

# FCA's Final Rules on Climate-Related Disclosures for Asset Managers

January 14, 2022

Following proposals published in 2021, the FCA published in December 2021 its [final requirements](#) for a climate-related financial disclosure regime for asset managers (as well as life insurers and FCA-regulated pension providers). As expected, the FCA's new rules require firms in scope to produce climate-related disclosures based on the Recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). TCFD is an international initiative for companies and investors to disclose climate-related information. The rules first apply to the largest asset managers from 1 January 2022. The rules form part of the FCA's new Environmental, Social and Governance (ESG) sourcebook.

The FCA also published in December 2021 [final rules](#) for climate disclosures by standard listed companies for accounting periods commencing on or after 1 January 2022. The table in the Annex to this note is an up-to-date summary of the current requirements for climate-related disclosures by UK companies, asset managers and asset owners.

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## Scope

Asset managers in scope are FCA-authorized UK full-scope and sub-threshold alternative investment fund managers ("AIFMs"), managers of UCITS (retail funds) and portfolio managers (in respect of their segregated accounts and delegated portfolio management mandates). The rules do not apply to non-UK asset managers that market funds in the United Kingdom although non-UK asset managers should be prepared for requests from investors (such as UK occupational pension schemes) to provide climate-related information in respect of particular products to allow those investors to discharge their own disclosure obligations. The FCA also intends that firms that provide private equity or other private market investment advice are in scope in the same way as portfolio managers (see below).

The FCA's regime came into effect on 1 January 2022 for the largest asset managers, with more than £50 billion in assets under management (AuM) (or £25 billion assets under administration for asset owners). The first set of reports for these firms is due by

30 June 2023 for reporting periods starting on or after 2022. Other firms with assets greater than £5 billion will be subject to the new rules from 1 January 2023, with reports due by 30 June 2024. We discuss these thresholds in more detail below.

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## Asset Managers and AuM Threshold

As above, the FCA intends that the firms that provide private equity or other private market investment advice are in scope in the same way as portfolio managers. This includes FCA-authorized private equity firms that provide investment recommendations to a non-UK sponsor or general partner, even though such firms do not have overall control of the fund. The scope of application to private equity advisers is expressed as firms that provide “private equity or other private market activities consisting of either advising on investments or managing investments on a recurring or ongoing basis, in connection with an arrangement the predominant purpose of which is investment in unlisted securities”. The FCA commented that the reference to “recurring or ongoing” “intends to reflect that those services might be provided on a recurring but sometimes irregular basis over the life of the fund at certain important points (e.g. investment, divestment and other lifecycle events)...but does not include sub-advisory/investment management services where these are ad hoc transactions”.

The FCA introduces two important thresholds for the application of the rules:

- Asset managers whose assets amount to less than £5bn in relation to the firm’s “TCFD in-scope business” (based on a three-year rolling average) will be exempt. The FCA does not provide a definition of assets under management for this purpose. Firms may look, for this purpose, at existing bases for reporting AuM to the FCA for other purposes.<sup>1</sup> It is assumed that the threshold applies only on a “solo”, rather than group consolidated, basis.
- The application of the FCA’s ESG rules is deferred until 1 January 2023 for asset managers with assets under management less than £50 billion. This figure is calculated by reference to the firm’s classification under the FCA’s separate Senior Managers and Certification Regime (SMCR), with the rules not applicable where a firm does not meet the requirements of an “enhanced scope SMCR firm”.<sup>2</sup>

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<sup>1</sup> For instance, the FCA report [FSA038 \(Volumes and Type of Business\)](#) includes a field for funds under management (which is only completed by firms with permission of managing investments), and the [MIF007 \(ICARA questionnaire\)](#) includes a field for assets under management calculated under MiFIDPRU.

<sup>2</sup> An enhanced scope SMCR firm (unless a firm has voluntarily elected enhanced status) is a firm whose assets under management are £50 billion or more, calculated in accordance with the “Total funds under management” reported by firms to the FCA in report [FSA038 \(Volumes and Type of Business\)](#).

## Disclosures Required

The new regime will require in-scope firms to make disclosures on an annual basis as follows.

Type of disclosure		Where published	Contents	Timing
<b>Entity level</b>	<p>Annual TCFD entity report.</p> <p>A firm may rely on climate disclosures already made under the TCFD recommendations by a member of its group.<sup>3</sup></p>	Published in prominent place on firm website.	<p>This covers how the firm takes into account climate-related matters in managing or advising on investments, consistent with the TCFD Recommendations and Recommended Disclosures.<sup>4</sup> This will cover:</p> <ul style="list-style-type: none"> <li>the firm’s governance relating to climate-related risk (the impact of climate change) and opportunities (the transition to a lower-carbon economy) and</li> </ul>	Published by 30 June each year, covering a reporting period of 12 months, starting no earlier than 1 January of the previous calendar year. <sup>5</sup>

<sup>3</sup> The firm must set out the rationale for relying on existing group disclosure and clearly cross refer to the relevant disclosures including hyperlinks. Where cross-referenced disclosures do not fully cover the activities of the UK firm, the UK firm is responsible for explaining any material deviations and providing additional information. As the United States has not mandated TCFD-aligned reporting for asset managers, this aspect of the FCA rules will provide flexibility only where a US affiliate has chosen to comply with the TCFD standards voluntarily.

<sup>4</sup> The entity level report must reflect the following parts of the TCFD Recommendations: section C of [TCFD Annex](#) (“Guidance for All Sectors”), and parts 3 and 4 of section D of the [TCFD Annex](#) (“Asset Owners” and “Asset Managers”).

<sup>5</sup> Firms can select their own reporting period for TCFD entity and product reports, with the first reporting periods starting on or after 1 January 2022. However, for firms in scope from 1 January 2022, if the firm wishes to start its reporting period after 1 January 2022, it will need to issue an interim report for the period from 1 January to the start of its reporting period. Firms must also adopt a “calculation date” within the 12-month reporting period covered by the TCFD entity report in calculating any metrics and targets for inclusion in the TCFD entity report or TCFD product report.

Type of disclosure		Where published	Contents	Timing
			<p>its consideration of national commitments to net zero economies;</p> <ul style="list-style-type: none"> <li>• how climate-related risks and opportunities are factored into relevant products or investment strategies, including the firm’s approach to climate-related scenario analysis, with quantitative examples where practicable;</li> <li>• the firm’s integration of climate change risks in its day-to-day risk-management process including engagement activity with investee companies; and</li> <li>• a description of any targets set to manage climate-related risks and opportunities including the key performance indicators used to measure</li> </ul>	

Type of disclosure		Where published	Contents	Timing
			<p>progress against these targets. If the firm has not set targets, it must explain why.</p> <p>The report must be signed by a member of firm’s senior management to confirm that it complies with the requirements.</p>	
<b>Public TCFD product reports</b>	<p>Annual set of climate-related disclosures.</p> <p>Applicable only to FCA authorised funds and funds listed on recognised stock exchanges.</p>	<p>Published in prominent place on firm website.</p> <p>Included or crossreferenced in existing client communications.</p> <p>Data provided in a reasonable format, considering needs of client –industry likely to develop a standardised template.</p>	<p>Set of climate-related disclosures relating to the product, comprising core set of climate-related metrics (scope 1, 2 and 3 greenhouse gas emissions; total carbon emissions; total carbon footprint; and weighted average carbon intensity);<sup>6</sup> relevant information on how the metrics are interpreted and associated limitations (for example, by referring to assumptions and proxies); historical annual calculations of the metrics; and any disclosures under the TCFD’s</p>	<p>Published by 30 June each year.</p>

<sup>6</sup> For consistency, the FCA originally proposed that the core disclosure metrics (relating to carbon emissions and carbon intensity) in the product report should be calculated and disclosed in accordance with both the TCFD and SFDR methodologies. In light of concerns with the requirement to disclose metrics using two different methodologies, the final rules require disclosure of metrics using the TCFD’s methodology only.

Type of disclosure		Where published	Contents	Timing
			<p>Governance, Strategy and Risk Management recommendations where the firm's approach in relation to a TCFD product materially deviates from the firm's approach disclosed in the entity report.</p> <p>Additional information is required where the product has concentrated or high exposures to carbon-intensive sectors including qualitative and quantitative analysis of future climate change scenarios.</p> <p>Firms must also include, as far as reasonably practicable, calculations on climate value-at-risk metrics that show the climate warming scenario with which a TCFD product is aligned.</p>	
<b>On-demand TCFD product</b>	Product level for unauthorised AIFs (not listed on a recognised stock exchange)	Clients or investors may request an on-demand TCFD product report, containing the	As above.	Clients may request on-demand TCFD product

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<b>report</b>	and discretionary portfolio management services or advisory services to individuals or institutional investors.	<p>same information as a public report.<sup>7</sup></p> <p>Clients or investors may also request underlying asset data relating to a product, which is basic data on asset holdings (including on individual securities) reasonably required by the person to produce their own scenario analysis and otherwise satisfy their own climate-related disclosure obligations.</p> <p>Firms provide the report to clients at a single reference point consistent with public disclosures or at date agreed between the client and the firm and in a “reasonable” format.</p> <p>Firms are also required to provide additional climate or carbon-related data reasonably required to satisfy climate-related financial disclosure obligations.</p>		report no earlier than 1 July 2023 in respect of any reporting period commencing after 1 January 2022 or, if later, with effect from the reporting period in which the client first made its investment.

<sup>7</sup> In practice, UK firms are not likely to provide this information where their client is an affiliate. However, firms may want to produce private or public product-level disclosures, even if not strictly required, in support of their fund-raising.

There is no difference in treatment for products that are only marketed outside the United Kingdom, or portfolio management arrangements with clients outside the United Kingdom or for portfolios of assets located outside the United Kingdom. In addition, the FCA does not provide for different treatment of funds that are no longer being marketed other than funds which benefit from an exemption from AIFMD (whose subscription period closed prior to AIFMD coming into effect).

In its final rules, the FCA has clarified that it will not require firms to disclose information if data gaps or methodological challenges cannot be addressed through the use of proxies and assumptions or if to do so would result in misleading disclosures. Firms must explain gaps in underlying data, use of proxy data or assumptions or why the firm has not been able to address the gaps using proxy data or assumptions, and the steps a firm will take to address such gaps.

Firms may also include hyperlinks and crossreferences to climate-related financial disclosures in a third party's climate reporting where the firm wishes to rely on third party disclosures.

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Please do not hesitate to contact us with any questions.

#### LONDON



Patricia Volhard  
pvolhard@debevoise.com



John Young  
jyoung@debevoise.com



**Annex - summary of climate-related disclosures required from UK asset managers, investors, companies and occupational pension schemes**

Type of entity	Proposal	Status
Asset managers (excluding small firms) <sup>8</sup>	TCFD-aligned climate-related financial disclosures, with additional TCFD related disclosures at product level.	In force, with first reporting period from 1 January 2022.
Asset owners (life insurers and FCA-regulated pension providers, in each case offering investment-based insurance or pension products)		
Occupational pension schemes	TCFD-aligned climate-related financial disclosures.	In force, applied from 1 October 2021.
Quoted <sup>9</sup> UK companies, large UK unquoted companies and LLPs <sup>10</sup>	Streamlined Energy and Carbon Reporting. A qualifying company must include in its directors' report disclosures on greenhouse gas emissions, an "intensity metric", and information on total UK energy use.	In force, applied to financial years beginning on or after 1 April 2019.
Premium listed companies	TCFD-aligned climate-related financial disclosures.	Applied to financial years beginning on or after 1 January 2021.
Issuers of standard listed equity shares (excluding standard listed investment entities)	TCFD-aligned climate-related financial disclosures.	In force, applies to financial years beginning on or after 1 January 2022.
Quoted companies, <sup>11</sup> large private companies and LLPs <sup>12</sup>	TCFD-aligned climate-related financial disclosures.	In force, applies to financial years beginning on or after 6 April 2022.

<sup>8</sup> Asset managers with less than £5bn in assets under management (on a three-year rolling average) will be exempt.

<sup>9</sup> "Quoted" means listed on a UK-regulated market.

<sup>10</sup> Unless the company is a parent company, the requirement applies to UK incorporated companies that meet two of the following three criteria: (i) turnover of £36 million or more; (ii) balance sheet total of £18 million or more; or (iii) 250 employees or more.

<sup>11</sup> This comprises UK companies that have more than 500 employees and have securities admitted to trading on a UK-regulated market or on AIM.

<sup>12</sup> This comprises "public interest entities" (banking and insurance companies) that are currently required to produce a nonfinancial information statement and UK companies and LLPs which have more than 500 employees and an annualised turnover of more than £500 million.