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Sent by email to climatedisclosure@beis.gov.uk

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Dear all,

Consultation on requiring mandatory climate-related financial disclosures by publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs)

I am writing to respond to the Department for Business, Energy and Industrial Strategy's consultation, *Consultation on requiring mandatory climate-related financial disclosures by publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs),* on behalf of ShareAction, a registered charity established to promote transparency and responsible investment practices by pension funds and other institutional investors. We are a member organisation and count amongst our members well-known NGOs and charitable foundations, as well as over 26,000 individual supporters. Among other activities, we work with the financial services sector to promote integration of sustainability factors in investment decisions, long-term stewardship of assets and the consideration of the view of clients, beneficiaries and pension scheme members.

QUESTION 1: Do you agree with our proposed scope for companies and LLPs?

We are pleased to see that large private companies and LLPs will also be included within the scope of these requirements, since we believe that it is critical for companies and LLPs of this size to be required to assess, disclose and take action on climate risk.

We understand that the Department for Business, Energy and Industrial Strategy (BEIS) plans to review in 2023 whether companies that currently fall out of scope should be included and will, in due course, be expected to comply with mandatory disclosure. This would mirror the DWP's proposed review in relation to smaller pension schemes. We strongly encourage the Government to undertake both of the reviews at the time proposed and engage with the FCA on lessons learned as it conducts its own TCFD implementation exercise for asset management companies.

QUESTION 2: Our proposed scope includes UK registered companies with securities admitted to AIM with more than 500 employees. Do you have any views on expanding this to include other unregulated markets and Multilateral Trading Facilities (MTFs)?

No comments.

QUESTION 3: Do you agree with the proposal to require climate related financial disclosures for companies and LLPs at the group level?

No comments.

QUESTION 4: Do you agree that the Strategic Report is the best place for the disclosure of climate-related financial information by companies?

Yes, we agree that the Strategic Report is the best place for this information. However, we were concerned about how this proposal would interact with the FRC's plans for the future of corporate reporting, as we believe having separate financial and "Public Interest" reports creates the risk that companies see this as an semi-optional CSR-type extra, rather than something inherent to their purpose as a company. However, we understand from BEIS that climate-related financial information will be situated within the annual report and accounts, regardless of the FRC's proposals. We would encourage the Government to consider the most effective place to include this and other sustainability information in its 2023 review based on the impact the FRC's proposed changes have (if any) on the proper integration of climate-related financial risks by investors.

QUESTION 5: Do you have views on whether LLPs should be required to disclose climate-related financial information in the Strategic Report (where applicable), or the Energy and Carbon Report?

We believe that the Strategic Report is the best place for this information, since it is highly relevant to the business plan and future financial success of a company.

QUESTION 6: Do you agree that requiring disclosure in line with the four pillars of the TCFD recommendations, rather than at the 11 recommendation level is suitable?

We would strongly advise against requiring disclosure in line with the four pillars of the TCFD recommendations as opposed to the 11 recommendations. Reporting against the four pillars is likely to produce vague, inconsistent reporting which may not be very useful: companies (and especially smaller companies) need clear guidance if they are to produce high-quality reports. Moreover, the model proposed by BEIS would entail changing the language used by the TCFD that sits under the pillars and departing from the FCA's model, which is likely to cause confusion. While we appreciate that the Government is considering aligning reporting requirements with IFRS standards, once published, these are likely to be a long way off publication given they are publishing a roadmap with timings in Sept 2021. We would suggest it would be more sensible to require reporting against the 11 recommendations in the meantime, and move to an IFRS-based reporting requirement in due course if that seems appropriate.

QUESTION 7: Do you agree that information provided in line with the obligations set out above would provide investors, regulators and other stakeholders with sufficient information to assess the climate-related risks and opportunities facing a company or financial institution?

No, we would believe information disclosed in line with the four pillars of the TCFD recommendations (as opposed to the 11 recommendations) is unlikely to provide sufficient information to assess climate-related risks and opportunities relevant to a particular company. As stated in response to question 8, we also believe mandatory scenario analysis is necessary for investors and other stakeholders to assess the climate-related risks and opportunities associated with a particular company.

QUESTION 8: Do you agree with our proposal that scenario analysis will not be required within a company or LLP's annual report and accounts?

No, we disagree. Without scenario analysis, we cannot see how companies can assess how far they are aligned with Paris goals, what they need to do to align and any risks or opportunities that arise. Moreover, the DWP has required pension schemes every three years to conduct scenario analysis so it seems inappropriate not to require companies to do so. Pension schemes will not be able to conduct meaningful scenario analysis for their portfolios if their investee companies are not also undertaking (and disclosing) their own scenario analysis.

QUESTION 9: Would alignment of the scope for climate-related financial disclosures and SECR requirements, such that large unquoted companies and LLPs would be subject to the same reporting requirements under SECR as quoted companies, aid reporting of climate related financial disclosures and simplify reporting procedures? Do you have any views on the continuation of voluntary Scope 3 emissions reporting under SECR requirements?

We believe that reporting of Scope 3 emissions should not be voluntary, since they are usually the greatest share of an organisations carbon footprint by a significant margin. Many organisations report that 80% of their emissions fall under the auspices of Scope 3 and, for some, Scope 3 accounts for as much as 97% of their overall emissions.[1] As we comment in our 2020 report, *Point of No Returns Part III – Climate Change,*[2] considering the large gaps in scope 3 data availability and in light of the fact that indirect emissions make up the majority of companies GHG emissions in most sectors, it is key that the reporting and reduction of emissions occurring in company value chains remain firmly within investors' engagement focus. Despite the challenges associated with addressing GHG emissions that fall outside of a company's direct ownership, the reduction in scope 3 emissions is key to preventing the worst impacts of climate change and preserving the rapidly shrinking global carbon budget.

QUESTION 10: Do you have comments on the proposal to permit non-disclosure if the information is not material and the reasons why climate change is not material are properly explained?

We do not agree that non-disclosure should be permitted. It is highly unlikely that any company will be wholly unaffected by climate change, since it is a system-wide threat that will affect every sector. We believe allowing an individual company to decide that they do not need to disclose risks creating a loophole that may be exploited by those companies that want to avoid their responsibilities in this area, particularly if enforcement arrangements are not sufficient.

QUESTION 11: Do you have comments on the proposed timing for these regulations coming in to force?

We agree with the proposed timing is appropriate.

QUESTION 12: Do you have any comments regarding the existing enforcement provisions and the BEIS proposal not to impose further provisions?

Given the limited resources of the FRC, we have concerns that it is unlikely to apply to the court for an order in the (quite likely) event that a TCFD report is not compliant with the proposed standards. We would suggest instead that BEIS grants the FRC the powers to fine companies for failing to comply with reporting standards.

QUESTION 13: Do you have any comments regarding duties and enforcements for LLPs?

Please see our answer to question 14.

QUESTION 14: Do you have any comments on the responsibilities of auditors in relation to climate-related financial disclosures?

We would support the comments of other stakeholders at the BEIS roundtable on this consultation on this point: since the powers and responsibilities of auditors are limited, we do not anticipate they will be able to play a significant role in improving the quality of these reports. They will only be able

[1] https://www.edie.net/downloads/edie-Explains--Scope-3-carbon-emissions/492
[2] ShareAction-Climate-Report-III-Final.pdf

to look for inconsistencies with their audited work, not provide direct assurance for TCFD reporting. If BEIS plans to rely on auditors to assure the quality of TCFD reporting, it would need to specifically require auditors to provide assurance for TCFD reporting as part of its ongoing consultation on revisions to the audit regime.

QUESTION 15: Do you have any comments regarding the proposed enforcement of our disclosure requirements?

Please see our answer to question 14.

QUESTION 16: Do you have any comments regarding the impact of our proposals on protected groups and/or how any negative effects may be mitigated?

No comments.

QUESTION 17: Do you have any further comments about our proposals?

No comments.

Yours sincerely,

Rachel Haworth

Policy Manager, ShareAction