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## **UK Sustainable Finance Strategy:**

Are you ready?

## Entity level TCFD disclosures

### Who is in scope?

UCITS ManCos, UK AIFMs and authorised firms providing portfolio management (under an extended definition) (“in-scope firms”), in relation to UK UCITS or AIFs managed by them or portfolio management services provided by them (“in-scope business”) **from the UK** unless they have less than **£5bn AUM** of in-scope business.

### What must in-scope firms do?

- Publish **entity level reports** consistent with the **TCFD Recommendations and Recommended Disclosures**
- The report must contain: (i) information relating to delegation and use of third parties; (ii) the firm’s approach to **climate-related scenario analyses** and how scenario analyses are applied in the firm’s investment and risk decision making process; (iii) **targets** the firm has set to manage climate-related risks and opportunities and **KPIs it uses to measure progress against these targets** (and where no such targets are set, an explanation therefor); and (iv) **a compliance statement signed by a member of senior management of the firm**
- **Reports to be published by 30 June** each year, and should cover a **12 month period starting no earlier than 1 January of the previous calendar year**. Any metrics or targets set out in the report must be calculated by reference to a date within this 12-month period
- Reports must be **published in a prominent place on the main website** for the business of the firm

### When does the obligation apply from?

- For in-scope firms with **£50bn or more** under management in their in-scope business (“large in scope firms”), the **first report is due by 30 June 2023**, covering a **reporting period from 1 January 2022**
- For **other in-scope firms**, the first report is due by **30 June 2024**, covering a **reporting period from 1 January 2023**

## Product level TCFD disclosures

### Who is in scope?

In-scope firms are the same as those for entity level TCFD disclosures.

### What must in-scope firms do?

- Prepare **public TCFD product reports** in relation to **authorised funds** or **listed unauthorised AIFs** (eg, investment trusts) managed by the in-scope firm
- Provide **on-demand TCFD product reports** to clients who require the reports to satisfy their own climate-related financial disclosure obligations – for these purposes, an investor in an unauthorised unlisted AIF is treated as a client of the UK AIFM managing the AIF
- Product reports must contain information on, inter alia: **(i) scope 1 and 2 greenhouse gas emissions; (ii) scope 3 greenhouse gas emissions; (iii) total carbon emissions; (iv) total carbon footprint; and (v) weighted average carbon intensity**; together with **contextual information** and **historical annual calculations**
- **Public TCFD product reports** to be published by **30 June each year** covering a 12 month reporting period, and **on demand TCFD product reports** to be provided within a **reasonable period of time following the client request**.
- For **authorised funds**, the reports should be included in the first set of **half-yearly or annual reports** published after 30 June and should, in any case, be included in the first annual report published after 30 June. For **listed unauthorised funds**, the reports should be included in the **in scope firm’s entity level report**.

### When does the obligation apply from?

- For **public TCFD product reports**, the timing is the **same as for the entity level TCFD reports**
- For **on-demand TCFD product reports**, the earliest a client request may be made is: (i) for **large in scope firms**, 1 July 2023 for a reporting **period commencing on 1 January 2022**; and (ii) for **other in-scope firms**, 1 July 2024 for a reporting **period commencing on 1 January 2023**.

## Investment labels

### What is the proposal?

In DP 21-4, the FCA has proposed **five product labels** (impact, aligned, transitioning (all of which are classified as “sustainable”), responsible and not promoted as sustainable), together with proposed minimum criteria for each. The FCA is also considering whether to **set ‘entry-level criteria’**, which would apply to the entities managing these products.

### Which products are in scope?

It is **currently unclear** whether the labelling regime applies only to products managed by UK-authorized asset managers, or more widely to any products marketed into the UK.

### When do the labels apply from?

There is no firm indication of timing yet. The FCA is expected to publish a **consultation paper in Q2 2022**.

### What do UK asset managers need to do now?

The deadline for submitting responses to the discussion paper has passed, but asset managers may wish to **start assessing their fund ranges against the minimum criteria proposed by the FCA** when the consultation paper is published. One of the major areas of focus for the FCA and asset managers will be **mapping these investment labels onto the SFDR** classification of financial products (ie, Art 6, 8 or 9).

## Sustainability disclosure requirements (“SDRs”)

### What is the proposal?

In DP 21-4, the FCA proposes to supplement the TCFD disclosure framework summarised above, to include a broader range of sustainability disclosures, which will include:

- **Consumer-facing product disclosures (aimed at retail investors)** which will include inter alia: (i) investment product label; (ii) specific sustainability objectives; (iii) investment strategy pursued to meet the objectives; (iv) proportion of assets allocated to sustainable investments, according to criteria set out in the UK Taxonomy; (v) approach to investor stewardship; and (vi) wider sustainability performance metrics. The FCA is seeking views on the level of prescription required including potential use of templates and/or an ‘ESG factsheet’.
  - **Detailed product level disclosures (aimed at institutional investors)** which will contain additional information to supplement the content in the consumer-facing disclosures, including (i) more information on the methodologies used to calculate metrics; (ii) information on data sources, limitation, data quality; (iii) further supporting narrative, contextual and historical information; (iv) further information about UK Taxonomy alignment; and (v) information about benchmarking and performance.
  - **Detailed entity level disclosures (aimed at institutional investors)** which would contain information on how risks and opportunities are incorporated into the investment process of the entity, similar to the entity level TCFD disclosures.
- The FCA is also considering whether and to what extent these disclosures should require **independent verification**.

### Who is in scope?

Although not entirely clear, it appears that the scope will be the same as for the TCFD disclosures summarised above.

### When do these requirements come into force?

There is no firm indication of timing yet. The FCA is expected to publish a **consultation paper in Q2 2022**.

### What do UK asset managers need to do now?

The deadline for submitting responses to the discussion paper has passed, but asset managers should **engage with the FCA and industry** to understand these obligations and consider how they **map across to other disclosure obligations including under the SFDR**.



## How can HSF support?



Scoping and assessing the applicability of the UK regulatory regime to asset managers and financial products they manage or market in the UK



Mapping the UK regulatory regime onto the EU SFDR regime, and helping to identify overlaps, inconsistencies and potential efficiencies in classification and reporting



Assisting with product classification using the proposed investment labels



Supporting the creation of new products, implementation of strategies and optimisation of procedures adapted to ESG developments and trends, with a focus on realising synergies and simplification



Interpreting the relevant regulatory provisions and providing advice on legal and implementation questions



Reviewing, drafting and verifying sustainability-related policies, processes, internal controls, reporting lines and overall governance



Organising customised workshops/training in the context of sustainability-related projects and general educational sessions

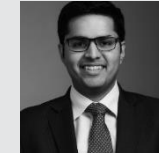


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