The Rt Hon Kwasi Kwarteng MP
Secretary of State
Department for Business, Energy & Industrial Strategy
1 Victoria Street
SW1H 0ET

8 July 2021

Dear Rt Hon Kwasi Kwarteng,

RE: Restoring Trust in Audit and Corporate Governance

As the leading investor group on climate change, we are writing in response to the consultation on the government's proposals to restore trust in audit and corporate governance.

IIGCC's mission is to support and enable the investment community in driving significant and real progress by 2030 towards a net zero and resilient future. IIGCC's 300+ members, representing €37 trillion assets under management, are able to catalyse real world change through their capital allocation decisions, stewardship and successful engagement with companies, policymakers and fellow investors.

The consultation notes with respect to the Financial Reporting Council (FRC) that "under new leadership, it has taken significant steps to strengthen its capabilities". We endorse that view and note the positive shift in emphasis within the FRC. The extensive nature of the outreach efforts in relation to this consultation, particularly given the COVID-19 restrictions, serves as further illustration of the FRC's active gathering and listening to stakeholder views. **IIGCC commends and strongly recommends that this is continued and enhanced in the formation of the Audit, Reporting and Governance Authority (ARGA).** Furthermore, we support the continuation of the FRC's Investment Advisory Group.

We strongly support the spirit and intended outcomes of the consultation. Climate change presents material risks to all companies, irrespective of size, and hence we agree with extending audit purpose and scope to include climate change. Independent third-party audit will be critically important for improving the reliability of climate-related disclosures made by companies.

Capacity building will be required to build the knowledge base of the audit profession and ensure a high quality of assurance and audit of climate-related disclosures. IIGCC has prepared a number of materials that could be useful in this regard. In particular, we would like to highlight the below:

- **Climate Action 100+ (CA100+) Net Zero Company Benchmark**[1] - The CA100+ Net Zero Company Benchmark provides a tool for assessing how companies are addressing climate transition risk and aligning their business strategies and operations with net zero emissions. The Benchmark

[1] https://www.climateaction100.org/progress/net-zero-company-benchmark/

uses ten indicators for assessing companies, including short-, medium- and long-term emission reduction targets, decarbonisation strategy, capital allocation alignment, climate governance and Task Force on Climate-related Financial Disclosures (TCFD) disclosure. Please see the Annex to this letter for a full list of the indicators.

- **Investor Expectations for Paris-aligned Accounts**[2] - This document provides guidance and sets out investor expectations of companies and auditors for financial accounts to incorporate critical assumptions and estimates that adequately align with the goals of the Paris Agreement. For example, ensuring that the accounts correctly reflect material impacts on carbon intensive assets to reflect escalating carbon taxes and other climate policies, revised asset lifetimes to take into account the net zero transition, end-of-life clean up liabilities potentially being brought forward and falling costs of competing renewable energy.

Lastly, robust climate-related disclosure requirements will support the audit profession to audit climate-related disclosures. IIGCC recommends that disclosures should be made against all 11 TCFD recommendations (rather than only the 4 TCFD pillars, as proposed in a recent BEIS consultation[3]). In addition, we recommend referencing the indicators established by the CA100+ Net Zero Company Benchmark. The CA100+ Net Zero Company Benchmark builds on TCFD recommendations and supports a more granular understanding of the climate transition risks companies may be exposed to, providing guidance on specific company actions and disclosures of most relevance to investors' decision making.

Investors stand ready to work with you to deliver a prosperous and net zero emissions economy. We would welcome the opportunity to discuss our feedback and provide further support to the review.

Yours sincerely,

Stephanie Pfeifer

Stephanie Pfeifer
CEO, Institutional Investors Group on Climate Change

[2] https://www.iigcc.org/resource/investor-expectations-for-paris-aligned-accounts/
[3] https://www.iigcc.org/resource/iigcc-response-to-beis-consultation-on-tcfd-disclosures/

The Institutional Investors Group on Climate Change

Annex 1: Climate Action 100+ Net Zero Company Benchmark

Disclosure Indicator	Description
1	**Net-zero GHG Emissions by 2050 (or sooner) ambition**
1.1 (sub-indicator)	Metric a): The company has made a qualitative net-zero GHG emissions ambition statement that explicitly includes at least 95% of scope 1 and 2 emissions. Metric b): The company's net zero GHG emissions ambition covers the most relevant scope 3 GHG emissions categories for the company's sector, where applicable.
2	**Long-term (2036-2050) GHG reduction target(s)**
2.1 (sub-indicator)	The company has set a target for reducing its GHG emissions by between 2036 and 2050 on a clearly defined scope of emissions.
2.2 (sub-indicator)	The long-term (2036 to 2050) GHG reduction target covers at least 95% of scope 1 & 2 emissions and the most relevant scope 3 emissions (where applicable). Metric a): The company has specified that this target covers at least 95% of total scope 1 and 2 emissions. Metric b): If the company has set a scope 3 GHG emissions target, it covers the most relevant scope 3 emissions categories for the company's sector (for applicable sectors), and the company has published the methodology used to establish any scope 3 target.
2.3 (sub-indicator)	The target (or, in the absence of a target, the company's latest disclosed GHG emissions intensity) is aligned with the goal of limiting global warming to 1.5°C.
3	**Medium-term (2026 to 2035) GHG reduction target(s)**
3.1 (sub-indicator)	The company has set a target for reducing its GHG emissions by between 2026 and 2035 on a clearly defined scope of emissions.
3.2 (sub-indicator)	The medium-term (2026 to 2035) GHG reduction target covers at least 95% of scope 1 & 2 emissions and the most relevant scope 3 emissions (where applicable).

	Metric a): The company has specified that this target covers at least 95% of total scope 1 and 2 emissions. Metric b): If the company has set a scope 3 GHG emissions target, it covers the most relevant scope 3 emissions categories for the company's sector (for applicable sectors), and the company has published the methodology used to establish any scope 3 target.
3.3 (sub-indicator)	The target (or, in the absence of a target, the company's latest disclosed GHG emissions intensity) is aligned with the goal of limiting global warming to
4	**Short-term (up to 2025) GHG reduction target(s)**
4.1 (sub-indicator)	The company has set a target for reducing its GHG emissions up to 2025 on a clearly defined scope of emissions.
4.2 (sub-indicator)	The short-term (up to 2025) GHG reduction target covers at least 95% of scope 1 & 2 emissions and the most relevant scope 3 emissions (where applicable). Metric a): The company has specified that this target covers at least 95% of total scope 1 and 2 emissions. Metric b): If the company has set a scope 3 GHG emissions target, it covers the most relevant scope 3 emissions categories for the company's sector (for applicable sectors), and the company has published the methodology used to establish any scope 3 target.
4.3 (sub-indicator)	The target (or, in the absence of a target, the company's latest disclosed GHG emissions intensity) is aligned with the goal of limiting global warming to 1.5°C.
5	**Decarbonisation strategy**
5.1 (sub-indicator)	The company has a decarbonisation strategy to meet its long and medium-term GHG reduction targets. Metric a): The company identifies the set of actions it intends to take to achieve its GHG reduction targets over the targeted timeframe. These measures clearly refer to the main sources of its GHG emissions, including Scope 3 emissions where applicable. Metric b): The company quantifies key elements of this strategy with respect to the major sources of its emissions, including Scope 3 emissions where applicable (e.g. changing technology or product mix, supply chain measures, R&D

	spending).
5.2 (sub-indicator)	The company's decarbonisation strategy includes a commitment to 'green revenues' from low carbon products and services. Metric a): The company already generates 'green revenues' and discloses their share in overall sales. Metric b): The company has set a target to increase the share of 'green revenues' in its overall sales OR discloses the 'green revenue' share that is above sector average.
6	**Capital allocation alignment**
6.1 (sub-indicator)	The company is working to decarbonise its future capital expenditures. Metric a): The company explicitly commits to align future capital expenditures with its long-term GHG reduction target(s). Metric b): The company explicitly commits to align future capital expenditures with the Paris Agreement's objective of limiting global warming to 1.5° Celsius.
6.2 (sub-indicator)	The company discloses the methodology used to determine the Paris alignment of its future capital expenditures. Metric a): The company discloses the methodology it uses to align its future capital expenditure with its decarbonisation goals, including key assumptions and key performance indicators (KPIs). Metric b): The methodology quantifies key outcomes, including the share of its future capital expenditures that are aligned with a 1.5° Celsius scenario, and the year in which capital expenditures in carbon intensive assets will peak.
7	**Climate policy engagement**
7.1 (sub-indicator)	The company has a Paris-Agreement-aligned climate lobbying position and all of its direct lobbying activities are aligned with this. Metric a): The company has a specific commitment/position statement to conduct all of its lobbying in line with the goals of the Paris Agreement.

	Metric b): The company lists its climate-related lobbying activities, e.g. meetings, policy submissions, etc.
7.2 (sub-indicator)	The company has Paris-Agreement-aligned lobbying expectations for its trade associations, and it discloses its trade association memberships. Metric a): The company has a specific commitment to ensure that the trade associations the company is a member of lobby in line with the goals of the Paris Agreement. Metric b): The company discloses its trade associations memberships.
7.3 (sub-indicator)	The company has a process to ensure its trade associations lobby in accordance with the Paris Agreement. Metric a): The company conducts and publishes a review of its trade associations' climate positions/alignment with the Paris Agreement. Metric b): The company explains what actions it took as a result of this review.
8	**Climate governance**
8.1 (sub-indicator)	The company's board has clear oversight of climate change. Metric a): The company discloses evidence of board or board committee oversight of the management of climate change risks via at least one of the following: • There is a C-suite executive or member of the executive committee that is explicitly responsible for climate change (not just sustainability performance) and that executive reports to the board or a board level committee, and/or; • The CEO is responsible for climate change AND he/she reports to the board on climate change issues, and/or; • There is a committee (not necessarily a board-level committee) responsible for climate change (not just sustainability performance) and that committee reports to the board or a board-level committee. Metric b): The company has named a position at the board level with responsibility for climate change, via one of the following:

	• A board position with explicit responsibility for climate change, or; • CEO is identified as responsible for climate change, if he/she sits on the board.
8.2 (sub-indicator)	The company's executive remuneration scheme incorporates climate change performance elements. Metric a): The company's CEO and/or at least one other senior executive's remuneration arrangements specifically incorporate climate change performance as a KPI determining performance-linked compensation (reference to 'ESG' or 'sustainability performance' are insufficient). Metric b): The company's CEO and/or at least one other senior executive's remuneration arrangements incorporate progress towards achieving the company's GHG reduction targets as a KPI determining performance linked compensation (requires meeting relevant target indicators 2, 3, and/or 4).
8.3 (sub-indicator)	The board has sufficient capabilities/competencies to assess and manage climate related risks and opportunities. Metric a): The company has assessed its board competencies with respect to managing climate risks and discloses the results of the assessment. Metric b): The company provides details on the criteria it uses to assess the board competencies with respect to managing climate risks and/or the measures it is taking to enhance these competencies.
9	**Just transition: The company considers the impacts from transitioning to a lower-carbon business model on its workers and communities**
10	**TCFD disclosure**
10.1 (sub-indicator)	The company has committed to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Metric a): The company explicitly commits to align its disclosures with the TCFD recommendations OR it is listed as a supporter on the TCFD website. Metric b): The company explicitly sign-posts TCFD aligned disclosures in its annual reporting or publishes them in a TCFD report.

10.2 (sub-indicator)	The company employs climate-scenario planning to test its strategic and operational resilience. Metric a): The company has conducted a climate-related scenario analysis including quantitative elements and disclosed its results. Metric b): The quantitative scenario analysis explicitly includes a 1.5° Celsius scenario, covers the entire company, discloses key assumptions and variables used, and reports on the key risks and opportunities identified.