

Climate-Related Financial Disclosure Reforms and Guidance for Companies and LLPs in the UK

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These developments are part of the U.K.'s broader roadmap announced in late 2020 to ensure that TCFD-aligned disclosures are mandatory across the whole U.K. economy by 2025. By taking a TCFD-aligned approach, the U.K. government is focused on trying to achieve coherence with other disclosure requirements in the U.K. and internationally (and recognizes that a number of companies are already voluntarily disclosing in line with the TCFD recommendations).

However, there appears to be a lack of consensus in the market as to whether these disclosure requirements will actually provide investors, regulators and other stakeholders with sufficient information to assess climate-related risks with only 59 percent of respondents agreeing or somewhat agreeing that the information will be sufficient. This was further highlighted in the feedback received by the U.K. government as to whether to require reporting in line with the four overarching pillars (Governance, Strategy, Risk Management and Metrics & Targets) or the, more granular, 11 recommendations of the TCFD recommendations (and whether such reporting should only relate to material information) with several stakeholders taking the view that disclosure in line with the 11 recommendations of the TCFD would improve the quality and consistency of the data disclosed.

A significant number of respondents disagreed with the U.K. government's proposal that scenario analysis (which is one of the 11 recommendations under the TCFD's recommendations) would not be required, and the U.K. government noted that they had received "compelling feedback from many respondents about the importance of scenario analysis to meaningful climate disclosures"¹. In response, the U.K. government proposed that in-scope companies will be required to undertake an analysis of the resilience of the company's business model and strategy taking into consideration different climate-related scenarios but that, at least initially, a qualitative assessment will be sufficient to meet the relevant obligation.

The U.K. government also confirmed that disclosures would be limited to material information despite some dissenting voices to provide directors with flexibility to take into account the nature of the business and how it is conducted. The materiality threshold will apply to disclosures under the Strategy and Metrics & Targets aspects of the TCFD's four pillars where directors reasonably believe that these disclosures are not necessary to gain an understanding of the business. However, if these disclosures are omitted, the directors must offer an explanation as to why they took this approach.

What and how to disclose?

There are a number of existing resources available to in-scope companies to assist with understanding and considering the nature of these disclosure obligations. While these resources have not been directly published by the Department for Business, Energy and Industrial Strategy (BEIS), we expect them to be directly relevant to the new reporting obligations under the Companies Act 2006 and the Limited Liabilities Partnerships Act given the TCFD-aligned approach:

- The TCFD has published [guidance](#) on its metrics, targets and transition plans to further support companies beginning to make TCFD-aligned reports.
- The Financial Reporting Council's (FRC) [Report: Preparing for TCFD reporting](#) includes examples and an analysis of current approaches to disclosure requirements.
- The Financial Conduct Authority (FCA) discussed its disclosure expectations and supervisory strategy for listed companies in [Primary Market Bulletin 36](#) (and proposes certain amendments to the existing technical note on disclosure obligations) and announced a [consultation](#) of a new technical note to provide further guidance on how the FCA would expect issuers to make relevant disclosures (*we also discuss Primary Market Bulletin 36 further in our blog post [here](#)*).
- The London Stock Exchange produced a [guide to climate reporting](#), aimed at helping listed companies to implement climate reporting.
- The FCA has also strongly advised that listed companies consider the [Sustainability Accounting Standards Board](#) metrics when making their disclosures against the TCFD's recommendations.
- BEIS is expected to publish a Q&A document in early 2022 to support in-scope companies in complying with their obligations.

Interaction between different regimes and standards

On December 17, 2021, the FCA [published](#) its final policy position on climate-related disclosures for standard issuers—as already well-known in the market, the FCA is proposing to extend the existing climate-related disclosure rules for premium listed issuers to standard listed issuers for accounting periods on or after January 1, 2022. The FCA has acknowledged the overlap between the requirements under the Listing Rules for both standard and premium listed issuers and the climate-related disclosure requirements for large companies discussed in this article. The FCA is keen to emphasize that BEIS and the FCA have been working together to develop their respective disclosure frameworks, and that the consistent focus on disclosures in line with the TCFD recommendations should help reduce the burden on companies complying with multiple regimes. The FCA further reinforced the intention that the disclosure regimes in the U.K. for both listed and unlisted companies will be updated to align with the International Sustainability Standards Board's (ISSB) reporting standards once published, which are intended to provide a global baseline for reporting requirements and will also build on the TCFD's recommendations. It is expected that BEIS will consult in early 2022 on how these measures will be adopted in the U.K.

In addition, as discussed in our previous [client alert](#), the U.K. government also formally introduced the Sustainability Disclosure Requirements (SDR) in October that are intended to “bring together new and existing sustainability reporting requirements for business”² and, over time, the proposal is to extend sustainability

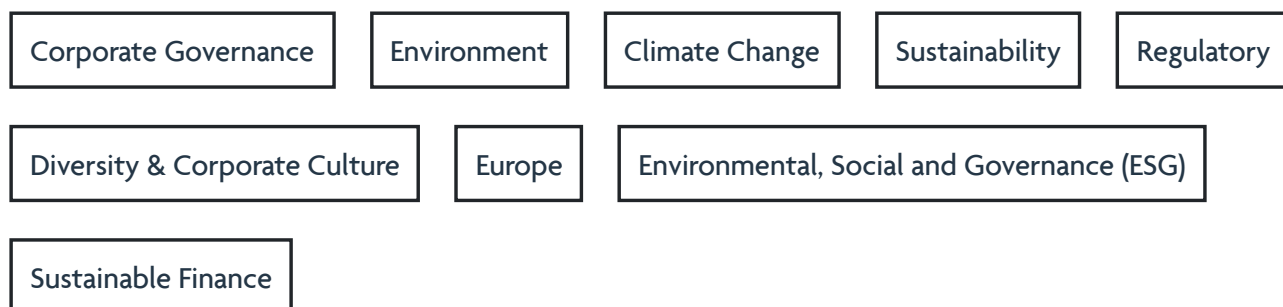
disclosures beyond climate change in line with the proposed U.K. Green Taxonomy. We expect that the U.K. government will be under pressure from stakeholders to ensure that the SDRs complement and build on the existing regimes in the U.K. to avoid significant additional costs and administrative burden of compliance.

Lastly, the U.K. government received feedback from a majority of respondents that alignment between the existing Streamlined Energy & Carbon Reporting (SECR) requirements and the scope of climate-related disclosure requirements (based on TCFD) is required. The U.K. government noted that it will consult on how to achieve this, with the aim to implement amendments to the SECR regime by 2023, and any such consultation will take into consideration the proposed SDRs.

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1029354/tcfd-consultation-government-response.pdf.

²<https://www.fca.org.uk/publication/policy/ps21-23.pdf>.

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