

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 TCFD information* from a *person* who is entitled to make such request under ■ ESG 2.3.5R, it must prepare and provide the *on-demand TCFD information* to the *person* within a reasonable period of time and in a format which the *firm*, acting reasonably, considers appropriate to meet the information needs of that *person*.

- 2.1.2 **R** (1) A *firm* must cover a reporting period of 12 *months* starting no earlier than 1 January of the previous calendar year in its *TCFD entity report*.
- (2) The reporting period in (1) may be changed by the *firm* in subsequent yearly reports, but the *firm* must ensure there is no period of time after 1 January 2022 which is not covered by its *TCFD entity report*, issuing an interim report if necessary.
- (3) A *firm* must adopt a calculation date within the 12-*month* reporting period covered by the *TCFD entity report* in calculating any metrics and targets either for inclusion in its *TCFD entity report* or its *TCFD product reports*.

Publication of climate-related reports

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

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

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

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

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

- (1) section C of the *TCFD Annex*, entitled "Guidance for All Sectors"; and, as applicable,
- (2) part 3, section D of the *TCFD Annex*, entitled "Asset Owners"; or
- (3) part 4, section D of the *TCFD Annex*, entitled "Asset Managers".

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

- (1) the *TCFD Final Report* and the *TCFD Annex* to the extent not already referred to in this chapter;
- (2) the *TCFD Technical Supplement*;
- (3) the *TCFD Guidance on Risk Management Integration and Disclosure*; and
- (4) the *TCFD Guidance on Metrics, Targets, and Transition Plans*.

Data considerations when preparing climate-related reports

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

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

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

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

2.1.11 **G** (1) The FCA expects a firm to make climate-related financial disclosures in its *climate-related reports* consistent with the *TCFD Recommendations*

and *Recommended Disclosures* using proxy data or assumptions to address gaps in underlying data and methodological challenges, as appropriate, and should only omit disclosures in accordance with ■ ESG 2.1.10R.

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

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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.

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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

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- (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.

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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 1A.1.1R**.
 - (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

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- (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

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- (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*.

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- (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

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

2.3 Product-level reporting

Public TCFD product reports

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

- (1) the annual report or half-yearly report of an *authorised fund* as required under ■ COLL 4.5.3R, ■ COLL 8.3.5R or ■ COLL 15.5.2R, provided that its *public TCFD product report*, or an adequately contextualised and prominent cross-reference and hyperlink to the report’s location on the *firm’s* website, is always included in the annual report;
- (2) a periodic *client* report under ■ COBS 16.3.1R, ■ COBS 16.4.1R, ■ COBS 16A.4.2AR or ■ COBS 16A.5.1R;
- (3) a report to *with-profits policyholders* under ■ COBS 20.4.7R; or
- (14) an annual pension benefit statement or an annual *drawdown pension* statement under ■ COBS 16.6.8R.

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

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

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

On-demand TCFD product reports and underlying data

2.3.5 **R** A *client* who requires *on-demand TCFD 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 TCFD 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

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

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

2.3.11 **R**

- (1) Where a *TCFD product report* relates to a *TCFD product* that has concentrated exposures or high exposures to carbon intensive sectors, the *firm* must describe these and disclose:
 - (a) a qualitative summary of how climate change is likely to impact the assets underlying the relevant *TCFD product* under 'orderly transition', 'disorderly transition' and 'hothouse world' scenarios;
 - (b) a discussion of the most significant drivers of impact on that *TCFD product*; and
 - (c) a quantitative analysis of 'orderly transition', 'disorderly transition' and 'hothouse world' scenarios.
- (2) Where a *firm* manages *TCFD products* that do not have concentrated exposures or high exposures to carbon intensive sectors, a *firm* must still make the disclosures under (1)(a) and 1(b).
- (3) For the purposes of (1)(a) and 1(c):
 - (a) 'orderly transition' scenarios assume climate policies are introduced early and become gradually more stringent, reaching global net zero CO₂ emissions around 2050 and likely limiting global warming to below 2 degrees Celsius on pre-industrial averages;
 - (b) 'disorderly transition' scenarios assume climate policies are delayed or divergent, requiring sharper emissions reductions achieved at a higher cost and with increased physical risks in order to limit temperature rise to below 2 degrees Celsius on pre-industrial averages; and
 - (c) 'hothouse world' scenarios assume only currently implemented policies are preserved, current commitments are not met and emissions continue to rise, with high physical risks and severe social and economic disruption and failure to limit temperature rise.

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

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

Other elements of a TCFD product report

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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.

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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.