FCA CP20/3 Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations

- UK Finance response -

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By email: cp20-03@fca.org.uk

Introduction

UK Finance is the collective voice for the banking and finance industry. Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

In addition to supporting the Government's green finance strategy in support of the UK's statutory commitment to achieve a net-zero carbon economy by 2050, UK Finance is a longstanding proponent of the recommendations of the Financial Stability Board's (FSB's) Taskforce on Climate-related Financial Disclosures (TCFD). These lie at the core of the approach by the Prudential Regulatory Authority (PRA) to bring responsibility for climate risk within mainstream banking supervision and the guidance issued more latterly by the Climate Financial Risk Forum (CFRF). With over 1,000 organisations globally signed up to the TCFD, the framework provided by its recommendations provide the best prospect for achieving a universal approach in respect of climate reporting.

This said, the authors of the TCFD recommendations appreciated that its recommendations could not be acted upon overnight, estimating that it would take 3-5 years before organisations would have the systems in place and be supported by a data eco-structure enabling the recommendations to be met in full. Much developmental work continues, whether in respect of definitions, data gathering or scenario analysis.

The proposals set out in the consultation paper for UK premium listed firms to state whether they comply with TCFD-aligned disclosures and to explain any non-compliance is reflective of the fact that the TCFD framework is still being built. We are therefore supportive of the approach proposed by the FCA, and also the stated intention that the proposals be a first step towards expanding the scope of the proposals, both as they apply to listed companies and to financial services firms.

Many larger financial services firms are between years three and four in their TCFD application. It is also the case that on 1 July the PRA announced that it expected PRA-regulated firms to fully meet their supervisory expectations in respect of responsibility for climate risk by 31 December 2021. We therefore support the FCA's proposal that premium listed companies be required to make enhanced climate disclosures on a 'comply or explain' basis for accounting periods beginning on or after 1 January 2021.

As the FCA clearly appreciates, however, companies are still building up their capability and establishing appropriate data sources. We would therefore expect the quality of climate disclosure to improve further over a period of years following the introduction of the listing requirement.

It is also relevant to note that many firms can be expected to give further thought to their support for net-zero climate ambitions over the next year as we look ahead to the UK and Italy co-hosting COP 26. This will also provide an improvement in the information content of climate-related disclosures and the underlying commitment to action that the disclosures represent.

Since the publication of the consultation paper, we have also seen the International Business Council (IBC) of the World Economic Forum (WEF) publish a report on global ESG standards[1] building upon a statement by five leading international sustainability standard setters on their intent to work towards a comprehensive corporate reporting system[2] . We see both as highly significant events and would welcome an early commitment on the part of HMG and its regulatory authorities to the effect that further regulatory and statutory requirements will be aligned to the global framework that we can reasonably expect to be put in place in the near term

We would add that UK Finance has been pleased, on behalf of banking and finance, to support the Grantham Research Institute in the research behind, and the publication of, its report *Financing climate action with positive social impact: How banking can support a just transition in the UK.* While the report is addressed principally to the banking and finance industry, the report, together with the Grantham Institute's earlier work on *Investing in a just transition* has relevance for all issuers in terms of the merits of stepping up to discharging climate responsibility in a fair and inclusive way..

We respond to the specific questions set out in the consultation paper below.

Specific questions

Scope

Q1: Do you agree that our new rule should apply only to commercial companies with a premium listing, at least initially? If not, what alternative scope would you consider to be appropriate, and why?

Yes, for the reasons given in the paper.

Q2: Do you agree that sovereign-controlled commercial companies with a premium listing should also be in scope? If not, why should these companies not be included?

Yes. We can see no grounds for their exclusion.

[1] WEF IBC report 'Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, 22 September 2020

[2] 'Statement of Intent to Work Together Towards Comprehensive Corporate Reporting', CDP, DCSB, GRI, IIRC and SASB, September 2020.

Asset managers with a premium listing

Q3: Do you agree with our approach?

Yes, we agree that in line with TCFD recommendations asset managers should report principally as issuers, through the lens of the carbon-footprint of their client portfolios. We note that the FCA will clarify separately its approach to enhancing climate-related disclosures by asset managers as FCA-regulated firms.

Design of our proposed new rule

Q4: Do you agree that our rule should reference the 4 recommendations and 11 supporting recommended disclosures included in the TCFD's June 2017 final report? If not, what alternative approach would you prefer, and why?

Yes, we agree.

Q5: Do you agree that we should make explicit reference in Handbook guidance to the TCFD's "guidance for all sectors" as well as the "supplemental guidance for the financial sector" and the "supplemental guidance for non-financial groups" accompanying each recommended disclosure? If not, what alternative approach would you prefer, and why?

Yes, we agree.

Q6: Do you agree that we should include additional guidance which references the wider set of materials that have been published both within and alongside the TCFD's final report, as useful sources of guidance and interpretation when complying with our proposed rule?

Yes, we agree.

Proportionality: ability to explain

Q7: Do you agree that we should introduce the new rule on a 'comply or explain' basis? If not, what alternative approach would you prefer, and why?

Yes, as outlined above, there is much developmental work going on in respect of climate-related financial disclosures. We therefore support the introduction of the new rule on a 'comply or explain' basis in the first instance, but consider that this should very much be seen as a stepping stone for a mandatory, statute-backed regime developed on a basis consistent with the global framework that we expect to be put in place in the near term..

Materiality assessment for governance and risk management disclosures

Q8: Do you agree that the recommended disclosures under the "governance" and "risk management" recommendations should not be subject to a materiality assessment? If not, what alternative approach would you prefer, and why?

We agree with the FCA proposing to support the TCFD's assessment that recommended disclosures on "strategy" and "metrics and targets" be subject to a materiality test, but that disclosures relating to "governance" and "risk management" should always be given.

Q9: Do you agree that issuers should ordinarily be able to make the recommended disclosures under the "governance" and "risk management" recommendations?

Yes. It needs to be fully appreciated, however, that these disclosures will vary according to the nature, geography and size of business concerned.

Q10: Do you agree that no explicit guidance is needed to clarify that it would be acceptable for an issuer to explain non-disclosure of these recommended disclosures only on an exceptional basis?

It may be helpful to offer explanation as to what might count as an exceptional basis.

Location of disclosures, assurance and statement of compliance

Q11: Do you agree that the statement of compliance and the proposed disclosures should be made within the issuer's annual financial report? If not, what alternative approach would you prefer and why?

To a limited degree. We agree that a core statement at least, including in respect of assurance and compliance, be made within the narrative section of the mainstream financial filings. Given, however, the prospect of detailed and granular disclosures being needed in support of TCFD-aligned disclosures, we also consider that issuers should have the licence to publish supplementary information outside of the mainstream report providing this is suitably signposted.

Q12: Do you agree that an issuer should be required to include within the statement of compliance a description of where in its annual financial report (or other relevant document) its TCFD-aligned disclosures can be found? If not, what alternative approach would you prefer and why?

Yes. It needs to be appreciated, however, that some aspects of the TCFD-aligned disclosures might be more fully formed in the first instance than other and that the disclosures can be expected to develop over time. Unlike the UK Corporate Governance Code, which is well established and has significant detail on compliance applicable to all premium listed companies with boards, it could be argued that the TCFD recommendations and recommended disclosures where this approach is taken are at an earlier stage and as such provide challenges for issuers in respect of interpretation and disclosure, i.e. leading to more statements of non-compliance, which may cause complexity where investors are seeking a binary answer. However, if there is an approach, similar to the UK Corporate Governance Code, whereby issuers can state where they do not comply alongside that statement, that might be more helpful.

Q13: Do you agree that the FCA should not require third-party assurance of issuers' climate-related disclosures at this time? More generally, we welcome your views on the role of assurance for climate-related disclosures?

Yes. While we see third-party assurance as a medium-term objective, we would agree as proposed in paragraph 4.44 of the consultation paper that the listing requirement for now be limited to auditors satisfying themselves of the internal consistency of the narrative reports with the wider set of financial statements.

The duty of sponsors

Q14: Do you have any feedback on the interactions between our proposed rule and the role of sponsors in assisting premium listed issuers?

We do not believe we are at a stage at which sponsors could reasonably be expected to form a view.

Application of established concepts and principles?

Q15: Do you have any other feedback related to the interaction between our proposed rule and existing legislative and regulatory requirements and industry standards and practice?

We see merit in ensuring that the proposed rule is fully consistent with existent legislative and regulatory requirements and industry standards and practice, by reference to UK company law and corporate governance code, including the FRC's authoritative strategic reporting guidance, and aligned as appropriate to (developing) requirements under the EU Non-Financial Reporting Directive.

As referenced in our introductory remarks, UK Finance has supported the Grantham Research Institute in the publication of its report advocating that firms within banking and finance be guided by *just transition* principles in determining their strategy for stepping up to the climate challenge. We consider the themes covered in this and also the Grantham Institute's preceding work on investing in a just transition has relevance here.

Managing challenges, risks and unintended consequences

Q16: Do you consider that our proposals adequately address the challenges, risks and unintended consequences described above? If not, what additional measures would you suggest?

We agree that the proposed approach suitably match the challenges, risks and potential for unintended consequences. We reference our comments in the introductory section and in response to the preceding question for issuers to make enlightened decisions in respect of their climate strategy, including broader environmental and social impacts.

Timing of implementation

Q17: Do you agree that our new rule should take effect for accounting periods beginning on or after 1 January 2021? If you consider that we should set a different timeframe, please explain why?

We agree with the 1 January 2021 timeline noting its alignment to the three-five year timeframe envisaged by the TCFD for applying its recommendations. In keeping with our comments above, the listing rule should be viewed as placing a stake in the ground on a 'comply or explain' basis, with further improvement in underlying practices and their disclosure expected in the near term.

Q18: Do you agree with the conclusion and analysis set out in our cost benefit analysis (Annex 2)?

Yes. We appreciate the account given of the analysis made.

Q19: Do you agree with the guidance provided in the draft Technical Note set out in Appendix 2? Are there any changes that you would suggest? If so, please describe.

In terms of the references made in LR9.8.6R(5), it may be helpful for the FRC's supplementary guidance on strategic reporting to be referenced.

If you have any questions relating to this response, please contact Paul Chisnall, Director, Sustainability at paul.chisnall@ukfinance.org.uk

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