New Climate-Related Reporting in Annual Financial Reports by Premium Listed Commercial Companies

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Contents

NEW CLIMATE-RELATED REPORTING IN ANNUAL FINANCIAL REPORTS BY PREMIUM LISTED COMMERCIAL COMPANIES

INTRODUCTION

In March 2020, the Financial Conduct Authority (FCA) issued a consultation paper (CP 20/03) inviting comments on proposals to amend the Listing Rules to encourage premium listed commercial companies to include climate-related disclosures in their annual financial reports.

In December 2020, the FCA published Policy Statement PS 20/17 with the final form of its new listing rule and a Technical Note. The listing rule is very similar to the consultation version although has been strengthened in a few key respects, which we note in this briefing.

New LR 9.8.6(8) applies to premium listed commercial companies (i.e. companies other than open-ended or closed-ended investment companies) for financial periods beginning on or after 1 January 2021. It requires such a company to include a statement in its annual financial report (AFR) setting out:

- whether it has made climate-related financial disclosures in the AFR which are consistent with the four recommendations and 11 recommended disclosures (TCFD disclosures) of the 2017 final report of the Taskforce for Climate-Related Financial Disclosures (TCFD);
- where it has included some or all of the TCFD disclosures in a document other than its AFR, a description of that document and where it can be found, an explanation of which disclosures are in that other document and the reasons why they are there and not in the AFR;
- where it has not complied with some or all of the TCFD disclosures in any document, the disclosures that are omitted, the reasons for the non-disclosure and any steps it is taking or plans to take in order to be able to make these disclosures in the future and the timeframes within which it expects to be able to do so; and
- where in its AFR (or other relevant document) the TCFD disclosures can be found.

While compliance with the new listing rule is, initially, on a limited comply or explain basis (see later in this briefing for more on this), companies which do not make the TCFD disclosures required by the new listing rule will not only need to provide cogent reasons for this, but also state the steps they are taking to be able to do so.

The impact of the new listing rule will depend significantly on the nature of a company's operations and the extent of its existing engagement with climate-related issues. For some companies, addressing the new disclosure requirements may involve significant additional effort in 2021 to be ready and able to report as required in 2022.

In this briefing, we consider :

- the new listing rule and highlight material and/or noteworthy differences from the consultation version;
- the TCFD disclosures and a few key aspects from the detailed accompanying guidance;
- the role of third party assurances and the obligations of sponsors;
- the steps companies might take to prepare for the new disclosure obligations;
- key elements of the Technical Note; and
- some other current developments and likely future developments.

We also set out some brief context and background in the next table. Also, in the Appendix at the end of this briefing, we look in slightly more detail at the context including key UK, EU and global developments and goals as regards climate change.

CONTEXT – CLIMATE CHANGE EMERGENCY AND COMPANY RESPONSES
It is a key concern of investors, regulators and Governments that the pace of adoption by companies of voluntary initiatives, such as TCFD, is not giving them the information they need quickly enough and/or with sufficient consistency or granularity.
Investors and asset managers, in particular, are seeking better corporate disclosure to help them assess company responses to the climate change emergency and the need to transition to a low-carbon economy and meet net-zero emissions targets. As they seek to better understand where best to invest their/savers' funds and as they themselves are coming under increasing regulatory and other pressures, so the trickle-down effect on companies will only increase.
Regulators, such as the Bank of England, the FCA and the Financial Reporting Council stress that companies need to be prepared for the transition to a low carbon economy and to provide investors with the quality disclosures that they need to assess the implications for their investee companies.
See the Appendix at the end of this briefing for more by way of background and context.

NEW LISTING RULE - THE BASICS

In March 2020, the FCA issued Consultation Paper 20/03 on its proposals to enhance climate-related disclosures by commercial companies with a premium listing and for clarification of existing disclosure obligations. The consultation closed on 1 October 2020.

In December 2020, the FCA issued its Policy Statement PS20/17 along with the final form of its new listing rule and the final form of the accompanying Technical Note.

> *We consider that climate-related risks and opportunities are relevant to all companies, and likely to be material for most. In this Consultation Paper, we are therefore proposing measures to increase transparency.*
> **FCA, PARAGRAPH 1.3, CP 20/3**

Who? The new listing rule will apply to all premium listed commercial companies (i.e. not to open-ended or closed-ended investment companies), including sovereign controlled commercial companies and overseas companies, ie companies that are subject to LRs 9 and 21.

In CP 20/03, the FCA said that it does not propose "*at this stage*" to apply the new listing rule to investment companies. However, it will reconsider this alongside further work on how best to enhance climate-related reporting by regulated firms including asset managers and life assurers.

When? The new listing rule will apply for accounting periods beginning on or after 1 January 2021. This means that preparations for reporting should take place in 2021 and the first reports which must comply with the new listing rule will be published in 2022.

What? The key elements of the listing rule require a relevant company to make a statement (the compliance statement) in its AFR setting out:

- whether it has included in its AFR climate-related financial disclosures consistent with the TCFD disclosures (see the next section below for detail on what exactly the TCFD disclosures cover) (**LR 9.8.6 (8)(a)**);
- where it has included some or all of the TCFD disclosures in a document other than the AFR, a description of that document and where it can be found, an explanation of which disclosures are in that other document and the reasons why they are there and not in the AFR (**LR 9.8.6(8)(b)(i)**);
- where it has not complied with some or all of the TCFD disclosures in any document, the disclosures that are omitted, the reasons for the non-disclosure and any steps it is taking or plans to take to be able to make these disclosures in the future and the timeframe within which it expects to be able to disclose (**LR 9.8.6(8)(b)(ii)**); and
- where in its AFR or other document the TCFD disclosures can be found (**LR.9.8.6(8)(c)**).

Where? The compliance statement under the new listing rule must feature in the AFR. However, the TCFD disclosures themselves can feature in a document other than the AFR, in which case the company must make the additional disclosures listed above including explaining why they are in that separate document. The FCA also notes that the listing rule does not preclude companies from including more detailed supplemental disclosures in other documents that are more tailored to specific stakeholders.

How? The listing rule contains a variety of guidance at LRs 9.8.6B, C, D and E.

LR 9.8.6B G states that in determining whether a company's disclosures are consistent with the TCFD disclosures, a company should "*undertake a **detailed assessment** of those disclosures which **takes into account***" the below guidance:

- the TCFD Guidance for All Sectors (section C of the TCFD Annex);
- where appropriate, the TCFD Supplemental Guidance for the Financial Sector (section D of the TCFD Annex); and
- where appropriate, TCFD Supplemental Guidance for Non-Financial Groups (section E of the TCFD Annex).

The requirement is somewhat strengthened from the consultation version which required companies only to "*have regard to*" the TCFD guidance.

In addition, **LR 9.8.6C G** states that when determining whether the disclosures made are consistent with the TCFD disclosures the following documents are "*relevant*":

- the TCFD Final Report and Annex (to the extent not already referenced in the new rule);
- the TCFD Technical Supplement (on the use of scenario analysis);
- the TCFD guidance on risk management integration and disclosure; and
- where appropriate, the TCFD guidance on scenario analysis for non-financial companies.

The above guidance is located at https://www.fsb-tcfd.org/publications/. See the section below for more detail on key aspects of the TCFD guidance.

LR 9.8.6D G is a new addition from the consultation version, added in response to requests for further guidance on how companies should demonstrate that their disclosures are consistent with the TCFD disclosures. It states that a company should consider whether its disclosures provide sufficient detail to enable users to assess the company's exposure to and approach to addressing climate-related issues. In assessing the appropriate level of detail, relevant factors for companies to consider include: (i) the level of its exposure to climate-related risks and opportunities; and (ii) the scope and objectives of its climate-related strategy .

LR 9.8.6E G is discussed below in the section where we look at comply or explain elements of the new rule.

TCFD: RECOMMENDATIONS, DISCLOSURES AND GUIDANCE

> *The TCFD recommendations are designed to solicit consistent, decision-useful, forward-looking information on the material financial impacts of climate-related risks and opportunities, including those related to the global transition to a lower-carbon economy.*
> **TCFD FINAL REPORT**

Background. The TCFD was set up by the G20-endorsed Financial Stability Board in 2015. UK supporters of the TCFD include the Government, the Bank of England, many banks, insurance companies, pension funds and other investors, as well as individual companies. For more information, including annual Status Reports showing progress companies are making in voluntarily implementing the TCFD disclosures, the latest of which was published in October 2020, see the TCFD website here.

TCFD Final Report. The TCFD Final Report, published in 2017, aims to help businesses disclose information about the risks and opportunities presented by climate change in a "*clear, comparable and consistent*" way that is aligned to investor needs. It includes sections on: (i) climate-related risks, opportunities and financial impacts; (ii) recommendations and guidance;(iii) scenario planning; and (iv) key issues considered and areas for future work.

Its four over-arching recommendations or pillars concern: (i) governance; (ii) strategy; (iii) risk management; and (iv) metrics and targets. Under these pillars sit a total of 11 specific recommended disclosures, supported by detailed guidance set out in the TCFD Annex and on the TCFD website. Set out in the next table are the TCFD disclosures.

TCFD: *FOUR RECOMMENDATIONS AND 11 RECOMMENDED DISCLOSURES*			
Recommendations			
Governance	**Strategy**	**Risk Management**	**Metrics and Targets**
Disclose the organisation's governance around climate-related risks and opportunities (**CRO**).	Disclose the actual and potential impacts of CRO on the organisation's businesses, strategy, and financial planning where such information is material.	Disclose how the organisation identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant CRO where such information is material.
Recommended Disclosures			
a. Describe the board's oversight of CRO.	a. Describe the CRO the organisation has identified over the short, medium and long term.	a. Describe the organisation's processes for identifying and assessing climate-related risks.	a. Disclose the metrics used by the organisation to assess CRO in line with its strategy and risk management process.
b. Describe management's role in assessing and managing CRO.	b. Describe the impact of CRO on the organisation's businesses, strategy, and financial planning.	b. Describe the organisation'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.
	c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2ºC or lower scenario.	c. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	c. Describe the targets used by the organisation to manage CRO and performance against targets.

TCFD guidance. The TCFD supporting guidance is extensive. We have not summarised it but have highlighted some key areas below. The Annex to the TCFD final report contains the following guidance:

- guidance for all sectors;
- supplemental guidance for financial sector groups; and
- supplemental guidance for certain non-financial groups potentially most effected by climate change (namely, energy; materials and buildings; transportation; and agriculture, food and forest products).

In October 2020, the following guidance was added to the TCFD website to assist companies:

- guidance on risk management, integration and disclosure; and
- guidance on scenario analysis for non-financial companies.

The all-sectors guidance gives context and descriptions of types of disclosures, noting information that companies should provide and other information that they should consider providing. The next table, takes a brief look at a few aspects of the all-sectors guidance.

TCFD FINAL REPORT, GUIDANCE FOR ALL SECTORS: – *SOME KEY HIGHLIGHTS*	
This guidance is relevant for all organisations and all sectors and seeks to assist preparers by providing context and suggestions for each of the 11 recommended disclosures. Below is just a flavour of what investors and other stakeholders are looking for.	
Governance (no materiality threshold)	On governance, disclosures are to allow evaluation of whether climate-related issues receive appropriate board and management attention. For example on board oversight, companies should discuss (i) processes and frequency of boards and committees being informed about climate-related issues, (ii) whether the board and committees consider climate-related issues when considering strategy, major action plans, risk management policies and other areas; and (iii) how the board monitors progress against climate-related targets.
Strategy (if material)	On strategy, disclosures are to provide an understanding of the actual and potential impacts of CRO on the business, its strategy and financial planning where material. For example, companies should describe what the board considers are the relevant short, medium and long-term horizons for the business and the specific climate-related issues for each time horizon that could have a material financial impact.
Risk management (no materiality threshold)	On risk management, disclosures allow an understanding of how an organisation's climate-related risks are identified, assessed, and managed. For example, companies should describe their risk management processes for identifying, assessing and managing climate-related risks, how these are integrated into overall risk management, how the relative significance of climate-related risks is determined, whether they consider existing and emerging regulatory requirements related to climate change and how decisions are taken on materiality.
Metrics and targets (if material)	Metrics and targets give an insight into how a company measures and monitors its CRO and assist stakeholders to assess, for example, general exposure to climate related issues and progress in managing or adapting to those issues. For example, companies should describe their key CRO targets in line with anticipated regulatory requirements or other goals. They should consider not only GHG emissions and water and energy usage but, where appropriate, other goals.

Scenario analysis. The TCFD Final Report also takes a detailed look at scenario analysis, which allows companies to consider how the future might look if certain trends continue or certain conditions are met. The TCFD believes that all organisations exposed to climate-related risks should consider using scenario analysis. For most, it would largely be a qualitative exercise, but for those with more significant exposure it should be a more rigorous quantitative exercise.

In October 2020, as already mentioned, the TCFD published new guidance on scenario analysis for non-financial companies which is also referenced in the new listing rule. The guidance describes scenario analysis as helping companies to make strategic and risk management decisions under complex and uncertain conditions such as climate change. It allows a company to understand the risks and uncertainties it may face under different hypothetical futures and how those conditions may affect its performance, thus contributing to the development of greater strategy resilience and flexibility. The guidance looks at: starting to prepare for scenario testing; the scenario process; strategic management using scenarios; and demonstrating strategy resilience by disclosure.

LIMITED COMPLY OR EXPLAIN

During the consultation, the FCA stated that the listing rule will operate on a comply or explain basis "*at least initially*". This is because some issuers' capabilities are still developing and inputs for the modelling required to comply with the new rule may not be readily available.

The listing rule remains comply or explain, but subject to some significant limitations summarised in the next table.

COMPLY OR EXPLAIN: *KEY LIMITATIONS*	
Compliance with the TCFD disclosures is ordinarily expected. This is only not the case in limited circumstances	LR 9.8.6E(1) G states that the FCA would ordinarily expect a relevant listed company to make the TCFD disclosures "*except where it faces **transitional** challenges in obtaining relevant data or embedding relevant modelling or analytical capabilities*". In particular, the FCA expects a company to be able to make the TCFD disclosures under the governance and risk management pillars, and also disclosures (a) and (b) under the strategy pillar (see previous table) save to the extent that the above-mentioned transitional challenges prevent this (LR 9.8.6E2 G). LR 9.8.6E was added to the final rule following requests from many consultation respondents that additional guidance be given on the limited circumstances when issuers might explain rather than comply.
Even with non-compliance, there is a requirement to state future plans and timeframe	As already mentioned, where some TCFD disclosures are not made either in the AFR or another document, it is not enough simply to explain why not. A company should also explain any steps it is taking or plans to take to be able to make those disclosures in the future and the timeframe within which it expects to be able to make those disclosures. (LR 9.8.6(8)(b)(ii)(C)).

Looking ahead, and not very far ahead, compliance with TCFD disclosures will likely become mandatory. In PS 20/17, the FCA states that it will issue a follow-up consultation, in the first half of 2021, on proposals to extend the scope of companies subject to the listing rule and to consider strengthening the compliance basis. For more on separate Government proposals to make reporting mandatory for UK-incorporated companies and to expand the scope of companies covered, see "Conclusion and what next" towards the end of this briefing.

ROLE OF THIRD PARTY ASSURANCE AND SPONSORS

Third party assurance/verification. The FCA is not going to introduce mandatory third party assurance requirements "*at this stage*". In CP 20/3, it said it takes some comfort from the fact that auditors have to satisfy themselves of the consistency of the narrative statements with the financial statements, and, where climate-related risks are financially material for a company, that auditors may consider whether and how these should be reflected in the financials. The FCA also recognises the costs of third party assurance.

The FCA, nonetheless notes in PS 20/17 that some companies may choose to obtain third-party verification or assurance on a voluntary basis. It also says that it sees significant value in third party assurance of these disclosures in the longer term and will work with Government and others to coordinate an appropriate policy approach in due course.

Sponsors. In CP 20/3, the FCA noted, as regards the duties of sponsors, several relevant sponsor duties that already exist and may require them to due diligence the procedures companies have in place to be able to comply with their obligations under the FCA rules. These include for example the obligation on a sponsor to:

- come to a reasonable opinion, after having made due and careful enquiry, that a company seeking a premium listing has established procedures to enable it to comply with its obligations under the listing rules and disclosure guidance and transparency rules (DTRs) on an ongoing basis; and
- confirm that a significant transaction will not have an adverse effect on the company's ability to comply with its obligations under the listing rules and DTRs.

In PS 20/17, the FCA notes, among other things, that sponsors may need to enhance their knowledge and experience of climate-related disclosures and that, as they already do, they may choose to engage third party experts to assist them with their due diligence. The FCA will consider whether it can provide further guidance to sponsors in existing Technical Notes.

HOW CAN COMPANIES PREPARE?

The TCFD disclosures will impact companies differently depending on their operations and sector and existing engagement with CRO related matters. Companies will be at varying stages of their climate-change action and reporting journey. Some may already be voluntary adopters of the TCFD recommendations or equivalent recommendations in other jurisdictions. The next table contains some suggestions that may assist companies embarking on this journey.

HOW CAN COMPANIES PREPARE?	
Top level engagement	Brief the board, relevant committee (audit or risk) and executive management on the new listing rule, the key elements of the TCFD and its guidance. Consider if climate change risk and reporting needs to be a standing item at meetings, and what (more) information may need to be provided.
Policies	Identify and record the board's policy in relation to the management of climate-related issues including delegated management responsibilities and internal reporting lines.
Identify a team	Consider who are the appropriate people within the business to assess the relevant TCFD disclosures and prepare for them. Does the business need to deepen its engagement with CRO issues, as the FCA suggests that many will? Consider whether expert external advice may be required to establish the initial data systems and reporting framework to enable the disclosures to be made.
Define aims	Articulate what it is that the business wishes to achieve as regards climate-related issues, by way of an overarching strategy, over the short, medium and long term (even if this may not be a disclosure that is material for the business to make).
Systems and tools	Consider the adequacy of/test existing systems capabilities to capture and apply the appropriate metrics to the company's CRO data. Developing the resources, tools and systems to integrate CRO into the company's decision making process could require significant investment.
Metrics and targets	Identify appropriate metrics and targets to assess CRO in line with the company's strategy and risk management processes, and assess performance against targets.
Materiality	Establish an objective basis to decide whether (and which) climate-related risks and opportunities are "material" for the business in the context of other risks which are considered to be material for disclosure.
Risks and opportunities	Consider and articulate what are the keys risks to and opportunities for the business associated with climate-change and how these can be integrated into existing processes for setting strategy, managing risks and optimising opportunities.
Identify the key challenges	For many companies, there will be a need for new data collection and systems to assess TCFD related data. For others, disclosing resilience and conducting scenario analysis, to the extent it is considered material, will prove the greatest challenge. Companies may want to consider third party assistance for these or other aspects.
Regular review	All the above may develop and change, and should be kept under regular review.
Annual reporting in 2022	Depending on the volume of new disclosures on climate-related matters, more time may need to be factored in for the drafting, verification and board approval process for the 2021 annual report. Directors should, as with all information in the annual report, primarily seek to protect themselves and their companies from liability through taking the time and preparatory steps needed to enable them to make clear, accurate, balanced and substantiated disclosures. Full and clear explanations should be given regarding any assumptions that have been made and any limitations in any statements or views expressed, especially in relation to forward-looking statements.

THE FCA TECHNICAL NOTE

The FCA has also issued a Technical Note, entitled "Disclosures in relation to environmental, social and governance issues (ESG) matters, including climate change", to clarify its expectations in relation to existing FCA rules in this area. The FCA notes that the Technical Note applies with immediate effect and impacts a wider scope of companies than the new listing rule. It is relevant, broadly, to all listed companies and those companies subject to the Market Abuse Regulation (MAR) and Prospectus Regulation (PR).

Briefly, the Technical Note looks at the Listing Rules, the Disclosure Guidance and Transparency Rules (DTRs), the PR and MAR and lists existing obligations that may require disclosure of ESG matters. In some cases, it offers non-exhaustive explanations and/or examples of how these rules might apply in respect of ESG issues.

For example, the FCA notes Listing Principle 1 on adequate procedures, systems and controls to enable a company to comply with its obligations. It states that listed companies should consider whether they need to access and draw on specific data sources (that may not typically be used for general business purposes) when disclosing climate-related and other ESG-related risks and opportunities, and whether there is a need to develop specific, possibly bespoke, systems, analytical instruments or organisational arrangements to collate and assess information.

In a further example, looking at the DTRs which require disclosures amounting to a fair review of the business and a description of the principal risks and uncertainties, the FCA says that, in the context of the Government's target to achieve net-zero carbon emissions by 2050 and to achieve the goals of the Paris Agreement more generally, many companies are likely to need to consider significant changes to their business. These changes may be material to an investor's assessment of the prospects of the company and the risks and opportunities shaping it.

In PS 20/17, the FCA notes the variety of further guidance that people requested be covered in the Technical Note in their replies to the consultation. These are perhaps a good illustration of the areas respondents are somewhat troubled by. For example, there were requests for guidance/discussion on determining the materiality of ESG matters for disclosure and on what types of ESG matters amounted to inside information. On the whole the FCA has left the Technical Note unchanged from the consultation version and whilst it acknowledged difficulties in some of the areas, did not feel it appropriate to go into these and other matters in the Technical Note.

CONCLUSION AND WHAT NEXT?

Close scrutiny of companies' actions and disclosures or lack thereof. Companies should expect that investors and others will only increase their scrutiny of companies' climate change reporting particularly where CRO issues are material. CRO disclosures were already in focus before the TCFD made its recommendations. In addition to the FCA rules that may already require climate-related disclosures (as listed in the Technical Note), there are also various long-standing requirements of the Companies Act 2006 relating to the strategic report that may already require climate-related disclosures from companies.

The Financial Reporting Council has stated, in its annual review of corporate reporting 2019/2020 that one of its priorities when monitoring 2020/2021 annual reports will be climate-related risks. In its end of year letter to CEOs, CFOs and audit committee chairs it goes into some detail on what it encourages companies to disclose on climate change issues.

Investment managers' expectations. In November 2020, the Investment Association (IA) issued its Climate Change Position Paper setting out the stance of the investment management industry on tackling climate change as it seeks to support delivery of the Paris Agreement goals. Whilst much of the IA paper is aimed at investment managers, aspects that are relevant to companies include:

- **Better corporate reporting**. The industry expects that FTSE-listed companies should explain in their annual report the impact climate change will have on their business model and how these risks are being measured and managed. These disclosures should be the result of meaningful action by companies to address the impact of climate change on their business model and strategy. This will provide essential evidence of how well companies are responding to climate change, and whether they are adapting their strategy to ensure the long-term viability of their businesses. The IA particularly mentions the need for companies to improve their reporting to set out the impact of climate change on their strategy and capital allocation decisions.

- **More IA support for members' engagement**. One of the IA's key commitments is to assist its members to continue to engage with listed companies to improve the quality of their climate-related disclosures and to support companies to make an orderly transition to net zero emissions.
- **IA support for TCFD reporting by large private companies**. The IA considers that large private companies should be required to report in line with TCFD.

> *As climate change is one of the greatest systemic risks that we are now facing – addressing this is therefore among the most important actions the industry can take to act in the best interests of savers and investors*
>
> **INVESTMENT ASSOCIATION, 16 NOVEMBER 2020**

More shareholder engagement and activism. Increasing engagement and even activism from shareholders and others on climate-related matters is perhaps likely. This can be seen in any number of ways, ranging from questions or even requisitioned resolutions at AGMs, complaints to regulators about inadequate disclosures through to the threat of litigation. By way of recent example, in December 2020, the Asset Management Taskforce's Stewardship and Stakeholder Working Groups issued a report setting out recommendations intended to strengthen stewardship and responsible investment in the UK. It included a suggestion that shareholders should use requisitioned resolutions more proactively as an escalation tool and develop model resolutions to escalate a range of critical concerns with investee companies, starting with climate change in high risk sectors.

Future mandatory reporting. In November 2020, the Joint Government Regulator TCFD Taskforce, of which the FCA is a member, issued an interim report and accompanying roadmap document towards mandatory climate related disclosures. If the interim report and roadmap proposals are followed, mandatory climate-change reporting would be rolled out as follows:

- 2022: Mandatory reporting for a wider range of listed companies; the largest private UK companies; and the largest UK authorised asset managers, insurers and FCA regulated pension providers;
- 2023: Mandatory reporting for other authorised asset managers, insurers and FCA regulated pension providers; and
- 2024-2025: refinement of requirements given developing best practice.

To achieve this, the interim report notes that the Department of Business, Energy and Industrial Strategy is preparing to issue a public consultation on new Companies Act 2006 obligations in early 2021, with likely application to large UK incorporated companies (including very large private companies), with regulations laid and (subject to Parliamentary time) made in mid-2021.

More ambitious targets. In December 2020, the Prime Minister announced a new target to reduce the UK’s emissions by at least 68 per cent by 2030, compared to 1990 levels. This is intended to set the UK on the path to its previously announced aim of net zero by 2050, and will be just one of the targets that companies will need to be mindful of. See the Appendix next for more on a variety of relevant targets.

APPENDIX

CLIMATE CHANGE: BACKGROUND AND KEY UK, EU AND GLOBAL DEVELOPMENTS AND GOALS

1. BACKGROUND

This appendix gives a very brief introduction to some of the background and current drivers and developments as regards climate change to show the context within which the new listing rule sits. The climate change emergency and the need for investors, companies and individuals alike to transition to a lower carbon economy is seen as critical not only by the UK Government, regulators and investors but also by European and global institutions. It sits at the top of many of these institutions' agendas. This makes it inevitable that more demanding targets and goals will be set and increasingly rigorous policy and regulation will be introduced which will impact both investors and companies in the years ahead.

2. KEY UK DEVELOPMENTS AND GOALS

- **Net-zero emissions by 2050** – in June 2019, the UK amended the legally binding target set out in the Climate Change Act 2008 in order to implement the UK's 2050 net-zero target, (originally the UK had committed to 80% carbon emissions reduction by 2050 which was amended in 2019 to at least 100% reduction by 2050). Interim carbon budgets 1-5 have been pegged to the 80% target.
- In July 2019, the Government launched the green finance strategy which included the expectation that all listed companies and large asset owners should be disclosing in line with the TCFD recommendations by 2022.
- In February 2020, the then Governor of the Bank of England, Mark Carney, launched the 'COP26 Private Finance Agenda'. Its objective is for every professional financial decision to take climate change into account. A framework for reporting, risk management and returns will help finance a whole economy transition.
- **UK Nationally Determined Contribution** – in December 2020, the Climate Change Committee (CCC) delivered its advice to the Government on the UK's 2030 Nationally Determined Contribution (NDC) under the Paris Agreement. The CCC recommends that the UK commits to reduce emissions by at least 68% by 2030, as part of the UK's NDC. Within 12 hours of the CCC announcing its recommendation, the Prime Minister confirmed the Government would be adopting the CCC's recommended target.
- **UK's Sixth Carbon Budget** - in December 2020, the UK's Sixth Carbon Budget was published by the CCC which provides the UK Government with advice on the budget of greenhouse gases the UK can emit during the period 2033-2037. This is the UK's first 'net zero' carbon budget.
- **COP26 –** the UK will host the next UN global climate talks – the 26th Conference of the Parties (COP26) – in Glasgow in November 2021. The Secretary of State for Business, Energy and Industrial Strategy, Alok Sharma, was appointed as COP26 President in February 2020, and has given up his role as Secretary of State to focus on the presidency full time in 2021.

3. KEY EUROPEAN UNION DEVELOPMENTS AND GOALS

- **The European Green Deal** - launched in December 2019, the European Green Deal provides an action plan to boost the efficient use of resources by moving to a clean, circular economy, to restore biodiversity and cut pollution. As part of the Green Deal, the EU aims to be climate neutral by 2050. The Commission has proposed a European Climate Law to turn this political commitment into a legal obligation.

- **2030 Climate Target Plan** – in September 2020 the European Commission put forward a proposal to cut greenhouse gases (GHG) by at least 55 per cent below 1990 levels by 2030. This is a significant increase compared to the existing target of at least 40 per cent, and is consistent with its pathway to becoming climate neutral by 2050 and the Paris Agreement long-term temperature goals, discussed below. In light of this proposal, the Commission intends to review, and where necessary propose to revise, by June 2021, all relevant policy instruments to achieve the additional emission reductions.

4. KEY GLOBAL DEVELOPMENTS AND GOALS

- **The Paris Agreement** - adopted at the UN climate conference (COP) in December 2015 under the United Nations Framework Convention on Climate Change, the Paris Agreement aims to (a) limit global temperature increase to well below 2 °C compared to pre-industrial levels, and (b) "pursue efforts" to limit the temperature increase to 1.5 °C, based on ambitious GHG mitigation by all countries.

  The Paris Agreement also calls for global peaking of GHGs as soon as possible and 'climate neutrality' (that is, to achieve a balance between anthropogenic emissions by sources and removals by sinks of) in the second half of the century.

  Under the Paris Agreement, each country party must submit and maintain nationally determined contributions (NDCs). NDCs are national climate plans highlighting the climate actions, targets, policies and measures that governments aim to implement to address climate change. All parties are to submit updated NDCs by 2020 and every five years thereafter.

  Following submission of NDCs, there will be a periodic collective 'global stocktake' to assess collective progress towards achieving the long-term temperature goals above. The first global stocktake will take place in 2023 and every five years thereafter. This global stocktake is to then inform countries NDCs in a positive feedback loop, with a view to ratcheting-up mitigation ambition and achievement of the Paris Agreement's long-term goals.

- **U.S. to rejoin Paris Agreement** – in January 2021, President Joe Biden recommitted the US to the Paris Agreement by way of Executive Order

  Renewed engagement by the U.S. with the UN climate process has the ability to rebuild global consensus and momentum towards the Paris Agreement's objectives.

- **Net Zero emissions targets from other leading economies** - China, the EU, Japan and South Korea have all announced Net Zero emissions targets for 2050 or soon after (2060 in the case of China).

- **IPPC Reports** - The Intergovernmental Panel on Climate Change (IPCC) published its 5th Assessment Report in 2014. In summary, this concluded that "warming of the climate system is unequivocal" and that it is "extremely likely (95-100% probability) that human influence was the dominant cause of global warming between 1951 and 2010". The sixth assessment report is scheduled to be released in the first half of 2022, the conclusions of which are anticipated to feed into the global stocktake under the Paris Agreement, described above.

- **The UN Sustainable Development Goals** – in particular Goal 13, to "Take urgent action to combat climate change and its impacts".

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