

MEMO# 34052

March 1, 2022

UK ESG: FCA Climate-Related Disclosure Requirements for Asset Managers

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TO: ICI Members

ICI Global Members

ESG Task Force SUBJECTS: ESG

International/Global RE: UK ESG: FCA Climate-Related Disclosure Requirements for Asset Managers

On 17 December 2021, the UK Financial Conduct Authority (FCA) published final rules and guidance relating to the climate-related disclosure requirements for asset managers, life insurers, and FCA-regulated pension providers.[\[1\]](#) The FCA also published a policy statement on the same day to extend its existing climate-related disclosure requirements to issuers of standard listed shares and Global Depositary Receipts (GDRs) representing equity shares.[\[2\]](#)

The final rules are broadly consistent with the FCA's June 2021 proposal.[\[3\]](#) Asset managers, life insurers, and FCA-regulated pension providers will be required to disclose how they take climate-related matters into account in the management or administration of assets on behalf of clients and consumers, both at the entity level and for specific portfolios or financial products and services. The disclosure obligations are aligned with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD). Given that TCFD published an updated implementation annex and guidance on metrics, targets and transition plans in October 2021,[\[4\]](#) the FCA rules note that in-scope firms should ensure their disclosures are consistent with the two new TCFD documents.

The new rules will apply in a phased manner from 1 January 2022. This memorandum summarizes the disclosure requirements specific to asset managers, as set out in the FCA Policy Statement.

1. Background: UK Sustainability Disclosure Framework

In October 2021, the UK Government published plans[\[5\]](#) for economy-wide Sustainability Disclosure Requirements (SDR), which will bring together new and existing sustainability reporting requirements for listed companies, the financial sector and investment products. The SDR will eventually extend disclosure requirements beyond climate change and with its

link to the planned UK Green Taxonomy, cover sustainability impacts in addition to sustainability risks and opportunities. The FCA disclosure rules for asset managers are consistent with the pathway set out in the UK Government's roadmap[\[6\]](#) towards the implementation of TCFD-aligned disclosures across the whole UK economy by 2025.

The FCA expects the TCFD-aligned entity- and product-level disclosure requirements will act as a foundation for the broader sustainability disclosure for asset managers and asset owners under the SDR framework. The FCA published a Discussion Paper[\[7\]](#) in November 2021 to gather input on a three-tiered system consisting of (i) product labels to help consumers navigate the range of investment products on offer; (ii) a consumer-friendly layer of disclosure containing key decision-useful information; and (iii) a more detailed layer of entity-and product-level disclosures building from TCFD requirements.

2. Asset Managers In-Scope

The FCA's new disclosure rules apply to:

- investment portfolio managers;
- UK UCITS management companies;
- full-scope UK Alternative Investment Fund Managers (AIFMs); and
- small authorized UK AIFMs.

Exemption Thresholds. Asset managers with less than £5 billion in assets under management on a three-year rolling average, to be assessed annually, are exempt from the new disclosure requirements. The calculation should include assets related to the asset manager's "TCFD in-scope business", which are: (i) portfolio management; (ii) managing a UK UCITS; and (iii) managing an Alternative Investment Fund (AIF).[\[8\]](#) The FCA will review the exemption threshold as part of the post-implementation review after three years.

Definition of "Portfolio Management". The FCA brings into scope portfolio management defined more broadly, covering the discretionary portfolio management activities and asset management activities conducted by private equity and private market firms. Nevertheless, the FCA has clarified that only private equity and private market activities where investment advice is on a recurring or ongoing basis are captured. Sub-advisory/investment management services, where these are ad hoc transactions, are not captured in the definition of "portfolio management".

Jurisdictional Scope. The FCA disclosure rules apply to in-scope asset managers for their TCFD in-scope business carried out from an establishment maintained by it in the UK, irrespective of where the clients, products or portfolios are domiciled. The rules do not apply to third-country branches.

3. Entity-level disclosure requirements

A. TCFD Entity Report and Compliance Statement

In-scope asset managers will be required to publish a TCFD entity report in a prominent place on their websites, on an annual basis and no later than 30 June each calendar year (first report in June 2023, covering 2022 reporting period). The TCFD entity report should contain climate-related financial disclosures covering the overall assets managed or administered by an asset manager in relation to its TCFD in-scope business. Along with its TCFD entity report, an asset manager should include a compliance statement confirming that the disclosure complies with the disclosure requirements set forth in the FCA rules.

While the compliance statement should be signed by a member of senior management, the FCA has clarified that this need not be a Senior Manager under the Senior Managers and Certification Regime.

Disclosures made in the TCFD entity report should be in line with the TCFD's recommendations and recommended disclosures relating to governance, strategy (including scenario analysis), risk management, and metrics and targets.

Governance, Strategy and Risk Management. Asset managers are required to explain any material differences in their approach to governance, strategy, or risk management for specific investment strategies, asset classes or products, where relevant.

Scenario Analysis. While the FCA acknowledges the challenges relating to scenario analysis, particularly where there is a lack of data and where methodologies are still developing, it believes that firms can still benefit from the process of scenario analysis to produce qualitative information. The final rules require asset managers to disclose in the TCFD entity reports their approach to climate-related scenario analysis and how it is used in decision-making at entity-level, with quantitative outputs only where reasonably practicable and where disclosure of these outputs would not be misleading to investors.

Metrics and Targets. Asset managers are required to describe any climate-related targets the firm has set to manage climate-related risks and opportunities (including the key performance indicators the firm uses to measure progress). Additionally, asset managers that have not yet set out climate-related targets are required to explain why they have not in their TCFD entity reports.

Transition Plans. The FCA believes that disclosures on transition plans are most relevant at the entity level and does not anticipate these disclosures at the product level. An asset manager, headquartered in or operating in a country that has made a commitment to a net-zero economy, is encouraged to consider the extent to which it has considered that commitment when developing and disclosing its transition plan. The asset manager is also encouraged to explain if it has not considered this commitment.

B. Cross-reference to Group or Affiliate Reports

Asset managers that sit within a group structure are permitted to cross-reference climate-related disclosures made by the group or an affiliate member of the group. To promote as much flexibility as possible, recognizing that many firms are already making climate-related disclosures voluntarily or may be subject to other regulatory disclosure obligations, the FCA has not specified the reports to which an asset manager can cross-refer. However, the asset manager must set out in its TCFD-entity report: (a) the rationale for doing so; (b) how the disclosures are relevant to the asset manager's TCFD in-scope business; and (c) where the asset manager's approach to the TCFD recommendations materially deviates from climate-related financial disclosures contained within the group report; a clear explanation of that fact.

4. Product/Portfolio-level Disclosure Requirements

A. Products and Portfolios within Scope

The FCA disclosure rules require in-scope asset managers to make disclosures at the product or portfolio level in relation to below products:

- authorized funds, excluding feeder funds and sub-funds in the process of winding up or termination,
- unauthorized AIFs managed by a UK AIFM, and
- portfolio management services (refer to Section 3 for definition of "portfolio management")

Notably, the product-level disclosure requirements apply to funds regardless of whether they have a climate or ESG-related strategy.

B. Public and On-demand Product Disclosures

Public TCFD Product Reports. Similar to the TCFD entity reports, asset managers are required to publish public TCFD product reports on an annual basis in a prominent place on their main websites, no later than 30 June each calendar year. The public TCFD product report must also be published in the appropriate client communication which follows most closely after the annual reporting deadline of 30 June, such as the annual report or periodic client report. A UK AIFM that manages listed unauthorized AIFs must include their public TCFD product reports in its TCFD entity report.

On-demand Product Disclosures. The FCA had originally proposed that, where public disclosures were not appropriate for certain in-scope products, product/portfolio-level disclosures should be made available to clients upon request in order to satisfy the clients' own climate-related financial reporting obligations. Such on-demand disclosures could be an on-demand TCFD product report, which is produced in accordance with the product-level disclosure requirements under the final rules (see sub-section C below), or basic data on asset holdings underlying an in-scope product.^[9] Asset managers would only be required to provide on-demand product disclosures once in each annual reporting period.

While respondents supported this proposal in principle, commenters raised concerns regarding the potential burden associated with providing on-demand product disclosures to multiple clients at different reference dates and in different formats. The FCA addressed concerns by permitting asset managers to make on-demand disclosures at a single reference point consistent with public disclosures, or at a date agreed with the client. Yet, the FCA does not specify a standardized reporting format for on-demand reporting, as was suggested by some respondents. Instead, the final rules state that the on-demand disclosures should be provided in a "reasonable" format. The FCA believes that the asset management industry would be best placed to develop a standardized template, if useful.

Additionally, upon clients' requests, asset managers should provide relevant climate/carbon-related data where "reasonably practicable" and permitted under licensing agreements. The FCA acknowledges the potential challenges in providing underlying climate-and carbon-related data in practice, but believes the rules are flexible enough to permit asset managers' assessments of what is reasonably practicable.

C. Content of TCFD Product Reports

For ease of reference, public TCFD product reports and on-demand TCFD product reports are collectively referred to as "TCFD product reports". Similar to the TCFD entity reports, disclosures made in the TCFD products report should be aligned with the TCFD's recommendations relating to governance, strategy, risk management, and metrics and targets.

Governance, Strategy and Risk Management. If the approach to governance, strategy and

risk management for specific products or portfolios, asset classes or investment strategies is materially different from the overarching approach described in the public TCFD entity report, such material deviations must be described in the TCFD product reports.

Scenario Analysis. Products/portfolios in scope should, at a minimum, disclose:

- a qualitative summary of how climate change is likely to impact the underlying assets under an 'orderly' and 'disorderly' transition consistent with limiting global warming to below 2°C and net-zero emissions by 2050, and a 'hot house world' scenario; and
- a discussion of the significant drivers/factors that contribute to making the products more vulnerable to climate change or provide opportunities in the transition.

Additionally, where a portfolio has concentrated exposures or higher exposures to more carbon-intensive sectors, asset managers should also disclose:

- a quantitative analysis of an 'orderly', 'disorderly' and 'hot house world' transition scenarios.

The FCA does not define "concentrated" or "higher" exposures to carbon-intensive sectors. The FCA believes such definition could unduly constrain industry and policy development in this area. It expects asset managers to consider what constitutes decision-useful disclosures according to their own business models, client base and products/ portfolios.

Metrics and Targets - Core Metrics. Products/portfolios in scope must disclose a set of core metrics:

- Scope 1 and 2 greenhouse gas (GHG) emissions;
- Scope 3 GHG emissions (with 1 year delay for implementation, i.e., first disclosure to be made by 30 June 2024);
- Total carbon emissions;
- Carbon footprint; and
- Weighted average carbon intensity (WACI).

Given some differences in the calculation methodologies between the TCFD's recommendations and the EU Sustainable Finance Disclosure Regulation (SFDR) - to which some UK asset managers are subject for their EU activities - the FCA had originally proposed the metrics be calculated according to both the TCFD and SFDR methodologies. A number of respondents were concerned that disclosure of the same metrics calculated in two different methodologies would be confusing, particularly to retail investors. Noting the overarching policy aim to promote international consistency through the application of the widely adopted TCFD framework, the FCA amended the rule to require disclosure of metrics using only the TCFD's methodologies. The FCA clarified that it does not preclude disclosure against any other methodology in addition to that specified by TCFD, provided that asset managers clearly explain the alternative methodology used and ensure the core metrics calculated in accordance with the TCFD framework are prominently presented.

Disclosure of core metrics should be accompanied by a historical time series for comparison, after the first year of preparing a TCFD product report. The FCA will consider if there should be a limit to the length of the time series as part of its post-implementation review after three years of disclosures.

Metrics and Targets - Additional Metrics. In addition to a baseline of core metrics, asset managers will be required to disclose the following metrics "as far as reasonably

practicable."

- Climate Value-at-Risk (VaR); and
- Metrics that show the climate warming scenario with which an in-scope product is aligned, e.g., Implied Temperature Rise (ITR).

The FCA had originally proposed that asset managers disclose these additional, mostly forward-looking metrics on a "best-effort" basis. Following feedback received, the FCA reduced the disclosure burden in the final rules to "as far as reasonably practicable".

The FCA has clarified that an asset manager may disclose other metrics not prescribed that it considers an investor may find useful. Where an asset manager discloses other metrics, it should clearly explain the methodology used and ensure that such metrics are not presented more prominently than the core metrics required under the FCA rules.

5. Disclosures in relation to Delegation

Where an asset manager delegates investment management to a third-party portfolio manager who is not in the same group, the delegating asset manager should briefly explain in its TCFD entity the reasons for selecting the delegate, in relation to the TCFD recommendations, including how climate-related matters have been taken into account in selecting delegates and relying on their products and services. The delegating asset manager may choose to include hyperlinks and cross-references in its TCFD entity report or TCFD product report to relevant climate-related financial disclosures made by delegated managers, where available.

6. Data Availability

In response to concerns about data availability and reliance on proxies and assumptions, the FCA scaled back the requirements on quantitative scenario analysis that it had originally proposed. Asset managers are not required to disclose information (e.g., in relation to metrics or quantitative scenario analysis) if data gaps or methodological challenges cannot be addressed through the use of proxies and assumptions, or if doing so would result in misleading disclosures. The FCA expects these data gaps and methodological challenges to be transitional and considers such gaps and challenges are only likely to arise in relation to certain asset classes and are likely to narrow over time.

Asset managers should explain where and why they have not been able to disclose, as well as the steps they will take to address the data gaps or challenges in the future. The FCA has clarified that an asset manager may include an explanation of the proportion of product or portfolio for which data are verified, reported, estimated or unavailable.

7. Implementation Timeline

First phase - effective from 1 January 2022. The FCA rules come into force in January 2022 for asset managers with assets under management of more than £50 billion, capturing 34 firms with £8 trillion in assets under management. The £50 billion threshold should be determined using the same calculation method as an "enhanced scope Senior Managers and Certification Regime (SM&CR) firm".

Under the first phase, the first entity-level and product-level disclosures would need to be made by 30 June 2023. In the case of on-demand product disclosures, asset managers are required to provide the requested information from 1 July 2023.

Second phase - effective from 1 January 2023. All other asset managers above the £5 billion

exemption thresholds will be required to observe the disclosure requirements beginning January 2023. The first disclosures at entity level and product level would need to be made by 30 June 2024. For on-demand product-level disclosures, the requested information should be provided from 1 July 2024.

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endnotes

[1] See Policy Statement PS21/24 Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers, December 2021, available at <https://www.fca.org.uk/publication/policy/ps21-24.pdf> ("PS21/24").

[2] See Policy Statement PS21/23 Enhancing climate-related disclosures by standard listed companies, December 2021, available at <https://www.fca.org.uk/publication/policy/ps21-23.pdf>.

[3] See Consultation Paper CP21/17 Enhancing climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers, June 2021, available at <https://www.fca.org.uk/publication/consultation/cp21-17.pdf>. Also See ICI Memorandum [33703], dated 27 July 2021, available at <https://www.ici.org/memo33703>.

[4] See Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, October 2021, available at https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf; and Guidance on Metrics, Targets, and Transition Plans, October 2021, available at https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf. Also See ICI Memorandum [33890], dated 10 November 2021, available at <https://www.ici.org/memo33890>.

[5] See Greening Finance: A Roadmap to Sustainable Investing, October 2021, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1026224/CCS0821102722-006_Green_Finance_Paper_2021_v5_Bookmarked_48PP.pdf. Also See ICI Memorandum [33892], dated 10 November 2021, available at <https://www.ici.org/memo33892>.

[6] See A Roadmap towards mandatory climate-related disclosures, November 2020, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933783/FINAL_TCFD_ROADMAP.pdf

[7] See Discussion Paper DP21/4 Sustainability Disclosure Requirements (SDR) and investment labels, November 2021, available at <https://www.fca.org.uk/publication/discussion/dp21-4.pdf> ("DP21/4"). Also See ICI Memorandum [33904], dated 17 November 2021, available at <https://www.ici.org/memo33904>.

[8] See PS21/24, supra note 1, at Appendix 1, p58.

[9] Basic data on asset holdings underlying an in-scope product includes unique security ID such as ISIN, name, holding size, and current price or valuation, as reasonably required by the relevant person to produce their own amalgamated scenario analysis and otherwise satisfy their own disclosure obligations in relation to climate-related financial information. See PS21/24, supra note 1, at Appendix 1, p.55.

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