

Sixty second summary

The FCA has introduced new rules and guidance to enhance climate-related disclosures by asset managers and life insurers and FCA-regulated pension providers

The FCA has published new rules¹ which will require asset managers and asset owners to make mandatory annual disclosures in line with the TCFD's recommendations. The new rules take effect from 1 January 2022 for the largest firms.

Why are the new rules being introduced?

The FCA's aim is to increase transparency on climate-related risks and opportunities and the new rules support this by requiring in-scope firms to produce enhanced and consistent disclosures. This is expected to deliver better outcomes for clients and consumers – greater transparency will help clients and consumers make better informed choices about their investments and also enable them to hold their providers to account. The new rules are also expected to promote deeper consideration of climate-related risks and opportunities by in-scope firms and help markets price assets more accurately and allocate capital more effectively. In turn, this is expected to drive investment towards greener projects and activities, supporting wider UK Government aims to achieve a net zero economy by 2050.

Which firms do the new rules apply to?

The rules apply to asset managers and asset owners:

- Asset managers – investment portfolio managers, UK UCITS management companies, and full-scope and small authorised UK AIFMs.
- Asset owners – life insurers and FCA-regulated pension providers. This includes life insurers providing insurance-based investment products and defined contribution pension products, and non-insurer FCA-regulated pension providers, including platform firms and SIPP providers, to the extent that SIPP providers provide a ready-made selection of investments.

Some firms in scope of these rules may also be subject to climate-related disclosure requirements in their capacity as listed companies. Those disclosures² focus on how firms manage climate-related risks and opportunities in their business on behalf of shareholders.

¹ <https://www.fca.org.uk/publication/policy/ps21-24.pdf>

² <https://www.fca.org.uk/publication/policy/ps20-17.pdf> <https://www.fca.org.uk/publication/policy/ps21-23.pdf>

When do the new rules take effect?

The new disclosure rules will apply from 1 January 2022 for the largest firms with more than £50bn in assets under management (or £25bn assets under administration for asset owners). The first public disclosures in line with the new requirements must be made by 30 June 2023, reflecting the 2022 calendar year.

For smaller firms above the £5bn exemption threshold, the new rules will apply from 1 January 2023 with reports for the calendar year 2023 due by 30 June 2024. The £5bn threshold will be reviewed after 3 years.

The rules will apply to 34 asset management and 12 asset owner firms in the first phase of implementation. Once fully implemented, they will apply to 140 asset management and 34 asset owner firms. The firms in scope represent £12.1 trillion in assets under management and administered in the UK, capturing 98% of the both the UK asset management market and held by UK asset owners.

What is changing?

In-scope firms are required to make disclosures on an annual basis at:

- Entity level – an annual TCFD entity report setting out how the firm takes climate-related matters into account in managing or administering investments on behalf of clients and consumers. This must be published in a prominent place on the main website of the firm's business.
- Product-level – annual disclosures, including a core set of climate-related metrics, on the firm's products and portfolios. These must be published in a prominent place on the main website of the firm's business and included or cross-referenced in an appropriate client communication or made upon request to certain eligible institutional clients.

These disclosures must be consistent with the TCFD recommendations and recommended disclosures.

The FCA is introducing a new ESG Sourcebook to the FCA Handbook containing the rules and guidance.