Enhancing climate-related disclosures by standard listed companies

Policy Statement
PS21/23

December 2021

This relates to

Consultation Paper 21/18
which is available on our website at
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Contents

1 Summary

1.1 We are extending the application of our climate-related financial disclosure requirements to issuers of standard listed shares and Global Depositary Receipts (GDRs) representing equity shares (excluding standard-listed investment entities and shell companies). In this Policy Statement (PS), we summarise the feedback to our consultation on this (CP21/18) and confirm our final rule and guidance. We also set out our future intended direction of travel as standards for corporate reporting on climate and sustainability matters evolve. Alongside this PS, we are also publishing our final policy to introduce TCFD-aligned disclosure requirements for asset managers, life insurers, and FCA-regulated pension providers (PS21/24).

Why we proposed changes

1.2 In June 2021, we consulted on extending the application of our climate-related disclosure requirements for premium listed commercial companies (PS20/17) to a wider scope of listed issuers (CP21/18). Consistent with the existing requirement for premium listed commercial companies, which came into force for accounting periods beginning on or after 1 January 2021, we proposed to reference the recommendations and recommended disclosures of the Financial Stability Board's (FSB) Taskforce on Climate-related Financial Disclosures (TCFD).

1.3 Our final rule forms part of a broader strategic aim to promote transparency on climate change and wider sustainability matters along the value chain. As elaborated in our Strategy for Positive Change, launched in November 2021, 'better corporate disclosures will inform market pricing and support business, risk and capital allocation decisions'.

1.4 This work also supports the UK Government's commitment to implement the TCFD's recommendations, and its wider ambitions for sustainability disclosures. The Government has committed to work towards mandatory TCFD-aligned disclosure obligations across the UK economy by 2025. Building on this, in October 2021, the Government set out plans for economy-wide Sustainability Disclosure Requirements (SDR) as part of a Roadmap to Sustainable Investing (see Chapter 2).

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

1.6 In CP21/18, we also included a discussion chapter on ESG integration in UK capital markets. We focused specifically on the sustainable debt market and the role of ESG data and rating providers. We have not included our feedback to the input received in this PS. We will instead publish a Feedback Statement to the discussion chapter in the first half of 2022.

Who this affects

1.7 Our final rule will apply to issuers of standard listed shares – both equity shares, and shares other than equity shares – and standard listed issuers of GDRs representing equity shares, referred to as standard listed issuers of GDRs in the remainder of the PS (in each case excluding standard listed investment entities and shell companies). We also set out considerations relevant to issuers of standard listed debt and debt-like securities.

1.8 In line with our proposals in CP21/18, our finalised handbook guidance relating to the rule also incorporates updated guidance materials from the TCFD, including new guidance on metrics, targets and transition plans and an updated implementation annex. These new and updated materials have been referenced in guidance relating to both the existing and new rules, so also affect premium listed commercial companies.

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

- corporate finance and other advisers
- consumer groups and individual consumers
- investors and asset owners
- sponsors of listed companies
- accountants and auditors
- industry groups, trade bodies and civil society groups
- regulated firms
- policymakers and regulatory bodies
- industry experts and commentators
- academics and think tanks

The wider context of this policy statement

Our consultation

1.10 As described in CP21/18, effective capital markets rely on good corporate disclosures to inform asset pricing and capital allocation.

1.11 Climate change is a relevant consideration for all companies and likely to be material for most. But the current quantity and quality of climate-related financial disclosures does not yet meet investors' needs. That's why one of our key priorities has been to enhance climate-related disclosures along the investment chain, beginning with listed companies and referencing the recommendations of the TCFD.

1.12 The TCFD was established by the Financial Stability Board in 2015 and published its final report in June 2017. The report sets out 11 recommended disclosures under 4 pillars to promote better climate-related corporate disclosures. The pillars are governance, strategy, risk management, and metrics and targets. Since then, the TCFD's recommendations have attracted widespread support internationally, with more than 2,600 organisations having publicly expressed their support.

1.13 We took our first step to introduce climate-related disclosure requirements in December 2020, introducing a Listing Rule (LR) for premium listed commercial companies referencing the TCFD's recommendations.

1.14 Broadly, under this rule, premium listed commercial companies must include a statement in their annual financial report setting out whether they have made disclosures consistent with the TCFD's recommendations and recommended disclosures. Where they have not done so, they must explain why and set out any steps they are taking or plan to take to be able to make consistent disclosures in the future. Where disclosures are included in a document other than the annual financial report, companies must also explain why this is the case and where that other document can be found.

1.15 The rule we are finalising in this PS extends the application of the existing Listing Rule requirements to a wider scope of listed issuers.

1.16 We see disclosure against the TCFD's globally recognised recommendations as an important way for listed companies to build their capabilities to identify, assess, manage and disclose on their climate-related risks and opportunities. Clarity on disclosure expectations helps to encourage a structured dialogue within companies and their stakeholders on matters of governance, strategy and risk, and promotes more robust processes to support climate change analysis.

1.17 Implementing TCFD is an important milestone as work continues to establish a common global baseline of corporate reporting standards on climate change and wider sustainability matters. In November 2021, at COP26, the IFRS Foundation announced the establishment of the International Sustainability Standards Board (ISSB). This is a significant development. It is the first step towards developing such a global baseline of corporate reporting standards, integrated with financial reporting standards and under the IFRS Foundation's robust governance structure.

1.18 The UK joined Finance Ministers and Central Bank Governors from 40 other jurisdictions in welcoming the launch of the ISSB. In its Roadmap to Sustainable Investing, the UK Government also confirmed that it expects the ISSB's future standards to form a core component of the whole-of-economy SDR framework, and be the 'backbone' of the corporate reporting element.

How it links to our objectives

1.19 By extending the application of our climate-related disclosure requirements and by updating and introducing new guidance, we expect to advance our strategic objective to ensure relevant markets function well as well as our three operational objectives:

- **Market integrity** – More structured disclosures and greater transparency across issuers should lead to better informed business, risk and investment decisions and to more accurate asset pricing. This should, in turn, support efficient capital
- allocation decisions towards a net zero economy.
- **Consumer protection** – As climate-related disclosures become more comprehensive, high-quality and consistent, financial services firms are able to develop products that more reliably meet consumers' climate-related preferences, and their disclosures to clients and consumers are based on more robust inputs.
- **Competition** – With improved quality and availability of climate-related information from financial services firms, we expect that clients and consumers will be able to assess more easily which financial products meet their needs.

1.20 The link to our objectives is explained more fully in Chapter 2 of CP21/18.

What we are changing

1.21 In this PS, we confirm our final policy position. This is broadly as consulted on, but with a change to the scope of issuers that are subject to the new rule, and the addition of a guidance provision on transition plan disclosures (for issuers in scope of both the existing and the new rule); please see paragraph 1.34 for the changes in more detail. We are extending the application of our existing climate-related disclosure requirements – on a comply or explain compliance basis – to issuers of standard listed shares and standard listed issuers of GDRs (in each case excluding standard listed investment entities and shell companies). With this expansion of scope, more than 200 additional listed companies will be subject to TCFD-aligned disclosure requirements under our rules (through LR 14.3.27R, including how this applies through LR 18.4.3R).

1.22 Our new rule, LR 14.3.27R, will apply for accounting periods beginning on or after 1 January 2022. Aligned with LR 9.8.6R(8), which applies for premium listed commercial companies, our new rule requires in-scope companies to include a statement in their annual financial report setting out:

- whether they have made disclosures consistent with the TCFD's recommendations and recommended disclosures in their annual financial report
- where they have not made disclosures consistent with some, or all, of the TCFD's recommendations and/or recommended disclosures, an explanation of why, and a description of any steps they are taking or plan to take to be able to make consistent disclosures in the future, and the timeframe within which they expect to be able to make those disclosures
- where they have included some, or all, of their disclosures against the TCFD's recommendations and/or recommended disclosures in a document other than their annual financial report, an explanation of why
- where in their annual financial report (or other relevant document) the various disclosures can be found.

1.23 We are also including guidance provisions to support in-scope companies in making their disclosures, as set out in LR 14.3.28G to LR 14.3.31G. These are aligned with guidance provisions LR 9.8.6BG – LR 9.8.6EG for premium listed commercial companies.

1.24 Following their publication in October 2021, we are incorporating references to the TCFD's new guidance on metrics, targets and transition plans and updated implementation annex in both our existing and new guidance provisions – for both premium and standard listed issuers in scope of our rules. We had sought feedback on this in our consultation, at which time the TCFD was seeking feedback on its proposals. Incorporating these new materials ensures that we keep pace with the TCFD's work and maintain international consistency, while preserving the flexibility afforded by our 'comply or explain' approach.

1.25 We have introduced an additional guidance provision related to the TCFD's finalised guidance on transition plans. Specifically, it sets out that, where making disclosures on transition plans as part of its strategy disclosures under the TCFD's recommendations and recommended disclosures, a listed company 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 under the Climate Change Act 2008 (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 done so, it is encouraged to explain why.

This clarification is consistent with the Government's stated ambition, as announced at COP26, that the UK will become the world's first net zero-aligned financial centre.

1.26 We are also encouraging listed companies to consider the Sustainability Accounting Standards Board (SASB) metrics for their sector when making their disclosures against the TCFD's recommendations, as appropriate.

1.27 Finally, we have updated Technical Note 801.1, which clarifies existing disclosure obligations in relation to ESG matters for a wide scope of issuers. The changes we have made are limited to reflecting the new rule and associated guidance set out in this PS and implementing minor changes to certain references to EU legislation. The updated Technical Note is included in Appendix 2 and is accessible on the FCA's Knowledge Base.

1.28 Separately, we have also published Primary Market Bulletin 36 (PMB36), which sets out our disclosure expectations and supervisory strategy for both our existing TCFD-aligned climate-related disclosure rules and those set out in this PS. As part of PMB36, we issued a consultation on a new Technical Note (TN 802.1) to provide further guidance on how we would expect issuers to make relevant disclosures. We will continue to listen to concerns raised by market participants, and work collaboratively with other regulators such as the Financial Reporting Council (FRC).

Outcome we are seeking

1.29 Figure 1 of CP21/18 sets out the causal chain by which we expect enhanced climate-related disclosures to help address potential harms and advance our objectives.

1.30 As set out in the causal chain, we expect that our intervention will lead to:

- better informed asset pricing and, in turn, more accurate valuation of issuers' securities
- more robust inputs to financial services firms' disclosures along the investment chain
- higher quality information to support financial services firms' product development, better enabling them to develop products that meet consumers' climate-related preferences
- in turn, more effective competition between financial services firms in respect of climate-focused products, with consumers able to better assess which products meet their needs

1.31 With these enhancements, we would expect capital to be allocated more effectively both within and across companies and projects, ultimately better supporting the transition to a net zero economy.

Measuring success

1.32 As acknowledged in CP21/18, it may be difficult to isolate the impact of our new measures from other complementary government, regulatory or industry measures to improve how capital markets manage climate-related risks and opportunities and allocate capital to support the climate transition. However, we will take the following steps to assess the success of our intervention:

- **Market outcomes.** We will monitor whether new disclosures made in line with our rule enable stakeholders along the investment chain to make more informed investment decisions. We will also assess whether the market rewards companies that are better at adapting and disclosing the risks and opportunities arising from climate change and the transition to a net-zero economy.
- **Oversight.** As with premium listed issuers, we will monitor the completeness and quality of issuers' disclosures, in line with our supervisory strategy set out in PMB36.
- **Supervision of regulated firms.** As part of our regular supervisory dialogue with regulated firms – such as asset managers – we will gather information on how they perceive the quantity and quality of listed companies' climate-related disclosures, including their usefulness in supporting market participants' business, risk and investment decisions. We will have opportunities to do this as we engage with firms in scope of the TCFD-aligned disclosure requirements in PS21/24.
- **Ongoing industry liaison.** We will continue to gather views on the effectiveness of our regime through industry engagement, including via the Climate Financial Risk Forum.

Summary of feedback and our response

1.33 We received 59 responses to our consultation, with 13 respondents providing feedback only to the questions in the discussion chapter. Overall, there was strong support for our proposals. Some key points of feedback included:

- **Scope.** There was unanimous agreement from those answering this question that we should extend the application of our existing TCFD-aligned disclosure requirements to issuers of standard listed equity shares (excluding standard listed investment entities and shell companies), as consulted on. We had sought feedback on also bringing standard listed issuers of GDRs and issuers of standard listed shares other than equity shares into scope. Most respondents supported our taking this approach.
- **TCFD-alignment.** Respondents generally agreed that we should align the form and structure of our new rule and guidance with the existing rule and associated guidance for premium listed issuers (LR 9.8.6R(8) and LR 9.8.6BG – LR 9.8.6EG) to ensure consistency with the requirements across listing segments. We received strong support for incorporating the new guidance from TCFD on metrics, targets and transition plans and the updated implementation annex – both in relation to the existing rule and the proposed new rule.
- **Support for SASB metrics.** The majority of respondents agreed that we should encourage issuers to consider the SASB metrics for their sector when making their disclosures against the TCFD recommendations. However, some respondents questioned why we had singled out the SASB metrics, rather than other commonly used frameworks such as the Global Reporting Initiative (GRI).
- **Compliance basis.** When introducing our TCFD-aligned rules for premium listed issuers, we did so on a 'comply or explain' basis and committed to considering the appropriate time to consult on moving to a mandatory compliance basis. In CP21/18, we invited feedback on our view that the appropriate time would be when we seek to introduce rules referencing the forthcoming international corporate reporting standards to be determined by the new ISSB. Most respondents agreed that this would be the appropriate time. Those who disagreed noted the urgency of the climate crisis. Asset managers also saw a disconnect between the proposed mandatory disclosure rules for asset managers and asset owners, and the 'comply or explain' basis for listed companies – we set out our view in Chapter 3.

- **Audit and assurance.** There is currently no requirement for issuers to have third-party audit or assurance of their TCFD disclosures under our TCFD-aligned disclosure rules. Most agreed we should retain this approach for now. However, compared to the responses received to our proposals for premium-listed issuers in 2020, we observed an increase in the number of respondents calling for the introduction of a mandatory 'limited assurance' at a minimum.
- **Timing of implementation.** Most respondents who commented on the timing of implementation agreed with the proposal that the new rule should take effect for accounting periods beginning on or after 1 January 2022.

1.34 Having considered the feedback received, we are finalising our rule and associated guidance broadly as consulted on. As proposed, the new rule will apply to in-scope issuers for accounting periods beginning on or after 1 January 2022. We have made material changes in two areas, with more detail on our response to the feedback provided in Chapter 3:

- *Scope.* We are extending the application of our existing TCFD-aligned disclosure requirements to standard listed issuers of equity shares (excluding standard listed investment entities and shell companies), as consulted on. In addition, we are responding to the balance of feedback by also extending the scope to standard listed issuers of GDRs representing equity shares and standard listed issuers of shares other than equity shares (also excluding standard listed investment entities and shell companies).
- *Transition plans.* We have also included an additional guidance provision for issuers in-scope of both the existing and new rule. As part of this, where making disclosures on transition plans as part of its strategy disclosures, a listed company headquartered in, or operating in, a country that has made a commitment to a net zero economy is encouraged to assess the extent to which it has considered that commitment in developing and disclosing its transition plan. For more detail, please see paragraph 1.25 and our response to Q5 in Chapter 3.

The changes to the guidance provisions relating to the existing disclosure rule for premium listed commercial companies (LR 9.8.6R(8)) to reference the TCFD's updated and new guidance materials will similarly apply for accounting periods beginning on or after 1 January 2022. As a result, they will not apply for disclosures made in 2022 for premium listed commercial companies' current reporting periods (though a listed company may of course choose voluntarily to consider the new and amended guidance provisions sooner).

1.35 We also confirm that we encourage listed companies to consider the SASB metrics for their sector when making their disclosures against the TCFD's recommendations, as appropriate. We provide more detail in Chapter 3 on the important role of the SASB metrics in the development of the ISSB's future reporting standards and suggest that listed companies may also wish to consider the SASB metrics for other sustainability topics when making wider sustainability-related financial disclosures.

Equality and diversity considerations

1.36 We have considered the equality and diversity issues that may arise from the proposals in this Policy Statement.

1.37 Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010. We consider that improving climate-related financial disclosures will benefit all consumers.

1.38 We will continue to consider the equality and diversity implications of the final rules once they are in force.

Next steps

1.39 Our new rule will apply for accounting periods beginning on or after 1 January 2022. The first annual financial reports subject to the new rule will therefore be published in early 2023.

1.40 Listed companies directly affected by the new LR should familiarise themselves with the rule and associated guidance. They need to assess the suitability of their current arrangements to ensure they can meet the requirements of the rule.

1.41 Premium listed issuers in scope of LR 9.8.6R(8) should also consider the implications of new and amended guidance provisions which will apply for accounting periods beginning on or after 1 January 2022.

2 The wider context of this policy statement

2.1 This chapter summarises some of the latest key developments in climate-related disclosure standards and implementation, both nationally and internationally.

Updates from the Taskforce on Climate-related Financial Disclosures (TCFD)

2.2 In 2017, the TCFD published a set of recommendations which have become the leading framework for climate-related financial disclosures, counting more than 2,800 supporters over 89 jurisdictions.

2.3 In October 2021, the TCFD published its fourth status report which found that disclosure of information aligned with their recommendations had increased by 9 percentage points – representing the largest increase in any year assessed. An average of 1 in 3 companies reviewed globally reported information aligned with the 11 recommended disclosures, with that proportion rising to half for companies operating in Europe.

2.4 However, there remain significant differences in the quantity and quality of disclosures across the recommended disclosures. The TCFD found that over half of the companies assessed disclosed information on their climate-related risks and opportunities (Strategy a), while only 13% did so on the resilience of their strategies under different climate-related scenarios (Strategy c). Disclosures against the two recommended disclosures under the Governance pillar continued to be among the least disclosed.

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

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

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

Implementation of the TCFD's recommendations in the UK

2.7 Consistent with the Government's Roadmap towards mandatory climate-related disclosures, the Department for Business, Energy, and Industrial Strategy (BEIS) introduced into Parliament in October 2021 its regulations requiring climate-related financial disclosures within the Companies Act 2006. Further regulations which amend the Limited Liabilities Partnerships Act – and mirror the changes made to the Companies Act – will be introduced in early 2022. Following feedback at consultation stage, the requirements under both Acts include updated language that more closely aligns with the wording of the TCFD's recommendations. The requirements also introduce an expectation that companies will disclose the outcome of at least qualitative scenario analysis. Subject to parliamentary approval, the rules will come into force for accounting periods beginning on or after 6 April 2022.

2.8 The scope of BEIS's regulations includes relevant Public Interest Entities, companies with securities admitted to the Alternative Investment Market (AIM) with over 500 employees, as well as large private companies and LLPs with more than 500 employees and a turnover of more than £500 million. As a result, some commercial companies with a UK premium or standard listing will be subject to both our Listing Rule and the Companies Act obligations. We have worked with BEIS in developing the UK regime for TCFD-aligned disclosure requirements. Both our Listing Rules and the Companies Act obligations are based on the TCFD's recommendations and recommended disclosures. We set out in PMB36 how issuers should consider compliance with our Listing Rules, and BEIS has committed to publishing a Q&A document in early 2022 to support relevant in-scope companies in considering compliance with their obligations. This document will also consider how the Companies Act requirements interact with our Listing Rules.

2.9 In July 2021, DWP also finalised its TCFD-aligned disclosure rules for occupational pension schemes. These came into force on 1 October 2021, with the largest schemes and authorised master trusts required to publish their first TCFD-aligned disclosures within 7 months of the end of the scheme year.

2.10 The FRC's Financial Reporting Lab published in October 2021 a report on developing practice in TCFD-aligned disclosures, along with a snapshot of the current status of TCFD-aligned reporting in the UK. In addition, the FRC published research conducted by the Alliance Manchester Business School on climate scenario analysis.

UK Government's Sustainability Disclosure Requirements (SDR)

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

2.12 Pushing these ambitions further, the Government published in October 2021 a Roadmap to Sustainable Investing that builds on the economy-wide implementation of the TCFD's recommendations. The Roadmap introduces plans for an integrated and holistic regime, the Sustainability Disclosure Requirements (SDR), that will bring together new and existing sustainability reporting requirements for business (including listed companies), the financial sector and investment products. The Government also set out the work to develop labelling and classification regime for investment products.

2.13 Over time, the SDR will extend disclosure requirements beyond climate change and, with its link to the planned UK Green Taxonomy, cover sustainability impacts in addition to sustainability risks and opportunities. In the Roadmap, the Government clarifies the key role standards set by the ISSB are expected to play in delivering on the corporate reporting pillar. In particular, the ISSB standards are intended to form a core component of the SDR framework and be the 'backbone' of the corporate reporting element of the regime. BEIS is actively working on a framework for the adoption and endorsement of the ISSB standards for use in the UK. In early 2022, BEIS will consult on options for the UK body to be delegated the powers to adopt these standards and on the proposed regulatory framework to require UK companies to report under the standards.

2.14 The FCA will have an important role to play in contributing to the implementation of the Government's ambitions in the Roadmap, including in relation to listed companies, asset managers, FCA-regulated asset owners and investment products. To support our policy development work, we published a Discussion Paper (DP21/4) in November to gather input on key aspects of the design of the disclosure and product labelling and classification regime. This will inform consultation proposals in Q2 2022.

Climate Financial Risk Forum (CFRF)

2.15 In 2020, the CFRF developed a guide to help financial firms approach and address climate-related financial risks. The guide included 4 chapters – developed by industry, for industry – with practical tools, experience and best practice examples covering disclosures, innovation, scenario analysis and risk management.

2.16 As a follow-up, the CFRF published its 'Session 2' guides in October 2021. These guides incorporate best practice and provide more targeted and detailed support to financial firms. Building on the Session 1 outputs, the new guides cover the same topics, while also introducing new cross-cutting guidance on climate data and metrics.

2.17 In the case of disclosures, the CFRF included guidance on managing legal risk, and also set out a number of case studies. While these focus on financial services firms, the materials may also be relevant to non-financial companies in making climate-related disclosures.

International developments

IFRS Foundation

2.18 The International Financial Reporting Standards (IFRS) Foundation is a not-for-profit organisation established to develop a set of high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards. The financial standards have been adopted by over 140 jurisdictions around the world, including the UK.

2.19 During COP26, the IFRS Foundation officially launched the ISSB which will provide a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. These standards will build on the TCFD's recommendations while adding specificity and granularity to meet the growing and urgent demand for consistent, comparable and reliable corporate sustainability disclosures. For this reason, the UK has announced that the ISSB standards are intended to form a core component of its SDR regime.

2.20 The ISSB's future standards will begin with climate and expand to other sustainability factors over time. Alongside the launch of the ISSB, a working group established by the IFRS Foundation Trustees published a package of recommendations to give the new board a 'running start' in its development of standards. This included two key deliverables, namely a prototype for Climate-related Disclosures (Climate Prototype) and General Requirements for Disclosure of Sustainability-related Financial Information (General Requirements Prototype). The Climate Prototype sets out how the standard can build on the work of TCFD, SASB and other existing frameworks.

2.21 Finally, the Foundation also announced the consolidation of the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF) – two leading sustainability reporting organisations – into the new ISSB by June 2022, further enhancing the convergence towards harmonised standards.

2.22 To support the work of the Foundation and the ISSB, the International Organisation of Securities Commissions (IOSCO) has been closely involved in this work through a workstream on issuers' sustainability disclosures. We co-chair this workstream.

2.23 IOSCO welcomed the publication by the IFRS Foundation of the prototype for the Climate Disclosure standard to be finalised in 2022. As Ashley Alder (IOSCO Board Chair and CEO of Hong Kong SFC) set out in his speech at COP26, IOSCO will continue its engagement with the ISSB and 'if the ISSB's future standard meets IOSCO's expectations, our endorsement will support all our 130 members in considering ways they might adopt, apply or be informed by the standard'.

Jurisdictional approaches

2.24 Other jurisdictions are also taking action to implement the TCFD recommendations, including Japan, Singapore and Hong Kong. Moreover, communiqués from the G7 and G20 during the summer 2021 voiced members' support for mandatory implementation of the TCFD's recommendations and welcomed the work of the IFRS Foundation. The G20 also published its Sustainable Finance Working Group Synthesis Report in October setting out further detail on the IFRS Foundation's work.

2.25 The European Commission is continuing its work to develop standards that meet the requirements of the Corporate Sustainability Reporting Directive (CSRD), proposed in April 2021. The European Financial Reporting Advisory Group (EFRAG) published a Climate standard prototype in September 2021. Importantly, EFRAG is seeking compatibility with international initiatives and has been in dialogue with the IFRS Foundation regarding the work towards a global baseline under the ISSB.

2.26 Finally, the U.S. Securities and Exchange Commission (SEC) has also committed to consulting on proposals to introduce climate-related disclosure requirements. This follows just under 6,000 responses to a call for public input published by the SEC earlier in the year.

3 Summarising feedback and our final approach

3.1 In this section, we summarise the feedback we received on our proposed new Listing Rule and related guidance to improve climate-related disclosures by issuers of standard listed equity shares, as well as our amended guidance for premium listed commercial companies. We also outline our response and approach to the final rule and guidance. We consider that the Compatibility Statement included in CP21/18 continues to apply in light of the changes to our scope and cost benefit analysis.

Feedback to our proposals

3.2 We received 59 responses to our consultation, with 13 respondents providing feedback only to the questions in the discussion chapter of CP21/18. The responses to our consultation questions were from:

- 25 listed companies and their advisers/service providers
- 14 investors and asset owners
- 7 non-governmental organisations, civil society stakeholders and others

3.3 A list of non-confidential respondents is available in Annex 1. During the consultation period, we also engaged with a number of stakeholders representing different parts of the market, including via roundtables. We have considered all feedback in finalising our policy and will continue to engage with stakeholders as work on issuers' disclosures develops beyond climate matters.

3.4 The feedback we received is summarised under the following themes:

- Scope (Q1-2)
- Debt and debt-like securities (Q3)
- Design of our proposed Listing Rule (Q4-5)
- Technical Note (Q6)
- SASB metrics (Q7)
- Compliance basis (Q8)
- Third-party audit and assurance (Q9)
- Timing of implementation (Q10)
- Cost benefit analysis (Q11)

3.5 A full list of the questions we asked is set out in Annex 1 of CP21/18.

Scope

3.6 In CP21/18, we proposed to extend the application of our climate-related disclosure requirements in LR 9.8.6R(8) to issuers of standard listed equity shares (excluding standard listed investment entities and shell companies), as included in LR 14.

3.7 Consistent with the approach in the TCFD's recommendations and our existing disclosure rules for premium listed commercial companies (PS20/17), the focus of our proposed requirements was on the corporate entity itself, rather than on the securities it issues.

3.8 We also asked whether standard listed issuers of GDRs and standard listed issuers of shares other than equity shares should be brought into the scope of our TCFD-aligned disclosure rule.

3.9 We asked:

> **Q1:** ***Do you agree with our proposal to extend the application of our existing TCFD-aligned disclosure requirement (set out in LR 9.8.6R(8)) to issuers of standard listed equity shares, excluding standard listed investment entities and shell companies? If not, what alternative scope would you consider to be appropriate, and why?***

> **Q2:** ***Do you consider that issuers of standard listed GDRs and standard listed issuers of shares other than equity shares should also be subject to our TCFD-aligned disclosure requirements? If not, what alternative approach would you consider to be appropriate, and why?***

3.10 All 41 respondents to Q1 unanimously agreed with our proposal to extend the application of our current TCFD-aligned disclosure requirement to issuers of standard listed equity shares.

3.11 The vast majority of respondents agreed with the proposed exclusion of standard listed investment entities and shell companies. However, three respondents encouraged us to include both in our scope. One of these highlighted that the TCFD's proportionate approach would allow such entities enough flexibility to disclose only the information relevant to them.

3.12 Some respondents provided comments on specific subsets of companies. One respondent called for shell companies and special-purpose acquisition companies (SPACs) not to be treated differently. Another one noted that our proposals did not capture investment trusts, venture capital trusts and other forms of closed-ended investment fund (as set out in LR 15). Separately, some respondents reiterated the need for unlisted entities to disclose climate-related information as well.

3.13 Concerns were raised about the impact of our proposals on smaller entities, with some respondents requesting either additional guidance on the appropriate level of detail required – i.e. depending on the nature, size and complexity of the company's business – or additional time for issuers to prepare ahead of making any disclosures.

3.14 One respondent suggested that, for both standard- and premium-listed overseas issuers, adherence to a domestic code should be accepted as equivalent, where available, to limit possible costs and distortions arising from different approaches to climate-related disclosure rules across jurisdictions.

3.15 34 respondents answered Q2. The vast majority supported bringing standard listed issuers of GDRs and standard listed issuers of shares other than equity shares into scope. Four respondents called for TCFD-aligned disclosures across all listing categories. Those who disagreed considered that the cost of extending the scope would outweigh the benefit of doing so.

3.16 One respondent mentioned that excluding standard-listed GDRs could incentivise overseas firms to issue GDRs instead of considering a secondary or dual listing in the UK. On the other hand, one respondent cautioned that GDR programmes could move out of London if such requirements were introduced.

3.17 While most respondents supported including these issuer types, one respondent noted that shares other than equity shares often have similar characteristics to debt instruments. Therefore, they argued, issuers of the two types of security should be treated similarly. Another respondent argued that including standard listed companies that solely issue shares other than equity shares in our scope would be disproportionate and lead to only marginal improvements in transparency on climate-related matters.

Our response

Given the strong support for our proposal, our final rule extends the application of our existing TCFD-aligned disclosure requirements to issuers of standard listed equity shares (excluding investment entities and shell companies).

To clarify, we confirm that SPACs fall under the definition of shell companies as set out in LR 5.6.5A. We also agree with those respondents who observed that shell companies should be subject to our climate-related disclosure rule once they have completed an acquisition or merger (given they will no longer be shell companies).

We remain of the view that it would be more appropriate for listed investment entities to disclose in line with our new climate-related disclosure rules for asset managers (PS21/24). We already exclude closed-ended investment funds under LR 15 from the scope of our existing rule for premium listed commercial companies (see LR 15.4.29R).

In relation to unlisted entities, we note that climate-related disclosure obligations in the Companies Act, which were recently finalised subject to parliamentary approval (see Chapter 2), do extend beyond listed companies (where these are UK-incorporated and meet the specified size thresholds).

Reflecting the views of most respondents and considering our different approach to debt and debt-like securities (see next section), our final rule also extends to standard listed issuers of shares other than equity shares and standard listed issuers of GDRs (through LR 18.4.3R). We again exclude investment entities and shell companies from both these categories. Including these issuers (within LR 14 and LR 18) brings into scope around a further 96 issuers. In light of changes to the scope of our rules, we have amended our cost benefit analysis (CBA). We provide further detail in paragraphs 3.79 to 3.87.

- In the case of GDRs, we agree with respondents' logic to bringing them into scope; that is, GDRs are an instrument designed to give investors equity exposure to an underlying commercial company. Our approach is also consistent with that taken in introducing our existing TCFD-aligned Listing Rule for premium listed companies, which applies to sovereign controlled commercial companies with equity shares or GDRs listed under LR 21 (sovereign controlled commercial companies).
- In the case of standard listed issuers of shares other than equity shares, we note the feedback from investors that they value TCFD-aligned disclosures by commercial company issuers of shares, irrespective of security type. We also consider this approach will help limit potential distortions arising from the application of differential requirements to issuers of equity shares and shares other than equity shares in LR 14.

LR 14.3.27 R applies to issuers with standard listed GDRs representing equity shares by virtue of LR 18.4.3R, with no specific drafting in LR 18 needed to achieve this. In principle, GDRs could also be issued to represent debt or debt-like securities. Since we are not at this stage extending the application of our rule to standard listed issuers of debt and debt-like securities (see below), we are bringing into scope only GDRs representing equity shares.

Regarding the suggestion that we recognise overseas issuers' domestic codes (where available), we note that, in applying the widely adopted framework of the TCFD's recommendations, our aim has been to promote an internationally coordinated approach. Since we expect in due course to adapt our regime to reference the ISSB's forthcoming standards, we do not propose to introduce an equivalence regime for the current TCFD-aligned rule.

However, as the ISSB's forthcoming standards are adopted internationally, we will consider whether and how best to recognise international regimes based on the ISSB's global baseline, working with BEIS and FRC as appropriate.

Debt and debt-like securities

3.18 In developing our proposed rules, we have considered the merits of applying our disclosure requirements to different listing categories – including standard listed debt and debt-like securities.

3.19 Consistent with the general approach of the TCFD in developing its recommendations, we have sought to maintain the focus of disclosures on the nature of the corporate entity itself.

3.20 As noted in CP21/18, LR 17 is very broad and captures a wide range of issuer types including special purpose vehicles, non-operating companies, sovereigns and other public sector issuers. There is no separate listing category for 'commercial company' issuers of standard listed debt and debt-like securities.

3.21 Given the focus of the TCFD recommendations on entity-level organisational factors, such as governance, strategy and risk management, we considered that applying disclosure requirements to all of the issuers of debt and debt-like securities listed in LR 17 may not be a proportionate and effective approach. For instance, prospectus disclosures may be more relevant and decision-useful to investors than annual entity-level disclosures of the issuer against the TCFD's recommendations.

3.22 To help inform whether and how to implement TCFD-aligned disclosure rules for issuers of standard listed debt and debt-like securities, we therefore asked for feedback on various policy design considerations, including what climate-related information from issuers of these securities market participants would find decision useful. Specifically, we asked:

> **Q3:** ***We welcome views from market participants on whether to apply TCFD-aligned disclosure rules to issuers of standard listed debt (and debt-like) securities, and how best to do this. In particular, we seek input on the following:***
>
> **a.** ***What climate-related information from issuers of these securities would market participants find decision useful and how far would these information needs be met by TCFD-aligned disclosures?***
>
> **b.** ***Do market participants' information needs differ according to the different types of issuer in LR 17?***
>
> **c.** ***If you consider that we should apply TCFD-aligned disclosures rules to issuers of standard listed debt (and debt-like) securities, should some issuer types be excluded from the rule to deliver an effective and proportionate approach? If so, which types of issuers should be included/excluded and how can the scope best be defined?***
>
> **d.** ***Are there any other matters we should take into consideration – eg, competitiveness, complexity of the application of the rule, burden on issuers in LR 17, or the feasibility to comply with any potential rules?***

3.23 We received 33 responses to this question, with the majority supporting the introduction of climate-related disclosure rules for issuers of standard listed debt and debt-like securities. 5 respondents disagreed with taking such an approach and 4 did not provide a specific view.

3.24 Those that agreed generally saw a need for such disclosures to support the flow of information along the investment chain, and to support investment decisions. Many asset managers noted that their information needs were mostly common across issuer types and they considered TCFD-aligned disclosures to be a good starting point for all issuers.

3.25 We also received some detailed comments on the information needs of investors in debt securities. Responses suggested that investors often require more granular information than is typically provided under the TCFD recommendations, including more detailed metrics. Some respondents also sought climate-related information from issuers other than commercial companies, including state-backed entities, governments and issuers of collateralised loan obligations.

3.26 Those who disagreed with applying TCFD-aligned disclosures rules to debt issuers were primarily sell-side respondents. All mentioned the competitiveness implications any such rules would have on the UK debt market.

3.27 It was also noted that many debt issuers are often subsidiaries. As such, we were encouraged to consider the extent to which investors' information needs may be already adequately covered at the group level.

3.28 They further observed that, since jurisdictions outside the UK were implementing TCFD-aligned requirements, UK-listed debt issuers with overseas parents would be caught by group-level disclosure requirements in their home jurisdictions. One respondent suggested that we wait on other jurisdictions to finalise their disclosure regimes before re-assessing the need to introduce rules in the UK.

3.29 Respondents generally agreed that in developing a proportionate regime, we should consider the maturity of a debt security and related burden on providing climate-related disclosures.

Our response

We note the broad-based support, at least among buy-side respondents, for introducing TCFD-aligned disclosure rules for issuers of standard listed debt and debt-like securities. However, we also recognise some of the challenges raised by those who disagreed with extending TCFD-aligned disclosures rules to such issuers.

Respondents generally confirmed that there are challenges in doing this in a proportionate and effective way, especially for certain security types and for issuers that are not operating companies.

While we received some responses that agreed with building a tailored regime for debt (and-debt like) issuers, we did not receive sufficiently detailed input on how such a regime could be designed in practice.

We agree with most respondents that there is a case to consider introducing climate-related disclosure requirements for debt (and debt-like) securities. However, we also acknowledge that this should be through a tailored approach, rather than by simply extending the form and structure of our existing Listing Rule.

This in part recognises the potential interaction with other pieces of securities regulation that apply in the case of debt securities. This will need to be evaluated further. We will therefore continue to engage with stakeholders to gather further input on a proportionate and effective regime, building on the feedback we have already received, with a view to consulting on introducing such a regime at a later stage.

Design of the proposed Listing Rule

3.30 We asked for views on the design of our proposed rule and guidance. In the consultation, we proposed to align fully with the form and structure of our existing Listing Rule for premium listed commercial companies, and associated guidance.

3.31 We also proposed to keep pace with developments in the TCFD's framework by incorporating into our handbook guidance provisions – for both the existing and the proposed Listing Rules – new updated guidance that the TCFD had issued for consultation in June.

3.32 Further to consultation, the TCFD published an updated implementation annex and a final standalone guidance document on metrics, targets and transition plans (see Chapter 2). Reflecting feedback during the consultation, the TCFD did not include in the final package of updated guidance materials its proposed technical supplement on portfolio alignment metrics.

3.33 In the CP, we asked:

Q4: ***Do you agree with our proposal to mirror the structure and wording of LR 9.8.6R(8) and LR 9.8.6BG to LR 9.8.6EG for companies with a UK premium listing? If not, what alternative approach would you consider to be appropriate, and why?***

Q5: ***Do you agree that, subject to the TCFD's final guidance materials being broadly consistent with those proposed, we should incorporate them into our existing and proposed handbook guidance provisions as described (including both the existing guidance relating to LR 9.8.6R(8) and our proposed new guidance relating to LR 14.3.27R):***

a. ***the TCFD's proposed updates to the TCFD Final Report and TCFD Annex***

b. ***the TCFD's proposed standalone guidance document on metrics, targets and transition planning***

c. ***the TCFD's technical supplement on measuring portfolio alignment. If not, what alternative approach would you prefer?***

3.34 There were 35 responses to Q4, with most in favour of mirroring the structure and wording of the existing rule and guidance for commercial companies with a UK premium listing. Two respondents disagreed with our approach, suggesting that both our existing and proposed rules should be adapted to apply on a mandatory compliance basis, with new requirements added to disclose transition plans aligned with the Paris Agreement.

3.35 A key driver of the support for mirroring the structure and wording was to promote consistency and avoid fragmentation of climate-related disclosures across issuers in different listing segments. Consistent with stakeholder feedback when we consulted on our existing rule and guidance for premium listed commercial companies, investors in particular valued the direct references to both the TCFD's 4 recommendations and its 11 recommended disclosures.

3.36 Some respondents took the opportunity to highlight the potential challenge for issuers arising from differences in wording between our existing and proposed handbook rules and guidance and the incoming Companies Act provisions (see Chapter 2). There were concerns that it could be challenging for a company subject to both regimes to simultaneously meet both sets of requirements.

3.37 One civil society respondent called for the Science based Targets Initiative (SBTi) Financial Sector Science based Targets guidance to be included as relevant material for issuers to consider when assessing the consistency of their disclosures with the TCFD's recommendations and recommended disclosures.

3.38 We received 36 responses to Q5 on including the TCFD's updated guidance materials. All but one respondent generally agreed with the proposed approach. Many respondents considered the TCFD's proposed guidance to be a significant step forward. However, since the TCFD's guidance had not yet been finalised at the time of our consultation, respondents called on us to clarify the implementation timeframe for these additional expectations.

3.39 A number of respondents highlighted that data and methodological challenges remained a significant issue for both reporting companies and the users of their disclosures. This was further highlighted by responses on the TCFD's technical supplement on portfolio alignment metrics. Some respondents questioned the maturity of the tools and methodologies considered in the supplement and suggested that we did not reference these materials in our rules at this stage.

3.40 6 respondents asked for further clarification on how the guidance provisions in our rule should be considered by listed companies when they assess the consistency of their disclosures with the TCFD guidance.

3.41 There were also some calls for us to clarify how we would continue to update our handbook provisions as further updates were published by TCFD.

Our response

Given the broad support from respondents, our final rule and guidance in LR 14 mirror the structure and wording in LR 9.8.6R(8) and LR 9.8.6BG to LR 9.8.6EG.

We strongly agree with the view that it is important to reference both the TCFD's 4 recommendations and 11 recommended disclosures.

As set out in the consultation paper, we have reviewed the TCFD's final guidance materials – the updated implementation annex and accompanying standalone guidance document on metrics, targets and transition plans – and consider that they are broadly consistent with those proposed, as reflected in the TCFD's overview of the changes between the consultation and finalised materials.

Accordingly, in light of the positive feedback from respondents, we have referenced both in our guidance provisions – for both the existing and new rules. Our Glossary of definitions continues to reference the TCFD Final Report as published by the TCFD in June 2017. This remains the relevant version of the TCFD's recommendations and recommended disclosures.

As part of this, we have updated the definition of 'TCFD annex' in the instrument to reference the updated version of the TCFD's implementation annex. We have also included the TCFD's guidance on metrics, targets and transition plans in our guidance provisions in LR 9.8.6CG and LR 14.3.29G as a document we consider relevant to listed companies when assessing the consistency of their disclosures with the TCFD's recommendations and recommended disclosures.

We recognise that the TCFD only published the outcome of its consultation in October 2021. We nevertheless consider that the guidance should apply for financial years beginning on or after 1 January 2022 – for both premium and standard listed issuers. The first disclosures made in light of the new guidance would then be made only in 2023; and we also note that we have retained flexibility in our rules framework by maintaining the comply or explain compliance basis. Some listed companies may, of course, choose voluntarily to consider the new guidance sooner.

The final report on Portfolio Alignment Metrics was not formally adopted as a TCFD document. We have therefore not referenced this document in our final guidance. This is consistent with the approach in PS20/17.

In line with comments from some civil society respondents and noting recent Government announcement setting a pathway towards mandatory disclosure of net zero transition plans, we have included specific guidance on relevant considerations regarding the disclosure of transition plans.

In particular, we have included a guidance provision applicable to issuers in scope of both our existing and new Listing Rules elaborating on the TCFD's expectation that organisations make disclosures in accordance with the guidance on transition plans as part of their strategy disclosures if 'operating in a jurisdiction with an emissions reduction commitment'. The guidance provides that, where making disclosures on transition plans as part of its disclosures on strategy under the TCFD recommendations and recommended disclosures, we encourage a listed company headquartered in, or operating in, a country that has made a commitment to a net zero economy – such as the UK's commitment under the Climate Change Act 2008 (Order 2019) – to assess the extent to which it has considered that commitment when developing and disclosing its transition plan. We further encourage a listed company to explain if it has not considered this commitment.

This is our first step towards more detailed provisions on transition plans. As set out in our recent Strategy for positive change, we will do further work to promote well-designed, well-governed, credible and effective net zero transition plans by listed companies (and regulated firms).

We will also engage with the Transition Plan Taskforce announced by the Government, which will work towards developing 'a science-based "gold standard" for transition plans'.

Since we expect that our climate-related disclosure rules will be updated in due course to reference the ISSB's reporting standards, once endorsed for use in the UK, we expect there will be limited need for further updates to our rules to reflect new guidance materials from the TCFD. However, as described in PS20/17, in the event that there were further changes, we would expect to do this through the use of our Quarterly Consultation Papers, as appropriate.

We note the calls from some respondents to provide further clarification as to how listed companies should consider our guidance provisions when assessing the consistency of their disclosures with the TCFD's recommendations and recommended disclosures. Through all the guidance provisions that accompany our Listing Rules, we aim to highlight some key considerations for listed companies when assessing their disclosures against the TCFD's recommendations and recommended disclosures, and direct them to useful documents that the TCFD have produced that they should take into account, or that may be relevant.

We also note that there are many other useful resources (on the TCFD Knowledge Hub) that can support issuers in making their climate-related disclosures. Especially since we expect that our climate-related disclosure rules will be updated in due course to reference the ISSB's reporting standards, we do not intend to add more detailed guidance at this stage.

We acknowledge the comments from respondents on the interaction between our TCFD-aligned disclosure rules and the incoming Companies Act obligations. As set out in Chapter 2, BEIS has committed to publishing a Q&A document in early 2022 that will clarify further how the Companies Act requirements interact with our Listing Rules. Furthermore, once the ISSB's future standards are endorsed for use in the UK, we expect, subject to consultation, that both the Companies Act and Listing Rules will reference the endorsed international standards directly.

Technical Note

3.42 Published alongside our final rule for premium listed issuers (PS20/17), Technical Note 801.1 clarifies existing obligations in retained EU legislation and in our Handbook that may already require disclosure of information on climate-related and other environmental, social and governance (ESG) matters, in certain circumstances. We proposed to update the Technical Note to reflect our new rule and guidance.

Q6: ***Do you agree that we should update the Technical Note 801.1 to reflect the proposed new rule and associated guidance in this CP?***

3.43 All but one respondent agreed with our proposal to update the Technical Note. The stakeholder that disagreed suggested that it may be preferable to wait until global reporting standards were set by the ISSB before updating the Technical Note.

3.44 Another respondent cautioned against making substantive changes that fall outside the scope of our consultation paper. The same respondent also noted the need for minor updates to the wording of the Note to reflect the end of the Brexit transition period.

Our response

We have updated Technical Note 801.1 to incorporate the new TCFD-aligned Listing Rule and guidance provisions as set out in this policy statement. We have also added wording that reflects our updated scope as set out in response to Q2 above.

Finally, we have adjusted the wording of the Note to reflect the end of the Brexit transition period. The Technical Note can be found in Appendix 2 and is also available on the FCA Knowledge Base.

SASB metrics

3.45 To encourage helpful specificity and granularity to complement the TCFD's recommendations and recommended disclosures, we invited feedback on encouraging listed companies to consider the SASB metrics for their sector when making TCFD-aligned disclosures. We considered that this would support the more detailed, consistent and comparable disclosures that investors demand, until a common global baseline of corporate reporting standards emerged.

3.46 Since our consultation, it has been confirmed that both the SASB metrics and TCFD framework are core inputs to the prototype climate-related disclosures that the IFRS Foundation published for consideration by the ISSB.

3.47 We acknowledged in CP21/18 that the SASB Standards are now housed in the VRF, alongside the International Integrated Reporting Council (IIRC). In establishing the ISSB, it was also announced that the VRF and CDSB will consolidate into the IFRS Foundation by June 2022, including their technical expertise, content, staff and other resources.

3.48 We asked:

Q7: ***Do you agree with our encouraging listed companies to consider the SASB metrics for their sector when making their disclosures against the TCFD's recommended disclosures, as appropriate? If not, please explain.***

3.49 38 respondents commented on this question, with 25 in favour and 7 against explicitly encouraging listed companies to consider the SASB metrics for their sector when making TCFD-aligned disclosures.

3.50 As part of this, respondents generally agreed that we should not reference the SASB metrics directly in our Listing Rules. Rather, they agreed that we should simply encourage listed companies to consider the relevant metrics for their sector. This would be consistent with the approach taken by the FRC in its Climate Thematic and Statement on Non-Financial Reporting Frameworks in 2020. A further 6 respondents provided feedback to the question, but neither agreed nor disagreed with our proposal.

3.51 Some respondents who responded favourably noted the additional granularity that the SASB metrics provide to the TCFD framework and acknowledged this would support issuers in making more consistent and comparable disclosures until the ISSB's finalised climate standard had been endorsed for use in the UK. Some also observed that the SASB metrics cover sustainability matters beyond climate change.

3.52 Among those that disagreed with our proposals, the main concern was that we should not limit our support to only one framework, given that several frameworks were currently used voluntarily by companies when making their climate-related financial (and wider sustainability-related) disclosures. One respondent queried why we had chosen to support the SASB metrics when, across the EU, reporting against the GRI was more common. Different frameworks were mentioned among the responses, including the Climate Action 100+ Net Zero Company Benchmark, GRI, CDSB and CDP. One respondent highlighted the need for consistency of requirements from regulators.

3.53 Among the other comments received, respondents emphasised the need for standardisation, given the proliferation of standards and frameworks. They called for international coordination to ensure alignment in global markets. Furthermore, we were encouraged to position any support for SASB in the context of the direction of international initiatives – notably, the work of the IFRS Foundation to establish the ISSB, in which the VRF has been actively involved.

Our response

We have considered the broadly positive feedback received to this question. We also note that there have been significant developments since our consultation closed – most notably, the establishment of the ISSB.

Furthermore, SASB's industry-specific metrics have been incorporated into the prototype climate-related disclosures published by the IFRS Foundation to be considered by the ISSB as part of its initial work programme. And, with the VRF to be consolidated into the IFRS Foundation, we expect that the SASB metrics will be an important input into the ongoing development of the ISSB's standards, including as the standards develop beyond climate change to consider other sustainability topics.

Noting these developments and the Government's plans to make the ISSB standards a core component of the future SDR framework (see Chapter 2), there remains a strong case to encourage listed companies to consider the SASB metrics for their sector when making their disclosures against the TCFD's recommendations, as appropriate.

In anticipation of future ISSB standards for sustainability topics beyond climate change, listed companies may also wish to consider the SASB metrics for other sustainability topics when making wider sustainability-related financial disclosures. The prototype general requirements for disclosure of sustainability-related financial information, published by the IFRS Foundation alongside the prototype climate-related disclosures for consideration by the ISSB, specifies that an entity should 'report on all material information about significant sustainability risks and opportunities' and provides a set of disclosures organised under the TCFD's four pillars of governance, strategy, risk management and metrics and targets.

Just as the SASB metrics can provide helpful specificity and granularity to complement the TCFD's recommendations and recommended disclosures, we consider that they can similarly assist listed companies in making wider sustainability-related financial disclosures where relevant, to the extent such disclosures are being made. Noting the role that the VRF will play in contributing to the development of the ISSB's reporting standards beyond climate change, beginning to disclose against the SASB metrics will help listed companies build relevant capabilities.

This is also consistent with the direction of travel in the Government's Roadmap to Sustainable Investing, which notes as part of its sectoral pathways in Annex A that the intended regulatory approach includes the following: 'Certain UK-listed companies will disclose information using the proposed ISSB-issued standards, and appropriate metrics to explain the level of alignment of their activities with the UK Green Taxonomy, including minimum safeguards, in their Annual Report. The scope and timing of requirements for issuers, and the reporting detail, will be determined following consultation. Interim measures may be considered – eg, referencing relevant voluntary frameworks – to ensure appropriate coverage of sustainability topics pending the introduction of relevant international standards.'

Compliance basis

3.54 We initially introduced our TCFD-aligned disclosure rule for premium listed commercial companies on a comply or explain basis, with guidance setting out our expectation that we would ordinarily expect a listed issuer to be able to make climate-related financial disclosures consistent with the TCFD's recommendations and recommended disclosures, except where it faces transitional challenges in obtaining relevant data or embedding relevant modelling or analytical capabilities.

3.55 In PS20/17, we said that we would review the compliance basis both for our existing rule and for our proposed rule for standard listed companies. We did this in CP21/18, concluding that we did not believe now was the right time to consult on transitioning our TCFD-aligned Listing Rules to a mandatory compliance basis.

3.56 While we strongly support a pathway to mandatory climate-related disclosures, we noted that capabilities continued to build among relevant listed companies, and that momentum had accelerated in the IFRS Foundation's initiative to establish an ISSB.

3.57 Accordingly, we proposed to retain the 'comply or explain' compliance basis, with a view to consulting on moving to a mandatory compliance basis once the ISSB's new reporting standard had been introduced in the UK. We would expect to consult on amending our framework to introduce new rules referencing the new reporting standard rather than the TCFD's recommendations.

3.58 We asked:

> **Q8:** ***Do you agree with our approach to maintain a 'comply or explain' compliance basis until such time as a common international reporting standard has been published and adopted in the UK? If not, what alternative approach would you prefer, and why?***

3.59 We received 43 responses to this question, with responses quite divided. 26 respondents were supportive to keep the 'comply or explain' regime, while 15 were in favour of moving immediately to a mandatory basis. 2 provided comments but didn't provide a view either way.

3.60 Those supporting our approach generally agreed with the rationale that we set out in CP21/18. Consistent with our view, and while there was a strong rationale for mandatory climate-related disclosures, they agreed the appropriate time to introduce a mandatory compliance basis would be when the ISSB standards were endorsed for use in the UK. Some noted that, if this was delayed, we should proceed to a consultation on mandatory TCFD-aligned disclosures. A number of respondents called for a roadmap to moving to a mandatory footing, while others suggested a specific timeframe after which we should review the compliance basis again.

3.61 Respondents highlighted that keeping the comply or explain regime would allow listed companies to continue building their internal capabilities, while the international standard-setting initiative progresses.

3.62 Those that disagreed with our approach were mostly asset managers and civil society. Three main reasons were cited. First, respondents emphasised the need to establish a common baseline of issuer disclosures to support analysis and investment decisions across the market. Second, some stressed the mismatch between reporting requirements for issuers (comply or explain) compared with asset managers and asset owners (mandatory). Finally, some highlighted the need for disclosures to be made public as soon as possible in order to redirect capital and meet the emissions reduction commitments.

3.63 Some respondents who disagreed with the approach noted that a comply or explain approach may remain a useful regime for smaller issuers. One respondent suggested a phased implementation of mandatory disclosures, beginning with the largest companies and those operating in high carbon emitting sectors. Another suggested phased mandatory implementation of different elements of the TCFD's 4 pillars and 11 recommended disclosures.

Our response

We have considered carefully the feedback received. On balance, we will retain the 'comply or explain' compliance basis, as consulted on.

Having now seen the ISSB launched at COP26, and the detailed prototype climate-related disclosures delivered to the ISSB to support the standards development process, we see a real prospect of a climate standard being finalised by the end of 2022 which can then be adopted for use in the UK. We note that BEIS has already started work to determine the appropriate mechanism for endorsement and adoption of the ISSB's standards in the UK and will consult on an approach in early 2022.

Given this accelerated timeframe for international standards development, we remain of the view that the appropriate time to consult on introducing mandatory climate-related disclosure requirements will be alongside proposals to adapt our rules to reference a UK-endorsed ISSB standard in our framework instead of the TCFD's recommendations.

Finally, we note the observations regarding the different compliance basis of our disclosure rules for listed companies and those for asset managers and FCA-regulated asset owners. This is a matter we examined carefully when developing our proposals. We set out further considerations for how asset managers and FCA-regulated asset owners should consider their requirements in PS21/24. In particular, we have noted the ability of asset managers and FCA-regulated asset owners to use proxies and assumptions to address some of the data gaps until data improve. By contrast, listed issuers provide the primary disclosures and therefore have less flexibility in overcoming data, analytical and modelling challenges. We expect this approach to encourage developments in data and methodologies at a quicker pace.

Third-party audit and assurance

3.64 In implementing our TCFD-aligned disclosure rule for premium listed commercial companies, we did not require third-party audit or assurance on the underlying disclosures or the statement of compliance. We proposed in CP21/18 to retain this position for both the existing and proposed new rule, on the basis that the industry was still developing its approach to climate-related disclosures.

3.65 In CP21/18, we asked for views on:

Q9: ***Do you agree with our approach not to require third-party audit and assurance for issuers' climate-related disclosures at this time? If not, what additional requirements would you consider to be appropriate?***

3.66 We received 41 responses to this question, with most in favour of retaining our approach. However, compared with responses to the same question in CP20/3, we received a notable increase in issuers calling for at least 'limited assurance'.

3.67 Those supporting our proposal noted that mandating such requirements could divert issuers' attention from developing the quality of their disclosures as well as their systems and controls. Concerns were raised about the ability of audit firms to effectively meet such requirements at this time. Some respondents highlighted that issuers first needed to improve their controls around non-financial information disclosures and upskill their Boards and Audit Committees.

3.68 Many respondents did support the need for assurance requirements over the long term to bring greater reliability to issuers disclosures. They suggested we, alongside the Government, set out a roadmap towards mandatory assurance requirements. There was some support for the view that an appropriate time to consider this would be when consulting on moving to a mandatory compliance basis for the disclosure rules.

3.69 The key concern among those who disagreed with our approach was that assurance would give the market greater confidence to rely on issuers' climate-related disclosures. Most called for 'limited assurance', with one suggesting 'reasonable assurance' where possible. It was noted by several responses that a 'limited assurance' requirement would be in line with the EU's CSRD proposals.

3.70 Many respondents highlighted the ongoing work by BEIS on audit reform. There were mixed views on the implications of this. Some noted that, if taken forward, BEIS' proposals could put significant resource pressure on the audit sector. Requiring assurance of climate-related disclosures would only exacerbate this. Others suggested this potential reform could present an opportunity to implement climate-related requirements.

Our response

Much of the feedback received aligns with our wider engagement with issuers and the audit profession on the direction of travel in this area. We also continue to engage with BEIS on the potential implications of ongoing work on audit reform.

Under our co-leadership of IOSCO's workstream on issuers' sustainability disclosures within the Sustainable Finance Task Force (STF), work is beginning on audit and assurance standards for sustainability-related disclosures. We have opened a dialogue with the International Federation of Accountants, the International Auditing and Assurance Standards Board, and the International Ethics Standards Board for Accountants to understand their work in this space. We expect that this engagement will continue and accelerate in 2022.

We do not therefore propose to mandate audit or assurance requirements at this stage. We will continue to engage closely with the market on this matter and will consider our position on this again in the future. In line with previous comments, we reiterate that we see a strong need for assurance requirements over the long term to support the reliability of issuers' climate-related disclosures.

Timing of implementation

3.71 We proposed to bring our new rule into force for accounting periods beginning on or after 1 January 2022, with the first annual financial reports in accordance with the proposed rule being published in 2023.

3.72 We asked:

> **Q10:** ***Do you agree that our new rule should take effect for accounting periods beginning on or after 1 January 2022? If you consider that we should set a different timeframe, please explain why.***

3.73 Of the 32 respondents, 29 agreed that the new rule should take effect for accounting periods beginning on or after 1 January 2022.

3.74 Several respondents noted their preference for a phased or delayed implementation due to concerns including the limited capabilities of smaller entities, and the potential risk of delisting in the UK arising from differences in disclosure requirements across jurisdictions.

3.75 Some respondents reiterated their concerns about the sequencing of disclosure requirements for listed companies, asset managers and asset owners, noting that some asset owners' obligations had already come into force in October 2021.

Our response

We note that the vast majority of respondents agreed with the proposed timeframe. Furthermore, we clearly set out in PS20/17 our expected direction of travel to consult on extending the application of existing climate-related disclosure requirements to standard listed issuers. This was also reflected in the UK Government's Roadmap towards mandatory climate-related disclosures.

We also note that the 'comply or explain' compliance basis for the rule provides sufficient flexibility for those listed companies who may need more time to obtain relevant data or embed relevant modelling or analytical capabilities. In introducing our new rules, we have also retained the guidance that we consider the appropriate level of detail for disclosures may be linked to the nature, size and complexity of the in-scope company's business.

We recognise the sequencing may pose some challenges along the investment chain. However, we note the ability of asset managers and asset owners to use proxies and assumptions to address some of the data gaps. For more detail, see our response to Q8 above.

Allowing any implementation delay would not reflect the urgency of the climate challenge we face and the increasing demand for climate-related financial disclosures by market participants.

Cost Benefit Analysis

3.76 We requested views from respondents on the cost benefit analysis (CBA) for our proposed new rule. We asked:

> **Q11:** ***Do you agree with the conclusions and analysis set out in our cost benefit analysis (Annex 2)?***

3.77 We received four responses to our CBA, with two supporting the outcome and the others not opposing it. Respondents acknowledged that, while the benefits are challenging to quantify, they still clearly outweigh the costs of implementation.

3.78 One respondent commented that resourcing costs may have been underestimated for larger entities and overestimated for smaller ones, leading to a greater gap in costs than initially suggested. The respondent also noted that costly third-party expertise may be required for the proper execution of scenario analysis.

Our response

Given the limited, yet broadly positive feedback submitted, we do not propose to change our approach to estimating costs and benefits in our CBA.

However, since we have extended the scope of our rule to a further 96 issuers (of standard listed GDRs and shares other than equity shares), we consider it appropriate to update the CBA to consider these additional costs - which are set out below.

Updated cost benefit analysis

3.79 In CP21/18, we included a CBA of our proposed rules as required by the Financial Services and Markets Act 2000 (amended by the Financial Services Act 2012).

3.80 In light of the feedback to our consultation, we have extended the scope of issuers caught by our rules to include both standard listed issuers of GDRs and standard listed issuers of shares other than equity shares (in both cases, excluding standard listed investment entities and shell companies).

Additional issuers in scope

3.81 In light of the change to our scope, there is a significant change to the population of issuers captured under our regime. Accordingly, we have amended our CBA to account for the additional scope. Our analysis builds on the costs and benefits set out in Annex 2 of CP21/18 and should be read alongside that analysis.

3.82 Our extended scope captures an additional 96 issuers. In total, our new rule will capture 244 issuers. Using the €200 million market capitalisation threshold as of 5 November 2021 – based on the instrument list data obtained from the London Stock Exchange – we consider 84 of the 96 additional in-scope issuers to be larger issuers and 12 to be SME issuers.

Estimated costs

3.83 Compliance costs for the additional SME and larger issuers in scope have been calculated based on the assumptions set out in Annex 2 of CP21/18. The resulting additional costs are summarised in Table 1.

Table 1: Estimated compliance costs to additional in-scope issuers

Category of cost	No. of impacted issuers	One-off cost (£m)	Ongoing cost (£m, p.a.)
Familiarisation and legal review	*96*	*1.2*	*N/A*
Coordination of disclosure inputs across functions	*66*	*9.3*	*4.4*
Scenario analysis (Strategy (c)	*85*	*5.4*	*2.7*
Metrics/Targets (a), (c)	*70*	*5.8*	*2.9*
Metrics/Targets (b)	*61*	*2.5*	
Total		***24.2***	***10.0***

3.84 In Table 2, we set out the costs of our rules aggregated for all in-scope issuers. These figures were obtained by adding the estimated costs presented in the CBA in CP21/18 to the estimated costs presented in Table 1 above. We note that the estimated costs to issuers already considered in the CBA included in CP21/18 remain unchanged in the calculations below.

Table 2: Total estimated compliance costs to initial and new in-scope issuers

Category of cost	No. of impacted issuers	One-off cost (£m)	Ongoing cost (£m, p.a.)
Familiarisation and legal review	*244*	*3.0*	*N/A*
Coordination of disclosure inputs across functions	*192*	*24.7*	*11.7*
Scenario analysis (Strategy (c)	*225*	*13.2*	*6.6*
Metrics/Targets (a), (c)	*199*	*15.1*	*7.5*
Metrics/Targets (b)	*183*	*6.8*	
Total		***62.8***	***25.8***

Benefits

3.85 As in CP21/18, we consider that it is not reasonably practicable to quantify the benefits of our proposals. We have therefore not sought to quantify the benefits to the market from reducing the identified harms. Instead, we have estimated the minimum net benefit required in order to justify the intervention.

3.86 The total one-off compliance cost of £62.8 million equates to 0.003% of the £2,248 billion total market capitalisation of in-scope issuers. Similarly, the total ongoing annual compliance cost of £25.8 million equates to 0.001% of the total market capitalisation of in-scope issuers. Compared to our initial CBA, the estimated costs of compliance are even smaller relative to market capitalisation. As in our initial CBA, only a small improvement in price efficiency flowing from our proposed changes would be sufficient to outweigh the costs and produce a net benefit.

3.87 We remain of the view that the benefits of our rule might reasonably be expected substantially to exceed the costs of compliance if more informed asset pricing encourages capital flows to companies which manage climate related risks and opportunities more effectively. If this occurs, the likelihood that the more severe projections of the economic and social costs of climate warming materialise may decrease.

Annex 1
List of non-confidential respondents

Alternative Investment Management Association / Alternative Credit Council (AIMA/ACC)

ARC Ratings UK Limited

Association for Financial Markets in Europe (AFME)

Association of British Insurers (ABI)

Association of Investment Companies (AIC)

Association of Real Estate Funds (AREF)

Baillie Gifford & Co

Barclays

Bloomberg

Brewin Dolphin Limited

CDP

CFA UK

City of London Law Society (CLLS)

ClientEarth

Climate Disclosure Standards Board (CDSB)

Deloitte

EcoVadis

EY

Federated Hermes

FIA European Principal Traders Association (FIA EPTA)

Finance & Leasing Association (FLA)

Fin-X Solutions

ICE Data Services

IHS Markit

Impact Investing Institute

Index Industry Association (IIA)

Institute of Chartered Accountants in England and Wales (ICAEW)

Institutional Investors Group on Climate Change (IIGCC)

Institutional Shareholder Services (ISS)

Interactive Investor

International Capital Market Association (ICMA)

International Organization for Standardization's Climate Change Coordination Committee and Technical Committee 68 (ISO CCCC and ISO TC68)

Invesco

Legal & General Investment Management (LGIM)

London Stock Exchange Group (LSEG)

M&G

MHA Macintyre Hudson

Microsoft

Moody's

Morningstar

MSCI

Nest Corporation

Oil & Gas UK (OGUK)

PwC

Quoted Companies Alliance (QCA)

S&P Global

Schroders

ShareAction

Standard Chartered

Teachers Insurance and Annuity Association of America (TIAA)

The Collaboration

The Investment Association (IA)

UK Finance

4 respondents requested their answers to be treated as confidential. We have also decided to treat the 2 responses from individuals as confidential.

Annex 2
Abbreviations used in this paper

Abbreviation	Description
AIM	Alternative Investment Market
BEIS	Department for Business, Energy, and Industrial Strategy
CBA	Cost benefit analysis
CDSB	Climate Disclosure Standards Board
CFRF	Climate Financial Risk Forum
COP26	UN Climate Change Summit
CP	Consultation Paper
CSRD	Corporate Sustainability Reporting Directive
DWP	Department for Work and Pensions
EFRAG	European Financial Reporting Advisory Group
ESG	Environmental, Social and Governance
EU	European Union
FRC	Financial Reporting Council
FSB	Financial Stability Board
FSMA	Financial Services and Markets Act 2000
G7	Group of Seven (inter-governmental forum)
G20	Group of Twenty (inter-governmental forum)
GDRs	Global Depositary Receipts
GRI	Global Reporting Initiative
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council

Abbreviation	Description
IOSCO	International Organisation of Securities Commissions
ISSB	International Sustainability Standards Board
LR	Listing Rule
PAT	Portfolio Alignment Team
PMB	Primary Market Bulletin
PS	Policy Statement
SASB	Sustainability Accounting Standards Board
SBTi	Science-based Targets Initiative
SDR	Sustainability Disclosure Requirements
SEC	U.S. Securities and Exchange Commission
SFC	Securities and Futures Commission (of Hong Kong)
SME	Small and medium-sized issuers
SPAC	Special purpose acquisition company
STF	IOSCO's Sustainable Finance Taskforce
TCFD	Taskforce on Climate-related Financial Disclosures
TN	Technical Note
UK	United Kingdom
VRF	Value Reporting Foundation

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Appendix 1
Made rules (legal instrument)

LISTING RULES (DISCLOSURE OF CLIMATE-RELATED FINANCIAL INFORMATION) (No 2) 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 the Financial Services and Markets Act 2000 ("the Act"):

(1) section 73A (Part 6 Rules);
(2) section 96 (Obligations of issuers of listed securities);
(3) section 137A (The FCA's general rules);
(4) section 137T (General supplementary powers); and
(5) section 139A (Power of the FCA to give guidance).

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

Commencement

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

Amendments to the Handbook

D. The Glossary of definitions is amended in accordance with Annex A to this instrument.

E. The Listing Rules sourcebook (LR) is amended in accordance with Annex B to this instrument.

Citation

F. This instrument may be cited as the Listing Rules (Disclosure of Climate-Related Financial Information) (No 2) Instrument 2021.

By order of the Board
16 December 2021

Annex A

Amendments to the Glossary of definitions

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

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

TCFD Guidance on Metrics, Targets and Transition Plans	the document entitled "Guidance on Metrics, Targets, and Transition Plans" published in October 2021 by the Task Force on Climate related Financial Disclosures, available at: https://www.fsb-tcfd.org.

Amend the following definitions as shown.

TCFD Annex	the document entitled "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures" published in ~~June 2017~~ <u>October 2021</u> by the Task Force on Climate-related Financial Disclosures, available at: https://www.fsb-tcfd.org.
TCFD Technical Supplement <u>on the Use of Scenario Analysis</u>	the technical supplement entitled "The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities" published in June 2017 by the Task Force on Climate-related Financial Disclosures, available at: https://www.fsb-tcfd.org.

Annex B

Amendments to the Listing Rules sourcebook (LR)

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

9 Continuing obligations

…

9.8 Annual financial report

…

Additional information

…

9.8.6C G For the purposes of *LR* 9.8.6R(8), in determining whether a *listed company's* climate-related financial disclosures are consistent with the *TCFD Recommendations and Recommended Disclosures*, the *FCA* considers that the following documents are relevant:

(1) the *TCFD Final Report* and the *TCFD Annex*, to the extent not already referred to in *LR* 9.8.6R(8) and *LR* 9.8.6BG;

(2) the *TCFD Technical Supplement* <u>on the Use of Scenario Analysis</u>;

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

(4) (where appropriate) the *TCFD Guidance on Scenario Analysis for Non-Financial Companies*~~.~~<u>; and</u>

<u>(5) the *TCFD Guidance on Metrics, Targets and Transition Plans*.</u>

…

<u>9.8.6F G Where making disclosures on transition plans as part of its disclosures on strategy under the *TCFD Recommendations and Recommended Disclosures*, a *listed company* 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, the FCA encourages a *listed company* to explain why it has not done so.</u>

…

14 Standard listing (shares)

…

14.3 Continuing obligations

…

Information to be included in annual report and accounts

14.3.27 R In addition to the requirements set out in *DTR* 4.1, a *listed company* (other than an *investment entity* or a *shell company*) must include a statement in its annual financial report setting out:

(1) whether the *listed company* has included in its annual financial report climate-related financial disclosures consistent with the *TCFD Recommendations and Recommended Disclosures*;

(2) in cases where the *listed company* has:

(a) made climate-related financial disclosures consistent with the *TCFD Recommendations and Recommended Disclosures*, but has included some or all of these disclosures in a document other than the annual financial report:

(i) the recommendations and/or recommended disclosures for which it has included disclosures in that other document;

(ii) a description of that document and where it can be found; and

(iii) the reasons for including the relevant disclosures in that document and not in the annual financial report;

(b) not included climate-related financial disclosures consistent with all of the *TCFD Recommendations and Recommended Disclosures* in either its annual financial report or other document as referred to in (a):

(i) the recommendations and/or recommended disclosures for which it has not included such disclosures;

(ii) the reasons for not including such disclosures; and

(iii) any steps it is taking or plans to take in order to be able to make those disclosures in the future, and the timeframe within which it expects to be able to make those disclosures; and

(3) where in its annual financial report or (where appropriate) other document the climate-related financial disclosures referred to in (1)

can be found.

14.3.28 G For the purposes of *LR* 14.3.27R, in determining whether climate-related financial disclosures are consistent with the *TCFD Recommendations and Recommended Disclosures*, a *listed company* should undertake a detailed assessment of those disclosures which takes into account:

(1) Section C of the *TCFD Annex* entitled "Guidance for All Sectors";

(2) (where appropriate) Section D of the *TCFD Annex* entitled "Supplemental Guidance for the Financial Sector"; and

(3) (where appropriate) Section E of the *TCFD Annex* entitled "Supplemental Guidance for Non-Financial Groups".

14.3.29 G For the purposes of *LR* 14.3.27R, in determining whether a *listed company's* climate-related financial disclosures are consistent with the *TCFD Recommendations and Recommended Disclosures*, the *FCA* considers that the following documents are relevant:

(1) the *TCFD Final Report* and the *TCFD Annex*, to the extent not already referred to in *LR* 14.3.27R and *LR* 14.3.28G;

(2) the *TCFD Technical Supplement on the Use of Scenario Analysis*;

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

(4) (where appropriate) the *TCFD Guidance on Scenario Analysis for Non-Financial Companies*; and

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

14.3.30 G For the purposes of *LR* 14.3.27R, in determining whether climate-related financial disclosures are consistent with the *TCFD Recommendations and Recommended Disclosures*, a *listed company* should consider whether those disclosures provide sufficient detail to enable users to assess the *listed company's* exposure to and approach to addressing climate-related issues.

A *listed company* should carry out its own assessment to ascertain the appropriate level of detail to be included in its climate-related financial disclosures, taking into account factors such as:

(1) the level of its exposure to climate-related risks and opportunities; and

(2) the scope and objectives of its climate-related strategy,

noting that these factors may relate to the nature, size and complexity of the *listed company's* business.

14.3.31 G (1) For the purposes of *LR* 14.3.27R, the *FCA* would ordinarily expect a *listed company* to be able to make climate-related financial disclosures consistent with the *TCFD Recommendations and Recommended Disclosures*, except where it faces transitional challenges in obtaining relevant data or embedding relevant modelling or analytical capabilities.

(2) In particular, the *FCA* would expect that a *listed company* should ordinarily be able to make disclosures consistent with:

(a) the recommendation and recommended disclosures on governance in the *TCFD Recommendations and Recommended Disclosures*;

(b) the recommendation and recommended disclosures on risk management in the *TCFD Recommendations and Recommended Disclosures*; and

(c) recommended disclosures (a) and (b) set out under the recommendation on strategy in the *TCFD Recommendations and Recommended Disclosures*, to the extent that the *listed company* does not face the transitional challenges referred to in (1) in relation to such disclosures.

14.3.32 G Where making disclosures on transition plans as part of its disclosures on strategy under the *TCFD Recommendations and Recommended Disclosures*, a *listed company* 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, the FCA encourages a *listed company* to explain why it has not done so.

Insert the following new definition in the appropriate alphabetical position and amend the existing definitions as shown.

App 1 Relevant definitions

App 1.1 Relevant definitions

1.1.1 **Note:** The following definitions relevant to the *listing rules* are extracted from the *Glossary*.

…

TCFD Annex	the document entitled "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures" published in ~~June 2017~~ October 2021 by the Task Force on Climate-related Financial Disclosures, available at: https://www.fsb-tcfd.org.
TCFD Guidance on Metrics,	the document entitled "Guidance on Metrics, Targets, and Transition Plans" published in October 2021 by the Task Force on Climate related Financial Disclosures, available at: https://www.fsb-tcfd.org.

Targets and Transition Plans	
…	
TCFD Technical Supplement on the Use of Scenario Analysis	the technical supplement entitled "The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities" published in June 2017 by the Task Force on Climate-related Financial Disclosures, available at: https://www.fsb-tcfd.org.
…	

Insert the following new transitional provision LR TR 17, after LR TR 16 (Transitional Provisions in relation to market capitalisation under LR 2.2.7 R(1)). The text is not underlined.

TR 17 Transitional Provisions in relation to climate-related financial disclosures under LR 14.3.27R and LR 9.8.6R(8)

(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.	*LR* 14.3.27R	R	*LR* 14.3.27R applies in relation to a financial year of a *listed company* beginning on or after 1 January 2022.	From 1 January 2022	1 January 2022

2.	*LR* 9.8.6CG(5) and *LR* 9.8.6FG	G	*LR* 9.8.6CG(5) and *LR* 9.8.6FG apply in relation to a financial year of a *listed company* beginning on or after 1 January 2022.	From 1 January 2022	1 January 2022
3.	*LR* 9.8.6BG and *LR* 9.8.6CG	G	In relation to a financial year of a *listed company* beginning before 1 January 2022, references to the *TCFD Annex* in *LR* 9.8.6BG and *LR* 9.8.6CG may be read as references to the document entitled "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures" published in June 2017 by the Task Force on Climate-related Financial Disclosures, available at: https://www.fsb-tcfd.org.	From 1 January 2022	

Appendix 2
Technical Note

FINANCIAL CONDUCT AUTHORITY

Primark Market Technical Note

Disclosures in relation to ESG matters, including climate change

Listed issuers, other issuers with securities admitted to trading on regulated markets and other entities in scope of requirements under the Market Abuse Regulation (MAR) and the Prospectus Regulation (PR) are subject to a range of disclosure requirements. The purpose of these requirements is to ensure that shareholders, investors and markets more generally are enabled to make informed decisions.

For example, pursuant to the PR, issuers must consider what disclosures they should make to enable investors to assess (amongst other things) the assets and prospects of the issuer.

A wide range of factors may impact a company's prospects. Climate-related risks and opportunities are widely understood to be financially material to many issuers' assets and therefore may need to be disclosed. Other environmental, social and governance (ESG)-related risks and opportunities are also likely to be financially material to many issuers. Accordingly, issuers should consider ESG matters carefully when determining what should be disclosed under the PR, as well as under the other disclosure regimes.

More broadly, disclosure obligations arise under the Listing Rules and Prospectus Regulation when an issuer's securities are offered to the public, first listed or admitted to trading on a regulated market.

On an ongoing basis, disclosure obligations arise pursuant to the Listing Rules, Disclosure Guidance and Transparency Rules and Market Abuse Regulation:

- in relation to announcements and financial reporting
- on an event-driven basis given that issuers must inform the public as soon as possible of inside information which directly concerns them.

We also note that issuers should assess climate-related risks and opportunities and other ESG considerations carefully in informing their disclosures, both in respect of equity and non-equity securities.

We discuss specific FCA Handbook requirements and obligations set out in retained EU law ~~EU legislation (which will continue to apply in the UK after the end of the transition period)~~ and how they apply in respect of ESG issues below. The examples of relevant provisions that we provide are not intended to be exhaustive.

Listing Rules

Listed issuers need to have appropriate arrangements in place to support their disclosure obligations under various regimes. The Listing and Premium Listing Principles are particularly relevant in this respect.

Listing Principle 1 requires that: *"A listed company must take reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with its obligations."*

Related guidance in LR 7.2.2G further explains that this principle is intended to ensure that listed companies: "*have adequate procedures, systems and controls to enable them to comply with their obligations under the listing rules, disclosure requirements, transparency rules and corporate governance rules. In particular, the FCA considers that listed companies should place particular emphasis on ensuring that they have adequate procedures, systems and controls in relation to, where applicable […] the timely and accurate disclosure of information to the market.*"

In considering whether their procedures, systems and controls are adequate to enable them to comply with their obligations under these various regimes, including the timely and accurate disclosure of information to the market, an issuer should consider whether there is a need to access and draw on specific data sources when disclosing climate-related and other ESG-related risks and opportunities.

An issuer should also consider whether there is a need to develop specific systems, analytical instruments or organisational arrangements to collate and assess the information required to enable it to comply with its obligations.

This recognises that the appropriate consideration of climate-related and other ESG-related matters may require that an issuer accesses data sources that, unlike other indicators of organisational performance, may not typically be used for other business purposes. Furthermore, such data may need to be assessed and analysed using bespoke techniques.

In this respect, LR 7.2.3G further elaborates: "*Timely and accurate disclosure of information to the market is a key obligation of listed companies. For the purposes of Listing Principle 1, a listed company should have adequate systems and controls to be able to*:

(1) *ensure that it can properly identify information which requires disclosure under the listing rules, disclosure requirements, transparency rules or corporate governance rules in a timely manner; and*

(2) *ensure that any information identified under (1) is properly considered by the directors and that such a consideration encompasses whether the information should be disclosed."*

Additionally, a premium-listed issuer should consider Premium Listing Principle 6. This requires that: *"A listed company must communicate information to holders and potential holders of its premium listed securities and its listed equity shares in such a way as to avoid the creation or continuation of a false market in those premium listed securities and listed equity shares.*"

LR 9.8.6R (5) requires that a premium-listed issuer includes within its annual financial report a statement of how the company has applied the Principles set out in the UK Corporate Governance Code 2018, in a manner that would enable shareholders to evaluate how the principles have been applied.

Relatedly, LR 9.8.6R (6) requires the inclusion in its annual financial report of a statement as to whether *"the listed company has (a) complied throughout the accounting period with all relevant provisions set out in the UK Corporate Governance Code; or (b) not complied throughout the accounting period with all relevant provisions set out in the UK Corporate Governance Code and if so, setting out: (i) those provisions, if any it has not complied with; (ii) in the case of provisions whose requirements are of a continuing nature, the period within which, if any, it did not comply with some or all of those provisions; and (iii) the company's reasons for non-compliance."*

The UK Corporate Governance Code 2018 and its supporting guidance explicitly recognise companies' responsibilities to wider society and provides authoritative guidance on how Boards can ensure strategic importance is given to ESG considerations that are critical to many investors.

LR 9.8.6R(8) and LR 9.8.7R require UK incorporated and overseas commercial companies with a premium listing and LR 14.3.27R requires all issuers of standard listed shares (and through LR 18.4.3R requires issuers of standard listed GDRs representing equity shares) excluding standard listed funds and shell companies, to include in their annual financial report "a statement setting out:

(a) *whether the listed company has included in its annual financial report climate-related financial disclosures consistent with the TCFD Recommendations and Recommended Disclosures;*

(b) *in cases where the listed company has:*

- ***(i)*** *made climate-related financial disclosures consistent with the TCFD Recommendations and Recommended Disclosures, but has included some or all of these disclosures in a document other than the annual financial report:*
  - ***(A)*** *the recommendations and/or recommended disclosures for which it has included disclosures in that other document;*
  - ***(B)*** *a description of that document and where it can be found; and*
  - ***(C)*** *the reasons for including the relevant disclosures in that document and not in the annual financial report;*
- ***(ii)*** *not included climate-related financial disclosures consistent with all of the TCFD Recommendations and Recommended Disclosures in either its annual financial report or other document as referred to in (i):*
  - ***(A)*** *the recommendations and/or recommended disclosures for which it has not included such disclosures;*
  - ***(B)*** *the reasons for not including such disclosures; and*

> ***(C)*** *any steps it is taking or plans to take in order to be able to make those disclosures in the future, and the timeframe within which it expects to be able to make those disclosures; and*

(c) *where in its annual financial report or (where appropriate) other document the climate-related financial disclosures referred to in (a) can be found."*

LR 9.8.6BG, LR 9.8.6CG, and LR 9.8.6DG as well as LR 14.3.28G, LR 14.3.29G and LR 14.3.30G provide guidance in relation to determining whether climate-related financial disclosures are consistent with the TCFD Recommendations and Recommended Disclosures.

LR 9.8.6EG and LR 14.3.31G explain~~s~~ that the FCA would ordinarily expect a listed company to be able to *"make climate-related financial disclosures consistent with the TCFD Recommendations and Recommended Disclosures, except where it faces transitional challenges in obtaining relevant data or embedding relevant modelling or analytical capabilities."*

LR 9.8.6FG and LR 14.3.32G provide guidance for a listed company where making disclosures on transition plans as part of their strategy disclosures.

LR 13.3.1R (1) requires every circular sent by a premium listed company to holders of its listed securities to *"provide a clear and adequate explanation of its subject matter giving due prominence to its essential characteristics, benefits and risks"*. In addition, LR 13.3.1R (3) requires every such circular to *"contain all information necessary to allow the security holders to make a properly informed decision"* if voting or other action is required.

In both cases, this may include in relation to ESG matters.

LR 1.3.3R requires that *"An issuer must take reasonable care to ensure that any information it notifies to a RIS or makes available through the FCA is not misleading, false or deceptive and does not omit anything likely to affect the import of the information."* Again, ESG matters may be relevant here too.

Listing Particulars are discussed in the next section.

Prospectus Regulation

Article 6 of the Prospectus Regulation

When a prospectus is required, it must contain the necessary information which is material to an investor for making an informed assessment of (amongst other things) the assets and prospects of the issuer and of the reasons for the issuance and its impact on the issuer. That information may vary depending on the nature and circumstances of the issuer and the type of securities.

In order to provide adequate information to the market for this purpose, information on climate change and other ESG-related matters may need to be provided where relevant to the issuer. For instance, in the context of the UK Government's target to achieve net-zero carbon emissions by 2050 and to achieve the goals of the Paris Agreement more generally, many companies are likely to need to consider significant changes to their business. Such changes may be material to an investor's assessment of the prospects of the company and the risks and opportunities shaping it.

Article 14 of the Prospectus Regulation

As a derogation from Article 6, the relevant reduced information to be presented in the simplified prospectus for secondary issuances is that necessary to enable investors to understand the prospects of the issuer and any significant changes in the business and financial position of the issuer since the end of the last financial year. This information should be written and presented in such a way as to allow investors to make an informed investment decision.

Risk factors

Recital 54 of the Prospectus Regulation addresses risk factors that are required by the PR and makes specific reference to environmental, social and governance factors. The recital states:

"The primary purpose of including risk factors in a prospectus is to ensure that investors make an informed assessment of such risks and thus take investment decisions in full knowledge of the facts. Risk factors should therefore be limited to those risks which are material and specific to the issuer and its securities and which are corroborated by the content of the prospectus. A prospectus should not contain risk factors which are generic and only serve as disclaimers, as those could obscure more specific risk factors that investors should be aware of, thereby preventing the prospectus from presenting information in an easily analysable, concise and comprehensible form. Among others, environmental, social and governance circumstances can also constitute specific and material risks for the issuer and its securities and, in that case, should be disclosed. To help investors identify the most material risks, the issuer should adequately describe and present each risk factor in the prospectus. A limited number of risk factors selected by the issuer should be included in the summary."

Relatedly, in 2019, ESMA published a set of Guidelines on risk factors under the Prospectus Regulation. Guideline 7 on the presentation of risk factors across categories is accompanied by explanatory paragraph 35 which notes that ESG-related risks could form a specific category. Climate change and other ESG factors might also be relevant to other suggested categories of risks, including 'Legal and regulatory'. The ESMA Guidelines provide an example of how ESG risk factors could be disclosed.

Annexes to the Delegated Prospectus Regulation

Various annexes to the Commission Delegated Prospectus Regulation (EU 2019/980) require relevant disclosures including an overview of the business and a description of the regulatory environment.

Item 5.7.4. Annex 1 requires a description of any environmental issues that may affect the issuer's utilisation of its tangible fixed assets. Item 9.1 requires, on the other hand, a description of the regulatory environment that the issuer operates in and that may materially affect its business, together with information regarding any governmental, economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, directly or indirectly, the issuer's operations. Therefore, if the regulatory environment includes environmental matters, they will have to be disclosed, if material.

Item 2.5.1 in Annex 24, requires smaller issuers adopting the new EU Growth prospectus specifically to address environmental matters in covering, to the extent necessary for an understanding of the issuer's business as a whole, an analysis of the development and performance of the issuer's business and its position. The analysis shall include both financial and, where appropriate, non-financial Key Performance Indicators relevant to the particular business, including information relating to environmental and employee matters. This analysis shall, where appropriate, also include references to, and additional explanations of, amounts reported in the annual financial statements.

Similarly, FSMA requires Listing Particulars to contain all such information as investors and their professional advisers would reasonably require, and reasonably expect to find there, for the purpose of making an informed assessment of the prospects of the issuer of the securities.

ESMA's update of the CESR recommendations, which continue to apply to the extent that they are compatible with the Prospectus Regulation, contains helpful guidance in a number of areas relevant to ESG considerations. This includes guidance on environmental and employee key performance indicators in the context of the operating and financial review (paragraph 28) and identifying factors to consider when preparing profit forecasts (paragraph 50). Specific requirements for mineral companies are set out in paragraphs 131-133 and in Appendices I, II and III. Appendices II and III also contain specific requirements for the Mining and Oil and Gas Competent Persons' Report.

As noted in PMB 31, the European Securities and Markets Authority (ESMA) published its Final Report [here] on new guidelines on prospectus disclosure on 15 July 2020. We will consult on our approach to the guidelines on prospectus disclosure based largely on the new ESMA Guidelines in due course.

LR 4.2 contains further detail on the Listing Particulars and their content, including minimum information requirements.

Disclosure Guidance and Transparency Rules (DTR)

Issuers have a number of ongoing disclosures obligations. These disclosures are primarily intended to allow shareholders, investors and the market at large to form a view on the value of traded securities. Implicit in this is that investors need to be put in a position to be able to assess the prospects of the company and the risks and opportunities shaping it.

In order to provide adequate information to the market for this purpose, information on climate change and other ESG-related matters may need to be provided where relevant to the issuer. For instance, in the context of the UK Government's target to achieve net-zero carbon emissions by 2050 and to achieve the goals of the Paris Agreement more generally, many companies are likely to need to consider significant changes to their business. Such changes may be material to an investor's assessment of the prospects of the company and the risks and opportunities shaping it.

The Disclosure Guidance and Transparency Rules (DTR) require that the Management Report in the Annual Financial Report and the Interim Management Report in the Half-Yearly Financial Report contain a description of the principal risks and uncertainties facing the issuer (DTR 4.1.8R and DTR 4.2.7R, respectively).

The Management Report in the Annual Financial Report must also contain a fair review of the issuer's business. DTR 4.1.9R requires the inclusion in that review, to the extent necessary for an understanding of the development, performance or position of the issuer's business, of analysis using key performance indicators. This should include information relating to environmental matters and employee matters where appropriate.

DTR 7.2 requires an issuer to include a corporate governance statement in its directors' report, or in a separate report published with its annual report or made available on its website. DTR 7.2 includes information requirements in relation to any relevant corporate governance code (DTR 7.2.2R and DTR 7.2.3R), the issuer's internal control and risk management systems in relation to the financial reporting process (DTR 7.2.5R), and the diversity policy applied to the issuer's administrative, management and supervisory bodies (DTR 7.2.8AR).

DTR 1A.3.2R requires an issuer to *"take all reasonable care to ensure that any information it notifies to a RIS is not misleading, false or deceptive and does not omit anything likely to affect the import of the information."* This may include in relation to ESG matters.

Market Abuse Regulation (MAR)

Pursuant to Article 17 of MAR, an issuer must publicly disclose inside information that directly concerns them as soon as possible, unless the conditions for delay are met. This includes any inside information that relates to climate change and other ESG-related matters.

Article 17(1) clarifies that *"The issuer shall ensure that the inside information is made public in a manner which enables fast access and complete, correct and timely assessment of the information by the public..."*

When disclosing climate-related and other ESG-related information, an issuer must not do so in a way (for example by omitting information) that breaches the prohibition of market manipulation under Article 15 of MAR, noting the relevant behaviours defined in Article 12 of MAR that amount to market manipulation. These include, but are not limited to, dissemination of information which is likely to give false or misleading signals as to the supply of, demand for, or price of a financial instrument.

In this regard, recital 47 adds: *"The manipulation or attempted manipulation of financial instruments [...] may consist in the invention of manifestly false information, but also the wilful omission of material facts, as well as the knowingly inaccurate reporting of information."*

Pub ref: 007761

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