, a firm may calculate the information in ■ ESG 2.3.9R to ■ ESG 2.3.11R and, where relevant, ■ ESG 2.3.13R, in relation to the most representative member profile in that default arrangement or fund.
(2) However, where relevant, the firm must include a qualitative explanation in its public TCFD product report of how this information might vary between cohorts.

**Other elements of a TCFD product report**

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

1. climate value-at-risk;

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

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

## ESG TP 1

### Transitional provisions

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<tbody>
<tr>
<td>1.1</td>
<td>ESG 2 as it applies to <em>firms</em> falling within Part A (asset managers) of the table in ESG 1.2.1R(2)</td>
<td>R</td>
<td>ESG 2 is disapplied where a <em>firm</em> does not meet the requirements of an <em>enhanced scope SMCR firm</em> pursuant to SYSC 23 Annex 1 8.2R paragraph 1.</td>
<td>From 1 January 2022 to 31 December 2022</td>
<td>Effective date of instrument</td>
</tr>
<tr>
<td>1.2</td>
<td>ESG 2 as it applies to <em>firms</em> falling within Part B (asset owners) of the table in ESG 1.2.1R(2)</td>
<td>R</td>
<td>ESG 2 is disapplied where a <em>firm</em> has assets under management or administration in relation to <em>TCFD in-scope business</em> of less than £25bn calculated as a 3-year rolling average on an annual assessment.</td>
<td>From 1 January 2022 to 31 December 2022</td>
<td>Effective date of instrument</td>
</tr>
<tr>
<td>1.3</td>
<td>ESG 2.1.1R(1)</td>
<td>R</td>
<td>(1) For a <em>firm</em> to whom the disapplication in ESG TP 1.1 or ESG TP 1.2 is available, the first publication deadline for a <em>TCFD entity report</em> and a <em>public TCFD product report</em> is 30 June 2024.</td>
<td>From 1 January 2022</td>
<td>Effective date of instrument</td>
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<td></td>
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<td></td>
<td>(2) For other <em>firms</em>, the first publication deadline for these reports is 30 June 2023.</td>
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<tr>
<td>1.4</td>
<td>ESG 2.1.2R(2)</td>
<td>R</td>
<td>For a <em>firm</em> to whom the disapplication in ESG TP 1.1 or ESG TP 1.2 is available, the reporting period that must be covered by one or more <em>TCFD entity reports</em> is to commence from 1 January 2023.</td>
<td>From 1 January 2022</td>
<td>Effective date of instrument</td>
</tr>
<tr>
<td>1.5</td>
<td>ESG 2.3.5R(3)</td>
<td>R</td>
<td>For a <em>firm</em> to whom the disapplication in ESG TP 1.1 or ESG TP 1.2 is available, (a) the earliest reporting period for which a <em>person</em> can</td>
<td>From 1 January 2022</td>
<td>Effective date of instrument</td>
</tr>
</tbody>
</table>
## Transitional provisions

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2) Material to which the transitional provision applies</th>
<th>(3) Transitional provision</th>
<th>(4) Transitional provision dates in force</th>
<th>(6) Handbook provision: coming into force</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.6</td>
<td>ESG 2.3.9R(1)(b)</td>
<td>request on-demand information is to commence from 1 January 2023, and (b) the earliest a person can request on-demand information is 1 July 2024.</td>
<td>From 1 January 2022</td>
<td>Effective date of instrument</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The first reporting deadline for scope 3 greenhouse gas emissions is 30 June 2024.</td>
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