

Newsflash

The UK government's consultation on mandatory TCFD disclosures



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In late March, the UK government issued a [consultation](#) on proposals to make climate-related financial disclosures mandatory for many large companies.

The proposal requires in-scope companies to prepare disclosures in line with the Taskforce on Climate-related Financial Disclosures ('TCFD') recommendations. The consultation closes on 5 May 2021, with final regulations expected to come into force on **6 April 2022**.

This consultation builds on FCA [PS 20/17](#), which made TCFD disclosures mandatory for companies with a UK [premium listing](#) by 2022. Ahead of this, PRA [SS 3/19's requirements](#) for banks and insurers included an expectation that firms consider engaging with the TCFD framework when developing their approach to climate-related financial disclosures.

Who is in scope for the consultation?

The requirements will apply to:

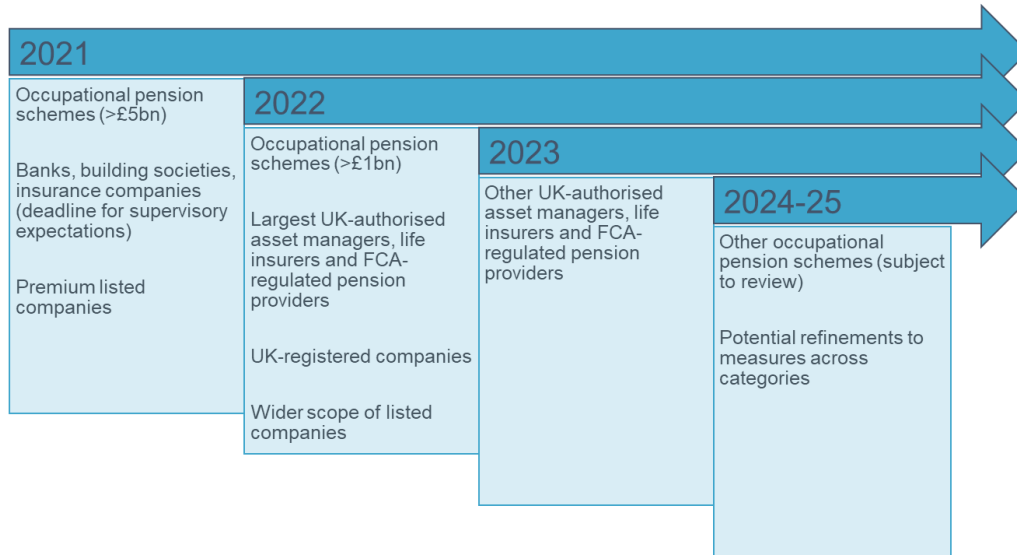
- UK companies that are currently required to produce a non-financial information statement*;
- UK registered companies with securities admitted to AIM and more than 500 employees; and
- UK registered companies and LLPs with more than 500 employees and a turnover of more than £500m.

* a traded company, a banking company, an authorised insurance company, or a company carrying on insurance market activity, subject to certain exemptions

Most UK insurers, reinsurers, and other financial firms are in-scope of at least one of PS 20/17 and SS 3/19, and there has been a significant increase in the amount and depth of firms' climate change disclosures in recent reporting. HMT's latest consultation will result in the vast majority of publicly-quoted companies, large private companies and LLPs being required to disclose in-line with TCFD.

This consultation is the next step in the government's plan to require TCFD-aligned disclosures across much of the UK economy by 2025, as noted in [HMT's climate-related disclosures roadmap](#) shown below.

Timeline of planned or potential regulatory actions or legislative measures



We believe the need to produce these disclosures will encourage firms to understand and address the risks that climate change poses, as well as providing investors with the information and data required in order to adequately monitor the climate risk in their own portfolios. HMT is indicating its willingness to take regulatory action to support the UK's transition to net zero, by making the TCFD disclosures mandatory, rather than voluntary.

Insurers, as investors, will no doubt benefit from this, as a large proportion of their UK investment portfolio holdings will now be required to publish disclosures; the information insurers take from these reports will be invaluable to understanding their exposure to climate risk.

What is the TCFD and what does it recommend?

Established by the Financial Stability Board in 2015 and chaired by ex-BoE governor Mark Carney, the TCFD is an industry-led taskforce set up to identify the information required to adequately assess climate-related risks and opportunities. In 2017, the TCFD released its final recommendations for climate-related financial disclosures. Since then, with support from companies with a combined market cap of \$12.6 trillion and many national governments, the TCFD recommendations have become the gold-standard for climate-related disclosures.

The TCFD recommended disclosure framework is split into four sections as shown in the figure below:

Core Elements of Recommended Climate-Related Financial Disclosures



Figure: Core elements of recommended climate-related financial disclosures. Source: [Final recommendations of the TCFD](#)

Within these sections, there are a total of eleven recommended disclosures with additional guidance for insurers, asset owners, and asset managers separately.

The proposed disclosure requirements

Under the new HMT proposals, companies will be required to disclose on all four of the key sections identified by the TCFD. In addition, firms are encouraged to disclose on any scenario analysis they have performed. However, recognising that this is arguably the most challenging aspect of implementing the TCFD disclosure framework, disclosures on scenario analysis are encouraged but not required. It is unlikely that all but the most advanced firms will be able to complete this aspect of the disclosures at present, although industry capabilities in this space are growing rapidly.

These disclosures are required on a 'comply or explain' basis. If an organisation decides that climate change will not materially impact it or its strategy then, under the proposal, it would simply be required to justify why this is the case. It remains to be seen how the FCA and other regulatory bodies will deal with non-disclosures but, given the importance of climate change for the UK government, we believe that most large firms will find it difficult to justify non-disclosure.

For most firms, disclosures will be made publicly available and so will be subject to public scrutiny, and those who have not disclosed under the TCFD recommendations will also likely be subject to public pressure. The disclosures will allow investors to see which firms are most at risk from climate change, with the intention that capital will flow more efficiently towards activities that aid the fight against climate change. These disclosures are a big step in the right direction towards a carbon-neutral economy.

What next?

Following the consultation, the UK government aims to have the relevant regulations passed by year-end 2021 and for them to come into force on 6 April 2022. The Department for Business, Energy, and Industrial Strategy will consider whether to expand the scope of the regulations in 2023.

The consultation reflects the government's desire to mandate TCFD-aligned disclosures across most of the UK economy, and our expectation is that the final regulations will be very similar to the current proposals. Once passed, the proposed regulations will drive forward adoption of TCFD-aligned disclosures across the UK economy, and help to ensure more consistent and comparable coverage of the TCFD recommendations.

How Hymans Robertson can support you

Hymans Robertson has a wealth of experience assisting financial firms and pension funds with their climate-related disclosures and scenario analysis. We are happy to discuss any aspect of climate change and climate-related financial disclosures with you.

If you would like to discuss with one of our specialists, please [get in touch](#).