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1st October 2020

Sent via online form

Proposals to enhance climate-related financial disclosures by listed issuers and clarification of existing disclosure obligations: consultation response

This submission is on behalf of ShareAction, a registered charity established to promote transparency and responsible investment practices. We are a member organisation and count amongst our members well-known NGOs and charitable foundations, as well as over 26,000 individual supporters.

1) **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?**

We would urge a broader scope for the new rule. Though we acknowledge that the current proposals cover 60% of the Main Market's total market capitalisation, it still leaves a sizable remainder which will not be under the same obligations on climate-related risk disclosure. The remaining 40% is much more atomised, being split across a number of smaller listings, but nonetheless collectively this represents a considerable amount of capital for which the exact climate risk exposure is unclear.

We encourage the FCA to adopt this approach in the context of a gradual roll-out of TCFD reporting in the economy more broadly. At time of writing, the DWP is consulting on requirements for pension schemes to submit TCFD reports, and BEIS is considering a similar reporting regime under its remit. For the FCA's part, it should ensure the new rule covers as much of its regulatory remit as possible.

Since the TCFD framework was published in 2017, market adoption of the framework has been far too slow. We need to ensure that TCFD reporting starts to take place across the economy. The more reporting takes place, the better able we will be to compare and contrast reporting and find best practice.

2) **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, the new rule should apply here also - again the aim should be to map out the climate exposure of as many assets as possible, in order to plan a long-term strategy for mitigation of this risk.

3) **Do you agree with our approach?**

We would urge that mandatory disclosure by asset managers is pursued, rather than a voluntary approach. ShareAction's 2020 report "Point of No Returns" surveyed 75 of the world's largest asset managers on their approaches to responsible investment, including on TCFD reporting. Our findings showed that although 73% of those surveyed endorse the TCFD framework, only 19% actually report in line with it.[1] While we understand that internal capabilities of asset management firms for TCFD reporting need to developed, this will only happen through mandatory reporting.

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

We would encourage reference to the 4 recommendations and 11 supporting disclosures included in the TCFD's June 2017 final report. The findings of our asset managers survey found that many were found wanting in respect of the 4 recommendations, so explicit reference to them would be welcome. For example, only 20% of those surveyed have built in board-level responsibility for responsible investment,[2] which would necessarily extend to climate risk mitigation. Making explicit reference to the 'Governance' recommendation from the TCFD final report would help remedy this.

5) **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, including reference to this additional guidance would be beneficial.

6) **Do you agree that we should include additional guidance which reference 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, including reference to the additional guidance which refers to the wider set of materials published on TCFD would beneficial.

7) **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?**

We note the Consultation Paper states that the new rule would be introduced on a comply-or-explain basis 'at least initially'. We agree it should be introduced solely on that basis; however in the medium-term it is important that the TCFD reporting requirements are moved to a mandatory regime.

Yours sincerely,

David O'Sullivan
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[1] ShareAction (March 2020). *Point of No Returns*, p. 8. Available online at: https://shareaction.org/wpcontent/uploads/2020/03/Point-of-no-Returns.pdf [accessed 1 October 2020].
[2] Ibid.