Principles for Responsible Investment

POLICY BRIEFING

UK FCA'S ENHANCING CLIMATE-RELATED DISCLOSURES BY ASSET MANAGERS, LIFE INSURERS AND FCA-REGULATED PENSION PROVIDERS

November 2024

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United Nations Global Compact

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. More information: www.unpri.org

ABOUT THIS BRIEFING

This briefing summarises FCA climate-related disclosure rules which require certain asset managers, life insurers and FCA-regulated pension providers to make climate-related financial disclosures consistent with the TCFD's recommendations.

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INTRODUCTION

Finalised in December 2021, the FCA introduced climate-related disclosure rules for asset managers, life insurers and FCA-regulated pension providers, aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The rules require firms to publish annual climate-related financial disclosures at both entity and product level. The aim is to increase transparency on how firms are managing climate-related risks and opportunities, and to support the allocation of capital to achieve a net zero economy by 2050.

KEY ELEMENTS

In scope investors must prepare and disclose an annual entity-level TCFD report on how climate-related matters are incorporated in the firm's overall governance, strategy and risk management, as well as annual product-level disclosures on metrics and targets, including greenhouse gas emissions metrics for in scope products.

SCOPE

The rules apply to:

- **Asset Managers:** This includes investment portfolio managers, UCITS management companies, full-scope Alternative Investment Fund Managers (AIFMs), and small authorised AIFMs.
- **Life Insurers and FCA-regulated Pension Providers:** This includes life insurers (including reinsurers) in relation to insurance-based investment products and defined contribution (DC) pension products, non-insurer FCA-regulated pension providers, including platform firms and Self-invested Personal Pension (SIPP) operators, to the extent that SIPP operators provide a ready-made selection of investments.

TIMELINE

Firm Type and Size	Rule Application Date	First Public Disclosure Deadline
Asset management firms with over £50 billion in AUM	1 January 2022	30 June 2023
Asset owner firms with assets over £25 billion	1 January 2022	30 June 2023
Smaller firms (above the £5 billion exemption threshold)	1 January 2023	30 June 2024

REQUIREMENTS

Firms are required to publish an annual TCFD entity-level report that outlines how they consider climate-related issues when managing investments for their clients. These reports must address governance, strategy, risk management, and metrics and targets, adhering to the 11 recommendations set out by the TCFD. If a firm's approach to a specific asset class or product varies from its overall entity-level approach, this must be clearly stated. The reports must contain a compliance statement that has been signed by a senior management member.

In addition, firms are required to produce annual TCFD reports for financial products. For authorised funds and listed products, these reports must be made publicly available and either included or referenced in client communications. For other financial products, the reports must be provided to institutional clients upon request. The reports are required to include a set of core metrics, namely Scope 1 and 2 greenhouse gas emissions, carbon footprint, and weighted average carbon intensity. The first reporting deadline for Scope 3 greenhouse gas emissions is 30 June 2024.

Upon request, firms must provide institutional clients with product-level disclosures or underlying data in a reasonable format and timeframe, enabling these clients to fulfil their own climate-related disclosure obligations. Where reasonably practicable and allowed under data licenses, firms must also provide data on the underlying product holdings and greenhouse gas emissions metrics.

To address data gaps in disclosures, firms must use proxies and assumptions to the extent possible. In cases where data quality or methodological challenges would render such disclosures misleading, firms are required to explain the reasons behind this, outline the steps being taken to resolve these issues, and provide alternative disclosures.

When firms delegate investment management to third parties, product-level disclosures for the delegated products may refer to the disclosures made by the delegates. However, firms remain responsible for ensuring consistency. Firms must also explain how they consider climate-related matters when selecting delegates.

Firms are permitted to cross-refer to disclosures made at the group level or in other reports, such as those made by listed issuers in accordance with the FCA's TCFD-aligned disclosure rules in LR 9.8.6R(8). In such cases, firms must explain the relevance of the group-level disclosures.

For portfolios with concentrated exposures or higher exposures to more carbon-intensive sectors (carbon-intensive sectors are not defined in the policy statement[1]), firms are required to disclose both qualitative and quantitative scenario analysis outcomes. This includes a qualitative summary of how climate change is likely to impact the assets under different scenarios (e.g., orderly transition, disorderly transition, and a "hot house world" scenario) and a quantitative analysis of these scenarios.

For portfolios that do not have concentrated or high exposures to carbon-intensive sectors, firms must provide a qualitative summary of the potential impact of climate change under the specified scenarios and discuss the most significant drivers of impact.

PENALTIES

The policy statement does not set out specific penalties for non-compliance. The FCA has powers to impose financial penalties, suspend or restrict a firm's regulatory permissions, or make public censure for breaches of its rules. The FCA's supervisory teams will review firms' implementation of the requirements and consider enforcement action if serious breaches or failings are identified.

[1] The FCA said, “We have not sought to define material deviations, or concentrated or higher exposures to carbon intensive sectors, as we consider that doing so may unduly constrain industry and policy development in this evolving area. We expect firms to consider what constitutes decision-useful disclosures according to their own business models, client base and products/portfolios. In time we expect industry guidance and best practice will emerge.”

NEXT STEPS

The FCA will review implementation through supervision and keep the regime under review. The FCA has since engaged with stakeholders on expanding entity- and product-level requirements under the Sustainability Disclosure Requirements.