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Insights

UK CORPORATE BRIEFING FEBRUARY 2025

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SUMMARY

Welcome to the Corporate Briefing, where we review the latest developments in UK corporate law that you need to know about. In this month's issue we discuss:

FRC thematic review of climate-related financial disclosures by AIM and large private companies

The FRC has published a thematic review of climate-related financial disclosures for in-scope AIM and large private companies and identified areas for improvement and expectations.

FRC THEMATIC REVIEW OF CLIMATE-RELATED FINANCIAL DISCLOSURES BY AIM AND LARGE PRIVATE COMPANIES

Background

Since April 2022, entities with more than 500 employees that are:

- Traded, banking, insurance or AIM companies
- Private companies and LLPs with a turnover of more than £500m

are required to comply with mandatory climate-related financial disclosures set out in the Companies Act 2006 (the "Act"). These provisions require companies to prepare a non-financial and sustainability information statement in the strategic report of the accounts discussing the risks and opportunities they are exposed to as a result of climate change. These requirements are separate from the 'comply or explain' requirements in the Listing Rules in relation to TCFD although there is significant overlap.

Thematic Review

The Financial Reporting Council ("FRC") has published a thematic review of these requirements for in-scope AIM and large private companies. The FRC found that the quality of disclosures varied and areas for improvement include:

- Scenario analysis – several companies failed to provide any analysis of the resilience of the company's business model and strategy considering climate-related scenarios whilst others provided disclosures that were not sufficiently company specific;
- Targets – disclosures in relation to climate-related targets and the assessment of progress against these using KPIs requires improvement with only half the companies presenting all of this information;
- Climate-related risks – most companies disclosed climate-related risks but opportunities were not always identified and sometimes the timeframes over which the risk and opportunities were assessed were not always described;
- TCFD – some companies voluntarily based their disclosures on the TCFD framework but a number of these failed to present some of the disclosures required by the Act; and
- Accounts – some companies disclosed these climate-related disclosures outside of the accounts – this does not comply with the requirements of the Act.

Key expectations of the FRC

Companies and LLPs should:

- provide, in the accounts, all the disclosures required by the Act. Cross-referring to information presented outside the accounts does not comply with the requirements of the Act;
- present an entity-specific analysis of the resilience of the business model and strategy, taking into consideration different climate-related scenarios. This can be prepared on either a qualitative or quantitative basis;
- describe the targets used to manage climate-related risks, and to realise climate-related opportunities, and the KPIs used to measure progress against these targets;
- explain, where material and relevant, the financial statement effect of strategies introduced to manage climate-related risks and opportunities; and
- ensure disclosures are clear, concise and entity-specific.

RELATED PRACTICE AREAS

- Corporate

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