HM Treasury

A Roadmap towards mandatory climate-related disclosures

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The Roadmap

The Roadmap sets out an indicative path towards mandatory climate-related disclosures across the UK economy aligned with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

The ambitious but proportionate strategy presented in the Roadmap will help ensure that the right information on climate-related risks and opportunities is available across the investment chain – from companies in the real economy, to financial services firms, to end-investors.

1.1 While we continue to focus on the pandemic, tackling climate change remains a priority for Government, industry and regulators, both in the UK and internationally.

1.2 Efforts to rebuild the global economy need to focus on supporting a 'green recovery'; a clean, inclusive and resilient recovery with concern for our environment at its heart. As co-president of COP26, the UK is committed to leadership in increasing climate ambition and upholding the Paris Agreement and the 2030 Agenda for Sustainable Development as crucial frameworks for guiding the recovery from the COVID-19 pandemic.

1.3 High-quality disclosures about how organisations and assets will be impacted by – and impact – environmental change will improve transparency, encouraging better informed pricing and capital allocation. This in turn should drive investment in more sustainable projects and activities.

The TCFD's recommendations will be key in improving organisations' disclosures of climate-related financial risks and opportunities…

1.4 To support complete, high-quality disclosures that are decision useful for investors the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) published a final report in 2017 that set out overarching recommendations in four thematic areas: governance; strategy; risk management; and metrics and targets. Beneath these sit 11 recommended disclosures that provide more granular detail on the information to be disclosed under each of the recommendations.

1.5 The UK Government was one of the first to endorse the TCFD's recommendations. In its Green Finance Strategy last year, 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. A cross-Whitehall/cross-regulator UK Taskforce (the UK Taskforce) was established in 2019 to explore the most effective approach to climate-related disclosures in line with the Green Finance Strategy recommendations.

The UK Taskforce is charting a path towards mandatory TCFD-aligned climate-related disclosures to help accelerate progress…

1.6 Given the urgency of the climate threat, a voluntary approach to climate-related financial disclosure may not be sufficient. The Government and regulators have concluded that the UK should consider moving towards mandatory TCFD-aligned disclosures across non-financial and financial sectors of the UK economy over the coming years to help accelerate progress.

The UK Taskforce has developed a Roadmap towards mandatory TCFD-aligned disclosures…

1.7 The UK Taskforce has developed a Roadmap that sets out an *indicative* path, over the next five years – with most action occurring over the first three years – towards comprehensive and high-quality information on how climate-related risks and opportunities are being managed across the UK economy.

1.8 The Roadmap illustrates how coverage of disclosures could increase each year as potential new regulatory or legislative measures come into force, subject to the outcomes of relevant regulators' and Government departments' consultation processes and other statutory requirements such as cost-benefit analysis.

1.9 The Roadmap presents a coordinated strategy for seven categories of organisation: listed commercial companies; UK-registered companies; banks and building societies; insurance companies; asset managers; life insurers and FCA-regulated pension schemes; and occupational pension schemes.

1.10 A coordinated approach across the economy will help to ensure that the right information on climate-related risks and opportunities is available across the investment chain – from companies in the real economy, to financial services firms, to end-investors.

1.11 With clarity on the indicative path towards mandatory disclosures, organisations in each category should consider taking the necessary steps now to build their capabilities and iteratively refine their climate data and the resulting disclosures.

1.12 The UK Taskforce recognises the challenges that organisations face in the current environment. However, if these steps are taken now, the UK Taskforce expects that by 2023 climate reporting will be more comprehensive, removing obstacles that arise from the flow of information along the investment chain. An important focus of the regulators' work over the coming years will be to help facilitate this evolution in climate disclosure.

It is anticipated that implementation measures will be introduced, incrementally, by relevant regulators and Government departments…

1.13 The design and institutional scope of proposals in each category of organisation, and the implementation milestones, are necessarily indicative in the Roadmap. In each case, the details of implementation will be determined by the relevant regulator or Government department.

1.14 For some categories of organisation, it is anticipated that disclosure obligations will be introduced – at least initially – with some flexibility in the compliance basis to take account of known data limitations or other challenges.

1.15 For example, organisations may provide a reasoned explanation if they have not made complete disclosures; alternatively, the relevant regulations may allow for disclosures to be made on an "as far as able" basis.

The implementation path presented in the Roadmap builds on initial steps already taken…

1.16 Initial steps to introduce TCFD-aligned disclosures have already been taken in respect of certain listed companies, banks and building societies, insurance companies and occupational pension schemes. These actions, taken by the Financial Conduct Authority (FCA), the Bank of England (through the Prudential Regulation Authority (PRA)) and Department for Work and Pensions (DWP), respectively, are reflected in the Roadmap.

1.17 Building on these initial steps, the Department for Business, Energy and Industrial Strategy (BEIS) is planning to consult on measures for UK-registered companies. The FCA is also proposing further measures for asset managers, life insurers and FCA-regulated pension schemes. Though not reflected in the Roadmap, the Ministry of Housing, Communities and Local Government also intends to consult in 2021 on implementation in the Local Government Pension Scheme by 2023.

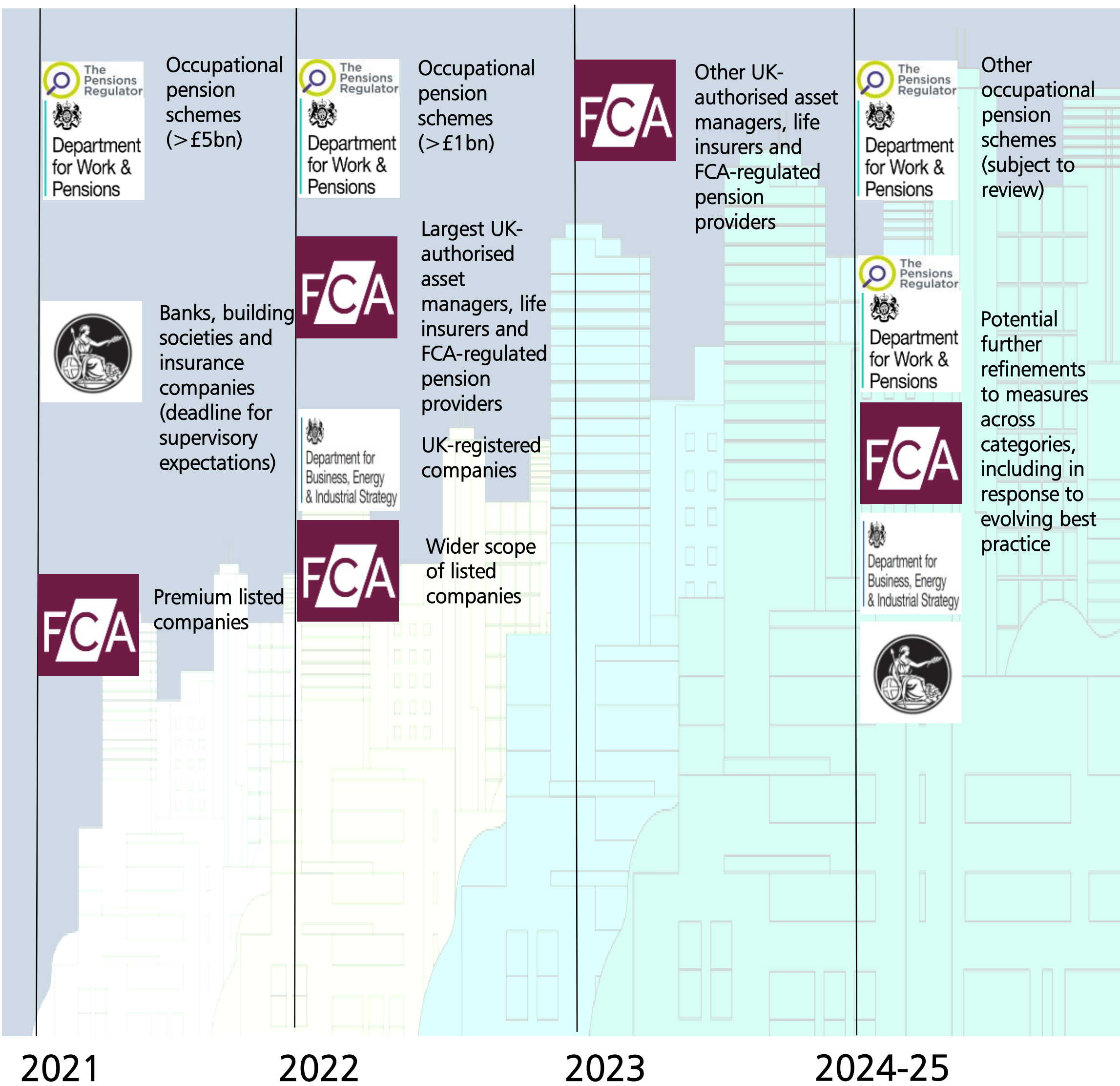
The Roadmap sets out a series of actions to be taken by regulators and Government departments over the next five years…

1.18 Figure 1 presents a consolidated timeline of planned or potential regulatory actions or legislative measures over the next five years. The figure shows that measures are planned in each of the seven categories of organisation, with most of these expected to come into force by 2023, subject to the outcomes of relevant regulators' and Government departments' consultation processes and other statutory requirements.

1.19 Further details of these actions are presented in the category-level Roadmaps in Figure 2 and the accompanying *Interim Report of the UK's Joint Government-Regulator TCFD Taskforce*.

Figure 1. Roadmap towards mandatory TCFD-aligned disclosures

Timeline of planned or potential regulatory actions or legislative measures



The Roadmap illustrates rising coverage of disclosures over the next three years…

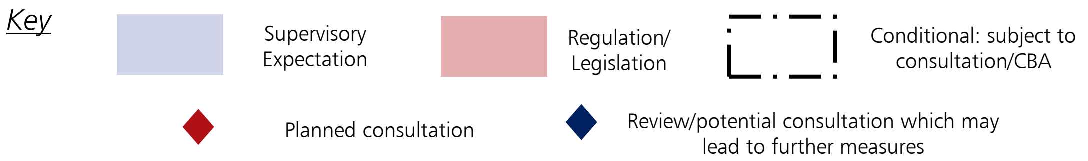
1.20 Figure 2 illustrates how the coverage of supervisory expectations, disclosure rules or legislative requirements is expected to rise over the coming years. The bars denote the percentage coverage of regulatory disclosure rules or legislation (pink) or the PRA's supervisory expectations (blue) at each point in the timeline. Where these measures are subject to the outcome of current or planned consultations, this is indicated in Figure 2.[1] See Box 2 for further interpretation of the figures.

Box 1. Interpretation of the Roadmap

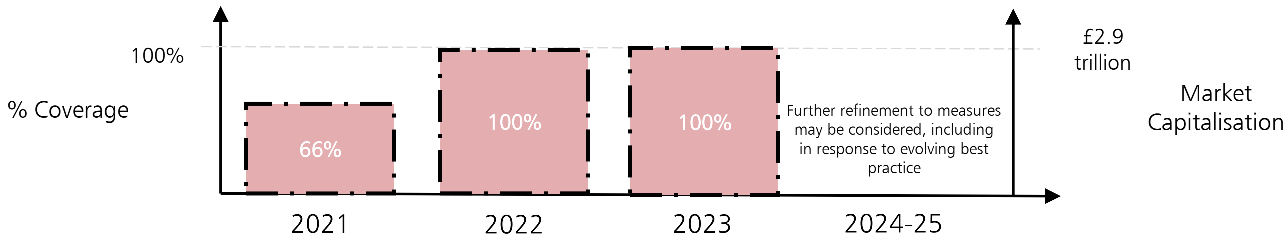
Note that there is some overlap between the categories. For instance, some banks, building societies and insurance companies are also listed commercial companies or UK-registered companies and may fall within the scope of the proposals of one or both of those categories. Figures 2(c) and (d) indicate the percentage of banks', building societies' and insurance companies' assets that may become subject to those proposed requirements. No additional regulatory requirements are proposed at this time specifically for the bank, building society or insurance categories; the PRA continues, through its supervisory expectations and engagement, to embed climate-related financial reporting for these firms by end-2021. The PRA will review disclosures after this deadline and determine whether additional measures are required.

There is also likely to be some overlap in coverage between asset managers, life insurers and FCA-regulated pension schemes and firms that will be covered by disclosure expectations either as listed issuers or at the group level as insurance companies under the PRA's supervisory expectations. However, the focus of potential dedicated disclosures for asset managers, life insurers and FCA-regulated pension schemes (in Figures 2(e) and (f)) is on information that will be decision useful to clients and end investors.

Figure 2. Roadmaps towards mandatory TCFD-aligned disclosures for each category of organisation



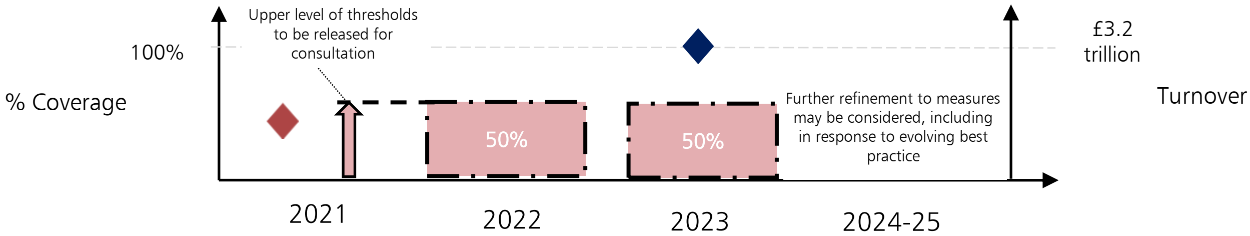
(a) *Listed commercial companies*



Note: This category of organisation comprises all premium listed commercial companies, and all issuers of standard listed shares (excluding listed funds) on the FCA's Official List. The maximum potential coverage is calculated, for illustrative purposes, as the total market capitalisation of these issuers (based on end-September 2020 figures). The bars represent the indicative percentage of the total market capitalisation of this category that could be covered by the disclosures at each point in the timeline, subject to the outcome of future policy development, consultation and other regulatory processes. Note that implementation of TCFD-aligned disclosures for listed open- and closed-ended investment companies will be considered alongside implementation for asset managers. Source: FCA Official List, London Stock Exchange; UK Taskforce calculations.

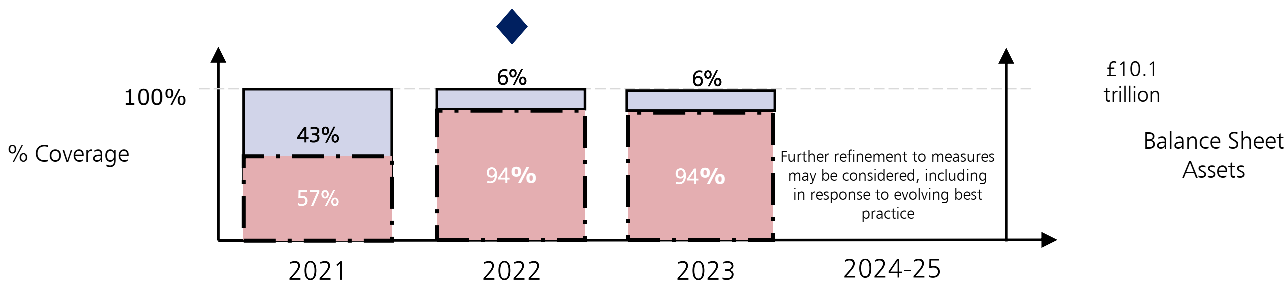
1 The percentage coverage of disclosures in each category is calculated with reference to a relevant measure of assets, market capitalisation or turnover. To reflect the different nature of the organisations in each category, the measure differs across the seven categories. For listed commercial companies, the UK Taskforce has used market capitalisation; for large private companies (which is a subset of the 'UK-registered companies' category, for the purposes of Figure 2(b)), the UK Taskforce has used turnover; for banks, building societies and insurance companies, the measure applied is balance sheet assets; and for asset managers, life insurers, FCA-regulated pension schemes and occupational pension schemes, the measure is assets under management or asset value.

(b) UK-registered large private companies



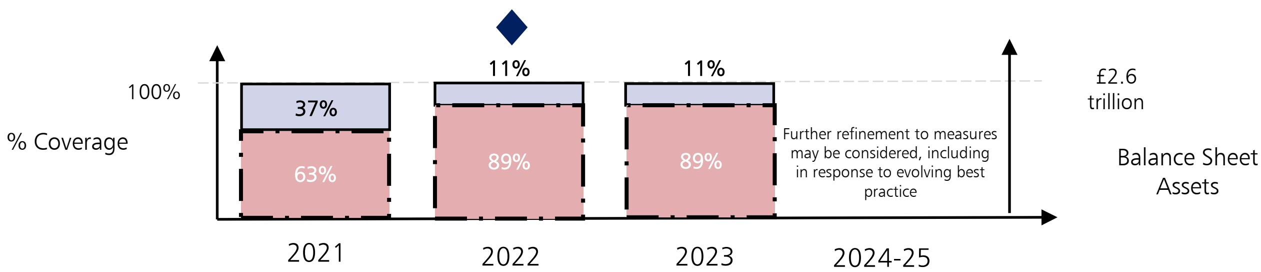
Note: This figure presents the Roadmap for a subset of UK-registered companies, focussing specifically on large private companies. The maximum potential coverage of UK-registered large private companies is calculated as the total turnover of private companies above the thresholds of a 'medium company' set by the Companies Act (and based on current figures). The bars represent the indicative percentage of large private companies that could be covered by disclosure requirements at each point in the timeline, subject to the outcome of future policy development, consultation, and other regulatory processes. The proposed regulations would also cover UK-registered companies more broadly, including listed companies and other publicly quoted companies. UK-registered companies that are also covered by the FCA's proposed Listing Rule are captured in Figure 2(a). Source: UK Taskforce calculations.

(c) Banks and building societies



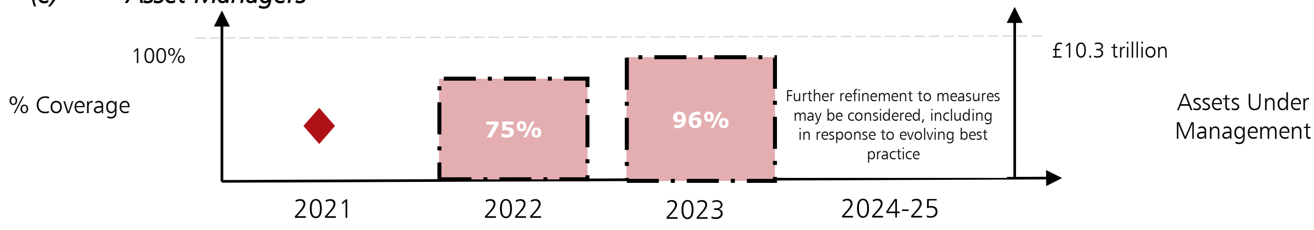
Note: This category of organisation includes all UK PRA-regulated banks, building societies, PRA-designated investment firms, and their groups. The maximum potential coverage is calculated, for illustrative purposes, as the total balance sheet assets of these organisations at 31 December 2019. All of these organisations are subject to PRA supervisory expectations to disclose their climate-related financial risks and opportunities by end-2021. The PRA will review disclosures after this deadline and determine whether additional measures are required. The percentage coverage under regulation/legislation (pink) represents an indicative percentage of balance sheet assets that could be additionally covered at each point in the timeline by the proposed disclosure requirements for listed commercial companies and UK-registered companies, detailed in Figures 2(a) and 2(b) above. These proposed disclosure requirements are subject to the outcome of future policy development, consultation, and other regulatory processes. Source: UK Taskforce calculations.

(d) Insurance companies



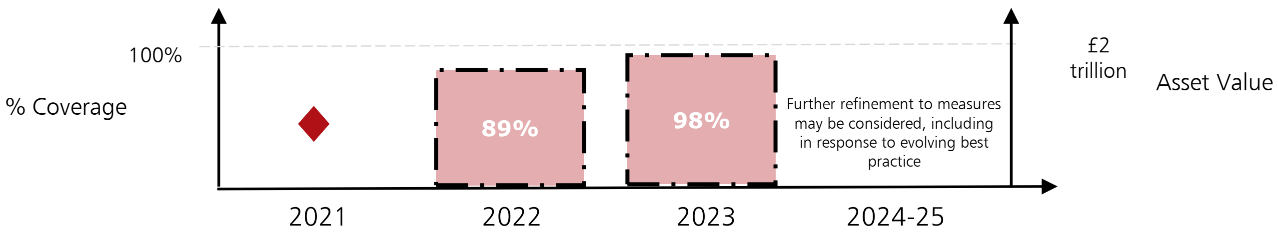
Note: This category of organisation includes all UK PRA-regulated insurance and reinsurance firms and groups. The maximum potential coverage is calculated, for illustrative purposes, as the total balance sheet assets of these organisations at 31 December 2019. All of these organisations are subject to PRA supervisory expectations disclose their climate-related financial risks and opportunities by end-2021. The PRA will review disclosures after this deadline and determine whether additional measures are required. The percentage coverage under regulation/legislation (pink) represents an indicative percentage of balance sheet assets that could be additionally covered at each point in the timeline by the proposed disclosure requirements for listed commercial companies and UK-registered companies, detailed in Figures 2(a) and 2(b) above. These proposed disclosure requirements are subject to the outcome of future policy development, consultation, and other regulatory processes. Source: UK Taskforce calculations.

(e) *Asset Managers*



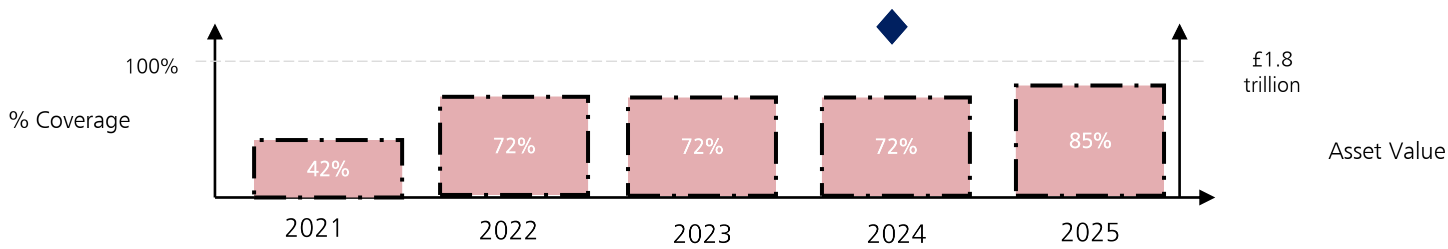
Note: This category of organisation comprises UK-authorised asset managers, defined as (i) MiFID investment firms who provide portfolio management services; (ii) alternative investment fund managers (AIFMs), including small authorised AIFMs that have managing permissions; (iii) UCITS management companies; and UCITS funds without an external management company. Note that the required disclosures would be directed towards clients and end-investors, rather than shareholders. The maximum potential coverage in the figure represents, for illustrative purposes, these firms' total assets under management (based on most recent illustrative regulatory returns data). The bars represent the indicative percentage of the total assets under management of this category that could be covered by disclosure requirements at each point in the timeline, subject to the outcome of future policy development, consultation and other regulatory processes. Note that implementation of TCFD-aligned disclosure requirements for listed open- and closed-ended investment companies will be considered in parallel. Source: FCA-regulated firms' regulatory returns; UK Taskforce calculations.

(f) *Life insurers and FCA-regulated pension schemes*



Note: This category of organisation comprises life insurers and FCA-regulated pension scheme providers. The maximum potential coverage in the figure represents, for illustrative purposes, the total asset value of these firms' long-term life insurance businesses (based on most recent data). Note that the required disclosures would be directed towards clients and end-investors, rather than shareholders. The bars represent the indicative percentage of this total asset value that could be covered by disclosure requirements at each point in the timeline, subject to the outcome of future policy development, consultation and other regulatory processes. Source: Regulated life insurers' regulatory returns to the PRA under Solvency II; UK Taskforce calculations

(g) *Occupational Pension Schemes*



Note: This category of organisation comprises all occupational pension schemes that are regulated by DWP. The maximum potential coverage in the figure is for illustrative purposes only and represents the total asset value of all schemes based on current data. The bars represent the indicative percentage of this total asset value that could be covered by the regulations at each point in the timeline subject to the outcome of consultation and review. The data excludes Public Service Pension Schemes, Small Self-Administered Schemes (SSASs) and Executive Pension Schemes (EPSs). Source: Data provided to The Pensions Regulator via scheme returns. DWP have consulted on a proposal to carry out a review in 2024 on extending the scope of measures adopted to some schemes with less than £1bn in assets. For illustrative purposes, Figure 2(g) shows an increased indicative coverage of occupational pension scheme assets of 85%.

Next steps

UK regulators and Government departments will progress strategies in the Roadmap…

1.21 In the coming years, UK Taskforce member organisations will take forward the strategies outlined in the Roadmap, subject to consultation and other statutory requirements. The UK Taskforce will continue to monitor the progress of the cross-sectoral implementation strategy to ensure that a coordinated approach is maintained. The Government will provide an update on progress in the 2022 refresh of the Green Finance Strategy.

Comparability of disclosures is important – both within the UK and internationally…

1.22 The Taskforce expects that it may be necessary, in due course, to consider setting more detailed expectations for disclosures to supplement the TCFD recommendations and enhance comparability across UK organisations. Given the interlinkages between UK organisations and the global economy, it is also important to be able to compare UK organisations with those in other jurisdictions.

1.23 To achieve a high level of comparability across jurisdictions, consistent disclosures are required. The UK Taskforce considers that, if arrived at sufficiently quickly, this would optimally be achieved through international standards for climate-related and other sustainability disclosures.

1.24 To this end, the UK Taskforce strongly supports the International Financial Reporting Standards (IFRS) Foundation's proposal to create a new, global Sustainability Standards Board, as well as complementary work underway on harmonisation by an alliance of voluntary standard-setting organisations. UK Taskforce member organisations are engaged in a number of international initiatives with a focus on disclosures. The UK Taskforce will monitor developments on this issue and consider an appropriate process for possible endorsement and implementation of international standards in due course.

HM Treasury contacts

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If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gov.uk