

Climate reporting: FRC review examines quality of climate-related disclosures

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In the UK today, the Financial Reporting Council has published a thematic review assessing the quality and maturity of climate-related metrics and targets disclosures.

The Financial Reporting Council (FRC) analysed the Task Force on Climate-Related Financial Disclosures (TCFD) reporting in the 2022 annual reports of 20 UK listed companies across four sectors: materials and buildings, energy, banks and asset managers. The [thematic review report](#) identifies areas of better reporting practice as well as opportunities for improvement.

In its [press release](#), the FRC highlights that key findings of the thematic review show an incremental improvement in the quality of companies' disclosures of net-zero commitments and interim emissions targets, however, that disclosures of concrete actions and milestones to meet targets were sometimes unclear in the annual reports that were reviewed and that comparability of metrics between companies remains challenging. The FRC further highlights that many companies are finding it challenging to explain their plans for transitioning to a low-carbon economy clearly and concisely and that explanations of how climate targets affect financial statements still need improvement, with boilerplate language on climate being 'considered' providing little insight on impacts.

The FRC notes the continued need for clearer, more decision-useful disclosures of companies' plans to transition to a low-carbon economy and encourages companies to focus on explaining targets, actions and any impacts on their financial statements. As companies mature in their reporting, the FRC expects clearer and more concise disclosures reflecting how companies measure and manage their individual climate risks and opportunities.

By way of background, the UK became the first G20 country to make it mandatory for Britain's largest businesses to disclose their climate-related risks and opportunities in line with TCFD. For financial years beginning on or after 6 April 2022, the Companies Act 2006 has introduced mandatory (TCFD-aligned) climate-related financial disclosures for certain large UK incorporated companies and limited liability partnerships. In addition, the Listing Rules in the UK now also require both premium and standard listed companies to include a statement in their annual report that sets out whether the annual report (or another document) contains disclosures consistent with the TCFD recommendations and recommended disclosures, or to explain the reasons why if they have not made such disclosures.

Companies should also be aware that it is expected that the UK government will endorse the International Sustainability Standards Board (ISSB) [IFRS S1 and IFRS S2 standards](#) issued on 26 June 2023, which may impact the way that companies make their climate-related disclosures. The precise impact of the ISSB standards on existing reporting requirements is yet to be seen, pending the government's endorsement. It is also anticipated that in the autumn of 2023, the UK Transition Plan Taskforce will publish its Disclosure Framework and Implementation Guidance for transition plans (with specific sector guidance to follow), which will further impact the disclosures that companies will be expected to make. It is worth noting that UK companies may also be impacted by developments in other jurisdictions, which should be kept under review (for further detail see Appendix 1 of the thematic review report).

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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