Review of TCFD-aligned disclosures by premium listed commercial companies

Multi-firm reviews
Published: 29/07/2022 | **Last updated:** 29/07/2022

Increasing transparency on climate and wider sustainability risks and opportunities is a key priority under our ESG Strategy. We introduced a climate-related disclosure rule for premium listed issuers as a first step to improving the quality and quantity of disclosures across the corporate sector. We outline here our preliminary observations following an assessment of the first climate-related disclosures made in line with our rule and reiterate our expectations. We also refer to better practice examples highlighted in the Financial Reporting Council's complementary review to help companies improve their disclosures.

1. Summary

Why we conducted this review

We have been clear that we believe climate change is a relevant consideration for all companies and likely to be material for most. In PS20/17 [1], we introduced a climate-related disclosure rule for premium listed commercial companies, requiring those companies to include a statement in their Annual Financial Report (AFR) on whether they have made disclosures consistent with the Task Force on Climate-Related Financial Disclosures' (TCFD) recommendations, or to explain why not. Our regulatory intervention aimed to improve both the quantity and quality of disclosures across the corporate sector.

While some companies had already begun to report voluntarily against the TCFD's recommendations before the introduction of our rule, the first disclosures by premium listed commercial companies against our rule were published in early 2022.

Jointly with the Financial Reporting Council (FRC), we have assessed how far our regulatory intervention has resulted in a material improvement in both the completeness of reporting and consistency with the TCFD's recommendations, recommended disclosures and accompanying all-sector guidance (hereafter 'consistency with the TCFD framework'). We set out the background to our regulatory intervention and key elements of our rule and guidance in Annex 1.

Who this applies to

The findings from our review are relevant to companies with a UK premium listing (the subject of our assessment) as well as standard listed issuers who are in scope of our climate-related disclosure requirements from accounting periods beginning on or after 1 January 2022. This may also be of interest to other stakeholders including external auditors, investors and policy-makers.

What we did

We undertook and present our analysis in two parts:

- Preliminary observations from a quantitative analysis of the disclosures of all of the 171 premium listed commercial companies with December 2021 year ends that had published their AFR by end-April 2022 and their compliance with our Listing Rule (Section 2).
- More targeted and detailed qualitative analysis of the consistency of disclosures with the TCFD framework for a sample of 31 of those companies, including a comparison with any climate-related disclosures made in the prior reporting period (2020) (Section 3).

The FRC's complementary analysis [add hyperlink when available], published alongside this review, is an in-depth, comprehensive review of the climate-related disclosures of a sample of 25 premium listed companies. The FRC's report also provides examples of better practice to help companies develop and improve their disclosures.

While our detailed analysis considers a range of company sizes and sectors, the FRC's sample is weighted towards larger companies in climate-intensive sectors. Accordingly, the conclusions differ under some pillars of the TCFD's recommendations.

What we found

A summary of our key observations from both the quantitative review of compliance and detailed analysis by TCFD pillar are listed below. Further observations are set out in Sections 2 and 3.

Quantitative review of compliance

- Over 90% of companies self-reported that they had made disclosures consistent with the TCFD's Governance and Risk Management pillars, but this dropped to below 90% for the Strategy and Metrics and Targets pillars.
- 81% of companies indicated that they had made disclosures consistent with all seven recommended disclosures which we would ordinarily expect a company to comply with.
- We found some instances where companies indicated that they had made disclosures consistent with the recommended disclosures, but the disclosures themselves appeared to be very limited in content. We are considering these in more detail and may take action as appropriate.

Analysis by TCFD pillar

- The number of companies making disclosures that were either partially or mostly consistent with the TCFD framework increased significantly compared with 2020.
- The most common reporting gaps were in respect of the more quantitative elements of the TCFD's recommendations eg scenario analysis and metrics and targets.
- The levels of detail and consistency in companies' disclosures were often correlated with sector, size and risk assessment (ie the extent to which that company had identified climate change as among principal risks).

What you need to do

We are encouraged by the overall improvement in the completeness and consistency of disclosures with the TCFD framework following our regulatory intervention.

However, we reiterate the following expectations of premium listed companies as you prepare climate-related disclosures in line with our rules in future annual financial reports. As we have since extended the requirements for premium listed issuers to standard listed issuers, these expectations also apply to disclosures by those companies.

- We remind you of the guidance in LR 9.8.6E G (1) and G (2). This states that we would ordinarily expect a listed company to comply, except where they faced certain transitional challenges in obtaining relevant data or embedding relevant modelling or analytical capabilities. We would, therefore, ordinarily expect a listed company to comply with the recommended disclosures under the Governance and Risk Management pillars, as well as recommended disclosures a) and b) under the Strategy pillar.
- We remind you of the guidance in LR 9.8.6B G that 'in determining whether climate-related financial disclosures are consistent with the TCFD Recommendations and Recommended Disclosures, a listed company should undertake a detailed assessment of those disclosures which takes into account… the Guidance for All Sectors…'.
- We also remind you to refer to the list of other documents that companies should consider in determining whether their disclosures are consistent with the TCFD's recommendations and recommended disclosures (LR 9.8.6C G).
- Looking ahead to disclosures for the 2022 reporting period, one example of where these may be particularly useful is in respect of the net zero commitments that companies are making. Where you are making net zero commitments, we encourage you to consider the TCFD's guidance on Metrics, Targets and Transition Plans, and to ensure that your disclosures are not misleading.
- We remind you of the direction of travel in corporate reporting on climate change and other sustainability matters, as set out in the Government's Roadmap on Sustainable Investing [2]. We intend [3], subject to our usual public consultation processes and cost benefit analysis, to adapt our regime to reference forthcoming International Sustainability Standards Board (ISSB) standards.
- So, we strongly encourage you to continue to deepen your familiarity with the TCFD's recommendations and further improve your internal processes to ensure that you are ready to disclose effectively against the ISSB's standards once finalised and adopted in the UK.
- Since the Value Reporting Foundation is expected to complete its consolidation into the IFRS Foundation on 1 August, we also reiterate our encouragement that you consider the Sustainability Accounting Standards Board (SASB) metrics for your sector when making your disclosures against the TCFD's recommendations, and to consider the SASB metrics for other sustainability topics when making wider sustainability-related financial disclosures.
- We encourage you to refer to the examples of better practice included in the FRC's complementary thematic review report. And we reiterate our guidance on 'getting ready for TCFD-aligned disclosures' in the box below.

We also remind auditors of their responsibilities in respect of climate-related reporting by listed issuers, as set out in the FRC's staff guidance [4].

Getting ready for TCFD-aligned climate-related disclosures

We would like to remind premium and standard listed companies in scope of the Listing Rules:

- that **Listing Principle 1** (which requires that a listed company must take reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with its obligations (LR 7.2.1 R)) extends to establishing and embedding climate reporting procedures, systems and controls;
- there is an expectation that listed companies **retain records** to support both the statement made in the Annual Financial Report and the detailed assessment of the company's disclosures against the TCFD's recommendations and recommended disclosures; and
- to review PMB 36 [5] **and** Technical Note 802.1 [6] which sets out our supervisory approach and disclosure expectations.

In terms of preparing for the TCFD-aligned climate-related disclosure requirements for listed companies, we would encourage you to review your climate reporting procedures. We set out below **the steps** we would expect listed companies to have considered in preparation for making TCFD-aligned climate-related disclosures.

1. review your governance arrangements

2. refresh your corporate strategy to incorporate climate change
3. know your compliance framework – existing and new rules
4. assess your existing public narrative and financial reporting of climate matters
5. identify physical and transition risks and opportunities and their impact
6. adapt your corporate wide (ERM) risk management processes
7. assess your company against various climate scenarios
8. identify relevant metrics and targets
9. set up compliance review and assurance processes
10. focus on training and capabilities at all levels of your company
11. engage with your investors to understand their disclosure expectations

Finally, in terms of accounting for the impact of climate change listed companies are reminded that their financial statements need to reflect the requirements of all the applicable accounting standards within the relevant financial reporting framework (DTR4).

Next steps

While the preliminary observations above reflect some improvements in the quantity and quality of climate-related financial disclosures since the introduction of our Listing Rule, we have been clear that the TCFD's recommendations are not a corporate reporting standard. To deliver the consistency and comparability of corporate reporting that the market needs, it will be important to build on, and complement, the TCFD's recommendations by introducing a common international reporting standard.

To this end, we have been working closely with international partners at the International Organization of Securities Commissions (IOSCO) to encourage progress towards a common global baseline sustainability-related reporting standard under the IFRS Foundation's new ISSB.

The ISSB issued Exposure Drafts of general sustainability disclosure requirements and climate-related requirements in March 2022 and we expect initial standards to be finalised by the end of 2022. The consolidation of the Value Reporting Foundation into the IFRS Foundation is expected to be completed on 1 August, and the industry-based content of the SASB has been incorporated into the ISSB's Exposure Drafts. We responded [3] to the ISSB's consultation on these Exposure Drafts voicing our strong support for the ISSB's direction of travel.

We expect the Government to consult in due course on a mechanism to adopt the ISSB's standards in the UK. We will separately consult on adapting our existing TCFD-aligned climate-related disclosure rules for listed companies to reference the final IFRS Sustainability Disclosure Standards adopted according to the legal and institutional architecture that the UK Government creates following this consultation process. We also consider this would also be an appropriate time to consult on moving from the current 'comply or explain' compliance basis to mandatory disclosure requirements for in-scope listed companies.

2. Quantitative review of compliance

2.1 Summary of preliminary observations

This section sets out the preliminary observations from our high-level quantitative review of compliance with the Listing Rule by the 171 premium listed companies that had published their disclosures by end-April 2022. Some of our key preliminary observations are:

- Over 90% of companies self-reported that they had made disclosures consistent with the TCFD's Governance and Risk Management pillars, but this dropped to below 90% for the Strategy and Metrics and Targets pillars.
- 81% of companies indicated that they had made disclosures consistent with the seven recommended disclosures we would ordinarily expect a company to comply with.
- We found some instances where companies indicated that they had made disclosures consistent with the recommended disclosures, but the disclosures themselves appeared to be very limited in content.

- Companies that had identified climate change as a principal or emerging risk in their AFR reported higher levels of consistency against each of the recommended disclosures. Further, those companies that were primarily engaged in FCA-regulated activity indicated higher levels of consistency for each of the recommended disclosures.

2.2 What we did

We carried out a high-level quantitative review of the climate-related disclosures made by 171 premium listed commercial companies with 31 December 2021 year ends, that had published their AFR by 30 April 2022. Under DTR 4.1.3 R, an issuer must make public its AFR at the latest four months after the end of each financial year. During the pandemic, we allowed companies an extra two months to publish their AFRs for the 2021 reporting period. This extension no longer applies for reporting periods ending on or after 28 June 2022.

The 171 companies considered in our review spanned a wide range of industry sectors (see Figure 1) and market capitalisations (see Figure 2 for the wide distribution of companies considered, by inclusion in a FTSE index). Approximately 80% of the companies were incorporated in the UK and 20% incorporated outside. Under our Listing Rule, TCFD-aligned climate-related disclosure requirements apply to both UK incorporated and overseas incorporated commercial companies.

2.3 Further detail on preliminary observations

a. Statement and disclosures

Statement

Our preliminary observation is that over 90% of companies in our sample included a recognisable statement in their AFR indicating whether they had made climate-related financial disclosures consistent with the TCFD framework, in line with LR 9.8.6 (8) R.

We are considering those companies that did not appear to have made a recognisable statement in their AFR, as well as those that made statements with insufficient detail to be able to determine which disclosures were consistent. We may take action as appropriate.

Location of statement

Figure 3 below shows the location of the recognisable statements made by the companies split by their location inside and outside the AFR. We found that 84% of the statements were made in the Strategic Report section of the AFR, with 8% elsewhere in the AFR. Notably, 8% were made outside the AFR.

Location of TCFD-aligned disclosures

Our rule requires companies to state where in their AFR (or other relevant document) the various disclosures can be found. We found that TCFD-aligned disclosures were included in different locations, both within and outside of the AFR. We observed (see Figure 4 below) that 82% were made inside the AFR. Most of the disclosures made inside the AFR were found in a self-contained TCFD subsection of the Strategic Report or a dedicated TCFD section within the AFR.

Some 18% of the disclosures made were outside of the AFR in standalone reports. These standalone reports were typically called 'TCFD Report', 'Climate Change Report' or 'Sustainability Report'.

Grids or indexes tabulating the four TCFD recommendations and eleven recommended disclosures were widely used. Companies also often provided cross references signposting to relevant TCFD-aligned disclosures in other parts of the AFR, or in a standalone report outside of the AFR.

Length of statements and TCFD-aligned disclosures

The statements and TCFD-aligned disclosures varied considerably in their length and level of detail. Nearly 80% of companies' recognisable statements were up to half a page long, with 18% up to 1 page, and the remaining 3% up to 2 pages.

For the TCFD-aligned disclosures themselves, the average page length of disclosures in the AFR was 5 pages, while the average (combined) page length of TCFD-aligned disclosures contained in both AFRs and separate standalone reports was 8 pages (see Figure 5 below). In Section 3 of this report, we explore further the potential connections between the level of detail in a company's disclosure - and the degree of consistency of disclosures with the TCFD's all-sector guidance - and the factors listed in our Handbook Guidance.

b. Overall consistency with the TCFD's recommendations

The nature, extent and complexity of companies' disclosures and the self-reported degree of consistency with the TCFD framework varied considerably across the 171 companies in our review. We found some instances where companies had indicated that they had made disclosures consistent with the recommended disclosures, but the disclosures themselves appeared to be very limited in content.

We are considering in more detail those cases where a company indicated that it had made disclosures consistent with the TCFD recommended disclosures, but the disclosures themselves appeared to be very limited in content. We may take action where appropriate.

Table 1 below shows the number of companies indicating that they had made disclosures consistent with the TCFD framework. The self-reported degree of consistency was high. For the Governance and Risk Management pillars, well over 90% of companies indicated that they had made consistent disclosures. The proportion indicating that they had made consistent disclosures dropped to below 90% for the Strategy and Metrics and Targets pillars.

Table 1. Companies' self reported consistency with the eleven TCFD’s recommended disclosures.

Recommended disclosures	Indicated as consistent	Indicated as not consistent
Governance a)		
Describe the board’s oversight of climate-related risks and opportunities.	167 (98%)	4 (2%)
Governance b)		
Describe management’s role in assessing and managing climate-related risks and opportunities.	168 (98%)	3 (2%)
Strategy a)		
Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	150 (88%)	21 (12%)
Strategy b)		
Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning.	143 (84%)	28 (16%)
Strategy c)		
Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	130 (76%)	41 (24%)
Risk Management a)		
Describe the organization’s processes for identifying and assessing climate-related risks.	164 (96%)	7 (4%)
Risk Management b)		
Describe the organization’s processes for managing climate-related risks.	164 (96%)	7 (4%)
Risk Management c)		
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.	167 (98%)	4 (2%)

Recommended disclosures	Indicated as consistent	Indicated as not consistent
Metrics and Targets a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	147 (86%)	24 (14%)
Metrics and Targets b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	152 (89%)	19 (11%)
Metrics and Targets c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	139 (81%)	32 (19%)
Total self-reported disclosures	**1691 (90%)**	**190 (10%)**

Table 1 above highlights that for six of the eleven recommended disclosures - Strategy a), b) and c) and Metrics and Targets a), b) and c) - between 11% to 24% of the companies indicated that they had not made consistent disclosures.

We found that 81% of companies indicated that they had made disclosures consistent with all seven recommended disclosures which we would ordinarily expect a company to comply with in line with LR 9.8.6E G (2) (b). These are all the recommended disclosures under the Governance and Risk Management pillars, as well as recommended disclosures a) and b) under the Strategy pillar.

c. Net zero statements

We note that 80% of the AFRs we considered included net zero statements. These statements were typically described as an ‘ambition’, ‘goal’, ‘target’ or ‘commitment’ (sometimes interchangeably) within the AFR.

Figure 7 below shows that approximately 80% of the companies making net zero statements included a target date to achieve net zero in the window 2035 to 2060. 2040 and 2050 were the most common target dates. Many of the net zero statements referencing 2030 or earlier only covered the company's direct business or operations, rather than the entire value or supply chain. Only three companies made net zero statements outside of the 5-year interval pattern.

Box A: Net zero commitments

An increasing number of companies are making net zero commitments. In its guidance [7] on Metrics, Targets and Transition Plans published in October 2021, the TCFD cited a study which found that over 20% of the 2,000 largest public companies are making such commitments. In addition to general guidance that any targets must be clearly specified, understandable and contextualised etc, the TCFD stated that net zero commitments 'inherently, and in some cases explicitly, require a plan'.

Our own analysis found the number of companies within the population of our review making such commitments to be much higher, with 80% of listed companies making a net zero commitment in their 2021 AFR. We carried out further analysis on the content of some of those commitments and observed that these were often not clear and in some cases they risked being misleading as a result.

The TCFD's guidance on Metrics, Targets and Transition Plans did not apply to the disclosures made for the 2021 reporting period assessed as part of this review. However, in PS21/23 [8], we added these guidance materials to the list of documents that companies should consider in determining whether their disclosures are consistent with the TCFD's recommendations and recommended disclosures.

Looking ahead to disclosures for the 2022 reporting period, where you are making net zero commitments, we encourage you to consider the TCFD's guidance on Metrics, Targets and Transition Plans and to ensure that your disclosures are not misleading.

The FRC's thematic review (Section 6 - TCFD metrics and targets) also includes better practice examples of companies' providing explanations of their achievements so far, planned actions and areas of uncertainty in their transition plans, as well as explanations of the approach to offsetting, where relevant.

We are represented on the Government's Transition Plan Taskforce (TPT), which has been established to develop a 'gold standard' for transition plans. This follows the Chancellor's announcement at COP26 that the UK would be the first net zero-aligned financial centre. We expect to add further detail to our expectations on transition plan disclosures in due course and will have regard to the TPT's outputs in doing so.

d. Principal and emerging risks

Under DTR 4.1.8R (2) the management report (in the Annual Financial Report) must contain a description of the principal risks and uncertainties facing the issuer. We found in our review that approximately 64% of the AFRs we reviewed included climate change as a principal risk, with a further 19% including climate change as an emerging risk.

We note that:

- the most common risk descriptions of the principal risks were 'climate change', 'climate risk', 'environmental risk', 'sustainability' and 'environmental, social and governance (ESG) risk'
- one company had more than one climate-related principal risk
- three companies, although not naming climate risk as a standalone principal risk, were clear that all their principal risks had been reviewed and updated to include the impact of climate change or climate scenarios

As part of our review, we considered the relationship between companies' corporate wide risk assessment and their self-reported levels of consistency with the TCFD framework. We saw a noticeable correlation. Those companies that had identified climate change as a principal or emerging risk in their AFRs indicated higher levels of consistency for each of the recommended disclosures (see Figures 9-12 below).

We also considered the relationship between companies' corporate wide risk assessments and the length of their TCFD-aligned disclosures. It was clear from our review that where a company had identified climate change as a principal or emerging risk, the average page length of its TCFD-aligned disclosures was significantly higher (see Figure 13 below).

We consider that these observations show how compliance with the new TCFD reporting framework might further improve as it is integrated with other corporate wide risk and regulatory reporting obligations.

e. Regulated activity

Approximately 27% of the companies we considered were engaged in FCA-regulated activity (eg banks, insurance companies and other financial service companies). We considered the relationship between engagement in FCA-regulated activity and self-reported levels of consistency with the TCFD framework. Again, we saw a noticeable correlation. Those companies engaged in regulated activity typically indicated higher levels of consistency for each of the eleven recommended disclosures (see Figures 14-17 below).

Companies engaged in regulated activity also typically made more extensive climate-related disclosures; the average length of regulated companies' disclosures was 15 pages, compared with 5 pages for those companies that were not engaged in regulated activity (see Figure 18 below).

3. Analysis by TCFD pillar

3.1 Summary of preliminary observations

This section sets out the observations from our detailed analysis of the consistency of disclosures with the TCFD framework (ie the recommendations, recommended disclosures as well as the all-sector guidance that we directed companies to use in determining whether their disclosures were consistent with the TCFD recommendations). Some of our observations are as follows:

- The number of companies making disclosures that were either partially or mostly consistent with the TCFD framework increased significantly compared with 2020, before our regulatory intervention (all but one company in our sample made climate-related disclosures for the 2021 reporting period).
- A much lower percentage of companies' disclosures were consistent with the TCFD framework than had been observed in the quantitative analysis of companies' self-reported indications of consistency.
- The most common reporting gaps were in respect of the more quantitative elements of the TCFD's recommendations eg scenario analysis and metrics and targets.
- The levels of detail and consistency in companies' disclosures were often correlated with sector, size (market capitalisation) and risk assessment (ie the extent to which that company had identified climate change as among principal risks).

We have also made several observations on disclosures under the Governance, Strategy, Risk Management and Metrics and Targets pillars specifically.

3.2 What we did

To examine in more detail some of the preliminary findings described in Section 2, we carried out a more targeted qualitative analysis of the consistency of disclosures with the TCFD framework for a sample of 31 of the premium listed commercial companies disclosing against our Listing Rule for the 2021 reporting period.

The 31 companies in our sample spanned 11 different industry sectors and, to the extent possible, included one large, one medium, and one small company (based on market capitalisation as at the time of the review (Q2 2022)) in each sector. In two of these sectors (Chemicals and Food, Beverage and Tobacco), only one large and one small company had issued their financial reporting by the end of April 2022. By considering a sample of companies spanning a range of sectors and sizes, we aimed to identify the key determinants driving consistency of disclosures with the TCFD framework.

A breakdown of companies in our sample by sector is in the table below:

Table 2: Number of companies in sample, by sector

Sector	Number of companies
Banks	3
Chemicals	2
Construction and materials	3
Energy	3
Food, beverage and tobacco	2
Healthcare	3
Insurance	3
Media	3
Real estate	3
Technology	3
Travel and leisure	3
Total	**31**

Our work assessed:

1. the quantity and quality of disclosures in each year by determining whether the company had made climate-related disclosures and
2. the consistency of these disclosures with the TCFD framework (ie with the TCFD's recommendations, recommended disclosures and accompanying all-sector guidance)

We also included a comparison with any climate-related disclosures made by these companies voluntarily for the 2020 reporting period. Our aim was to identify whether our regulatory intervention led to a marked improvement in the quantity and quality of disclosures made by premium listed issuers.

Our assessment approach reflects the guidance to our Listing Rule (LR 9.8.6B G), which states that in determining the consistency of its disclosures with the TCFD framework, '…a listed company should undertake a detailed assessment of those disclosures which takes into account… the Guidance for All Sectors…'. We assessed each of TCFD disclosures by listed issuers in our sample against the TCFD's all-sector guidance to determine whether those disclosures were 'partially or mostly consistent' (ie some of the guidance had been clearly reflected in the disclosure), or 'high-level/limited disclosure' (ie the guidance had either not been reflected, or only to a limited extent).

Our Handbook Guidance also references relevant supplementary guidance materials for financial and non-financial sectors. However assessment against these materials was out of scope of our review.

This section also refers to examples of better practice in the FRC's report to help companies develop and improve their disclosures. The FRC's analysis is based on a sample of 25 larger companies in climate-intensive sectors and comprises a more granular assessment of consistency with the TCFD framework (ie largely all items covered, some items covered and not covered). Accordingly, the conclusions differ in some instances.

3.3 Overarching observations

We saw improvements in both the quantity and quality of climate-related financial disclosures by companies with a UK premium listing following our regulatory intervention.

All but one company in our sample made climate-related disclosures for the 2021 reporting period. And across each of the TCFD's four pillars, the number of companies making disclosures that were either partially or mostly consistent with the TCFD framework increased significantly compared with 2020. We found that companies' 2021 AFRs also typically signposted their TCFD-aligned disclosures more clearly, often including a dedicated TCFD section in the AFR or in some cases producing a separate TCFD report.

Consistency of disclosures

Most companies made at least some climate-related disclosures in 2020. For example, many companies in our sample were already disclosing their greenhouse gas emissions in line with Streamlined Energy and Carbon Reporting (SECR) rules. However, most did not make disclosures consistent with the TCFD framework.

The companies in our sample typically took steps in their 2021 reporting to improve the consistency of disclosures with the TCFD framework. Nevertheless, reporting gaps remained. The most common gaps were in respect of the following recommended disclosures:

- Strategy c) on the resilience of strategy (scenario analysis)
- Risk management b) on the processes for managing risks
- Metrics and targets a) on metrics used to assess climate-related risks and opportunities (other than GHG emissions)
- Metrics and targets c) on climate-related targets

In most cases, these are the more quantitative recommended disclosures for which our Handbook Guidance envisaged that companies may face transitional challenges in obtaining relevant data or embedding relevant modelling or analytical capabilities (LR 9.8.6E G). Most of those companies did however signal plans to make these disclosures within the next year or 18-24 months.

The level of detail and consistency in companies' disclosures were often correlated with their sector, size or the extent to which that company had identified climate change as a principal risk. These factors broadly align with those referenced in our guidance on the factors that a company should consider in determining the level of detail in its disclosures (LR 9.8.6D G).

This observation is broadly as expected. However, we continue to encourage you to consider these and other factors that we had identified in the guidance to our Listing Rule as matters that a listed company should consider in determining the level of detail in its disclosures (LR 9.8.6D G).

We consider risk assessment, sector and size further below.

Risk assessment

Figures 19 and 20 below show that where a company had identified climate change to be among its principal risks, a larger proportion of its disclosures were typically at least partially consistent with the TCFD framework.

There were typically more gaps in reporting and less consistency with the all-sector guidance among those companies that considered climate change to be an 'emerging risk'. And those companies that did not consider climate risks to be significant generally made relatively few disclosures that were consistent with the TCFD framework. In most cases, a company's risk assessment did not change between its 2020 and 2021 reports.

These findings are broadly consistent with those from the quantitative analysis in Section 2 (see Figures 8-12).

Figure 19 plots the number of recommended disclosures made by the companies in our sample in their 2021 annual financial reports that were at least partially consistent with the TCFD framework. For each observation of the number of partially consistent recommended disclosures (plotted on the vertical axis), Figure 19 shows how many companies in the sample made that number of disclosures and identifies whether the sampled company considered climate change to be among its principal risks, an emerging risk, or not a significant risk. Figure 20 shows the same information for the 2020 reporting period.

In this section of our report, 'among principal risks' includes both where a company had identified climate change as a standalone principal risk and where a company had incorporated climate change into other principal risks.

Sector and size

We also observed that the size of a company and the sector in which it operates were determining factors in the consistency of disclosures with the TCFD framework. These findings go further than the analysis in Section 2, which did not consider sector and size. These findings are also complementary to the FRC's analysis, in which the sample was weighted towards larger companies in climate-intensive sectors.

Figures 21(a) and 21(b), below, plot the number of disclosures made by the companies in our sample in 2020 and 2021 that were at least partially consistent with the TCFD framework, taking into account the all-sector guidance. They present the analysis by sector, separately identifying the size of the reporting company.

Sector

The level of consistency with the TCFD framework typically increased in 2021 for companies in all of the sectors considered in our sample. However, the consistency of companies' disclosures in the 2020 reporting period may reflect, at least in part, the extent to which a sector was under close scrutiny by investors or regulators in respect of its response to climate change.

Consistent with our findings from the quantitative work which suggested a greater level of disclosure among regulated firms, we saw extensive disclosures in the Banks and Insurance sectors which may, for instance, reflect firms' response to the PRA's Supervisory Statement SS3/19 [9] in 2019 and subsequent supervisory assessment [10]. Individual companies may also have elected to make voluntary TCFD-aligned disclosures based on their assessment of climate-related risks and opportunities.

We further saw:

- companies in the Banks, Chemicals, Construction and Materials, Energy, Food, Beverage and Tobacco, Insurance and Real Estate sectors tended to make more consistent disclosures across the majority of recommended disclosures
- by contrast companies in the Technology and Travel and Leisure sectors that had not identified climate change to be among principal risks made less consistent disclosures

Size

In many cases, disclosures by the larger companies in our sample in each sector were more consistent with the TCFD framework. There were, however, some exceptions:

- some smaller companies' disclosures were at least partially or mostly consistent with the TCFD framework – this was often the case when climate change was identified to be among the company's principal risks (eg, in the Banks and Insurance sectors)
- in some instances, all of the companies within a particular sector made disclosures to broadly similar levels of consistency (eg Food, Beverage and Tobacco)

> We are encouraged by the overall improvement in the completeness and consistency of disclosures with the TCFD framework following our regulatory intervention.
>
> However, we remind you of the guidance in LR 9.8.6B G that 'in determining whether climate-related financial disclosures are consistent with the TCFD Recommendations and Recommended Disclosures, a listed company should undertake a detailed assessment of those disclosures which takes into account… the Guidance for All Sectors'.
>
> This guidance aims to help you by 'providing context and suggestions for implementing the recommended disclosures'. It sets out the key matters you should consider when developing your disclosures.

3.4 TCFD pillars

a. Governance

Recommendation

Disclose the organisation's governance around climate-related risks and opportunities.

Recommended disclosures

(a) describe the board's oversight of climate-related risks and opportunities
(b) describe management's role in assessing and managing climate-related risks and opportunities

Preliminary observations

All companies in the sample (with the exception of the one company that did not produce any TCFD-aligned disclosures) provided at least a high-level description of their governance of climate-related risks and opportunities, consistent with the TCFD's overarching recommendation.

However, there was a marked difference in the number of disclosures that we assessed to be highly or partially consistent with the TCFD framework, compared with companies' self-reported indications of consistency summarised in Section 2.

In particular, in Section 2, some 98% of the 171 companies analysed self-reported that they had made disclosures consistent with the TCFD's recommended disclosures for both Governance a) and Governance b). However, we saw much lower consistency in our independent detailed assessment of the 31 companies. The difference was especially marked for

Governance b), where we concluded that only half of the companies in the sample had made disclosures that were mostly or partially consistent with the relevant recommended disclosure and all-sector guidance.

While most companies had made at least some governance disclosures in their 2020 reports, we saw a significant increase in the consistency of disclosures with the TCFD framework in 2021. In 2020, less than half of the companies in the sample had made disclosures consistent with the TCFD framework for Governance a), and only four for Governance b).

Figure 22 presents our assessment of overall consistency of disclosures with the recommended disclosures and all-sector guidance, while Figures 22(a) and Figure 22(b) present the number of listed companies in the sample making disclosures that we have assessed to be mostly or partially consistent with the recommended disclosures and all-sector guidance, by sector, for Governance a) and Governance b), respectively.

Recommended disclosure a)

We found that around two-thirds of the companies included in our qualitative assessment had made disclosures that were either partially or mostly consistent with recommended disclosure a) and the accompanying all-sector guidance. We did, however, observe some areas where disclosures often remained incomplete. For instance, we saw that:

- in most cases the board committees and processes by which the board and/or board committees are informed about climate-related issues were described, but disclosures were less specific about the frequency of board engagement on the topic, the provision of information to the board and the typical matters that the board considers
- companies often did not elaborate on how the board monitors and oversees progress against goals and targets for addressing climate-related issues

The FRC's thematic review (Section 3 - TCFD governance) identifies some better practice examples in these areas, including on information flows to the board, relevant agenda items considered by the board, committee delegations, and in some cases organograms.

Recommended disclosure b)

Only around half of the companies made disclosures in their 2021 reports that were either partially or mostly consistent with recommended disclosure b) and the accompanying all-sector guidance.

In line with our overarching observations above, we found this to be linked to the company's sector and size and whether it had assessed climate change to be either a principal or an emerging risk. See Box B.

Box B. Recommended disclosure b): management's role in assessing and managing climate-related risks and opportunities

The TCFD considers disclosures related to governance to be important content for investors in their assessment of an organisation's financial and operating results. The TCFD does not consider that these disclosures should be subject to a materiality assessment. We clarified, in Handbook Guidance, our expectation that companies should ordinarily be able to make these disclosures.

Preliminary observations

While most companies in our sample made disclosures in line with the overarching recommended disclosure, just under half of the companies in the sample made disclosures that were at least partially consistent with the accompanying all-sector guidance.

Of the companies that made disclosures at least partially consistent with the all-sector guidance, we observed:

- management-level committees and roles were often described, although in many cases the details of accountable individuals were not provided
- companies often referred to their overall organisational structure, as many did not have a dedicated climate or sustainability governance function

- companies typically provided at least some information on how management monitors climate-related issues, but often included less detail on the processes by which management is kept informed about climate-related issues; even where other aspects of the all-sector guidance were covered well, these processes were often either not described or described less clearly

FCA comment

We reiterate that companies should have regard to the TCFD's all-sector guidance (among other materials, where appropriate), in determining whether their disclosures are consistent with the TCFD framework.

The FRC's thematic review (Section 3) identifies better practice examples and sets an expectation that companies provide sufficient detail on how management assesses and manages climate-related issues, including communicating to the board or other governing body, and how climate policies relate to other procedures for financial management.

b. Strategy

Recommendation

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

Recommended disclosures

a) describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

b) describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

c) describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

We have clarified in Handbook Guidance that we would expect companies ordinarily to be able to make disclosures consistent with the TCFD's recommended disclosures a) and b) under the Strategy pillar, to the extent they do not face transitional challenges (LR 9.8.6E G (1) and (2)(c)).

We recognise the challenges that companies face where disclosures rely on access to data and investment in modelling or analytical capabilities. We appreciate that some companies may need more time to build capabilities, especially to comply with recommended disclosure c) on scenario analysis. However, in line with LR 9.8.6 R(8) (b) (ii), where a listed company has not made these disclosures, it must set out the reasons why and the steps it is taking to be able to make the disclosures in future, as well as the timeframe within which it expects to make them.

The FRC's report also clarifies that it is important for companies to explain their basis for considering materiality to help readers assess whether disclosures have not been made because the company concluded that the matters concerned are not material, or for other reasons such as the non-availability of information.

Preliminary observations

All companies in the sample (with the exception of the one company that did not produce any TCFD-aligned disclosures) provided at least an overview of their strategy on climate-related risks and opportunities. In a small number of cases, this was to signal that they were still considering their climate change strategy or hadn't fully embedded climate-related considerations.

We also saw that:

- A small number of companies did not make disclosures under recommended disclosures a) or b), and around a third of the companies did not disclose the output of scenario analysis (recommended disclosure c)); this is broadly consistent with companies' self-reported indications of consistency summarised in the quantitative analysis in Section 2 (see Table 1).
- Overall, consistency with the all-sector guidance generally improved across all three recommended disclosures in 2021; for example, companies that made Strategy disclosures in 2020, but did not conduct scenario analysis often conducted at least a qualitative scenario in 2021.

- The degree of consistency with the TCFD framework in 2021 often reflected the company's sector and whether the company had assessed climate change to be among its principal risks (see Figures 19 and 20); however, size was observed to be less of a determining factor under this pillar.

Figure 23 presents our assessment of overall consistency of disclosures with the recommended disclosures and all-sector guidance on Strategy. Figures 23(a), 23(b) and 23(c) present the number of companies in the sample making disclosures that we have assessed to be mostly or partially consistent with the recommended disclosures and all-sector guidance, by sector, for Strategy a), b) and c), respectively.

Recommended disclosure a)

Many companies in the sample made disclosures that were at least partially consistent with recommended disclosure a) in their 2021 reports. Further, when compared with the TCFD's all-sector guidance, disclosures against recommended disclosure a) were typically the most consistent across all sectors. We saw:

- Few companies described how they had taken into account the useful life of the organisation's assets or infrastructure when setting out their short-, medium- and long-term horizons.
- Few companies described the processes used to determine which risks and opportunities could have a material financial impact on the organisation. Where these were described, in some cases descriptions were not clear or embedded into disclosures under the Risk Management section.

The FRC's thematic review (Section 4 - TCFD strategy) includes better practice examples of companies' use of informative graphics and/or tables to explain the identified risks and opportunities across the defined time periods.

Recommended disclosure b)

Disclosures under recommended disclosure b) were typically at least partially consistent with the TCFD's all-sector guidance. The degree of consistency was often correlated with the consistency of companies' disclosures against recommended disclosure a).

We saw:

- Companies often used 'risks and opportunities' as a catch-all phrase, rather than distinguishing between risks and opportunities; where companies did draw a distinction, the disclosures related to opportunities tended to be less detailed.

- In some cases, companies provided limited information on how identified climate-related issues had affected their businesses, strategy, and financial planning.
- Few companies described how climate-related issues inform their financial planning process, the time period(s) used, and how risks and opportunities are prioritised.
- Few companies described the impact of climate-related issues on their financial performance (eg revenues, costs) and financial position (eg assets, liabilities).

The FRC's thematic review (Section 4) makes similar observations, noting for instance that some companies' disclosures of their low carbon business activities feature prominently in the front half of the annual report and accounts but without corresponding clarity on the expected magnitude of revenue from those activities in the financial statements.

Recommended disclosure c)

We anticipated that disclosure of the resilience of the organisation's strategy would be among the most challenging recommended disclosures for in-scope companies. This had been observed in the TCFD's own status reports and in our analysis prior to consulting on our disclosure rule.

Around two thirds of the companies in our sample were able to provide the outcome of at least a qualitative scenario analysis in their 2021 reports. Several companies stated that this will be an area for further development in future. We will continue to monitor the development of companies' scenario analysis disclosures.

Box C: Recommended disclosure Strategy c), Scenario analysis

Falling under the Strategy pillar, scenario analysis is subject to a materiality assessment. We recognise that this is one of the most challenging areas for disclosure and acknowledged in issuing our rule that some companies may need time and guidance to build capabilities. We anticipated that some companies would face transitional challenges and take advantage of the flexibility to 'explain' the steps they will take to conduct scenario analysis in future.

Preliminary observations

Most (around two thirds) of the companies in our sample were able to provide the outcome of at least a qualitative scenario analysis in their 2021 reports, and several stated that this will be an area for further development in future. By contrast less than a third of the companies in our sample disclosed the outcome of scenario analysis in their 2020 reports. Most companies considered in the FRC's thematic review similarly describe the resilience of their strategies qualitatively. 7 of the 25 companies in the FRC's sample also provided a quantification.

Typically, the companies that identified climate-related risks among their principal risks conducted some form of scenario analysis (usually qualitative), while those that considered it an emerging risk or not a significant risk did not carry out scenario analysis in 2021.

Companies that did not disclose the outcome of scenario analysis in their 2021 reports were also typically the smallest companies. Most did, however, state that scenario analysis was planned for next year or within the next 18-24 months. Only a small number of companies did not indicate the timeframe.

We also saw that in some cases, scenario analysis was described as part of disclosures on identification of risks, or embedded into the Risk Management section of the TCFD disclosures, rather than a standalone section of the report or under a 'Strategy' heading.

Of those that reported on scenario analysis in 2021, the all-sector guidance was covered to varying degrees of consistency. And of the companies that made disclosures that were at least partially consistent with the all-sector guidance, we saw that:

- Companies conducted their scenario analysis consistent with at least a 2°C or lower scenario – typically specifying the scenarios and time horizons – except for one company which only conducted a 'worst case' scenario analysis at 4.5°C in 2021 and will conduct a 'best case', 1.5°C scenario analysis next year.
- Some companies provided limited information on how they believe their business strategies may be affected by the scenarios considered or how their strategies might need to change.
- In some cases, information provided with reference to Section D in the TCFD's report – which considers how to apply scenarios to forward-looking analysis – was limited.

Consistent with these observations, the FRC's thematic review identifies as better practice disclosure of how the scenario analysis has been undertaken, key assumptions and the impact on business strategy.

FCA comment

We are encouraged by the number of companies that have at least disclosed qualitative scenario analysis results in the 2021 reporting period. We acknowledge that for many companies this will be an evolving area of disclosure as capabilities develop.

As noted in our latest Policy Statement on climate-related disclosure rules (PS21/23 [9]), the body of guidance continues to grow. For example, the Climate Financial Risk Forum (CFRF) published its 'Session 2 [11]' guides in October 2021, including updated materials on scenario analysis, and in June 2022 it published an online climate scenario analysis narrative tool [12] to support smaller companies in particular.

We continue to encourage issuers to use these and other tools and guidance available to help with their scenario analysis.

c. Risk management

Recommendation

Disclose how the organization identifies, assesses, and manages climate-related risks.

Recommended disclosures

a) describe the organization's processes for identifying and assessing climate-related risks
b) describe the organization's processes for managing climate-related risks
c) describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management

We introduced Handbook Guidance to clarify that we would ordinarily expect companies to be able to make disclosures consistent with the TCFD's recommendations and recommended disclosures on risk management (LR 9.8.6E G (1) and (2) (b)).

Preliminary observations

Overall, (with the exception of the company that didn't produce TCFD-aligned disclosures and one that does not consider climate-related risks to be significant) companies in the sample made disclosures consistent with the TCFD's overarching recommendation and at least one or more of the TCFD's recommended disclosures. This is an improvement compared to 2020, in which most companies did not make disclosures consistent with the Risk Management recommendation.

We also saw:

- Varying degrees of consistency with the TCFD framework in 2021; as described earlier in this section, disclosures were typically more consistent when climate change was identified as being among principal risks.
- Some companies that did not identify climate change to be among principal risks either did not make disclosures consistent with recommended disclosure b), or stated that there is more work to be done to assess the risks.

Figure 24 presents our assessment of overall consistency of disclosures with the recommended disclosures and all-sector guidance on Risk Management. Figures 24(a), 24(b) and 24(c) present the number of companies in the sample making disclosures that we have assessed to be mostly or partially consistent with the recommended disclosures and all-sector guidance, by sector, for Risk Management a), b) and c), respectively.

Recommended disclosure a)

When assessed against the TCFD's all-sector guidance, disclosures on the identification of risks were typically more detailed across companies in all sectors.

We also saw that some companies described their approach to and outputs of scenario analysis under the Risk Management section of their TCFD disclosures, often describing scenario analysis as integral to their process for identifying climate-related risks.

Companies often described how the organisation assesses climate-related risks relative to other risks. However, the processes for assessing the potential nature and scale of identified climate-related risks were often described as being part of overall risk management processes. In some cases, these were difficult to relate specifically to climate risks.

Some companies also described the risk implications of existing and emerging regulatory requirements relating to climate change, but only a few were specific about these.

The FRC's thematic review (Section 5 - TCFD risk management) includes better practice examples of companies' clearly setting out the magnitude of the risk and the importance of climate-related risks compared with other risks.

Recommended disclosure b)

Companies' disclosures on how risks are managed were often not consistent with the all-sector guidance. Many companies described how the individual risks that they identified were being managed/mitigated within the TCFD section of the report, but provided less information about the overarching processes for prioritisation, or how decisions were made.

Where companies disclosed their processes for prioritising climate-related risks, including how they determined the materiality of those risks, this was again often described in the context of wider enterprise risk management processes and sometimes difficult to relate specifically to climate-related risks.

In many cases some, but not all, of the different categories of climate-related risks included in the appendix to the TCFD's Implementation Annex [13] had been considered.

Recommended disclosure c)

While most companies made disclosures describing the integration of climate-related risk management into the organisation's overall risk management processes, these were often short statements signposting to further information elsewhere in the AFR.

The FRC's thematic review (Section 5) includes better practice examples of companies' providing more disclosure over the processes and integration, using organograms where appropriate.

d. Metrics and Targets

Recommendation

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

Recommended disclosure

a) disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process

b) disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risk

c) describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets

In our Policy Statement (PS20/17 [1]), we acknowledged that companies should consider whether disclosures under the TCFD's Metrics and Targets pillar meet the materiality threshold. We also acknowledged that these disclosures were likely to be among the most challenging given their reliance on access to data and investment in modelling or analytical capabilities.

As described under the Strategy section above, our 'comply or explain' compliance basis gives companies time to build their capabilities, provided that our requirements for 'explaining' are met (LR 9.8.6 R (8) (b) (ii) and LR 9.8.6E G (1)). However, we also encouraged companies to make all TCFD-aligned disclosures 'as far as they are able', even before overcoming any data, modelling or analytical challenges.

Preliminary observations

Generally, we found that all companies made disclosures consistent with the TCFD's overarching recommendation. In most cases (with the exception of one company that did not make TCFD-aligned disclosures and one that did not consider climate-related risks to be significant), companies disclosed at least Scope 1 and Scope 2 emissions and provided at least some disclosure on targets, or when they might be set.

As anticipated, we saw that companies were already reporting GHG emissions (Scopes 1 and 2) in line with other existing disclosure requirements eg SECR requirements.

We also saw that while most companies disclosed that they had used the GHG Protocol to calculate emissions, where applicable, many did not provide a description of methodologies used for other metrics and/or targets where the methodology was not apparent. Only a small number of companies provided any information on methodologies to make assumptions/estimates where data was not available.

Typically, disclosures on metrics were similar between 2020 and 2021. However, in some cases, there was a notable difference in the degree of consistency with the TCFD's all-sector guidance on targets in 2021 compared with 2020. For example, one company provided a broad overview of its targets and actions to take in 2020 but provided a base year, both near and long-term targets, and remuneration incentives in 2021.

> The TCFD's guidance on Metrics, Targets and Transition Plans was published in October 2021 and so did not apply to the disclosures made for the 2021 reporting period assessed as part of this review. However, consistent with our Handbook Guidance, where you are making net zero commitments, we encourage you to consider this guidance and to ensure that your disclosures are not misleading.

Figure 25 presents our assessment of overall consistency of disclosures with the recommended disclosures and all-sector guidance on Metrics and Targets. Figures 25(a), 25(b) and 25(c) present the number of companies in the sample making disclosures that we have assessed to be mostly or partially consistent with the recommended disclosures and all-sector guidance, by sector, for Metrics and Targets a), b) and c), respectively.

Recommended disclosure a)

Many companies only disclosed metrics relating to GHG emissions and did not provide additional metrics used to assess climate-related risks and opportunities in line with their strategy and risk management processes.

Of the companies making disclosures that were at least partially consistent with the TCFD's all-sector guidance, we saw:

- The most common additional metrics were related to energy, water and waste. However, only a small number of companies disclosed more specific metrics relating to the nature of their business; for example, a Media company disclosed paper production and Real Estate companies disclosed metrics on EPC ratings and solar power.
- Only a small number of companies described how these metrics were incorporated into their remuneration and performance-related policies.
- Internal carbon prices were not often disclosed.

Some companies indicated that they are identifying relevant metrics and plan to disclose those metrics in the next 12-24 months.

Given the TCFD's recommendation to disclose the metrics used to assess climate-related risks and opportunities in line with the listed issuers' strategy and risk management processes, we would expect to see a clear correlation between disclosures under these pillars of the TCFD's recommendations.

> We encourage listed issuers to take into account the TCFD's all-sector guidance in determining the key metrics to disclose. The body of guidance cited into our rules now includes updates made in October 2021, adding cross-industry metrics that will be useful to disclose. In addition, we reiterate our encouragement to you to consider the SASB's industry-specific metrics for your sector when making disclosures against the TCFD's recommendations.

The FRC's thematic review (Section 6 - TCFD metrics and targets) also includes better practice examples, including those that show where companies had: included relevant metrics for their sector; provided clear explanations of trends in key metrics; explained how they used carbon pricing; and provided an explanation of how climate-related metrics were incorporated into remuneration policies.

Recommended disclosure b)

Most companies made disclosures consistent with recommended disclosure b) on disclosure of Scope 1 and Scope 2 GHG emissions. Many companies also sought to disclose Scope 3 emissions in 2021 (see Box D).

Box D. Recommended disclosure b) Scope 3 emissions

We acknowledge that Scope 3 is one of the most challenging areas of disclosure for companies, both with respect to data availability and methodological challenges. The TCFD recommends disclosure of Scope 3 emissions 'if appropriate'. However its updated Implementation Annex [14] (published in October 2021) encourages organisations to disclose Scope 3 emissions and, similarly, the disclosure of these emissions is voluntary but encouraged under SECR rules.

We anticipated that many companies would, at least initially, take advantage of the flexibility to 'explain' their steps to be able to disclose Scope 3 emissions in future. As noted in the Strategy section above, the FRC's report further clarifies the importance of providing an explanation to help readers assess whether disclosures have not been made based on materiality or other reasons such as data availability.

Preliminary observations

We are encouraged to have found that around two thirds of companies disclosed their Scope 3 emissions in 2021. Many of these companies also disclosed Scope 3 emissions in 2020.

We do, however, note that companies often do not provide details of their methodological approaches and reliance on estimates or assumptions. Nor do they specify the extent of their value chain coverage. In most cases, companies simply stated that they use the GHG Protocol to calculate emissions. Exceptions are two large companies that described their methodologies and clarified that proxies were used to estimate data where necessary. However, two companies embedded their Scope 3 emissions within narrative text and did not state the methodology used.

Most companies that did not disclose Scope 3 emissions in 2021 set out plans to disclose these in future. However, some did not eg, where climate change was not considered to be a significant risk.

Consistent with these findings, the FRC's thematic review (Section 6) includes better practice examples of companies' setting out methodological approaches more fully as well as clear reporting against Scope 3 categories, and explanations for not disclosing Scope 3.

FCA comment

We remind companies that our 'comply or explain' compliance basis includes a requirement for companies to set out the steps they are taking, or will be taking, to make disclosures in future.

As stated in the 'next steps' of our Policy Statement, listed issuers should consider the arrangements they need to put in place to ensure they can meet the requirements of the rule.

In particular, we note that we intend to consult on adapting our regime to reference the ISSB's forthcoming standards – once available for use in the UK. The ISSB's draft requirements go further than the TCFD's encouragement to disclose Scope 3 emissions, by requiring that these are always disclosed (subject to a materiality assessment).

We also saw:

- **Methodologies**: Most companies disclosed, at least at a high level, the methodologies used to calculate their emissions. GHG Protocol was the most common and other methodologies cited include UK Government Environmental Reporting/UK Government Conversion Factors and Partnership for Carbon Accounting Financials (PCAF) (cited by some banks and insurers)
- **Breakdown:** Most companies did not break down their GHG emissions by geography, sector or business activity. Of those that did, a breakdown by UK and non-UK emissions was most common.
- **Assurance:** Some companies clearly stated that they had sought independent assurance on their climate-related metrics. These were often, but not exclusively, the largest companies in their respective sectors.

Recommended disclosure c)

In 2021, most companies (except those that did not make TCFD-aligned disclosures) either set climate-related targets or articulated their plans to do so. We observed that it was typically the smallest companies in each sector that outlined plans to set targets in future.

In most cases, targets were at least partially or mostly consistent with the TCFD's all-sector guidance. Most companies set net zero and emissions reduction targets, and some companies set additional targets relating to their business activities. For example, Food, Beverage and Tobacco companies also set targets relating to water, waste, food and renewable energy.

Emissions reduction targets typically specified a percentage target reduction within a specified timeframe relative to a baseline. We also saw:

- In many cases companies clarified whether the target referred to Scope 1 and 2, and/or Scope 3 emissions, sometimes setting different targets for Scope 3.
- Some companies set either 'absolute' or 'intensity' targets. Some set both and others did not specify. We did not see a notable trend in the sector or size of company setting absolute or intensity-based targets.
- Most companies presented a comparison of Scope 1, 2 and 3 emissions over a historical period to assess progress against their emissions reduction targets, although in some cases a comparison was only made to the previous year.

In addition, many companies highlighted that their targets had been, or would be, verified by the Science Based Targets initiative (SBTi). Some companies also set interim targets.

Consistent with our analysis on net zero statements in Section 2 (Box A), we also saw that climate-related targets were typically not supported by clear plans as to how they would be met. Some, typically larger, companies did provide some information on their action plans.

The FRC's thematic review (Section 6) includes better practice examples of companies' provision of metrics with clear links to targets, current performance and comparatives, as well as specific examples on net zero targets, as discussed in Box A.

Annex 1: overview of FCA climate-related disclosure rules

Background

We finalised our climate-related disclosure rule for commercial companies with a UK premium listing in December 2020 (PS 20/17 [16]). Our rule references directly the TCFD's recommendations and recommended disclosures [14], published in June 2017.

In our consultation papers prior to introducing our rule, we acknowledged that voluntary adoption of the TCFD's recommendations continued to increase. However, despite this, evidence from the TCFD's 2019 status report [15], the FRC's 2019 FRC Lab report on companies' climate-related disclosures [16], and other similar studies observed that the disclosures remained incomplete and of varying quality. Investors were not receiving the information they needed on how companies were responding to climate-related risks and opportunities.

By introducing climate-related disclosure requirements into the FCA Handbook we expected the quantity of disclosures to increase. By referencing a common framework for disclosures as well as various guidance documents, we expected the quality of disclosures to improve.

Some key elements of our rule, guidance and approach to supervision are summarised below:

- **'Comply or explain' compliance basis.** However, we expect companies ordinarily to comply, except where they faced certain transitional challenges in obtaining relevant data or embedding relevant modelling or analytical capabilities (LR 9.8.6E G (1) and (2)).
- **Guidance to help companies assess whether the level of detail in their disclosures is sufficient.** We clarified that a company should take into account factors such as the level of its of exposure to climate change, and the scope and objectives of its climate-related strategy in such an assessment. We noted that these factors may relate to the nature, size and complexity of its business (LR 9.8.6D G).
- **Primary Market Bulletin 36 (PMB 36 [5]) and Technical Note 802.1 [6] on our disclosure expectations and supervisory strategy**. We clarified that the FRC is responsible under the C (AICE) Act for keeping disclosures under LR 9.8.6 R (8) under review. We are responsible for monitoring and, where necessary, enforcing compliance with LR 9.8.6 R.

FCA listing rule

Our rule requires in-scope companies to 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, and the timeframe within which they expect to be able to make those disclosures
- where they have included some, or all, of their disclosures against the TCFD's recommendations and/or recommended 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

Guidance provisions, LR 9.8.6B G – LR 9.8.6F G (for premium listed commercial companies; LR 14.3.28 G to LR 14.3.32G for in-scope standard-listed companies), support in-scope companies in making their disclosures.

Annex 2: overview of TCFD recommendations

The TCFD's recommendations cover four pillars: Governance; Strategy; Risk Management; and Metrics and Targets. Beneath each recommendation sit 11 recommended disclosures which provide more detail on the information to be disclosed under each of the recommendations.

Each recommended disclosure is supported by all-sector guidance. This guidance helps preparers by 'providing context and suggestions for implementing the recommended disclosures'. It sets out key matters that preparers should consider when developing their disclosures. The TCFD has also published supplementary sector-specific guidance, covering banks, insurance companies, asset owners and asset managers, and non-financial companies operating in a range of sectors.

Since its final report was published, the TCFD has produced a range of other guidance materials. Other bodies, including the Climate Financial Risk Forum (convened by the FCA and Prudential Regulation Authority (PRA)), have also developed practical tools and guidance grounded in the TCFD's recommendations to help organisations develop their climate-related disclosures. The TCFD Knowledge Hub [17] houses a large body of these resources.

This framework is intended to provide the market with decision-useful, forward-looking information on climate-related risks and opportunities, and how reporting organisations are identifying, assessing, managing and mitigating them.

The TCFD's recommendations and recommended disclosures are summarised below.

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	**Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.**	**Disclose how the organization identifies, assesses, and manages climate-related risks.**	**Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.**
(a) Describe the board's oversight of climate-related risks and opportunities.	(a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	(a) Describe the organization's processes for identifying and assessing climate-related risks.	(a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
(b) Describe management's role in assessing and managing climate-related risks and opportunities.	(b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	(b) Describe the organization's processes for managing climate-related risks.	(b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.

Governance	Strategy	Risk Management	Metrics and Targets
	(c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	(c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	(c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Governance

These largely qualitative, narrative disclosures are designed to help investors and other market participants assess the adequacy and effectiveness of the arrangements the reporting organisation has put in place to oversee, assess and manage climate-related risks and opportunities.

The TCFD considers that matters relating to governance and risk management provide important context for investors when assessing a company's financial and operating results. The TCFD recommends that disclosures related to these pillars be included in annual financial filings (annual reports) without being subject to a further materiality assessment.

Strategy

These disclosures comprise both qualitative and quantitative disclosures designed to help investors understand how an organisation's strategies might change to address potential climate-related risks and opportunities. This is intended to inform users' expectations about an organisation's future performance.

The TCFD considers that disclosures of such information should be subject to a materiality assessment. It recommends that disclosures be made in the annual report when considered material, and that certain larger companies should nevertheless consider providing the information in another report when not considered material. The TCFD notes that those organisations are, 'more likely than others to be financially impacted over time' and that 'investors are interested in monitoring how these organizations' strategies evolve'.

Risk management

These disclosures are largely narrative, aimed at helping investors and other market participants to understand the organisation's processes for identifying, assessing and managing climate-related risks. This information is intended to help users in evaluating the organisation's overall risk profile and risk management activities.

As with disclosures under the Governance pillar, the TCFD considers that these disclosures will provide useful context for investors in assessing how financial and operating results are achieved. The TCFD expects these disclosures to be included in annual reports without further application of a materiality filter.

Metrics and targets

These disclosures are intended to enable investors and market participants to understand how organisations are measuring and monitoring climate-related risks and opportunities. They enable investors to better assess the organisations' general exposure to climate-related risks and opportunities and progress towards managing those issues, in order to better assess the impact on financials.

As with disclosures under the Strategy pillar, the TCFD considers that disclosures under this pillar should be subject to a materiality assessment. However, in the 2021 update to the Implementation Annex, the TCFD notes that '[t]he Taskforce believes all organizations should disclose absolute Scope 1 and Scope 2 GHG emissions independent of a materiality assessment. The disclosure of Scope 3 emissions is subject to materiality; however, the Taskforce encourages organisations to disclose such emissions'.

Source URL: *https://www.fca.org.uk/publications/multi-firm-reviews/tcfd-aligned-disclosures-premium-listed-commercial-companies*

Links

- [1] https://www.fca.org.uk/publication/policy/ps20-17.pdf
- [2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031805/CCS0821102722-006_Green_Finance_Paper_2021_v6_Web_Accessible.pdf
- [3] https://www.fca.org.uk/publication/corporate/fca-response-issb-exposure-drafts.pdf
- [4] https://www.frc.org.uk/getattachment/b6e1b51c-4dc8-413f-8a83-ae051e4d000e/FRC-Staff-Guidance-Auditor-responsibilities-under-ISA-(UK)-720-in-respect-of-climate-related-reporting.pdf
- [5] https://www.fca.org.uk/publications/newsletters/primary-market-bulletin-36
- [6] https://www.fca.org.uk/publication/primary-market/tn-802-1.pdf
- [7] https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf
- [8] https://www.fca.org.uk/publication/policy/ps21-23.pdf
- [9] https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss319
- [10] https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2020/managing-the-financial-risks-from-climate-change.pdf?la=en&hash=A6B4DD1BE45B2762900F54B2F5BF2F99FA448424
- [11] https://www.fca.org.uk/transparency/climate-financial-risk-forum#:~:text=The%20Session%202%20guides%20are
- [12] published%20on%2029%20June%202020.
- [13] https://cgfi-dev1.cgfi.ac.uk/climate_narrative/
- [14] https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf
- [15] https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf
- [16] https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf
- [17] https://assets.bbhub.io/company/sites/60/2020/10/2019-TCFD-Status-Report-FINAL-0531191.pdf
- [18] https://www.frc.org.uk/getattachment/22ee8a43-e8ca-47be-944b-c394ecb3c5dd/Climate-Change-v9.pdf
- [19] https://www.tcfdhub.org/