100 HYMANS # ROBERTSON

Newsflash

The FCA's consultation on enhancing climate-related disclosures

Nicola Kenyon
Head of Insurance Innovation & Change
nicola.kenyon@hymans.co.uk

Gerard Anderson
Insurance Consultant
gerard.anderson@hymans.co.uk

Mark Farmer
Associate Consultant
mark.farmer@hymans.co.uk

Last week, the FCA issued a Consultation Paper ('CP') 21/17 on enhancing climate-related financial disclosures by asset managers, life insurers, and FCA-regulated pension providers.

The proposals will require in-scope companies to prepare two levels of financial disclosures in line with the Taskforce on Climate-related Financial Disclosures ('TCFD') recommendations; entity-level disclosures, and product or portfolio-level disclosures. The consultation closes on 10 September 2021, with the FCA aiming to publish the finalised requirements later in 2021.

Who is in scope of the consultation?

The requirements will apply to*:

- Life insurers and pure reinsurers
- Non-insurer FCA-regulated pension providers
- Asset managers

What products are in scope of the consultation?

- Insurance-based investment products
- DC pension products
- SIPPs

**Firms are only in scope if their assets under management ('AuM') relating to the in-scope products are over £5bn.*

This consultation builds on the UK government's consultation earlier in 2021, which proposed that TCFD disclosures be mandatory for many large UK companies, which in turn built off the back of the FCA's PS 20/17, which made TCFD disclosures mandatory for companies with a UK premium listing. *For more information on this consultation and on the TCFD see our previous newsflash here.*

The proposed disclosure requirements

The **entity-level disclosure requirements** will require firms to publish annual disclosures publicly on how they account for climate-related risks and opportunities, the contents of which must be consistent with recommendations as laid out by the TCFD. This will mean the disclosures must cover areas such as governance, strategy, (including scenario analysis), risk management, and metrics and targets. The CP includes flexibilities allowing firms to disclose at a group-level rather than reporting under multiple entity-level disclosures.

The **product, or portfolio-level, disclosure requirements** will require firms to publish annual disclosures publicly and in client communications, with respect to individual products or portfolio management services offered. These disclosures will include a baseline set of core mandatory carbon emissions and carbon intensity metrics, additional metrics where possible, such as climate VaR, and scenario analysis. Firms must also include disclosures on the key areas covered by the TCFD, as outlined above, where they differ materially from the disclosures made at entity-level. Product level disclosures must also be made where firms consider that extra information would be useful to consumers.

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

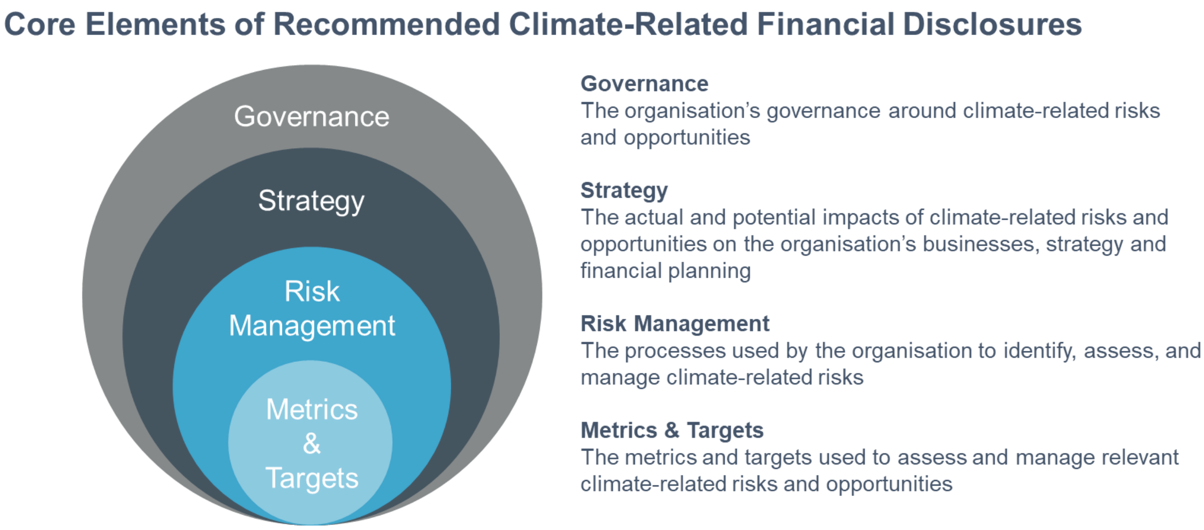

Figure: Core elements of recommended climate-related financial disclosures. Source: Final recommendations of the TCFD

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

What next?

The FCA are proposing two phases of implementation. The first phase will come into effect from 1 January 2022 and will require both insurers with AuM over £25bn and asset managers with AuM over £50bn to publish their first set of TCFD disclosures by 30 June 2023. The second phase will be effective from 1 January 2023, and will require the remaining in-scope firms (firms where AUM of in-scope products are over £5bn) to publish their first disclosures by 30 June 2024. These proposals are thought to capture 98% of the AuM in both the UK asset management market and held by UK asset owners.

The CP has three objectives: better outcomes for clients and consumers, deeper consideration of climate-related risks and opportunities by in-scope firms, and coordinated information flow along the investment chain. The FCA hope that, by enhancing transparency and the structure of firms' management approach towards climate-related risks and opportunities, consumers will be better placed to take these into account when selecting products, and that investment outcomes should be improved. It is also hoped that the better transparency will help markets price assets more accurately and allocate capital more effectively.

How Hymans Robertson can support you

Hymans Robertson has a wealth of experience assisting financial firms and pension funds with their climate-related financial disclosures and scenario analysis. For example, we are currently helping out clients with their TCFD disclosures, climate scenario modelling, climate risk management frameworks, and much more. 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.

London | Birmingham | Glasgow | Edinburgh

T 020 7082 6000 | www.hymans.co.uk