



Need to know

The UK climate-related financial disclosure regulations

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This *Need to know* discusses regulations approved by the UK government in January 2022, which introduced climate-related financial disclosure requirements for certain UK companies and Limited Liability Partnerships (LLPs), and the related guidance issued by the government in February 2022.

- Two statutory instruments take effect for periods commencing on or after 6 April 2022: the [Companies \(Strategic Report\) \(Climate-related Financial Disclosure\) Regulations 2022](#) (SI 2022/31) and the [Limited Liability Partnerships \(Climate-related Financial Disclosure\) Regulations 2022](#) (SI 2022/46).
- These regulations require UK public interest entities (as defined in the Companies Act 2006), Alternative Investment Market (AIM) companies and other UK companies and limited liability partnerships (LLPs) with more than 500 employees and £500m turnover to make climate-related financial disclosures.
- The required disclosures are broadly aligned to the recommendations of the Task Force for Climate-Related Financial Disclosures (“the TCFD Recommendations”).
- These regulations form part of the UK government’s [Green Finance Strategy](#) which sets out how it intends to ‘green’ the financial system and align it with the UK’s commitment to reach net zero greenhouse gas (GHG) emissions by 2050.

Background

In January 2022, the UK government published two statutory instruments as part of the economy-wide Sustainability Disclosure Requirements (SDR) in line with the UK government’s 2021 [Greening Finance: A Roadmap to Sustainable Investing](#) (“the roadmap”). These statutory instruments introduce climate-related financial disclosure (CFD) requirements for certain UK companies and LLPs which are broadly aligned to, but less detailed than, the TCFD Recommendations. They are supported by [non-binding guidance](#) produced by the government (“the government guidance”) to assist with implementation.

For more information please see the following websites:

www.ukaccountingplus.co.uk

www.deloitte.co.uk

The [2023 Green Finance Strategy](#) sets out further plans for the SDR, including the UK government's commitment for sustainability standards issued by the International Sustainability Standards Board (ISSB) to be endorsed for use in the UK; the CFD requirements are intended to drive adoption of the principles of TCFD and serve as a stepping stone to UK application of the international standards.

This Need to know explains the CFD requirements and sets out which entities will be affected.

Scope

The following entities are within the scope of the CFD requirements:

- All UK companies that are already required to produce a non-financial information statement, being UK companies that have more than 500 employees and:
 - have transferable securities (whether debt or equity) admitted to trading on a UK regulated market; or
 - are banking companies; or
 - are insurance companies (i.e. UK Public Interest Entities (UK PIEs) as defined in the Companies Act 2006).
- UK registered companies with securities admitted to AIM with more than 500 employees.
- UK registered companies which are not included in the categories above, which have more than 500 employees and a turnover of more than £500m (referred to in the legislation as “high turnover companies”).
- Traded and banking LLPs with more than 500 employees.
- LLPs which have more than 500 employees and a turnover of more than £500m (referred to in the regulations as “large LLPs”).

Observation

The term “large LLPs” is often used in the context of describing an LLP that does not qualify as small or medium-sized (in other words, an LLP meeting two of the following criteria: turnover exceeding £36m, a balance sheet total of more than £18m and more than 250 employees). However, the new regulations introduce a specific term “large LLPs” setting out the criteria for making climate-related financial disclosures, which are quite different; care should be taken not to confuse the two.

For a period that is a company's or LLP's financial year but not in fact a year, the £500m turnover figure must be adjusted proportionately.

When assessing whether it meets the size criteria, a parent company or LLP should consider the size of the group that it heads. In addition, it may only use the “net” aggregate turnover for assessing the £500m threshold. In accordance with section 383(6) of the Companies Act 2006, “net” means the aggregate turnover after any set-offs and other adjustments made to eliminate group transactions. There is no alternative “gross” threshold in this assessment, unlike other group size assessments in the Companies Act.

Companies are required to report climate-related financial information in the non-financial information (NFI) statement, which is also renamed by the legislation to become the non-financial and sustainability information statement (“the NFSI statement”).

Observation

Companies that are already required to prepare an NFI statement (i.e. UK PIEs with more than 500 employees) often prepare this as a statement containing a list of cross-references to locations in the annual report where the information required by the statement can be found. It is also acceptable to follow this practice for the CFD requirements in the NFSI statement, as long as the disclosures are within the annual report. It is not, however, permissible to cross-refer to a separate document outside the annual report.

LLPs are required to include the climate-related financial disclosures in the energy and carbon report which forms part of their annual report, except for traded and banking LLPs which are required to include them in the strategic report.

If the company is a parent company preparing group accounts, the NFSI statement should include information relating to the company and its subsidiary undertakings included in the consolidation.

Observation

For the purpose of determining whether a company or LLP that is a parent is in scope, it is necessary to look at the size of the group that it heads, even if it does not prepare a consolidated annual report.

Once it has determined whether it is in scope, it is then necessary to consider what it needs to report. If a consolidated annual report is prepared, then the disclosures required will be in respect of the parent company and all of the subsidiaries included in the consolidated annual report. However, if the parent company takes an exemption from preparing a consolidated annual report, it will only need to report on its own activities. The government guidance notes that in such situations, the climate-related financial disclosures should relate to the parent company, including how climate-related risks and opportunities may affect the value of the investment in those subsidiaries. This also has the effect that a subsidiary of a parent company that does not produce consolidated accounts, and that is within scope on an individual basis will also need to make climate-related financial disclosures in its individual accounts.

If a company is a subsidiary undertaking at the end of a financial year and is included in the consolidated NFSI statement of a UK parent company, it is exempt from the new requirements. This is via application of the existing exemption for subsidiary undertakings from preparing a non-financial information statement. Similar exemptions exist for large LLPs but in a slightly different manner as LLPs prepare an energy and carbon report, not an NFSI statement.

Observation

There are no specific exemptions in the CFD regulations; instead they make use of existing exemptions in company and LLP law from presenting the statement or report in which the climate-related financial disclosures appear. This means that a UK company can take an exemption from preparing an NFSI statement if it is included in a UK parent company's consolidated NFSI report. Similarly, a UK LLP can take an exemption from preparing an energy and carbon report if it is included in a UK parent LLP's consolidated energy and carbon report, or a UK parent company's consolidated directors' report.

However, because of the wording of the law, the exemption follows the type of report that is made. This means a subsidiary company of a UK LLP cannot be exempt from the CFD requirements, even if it is included in that UK LLP parent's consolidated energy and carbon report. This is because the law states that the subsidiary company is only exempt if it is included in a consolidated NFSI statement. Accordingly, even though the parent LLP may present consolidated climate-related financial information, because it does not prepare an NFSI statement, the exemption is not available to the subsidiary company.

Disclosure requirements

There are eight CFD requirements in the regulations which broadly align to the four pillars of TCFD (i.e. governance, risk management, strategy and metrics and targets). The government has issued non-binding guidance setting out its expectations as to what should be disclosed for each of these requirements. The following table sets out the disclosure requirements and the key expectations in the non-binding guidance for each. The government guidance also encourages in-scope companies to review the FRC's [*Guidance on the Strategic Report*](#) when considering how best to integrate the CFD information with other disclosures in the strategic report.

Disclosure requirement:	The government guidance calls for information about (in summary):
<p>a) A description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities.</p>	<ul style="list-style-type: none"> • How risks and opportunities relating to climate change are identified, considered, and managed within its governance structure. • The extent to which information relating to the climate-related risks and opportunities is considered by the Board. • If no directors have oversight of climate-related risks and opportunities, and/or no one within the company has responsibility for assessing or managing climate-related risks and opportunities, then this should be stated.
<p>b) A description of how the company identifies, assesses, and manages climate-related risks and opportunities.</p>	<ul style="list-style-type: none"> • The systems and processes in place that enable risks and opportunities associated with climate change to be identified, assessed and managed. • Information explaining whether risks and opportunities are identified at subsidiary level and reported up through the group or identified at group level only. • How frequently this risk identification exercise is required to be refreshed.
<p>c) A description of how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management process.</p>	<ul style="list-style-type: none"> • The extent to which climate-related risk is currently integrated into the overall approach to risk management, or whether it is currently subject to separate procedures, noting that over time, businesses are expected to integrate the assessment of climate risk into overall risk management processes.
<p>d) i) A description of the principal climate-related risks and opportunities arising in connection with the company's operations. ii) The time periods by reference to which those risks and opportunities are assessed.</p>	<ul style="list-style-type: none"> • Sufficient detail for users to be able to understand the risks and/or opportunities posed by climate change and to understand the potential effects on the business. • The mitigations, where appropriate, that a business has already put in place and the mitigating actions that it is planning to take. • The time horizons over which risks and/or opportunities may crystallise, categorised where possible into short, medium and long-term, and the basis for determining those time horizons.
<p>e) A description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy.</p>	<ul style="list-style-type: none"> • "Physical" climate change risks, such as increased frequency of extreme weather events or sustained impacts from temperature rises, for example, to supply and distribution arrangements, and "transition" risks, that is, risks associated with transition to a net zero economy.
<p>f) An analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios.</p>	<ul style="list-style-type: none"> • An assessment of the business model and strategy in light of risks arising from different climate change scenarios, using appropriate scenarios for the business depending on the nature of the risks and opportunities to which the business is most exposed. • Qualitative scenario analysis as a minimum. • Assumptions and estimates used, including an explanation of any changes from previous years. • The climate scenario analysis should normally be renewed at least every 3 years to ensure users of the accounts are provided with up to date and relevant information.
<p>g) A description of the targets used by the company to manage climate-related risks and realise climate-related opportunities and of performance against those targets.</p>	<ul style="list-style-type: none"> • A clear explanation of targets, including their relevance to the future operations of the business. • A timeframe over which those targets are expected to be met and how progress in meeting those targets is assessed, ideally linked to disclosures made under requirements d), e) and f).
<p>h) A description of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based.</p>	<ul style="list-style-type: none"> • Which climate-related key performance indicators (KPIs) are used to assess progress against the targets to manage climate risks and opportunities, how these are calculated, and, if different from the targets set, how the KPIs relate to targets. • If KPIs are changed, an explanation for the change and why the new KPI is more effective than the previous one.

The UK climate-related financial disclosure regulations

The regulations establish that disclosure requirements a), b), c) and d) above are always required. However, where the directors of a company (or members of an LLP) reasonably believe that the whole or a part of a climate-related financial disclosure required by e), f), g) or h) is not necessary for an understanding of the company's business, the regulations allow for those disclosures to be omitted. However, in this scenario, there must be a clear and reasoned explanation of the rationale for determining why such disclosures are not necessary.

The government guidance also highlights that the climate-related financial disclosures should be consistent with the disclosures in the financial statements. For instance, estimates, assumptions and judgements used in preparing the financial statements are expected to be consistent with the estimates, assumptions and judgements used in the climate-related financial disclosures.

Observation

The CFD requirements are similar to those set out in the TCFD recommendations and align broadly with the four pillars of TCFD, but they are not identical. Careful consideration is required in determining the appropriate climate-related financial information to be disclosed.

In addition, most companies with a premium or standard listing of shares on the London Stock Exchange will find themselves subject to both the CFD requirements and those set out in the Listing Rules, which require disclosure consistent with the TCFD recommendations on a 'comply or explain' basis. It will be necessary for such companies to ensure that they meet the statutory CFD requirements as well as providing the required TCFD compliance statement required under the Listing Rules.

The non-binding guidance issued by the government confirms that for companies subject to both the TCFD requirement in the Listing Rules and the CFD requirements in law, disclosure in a manner consistent with all of the TCFD recommendations and recommended disclosures should meet the requirements of the CFD regulations as well. However, it is important to note that while the Listing Rules permit the TCFD disclosures to be presented in a separate document outside the annual report, this is not permitted by the CFD regulations. Therefore, the annual report itself must contain sufficient disclosure to meet the CFD requirements.

Effective date

The regulations are effective for financial years commencing on or after 6 April 2022.

Further information

If you have any questions about the policy paper, please speak to your usual Deloitte contact.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature.

[GAAP in the UK on DART](#) allows access to the full IFRS Standards and UK GAAP, linking to and from:

- Deloitte's authoritative, up-to-date, GAAP in the UK manuals which provide guidance for reporting under IFRS Standards and UK GAAP
- Model financial statements for entities reporting under IFRS Standards and UK GAAP

In addition, our [sustainability reporting](#) volume of GAAP in the UK provides guidance on disclosure requirements and recommendations which businesses must consider in light of the broader environmental, social and governance matters which can significantly drive the value of an entity.

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