

## **Regulator Assessment: Qualifying Regulatory Provisions**

**Title of proposal:** Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations

**Lead regulator:** FCA

**Date of assessment:** 12 August 2021

**Commencement date:** 1 January 2021

**Origin:** Domestic

**Does this include implementation of a Cutting Red Tape review?** No

**Which areas of the UK will be affected?** Commercial companies with a UK premium listing

### **Brief outline of proposed new or amended regulatory activity**

Market participants and policymakers agree that better disclosure about organisations' exposure to climate change risks and opportunities will lead to more informed pricing and drive investment towards greener projects and activities. In this way, financial flows can support the transition to net zero carbon emissions. Improving climate-related disclosures along the investment chain has therefore been central to our sustainable finance strategy.

The Taskforce for Climate-related Financial Disclosures (TCFD) was established by the Financial Stability Board in 2015 and published its [final report](#) in June 2017. The report set out 11 recommended disclosures under 4 pillars to promote better disclosure. These are governance, strategy, risk management and, finally, metrics and targets. The UK government was one of the first publicly to endorse the TCFD's recommendations and made their implementation a central part of its [2019 Green Finance Strategy](#).

We see implementation of TCFD-aligned disclosures as a means of building companies' capabilities to identify, assess, manage and disclose on climate-related risks and opportunities. We consider that this will pave the way to an eventual international standard for corporate reporting on climate-related and wider sustainability matters, integrated with financial reporting.

To support our implementation we introduced a new Listing Rule ([LR 9.8.6\(8\)](#)) for commercial companies with a UK premium listing. The requires that in-scope companies 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 – including relevant timeframes for being able to make those disclosures
- where they have included some, or all, of their 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

The rule is accompanied by guidance to help listed companies determine whether their disclosures are consistent with the TCFD’s recommendations and recommended disclosures. The guidance will also clarify the limited circumstances in which we would expect in-scope companies to explain rather than disclose.

The rule was introduced for accounting periods beginning on or after 1 January 2021.

**Which type of business will be affected? How many are estimated to be affected?**

The companies that are impacted by this policy are commercial companies with a UK premium listing. At the time of writing the relevant consultation paper and related FSMA required cost benefit analysis 480 companies were in-scope.

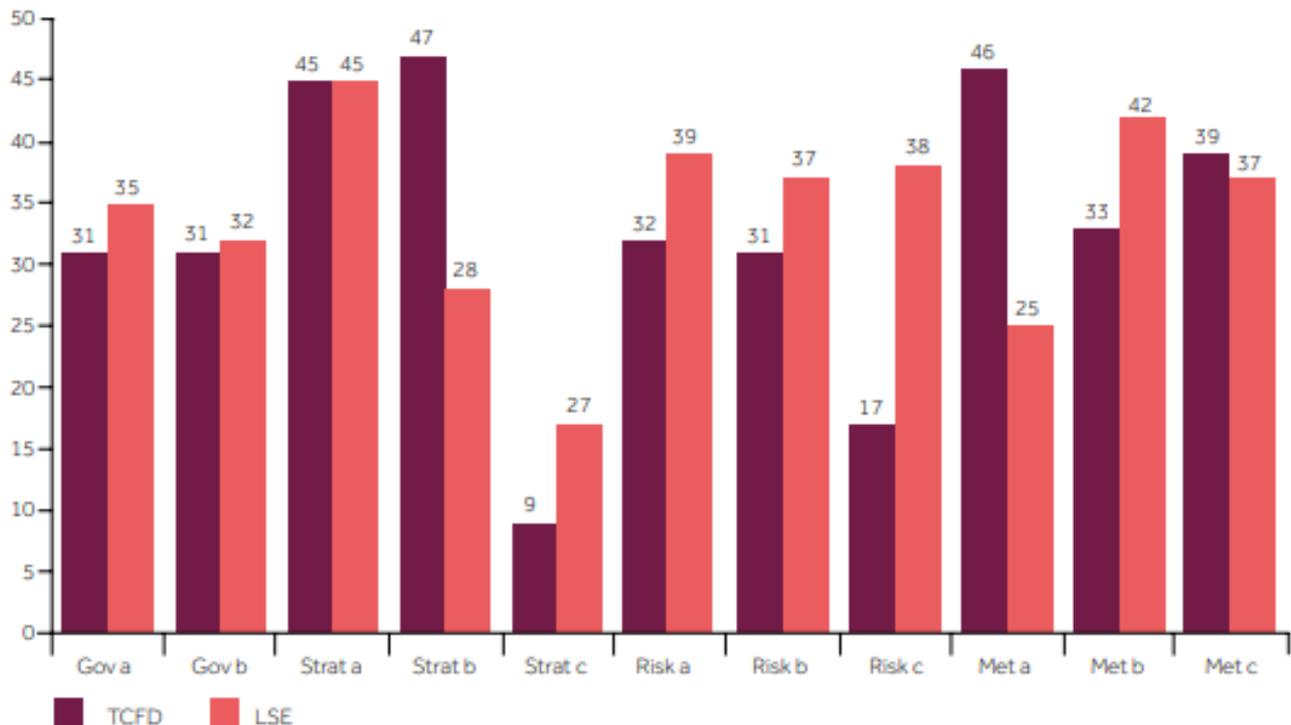
Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2019	1 January 2021	10	-526.9	-526.9	306.0

**Please set out the impact to business clearly with a breakdown of costs and benefits**

Although the rule will apply to all commercial companies with a UK premium listing, some are already producing disclosures aligned with this policy, or at least some of the disclosures. Therefore, only a portion of the companies to which the firm applies (those not yet producing disclosures aligned with this policy) will be financially impacted by this policy. To assess the cost implications of our proposals, we used evidence from various analytical reports by industry, academia, direct engagement with a sample of issuers and other relevant stakeholders to provide insights into the types of one-off and ongoing costs associated with implementing our proposals. These insights supported our development of a number of assumptions based on qualitative inputs received from issuers covering resourcing, sourcing data, board and executive level engagement and considerations around issuer characteristics. Moreover, FCA-supported analysis carried out by a team at the London School of Economics (LSE) on the current status of premium-listed issuers’ climate-related disclosures served as our baseline for how we built our analysis and assumptions. By mapping the 66 disclosure items tracked by LSE’s analysis to the 11 recommended disclosures of the TCFD, we arrived at estimates of the proportion of premium-listed companies already making TCFD-aligned disclosures. This allowed us to more precisely assess the number of

issuers financially impacted by our proposals. The final estimates are set out below, with the TCFD’s 2019 Status Report data used as a point of reference:

**Figure 5: The percentage of companies making TCFD-aligned disclosures**



Note: Gov a – board oversight; Gov b – management role; Strat a – identified climate-related risks and opportunities; Strat b – resilience of strategy/ scenario analysis; Risk a – identifying climate risks; Risk b – managing climate risks; Risk c – integration of climate risk management; Met a – metrics applied; Met b – Scope 1, 2 and (if appropriate) 3 emissions; Met c – targets.

Source: TCFD Status Report, June 2019; LSE; the values depicted in the figure are the percentage of companies found in the LSE study to be making disclosures aligned with each of the 11 recommended disclosures, as introduced in Figure 3. For each recommended disclosure, the value presented is an average across all of the disclosure items mapped to that recommended disclosure.

While there will be ongoing costs for issuers as they continue to develop their capabilities and approach to climate-related disclosures, the majority of the costs from our new TCFD-aligned Listing Rule is at the implementation phase since most in-scope companies are yet to produce and publish TCFD-aligned disclosures.

Based on our analysis of the current status of disclosures, we considered the following four key areas to be where incremental costs of compliance will be required:

- Coordination of inputs. Successful implementation of the TCFD’s recommendations will require a multi-disciplinary approach. According to discussions with a number of issuers, this is likely to entail coordination of inputs from various functions in the organisations (eg. finance, legal, risk), and the integration of climate reporting with existing reporting and governance arrangements.
- Climate scenario analysis (Strategy (c)). We found that this is the least developed area of disclosure and we expected that most issuers would need to make initial investments to build their capabilities.

- Climate metrics and targets (Metrics and Targets (a) and (c)). We expected that many issuers would also need to make initial investments to enhance their capability to monitor a range of business-relevant climate-related metrics.
- Scope 1 and 2 emissions (Metrics and Targets (b)). We considered that, while there are already UK regulations that require disclosures in this area, some issuers would likely need to enhance these – including overseas issuers not caught by existing UK rules.

Building on these four key areas, below we set out the one-off costs for in-scope issuers including some of the assumptions in making those calculations:

- familiarisation and legal review costs (came to £5.9mn)
  - o Two compliance/regulatory analysis staff familiarising themselves with our new regulations and a further two legal/regulatory analysis staff reviewing the legal implications of our rules.
- coordination of disclosure inputs across functions (came to £45.4mn)
  - o Two full-time employees from the Finance Department engaging with a cross-functional working group of eight people allocating 5% of their time to relevant tasks.
- scenario analysis (came to £27.5mn)
  - o One full-time quantitative analyst leading on the scenario analysis work.
- metrics/targets (came to £28.6mn)
  - o One full-time risk/sustainability analyst to lead on the metrics/targets work.
- metrics/targets – Scope 1 and 2 emissions (came to £12mn)
  - o In addition to the above, a further risk/sustainability analyst spending half their time on Scope 1 and 2 emissions reporting.

The ongoing costs for in-scope issuers are considered under similar categories to the one-off cost calculations, with resource requirements being scaled back to reflect the diminished need to build capabilities and approaches:

- coordination of disclosure inputs across functions (came to £21.4mn)
  - o One full-time employee in the Finance or Sustainability Department working with a cross-functional working group of 8 people allocating 2% of their time to relevant tasks.
- scenario analysis (came to £13.8mn)
  - o A quantitative analyst spending half their time on this matter.
- metrics/targets, incl. Scope 1 and 2 emissions (came to £14.3mn)
  - o A risk/sustainability analyst spending half their time on metrics reporting and target setting.

When considering resource costs, we used the standardised costs model which is a framework for estimating common types of compliance costs. A more detailed analysis, including further information on the assumptions and criteria we have considered, are set out in the cost benefit analysis in CP20/3.

As mentioned earlier, using LSE’s analysis, we estimated the number of in-scope issuers financially impacted by our rule. We assumed that issuers already voluntarily disclosing in line with the TCFD’s recommendations would have continued to do so in the absence of our proposed rule, therefore leading to the same number of issuers

incurring both one-off and ongoing costs. Taking into account all assumptions presented above, the following table gives an overview of the costs of our proposals:

Category of cost	No. issuers impacted	One-off cost per issuer (£m)	Total one-off cost (£m)	Ongoing cost per issuer (£m, pa)	Total ongoing cost (£m, pa)
<i>Familiarisation and legal review</i>	480	0.01	5.9	N/A	N/A
<i>Coordination of disclosure inputs across functions (Governance (a) and (b), Strategy (a) and (b), and Risk Management (a)-(c))</i>	307	0.15	45.4	0.07	21.4
<i>Scenario analysis (Strategy (c))</i>	418	0.07	27.5	0.03	13.8
<i>Metrics/Targets (a), (c)</i>	331	0.09	28.6	0.04	14.3
<i>Metrics/Targets (b)</i>	278	0.04	12.0		
<b>Total</b>		0.36	119.5	0.1	49.5

While not reasonably practicable to quantify, we considered the benefits both within companies and in financial markets stemming from our new disclosure requirement. We expect the policy to lead to companies making more comprehensive, high quality, and consistent climate-related disclosures. Better information will lead to more accurate asset pricing enhancing market integrity, allow for products to be developed that better match consumers' climate related preferences and enhanced competition on climate related issues between financial services firms. We expect this will lead to more effective capital allocation which better reflects climate related risks and opportunities, and support financial flows to aid in the transition to a net-zero carbon economy.

This impact assessment does not include these unquantified benefits to firms.

However, at the time of calculation and as noted in our cost benefit analysis, the one-off compliance cost from our rule was equal to 0.0005% of total market capitalisation; and 0.0002% on an ongoing basis. As such, even a small improvement in price efficiency in markets flowing from these benefits would outweigh the costs from our requirements.

**Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.**

N/A