

AA & T Consulting

Jun/Jul 2022 – Regulatory Alerts – ESG Series

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Environmental, Social and Governance (ESG) Reporting (UK):

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Dear Friends,

As mentioned earlier, ESG or sustainability reporting is no longer some nice-to-have features. There are strong calls for convergence.

In this newsletter, we will highlight ESG reporting requirements in UK. It is the 1st EU country making mandatory disclosures based on TCFD recommendations. There are already many good articles for related requirements. We would only highlight some points of interests for ESG reporting practitioners. Please enjoy!

If you need any professional advice or training on ESG or other risk mgt issues, feel free to contact us via our website or email.

AA & T Consulting Advisory team

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Introduction

- UK is one of pioneers in requiring its companies to have consistent framework for ESG reporting. It is the first G20 country to make Task Force on Climate-Related Financial Disclosures (TCFD) aligned reporting requirements mandatory for its large companies and financial institutions to report on climate-related risks and opportunities from the reporting year starting from 6 April 2022.

Introduction (continued)

- Over 1,300 UK-registered companies and financial institutions are required to disclose climate-related financial information in line with recommendations from the TCFD. This will include many of the UK's largest traded companies, banks and insurers, as well as private companies with over 500 employees and £500 million in turnover.

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Effects of these disclosure requirements

- Increase quantity & quality of climate-related reporting across UK business community
- Businesses need to consider the risks and opportunities of climate change and are encouraged to set out emission reduction plans & sustainability credentials
- Help stakeholders to ***better understand, compare and assess the financial impacts of exposure to climate change, and price climate-related risks*** by applying a common set of TCFD-aligned disclosure requirements

Roadmap

- Back in Nov 2020, UK set out roadmap for climate change reporting based on TCFD recommendations and actions to be taken by regulators and Government departments over five years.
- In the 2019 Green Finance Strategy, it also outlined how to drive its listed issuers and large asset owners in making TCFD aligned disclosures by 2022.
- UK intended to be at the forefront on green finance globally and to introduce fully mandatory climate-related disclosure across the whole UK economy by 2025, and with a significant portion by 2023.
- With clarity on the road towards mandatory disclosures, ***organisations should consider their own path on how to build their capabilities or processes for reporting climate-related disclosures NOW.***

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Scope

- The disclosure requirements will apply to companies or Limited Liabilities Partnerships (LLPs) meeting the following:

1. All UK companies currently required to produce a non-financial information statement*
2. UK registered companies with securities admitted to AIM with > 500 employees;
3. UK registered companies not included above, with > 500 employees and turnover > £500m
4. Large LLPs, not traded or banking LLPs, and have > 500 employees and turnover > £500m
5. Traded or banking LLPs which have more than 500 employees.

** Being companies that have > 500 employees & have either transferable securities admitted to trading on a UK regulated market or are banking companies or insurance companies (Relevant Public Interest Entities (PIEs))*

Highlights

Changes to companies and LLPs – Commencement Date

- The Common Commencement Date is 6th Apr 2022, that is for accounting periods starting on or after that date.

Changes to companies and LLPs – Disclosure

- These regulations require companies and LLPs to make climate-related financial disclosures against a common list of requirements.
- These may include but not limited to the following information:
 - (a) a description of the governance arrangements in relation to assessing and managing climate-related risks and opportunities;
 - (b) a description of how the company or LLP identifies, assesses, and manages climate related risks and opportunities;
 - (c) a description of how processes for identifying, assessing, and managing climate-related risks are integrated into the overall risk management process in the company or LLP;

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Highlights (cont'd)

Changes to companies and LLPs – Disclosure (cont'd)

- These may include but not limited to the following information: (cont'd)
 - (d) a description of: (i) the principal climate-related risks and opportunities arising in connection with the operations of the company or LLP, and (ii) the time periods by reference to which those risks and opportunities are assessed;
 - (e) a description of the actual and potential impacts of the principal climate-related risks and opportunities on the business model and strategy of the company or LLP;
 - (f) an analysis of the resilience of the business model and strategy of the company or LLP, taking into consideration of different climate-related scenarios;

Highlights (cont'd)

Changes to companies and LLPs – Disclosure (cont'd)

- These may include but not limited to the following information: (cont'd)
 - (g) a description of the targets used by the company or LLPs to manage climate-related risks and to realise climate-related opportunities and of performance against those targets; and
 - (h) the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those key performance indicators are based.

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Highlights (cont'd)

Changes for listed companies and asset managers

- The Financial Conduct Authority (FCA), via listing rule LR 9.8.6R (8)7, requires a commercial company with a UK premium listing to make disclosures against the TCFD aligned disclosures on a “comply or explain basis”; this rule applies for accounting periods beginning on or after 1st January 2021.
- The FCA extended the application of these requirements to issuers of standard listed shares and global depository receipts representing equity shares (with certain exceptions) via listing rule LR 14.3.27R.
- The FCA also introduced new TCFD-aligned disclosure rules for asset managers and certain asset owners, on 1 Jan 2022 for the largest firms and one year later for smaller firms.

Highlights (cont'd)

Changes for occupational pension schemes

- The Occupational Pension Scheme (Climate Change Governance and Reporting) Regulations 2021 places requirements on trustees of certain large pension schemes to report in line with TCFD; as well as improving their governance and actions to identify, assess and manage climate risk.
- Those large pension schemes are likely to have significant investments in companies that are within scope of these regulations. Disclosures provided by companies will inform the disclosures of large pension schemes under the pensions legislation.

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How can AA & T Consulting help?

The above are some highlights of the current requirements on ESG reporting, in particular with reference to TCFD. Hope that these will help preparing your journey to ESG reporting.

If you need any advice or training in these, feel free to contact us by phone (+852 9181 8659 (HK); +61 452 371 753 (Aus.)), email (advisory@aathk.com) or via website's "contact us" page at: www.aathk.com or www.aataus.com.



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