

# Mandatory Climate Risk Disclosures in the UK by 2025

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For certain companies that do business within the United Kingdom (UK), new climate risk reporting requirements are coming down the pipeline. On November 9, 2020, the Chancellor of the Exchequer [announced](#) that the UK will [require](#) certain companies to improve their climate-risk reporting for reporting periods that begin January 2021. The UK's Financial Conduct Authority (FCA) plans to develop and finalize additional rules by the end of 2021 that will take effect in 2022 and that will apply to more entities and increase mandatory reporting. Broad, economy-wide, mandatory climate-risk disclosure rules are expected to be in place by 2025. Reporting rules are likely to be aligned with the Task Force for Climate-Related Financial Disclosures' (TCFD) recommendations.

## TCFD Reporting Recommendations

TCFD developed [recommendations](#) for “more effective climate-related disclosures” that aimed to provide investors, shareholders, insurers, and others with improved and comparable information regarding the climate risks and opportunities faced by the companies within their portfolios. A dual goal of the TCFD was that companies implementing TCFD recommendations would better understand their climate-related risks and opportunities, resulting in improved responses and management decisions. Generally, the TCFD recommendations aim to standardize disclosure requirements to aid both companies and investors in making informed decisions about their future in a rapidly changing global climate.

## UK Disclosure Requirements

The mandatory reporting requirements are expected to apply to UK listed commercial companies, UK-registered large private companies, banks, building societies, insurance companies, UK-authorized asset managers, life insurers, FCA-regulated pension schemes and occupational pension schemes. These entities must disclose the risks climate change pose to their operations.

In 2019, the UK created a task force, the [Joint Government-Regulator TCFD Task Force](#) (Task Force), chaired by the HM Treasury and consisting of regulators and government departments, to assess the most effective approach to implementing TCFD's recommendations. The Task Force published an interim report containing an implementation roadmap, with many disclosure

requirements coming into effect by 2023. The [roadmap](#) depicts an incremental implementation of the rule, where the rule applies to different types of entities at different times over the next five years.

## Additional Green Initiatives

The UK will also implement a “[green taxonomy](#)” that will provide a common framework for determining which economic activities can justifiably be considered sustainable. The taxonomy is intended to “improve understanding of the impact of firms’ activities and investments on the environment.” The UK will rely on the scientific metrics articulated in the [EU taxonomy](#), but the UK Green Technical Advisory Group will review the metrics to ensure they fit within UK markets.

As part of its move to address climate change, the UK also announced that it would sell a [Sovereign Green Bond](#) in the 2021 financial markets. Money raised from bond sales would pay for carbon-reducing projects, infrastructure investment, and green jobs. The government intends to conduct further issuances of the bond as demand rises.

## Broader Impacts

Initially, UK companies and financial firms can comply with the announced disclosure requirements by disclosing climate-risks in accordance with TCFD recommendations or by providing a “[reasoned explanation](#)” if they are unable to make complete disclosures – an approach often referred to as “comply or explain” reporting. However, compliance with specific disclosure requirements is expected to become increasingly mandatory, beginning in 2022 for some entities. Companies will need to understand and identify climate-related risks within their business, as well as have a detailed understanding of the TCFD’s recommendations to ensure compliance with the UK’s reporting requirements.

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