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Dear Friends,

*In April 2022, the UK mandated climate-related financial disclosures based on TCFD for some large companies. The newsletter examines the initial implementation status, highlighting early observations and challenges faced by in-scope entities. Looking forward, it discusses the latest developments, on the Sustainability Disclosure Standards (SDSs) and the expected UK Sustainability Reporting Standards (UK SRS). Hope that you will find the information useful for your ESG journey!*

*AA & T Consulting*

**Introduction**

On 6 April 2022, the UK became the first G20 country to implement mandatory TCFD-aligned reporting applicable to over 1,300 of the largest UK-registered companies and financial institutions<sup>i</sup>.

In October 2023, the TCFD was disbanded but its requirements were fully incorporated into Sustainability Disclosure Standards (SDS) issued by the International Sustainability Standards Board (ISSB)<sup>ii</sup>. Also, in October 2023, the UK Transition Plan Taskforce (TPT) launched the TPT Disclosure Framework, a "gold standard" for transition plans<sup>iii iv</sup>. These plans outline how companies will adapt their business models to align with a net-zero economy. The Government aimed to make the UK-endorsed ISSB standards available for consultation in Q1 2025<sup>v</sup>.

Further, in January 2025, the Financial Reporting Council (FRC) conducted a review of climate-related financial disclosures by companies listed on the AIM and large private companies, with the findings issued in January 2025<sup>vi</sup>.

**Initial Implementation Observations**

In July 2022, Financial Conduct Authority (FCA) and FRC jointly published a report on a high-level quantitative review of compliance with the Listing Rule by the 171 premium listed companies that had published their disclosures by end-April 2022. The key observations are<sup>vii</sup>:

**Initial Implementation Observations (cont'd)**

- Over 90% of selected companies self-reported that they made the TCFD's Governance and Risk Management pillars disclosures, but below 90% for the Strategy and Metrics and Targets pillars;
- 81% indicated that they made disclosures consistent with the seven recommended disclosures expected by FCA;
- Some indicated that they made disclosures consistent with the recommended disclosures, but the disclosures were actually very limited;
- Companies identified climate change as a principal/emerging risk reported higher consistency against recommended disclosures; companies primarily engaged in FCA-regulated activity indicated higher consistency for the recommended disclosures.

Further, in January 2025, FRC issued review report on climate-related financial disclosures (CFD) for AIM and large private companies. The quality of CFD reporting varied across the selected companies. The key observations are<sup>viii</sup>:

- Several companies failed to provide any analysis on resilience of the company's business model and strategy for different climate-related scenarios (scenario analysis) required by the Company Act 2006 (the Act), and some provided non-company specific disclosures.

**Initial Implementation Observations (cont'd)**

- Regarding disclosures for climate-related targets, and the assessment of progress against these targets, only half of the companies presented all such information.
- The governance arrangements in respect of climate-related risks and opportunities were provided by almost all companies but were sometimes unstructured and spread throughout the annual report without specific cross-references.
- Most companies disclosed climate-related risks, but not opportunities. Further, the timeframes for assessment of these risks and opportunities were not always stated.
- Some companies referred to climate-related information presented outside of the annual report which does not comply with the requirements of the Act.
- The most common reporting gaps were related to quantitative elements of the TCFD's recommendations, such as scenario analysis, metrics and targets, including limited disclosures on Scope 3 emissions and climate targets.

**Challenges faced during implementation**

In scope entities in the UK should have completed their 1<sup>st</sup> reporting cycle. Challenges faced during implementation includes <sup>ix x xi xii</sup>:

- Data gaps and appropriateness of methodology applied
- Missing or limited information on transition plans, targets and milestones and actionable steps to achieve those targets
- Inconsistency in interpretation of CFD requirements
- Existing governance process not clearing incorporated climate-related risks
- Limited information available on Scope 3 emissions, climate targets and/or net zero commitments
- Insufficient information available for sector specific disclosure

**Looking Forward**

The initial year of implementation showed some progress, particularly in establishing governance and risk management structures. Challenges remain in achieving full compliance, especially in areas of quantitative reporting, applying consistent methodology and scenario analysis. The upcoming UK SRS based on IFRS S1 and S2 indicated a move to more standardized, comprehensive, and globally aligned sustainability reporting.

Here are some suggested actions:

- 1) *For Investors:* Investors should continue to critically assess the quality, progress and completeness of companies' sustainability disclosures, especially readiness/ investment/necessary provision/transition plan towards net-zero targets and broader sustainability goals. These may indicate positive or negative adjustments to their values.
- 2) *For Company Management:* It is crucial to prioritize the enhancement of data collection and management processes, particularly for Scope 3 emissions and the broader range of sustainability metrics. Investing in conducting robust climate scenario analysis and developing credible net-zero transition plans is also essential. Companies should get its internal reporting prepared for the requirements of the coming UK SRSs for a smooth transition.
- 3) *For Company Boards:* To discharge its fiduciary duty, Board members should understand latest disclosure requirements and have oversight of the companies' existing reporting and monitoring processes and preparation for the new requirements.

**How can AA & T Consulting help?**

If you need any help on your ESG journey or clarification on regulatory matters, feel free to contact us by phone (+852 9181 8659 (HK); +61 452 371 753 (Aus.)), or by email to

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**Appendix 1: Timeline of Key Developments**

The timeline for key developments of UK Mandatory Sustainability Disclosure is as follows:

<b>Date</b>	<b>Development</b>
<b>April 2022</b>	<i>Mandatory TCFD implementation begins for in-scope entities</i>
<b>July 2024</b>	<i>TCFD officially disbands</i>
<b>July 2024</b>	<i>IFRS Foundation takes over monitoring of climate-related disclosures</i>
<b>Expected Spring 2025</b>	<i>UK government aims to publish UK SRS standards following public consultation</i>
<b>Expected Mid-to-Late 2025</b>	<i>UK government aims for final endorsement of UK SRS</i>

**Appendix 2: In-Scope Entities**

The key criteria for each type of entity required for UK Mandatory Sustainability Reporting are as follows:

Entity Type	Key Criteria
<b>UK companies currently required to produce a non-financial information statement</b>	More than 500 employees AND (Listed on UK regulated market OR Banking company OR Insurance company)
<b>UK registered companies with AIM listing</b>	More than 500 employees
<b>UK registered companies not included above</b>	More than 500 employees AND Turnover > £500m
<b>Limited Liability Partnerships (LLPs)</b>	More than 500 employees AND Turnover > £500m OR Banking LLP OR Traded LLP
<b>Asset managers and certain asset owners</b>	Specific rules based on AUM, directed at clients
<b>Premium and standard listed companies</b>	Required under FCA Listing Rules on a 'comply or explain' basis

*Note: The information contained in this document is general in nature and is not intended to address any particular circumstances of individuals or entities. Although we endeavor to provide accurate and timely information, there is no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.*

## References

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