IIGCC response to BEIS consultation on mandatory climate-related financial disclosures

The Institutional Investors Group on Climate Change (IIGCC) is the leading European membership body enabling the European investment community in driving significant and real progress by 2030 towards a net zero and resilient future. IIGCC's 300 members, representing €37 trillion AUM, are in a position to catalyse real world change through their capital allocation decisions, stewardship and engagement with companies and the wider market as well as through their policy advocacy.

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

IIGCC's position is that climate change presents material risks to all companies, irrespective of size, and hence we recommend a broader scope of companies be included in scope of the requirements, which will support coherence with wider climate-related disclosure initiatives:

- a lower threshold for number of employees – we recommend lowering the threshold so that all companies over 250 employees are included, with companies under 250 employees included where they are operating in material sectors. This would align the scope of companies required to produce TCFD-aligned reports with the current scope thresholds under the Streamlined Energy and Carbon Reporting (SECR) rules. Noting that smaller companies may need time to bolster their reporting capabilities, the materiality threshold could operate initially on a 'comply or explain' basis, with a view to setting an end date for transition to full, mandatory disclosures.
- a lower threshold for turnover – we recommend lowering this threshold, noting that under the proposed EU Corporate Sustainability Reporting Directive (CSRD), the net turnover threshold for large companies is EUR 40M.
- ensuring that the widest range of companies are captured by the scope of the rules (including both UK-listed and UK-established companies) in order to support investors meeting their disclosure requirements.

To avoid duplicative reporting requirements, BEIS should ensure that the scope of entities included in their proposal is coherent with other UK initiatives to mandate TCFD-aligned disclosures across the economy, as envisaged in the HMT roadmap. For example, where Public Interest Entities (PIEs) in scope of the consultation are already captured by the FCA's TCFD disclosure requirements (e.g. on the basis that they are also a premium-listed issuer), the rationale for any overlap with BEIS' proposals should be clearly explained.

As noted in the consultation, BEIS will need to align these requirements with any new proposals that arise from the audit and corporate governance reform. This includes any potential amendments to the UK definition of PIEs, and the scope of companies to be captured under this definition.

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

IIGCC supports the disclosure of climate-related risks at group level, provided appropriate safeguards are introduced to maintain transparency around material climate-related risks which subsidiaries may be exposed to. Requiring disclosures to be made at group level can help to reduce the risk of a 'siloed' approach to assessing climate-related risks and can help avoid duplicative reporting, but it could also reduce transparency on specific risks faced by subsidiaries if these risks are described in 'net' terms in a consolidated group report.

Parent companies should adopt a consistent approach to climate risk management across the group structure, with individual subsidiaries' exposures to any material climate-related risks clearly set out as part of the group-level report. This subsidiary-level information will be particularly important for investor decision-making if the subsidiary operates in a material sector[1]. We recommend this approach should be taken for both UK and EU-based parent companies of UK subsidiaries.

BEIS may also wish to consider the approach to reporting exemptions adopted by the European Commission under the proposed CSRD. Under the proposed rules, exempted subsidiaries will be required to publish the sustainability-related disclosures made by parent undertakings in their own management reports, and include a reference in these reports specifying that they are exempted from reporting sustainability information. This is intended to ensure that disclosures are easily accessible for users, while also promoting transparency around the consolidated disclosures made by the parent undertaking.

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

IIGCC supports the disclosure of climate-related information in the Strategic Report within the annual report and accounts.

In addition, the material financial impacts of climate change should be fully integrated into company financial accounts. Specifically, financial reports should be consistent with any assumptions made over commodity or energy prices and consumer demand that are used in developing Paris-aligned targets or strategies. Such an approach is essential for ensuring consistent and effective capital allocation and supporting investors with their stewardship activities. For more information, please see IIGCC's report on investor expectations for Paris-aligned accounts[2], which sets out five key disclosures that directors should make in their annual report and accounts.

Consultation 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?

In line with our response to Question 4, IIGCC's supports the disclosure of climate-related financial information by LLPs in the Strategic Report within the annual report and accounts. Requiring all in-scope companies to publish TCFD reports in consistent locations within the annual report will better facilitate the dissemination of decision-useful information to investors and align with the approach taken by premium listed firms per the FCA rules. In addition, such an approach can help ensure disclosures are subject to appropriate and consistent audit and governance controls.

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[1] IIGCC's Paris Aligned Investment Initiative has developed a Net Zero Investment Framework which defines material sectors as those covered by NACE code categories A-H and J-L.
[2] IIGCC's Investor expectations for Paris-aligned Accounts, available here.

Consultation 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?

IIGCC recommends that disclosures should be made against all 11 TCFD recommendations. The proposed non-binding guidance which will accompany the final rules could provide more details on the required approach for companies disclosing at the level of the 11 recommendations, so that requirements can be more easily adapted as best practice and reporting capabilities evolve.

We would like to draw BEIS' attention to the approach taken by the FCA in relation to TCFD-aligned disclosures made by premium listed issuers, which operate on a 'comply or explain' basis. Under the FCA's rules, in-scope companies that are unable to produce a statement evidencing compliance will have to set out why a statement has not been produced; this is allowed under a limited number of conditions. The FCA rules also require that in-scope companies not already disclosing consistently against the 11 TCFD recommendations must set out the steps they will take to do so in future, including relevant timeframes for making these disclosures. We suggest BEIS considers a similar approach.

Consultation 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?

IIGCC's position, in line with our responses to Questions 1 and 6, is that a wider scope of companies should be required to disclose against the TCFD recommendations, and at a more granular level of detail, in order to support investors' assessments of climate-related risks and opportunities. As an indicator of the type of information that companies should be including in their TCFD reports, BEIS might find it useful to reference the Climate Financial Risk Forum's (CFRF) guidance chapter on disclosures[3]. While the CFRF guidance is aimed at financial institutions, it can help to provide in-scope companies with a clearer understanding of the type of information that is most valued by users of TCFD disclosures.

We also recommend that BEIS references the indicators established by the Climate Action 100+ (CA100+) Net Zero Company Benchmark within the non-statutory guidance. The CA100+ Net Zero Company Benchmark provides a tool for users of TCFD disclosures to assess how companies are aligning their business strategies and operations with the transition to net zero. The Benchmark builds on the TCFD recommendations and supports a more granular understanding of the transition risks companies may be exposed to, providing guidance on specific company actions and disclosures of most relevance to investors' decisions (see Appendix 1 for further detail). In particular, IIGCC is supportive of companies disclosing their net zero transition plans in line with the TCFD recommendations, along with their short, medium and long-term targets for achieving net zero.

We believe that information on how companies can manage and disclose against physical climate risks should also be considered for inclusion in BEIS's non-statutory guidance. This would reinforce the emphasis placed by the TCFD recommendations on reporting on the physical impacts of climate change. While approaches for assessing transition risk have matured in recent years, the assessment of physical climate risk has presented a challenge for investors, not least as a result of limited

[3] Climate Financial Risk Forum Guide 2020, Disclosures chapter, available here.

decision-useful data being provided by investee companies. IIGCC has produced guidance[4] to support investors to understand and measure physical climate risk, as well as provide practical support for integrating these risks into the investment decision-making process. We intend to publish further guidance setting out investor expectations on physical risk during summer 2021. The guidance will build on and reinforce the existing TCFD recommendations on managing physical risk, and we would be happy to discuss this with you in further detail if of interest. In addition, the recommended disclosures and metrics set out in the European Bank for Reconstruction and Development's report[5] on advancing TCFD guidance on physical climate risks and opportunities are another example of a useful resource that can help companies to report on physical risk.

Consultation 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?

IIGCC recommends a wider range of companies should be required to undertake scenario analysis, initially on a qualitative basis (e.g. undertaking an initial 'walk-through assessment describing how climate-related impacts could crystallise over time) before moving towards a more quantitative approach. For in-scope companies which are more exposed to transition risks and/or operate in material sectors, IIGCC would expect to see more ambitious commitments to developing quantitative approaches to scenario analysis, the results of which should be reflected in financial valuations.

Scenario analysis is an essential tool to support investors and wider stakeholders in understanding the vulnerability of individual companies to transition and physical risks, and how companies are managing these risks. The consultation states that companies that are already producing quantitative scenario analysis should continue to disclose their outputs to support their reporting. However, this approach could undermine the importance of these activities for firms of all sizes. As observed by the PRA in their July 2020 Dear CEO letter on managing climate-related risk[6], smaller firms are just as exposed to climate-related financial risk as their larger counterparts and could be more susceptible if they are operating in a high-risk sector or vulnerable geographic region.

In addition, company-level disclosure is required by investors and other actors across the investment chain to fulfil their own disclosure obligations in relation to scenario analysis. Under DWP's rules on TCFD-aligned disclosures for occupational pension schemes, trustees will be required to undertake scenario analysis every three years, including the first year in which the disclosure rules apply. The FCA's rules for premium listed issuers (including listed asset managers) to implement the TCFD recommendations on a comply or explain basis also require firms to carry out scenario analysis and disclose against the results. It is expected that further TCFD-aligned disclosure obligations for asset managers, life insurers and FCA-regulated pension schemes will be applied in 2022, scenario analysis across the investment chain. At present, a key practical barrier to undertaking this work for entities in scope of both the DWP and FCA rules relates to the lack of investee companies carrying out similar analysis. In addition, we note that the CA100+ Benchmark includes an explicit sub-indicator for companies to conduct climate-related scenario analysis to test their strategic and operational resilience to climate change (see Appendix 1, disclosure sub-indicator 10.2).

[4] IIGCC guidance on understanding physical climate risks and opportunities, available here.
[5] EBRD guidance, available here.
[6] PRA Dear CEO letter on managing climate-related financial risk, available here.

There is a growing volume of guidance available for companies that are in the early stages of using scenario analysis which should help with implementation of the recommendations and disclosures, including the TCFD's Guidance on Scenario Analysis for Non-Financial Companies[7]. In addition, the CFRF'S guidance chapter on scenario analysis[8], while primarily focused on financial companies, can also help to inform non-financial companies. IIGCC has also produced a guide for navigating scenario analysis[9], which notes that both qualitative and quantitative approaches to scenario analysis are informative for investors, and even more simplistic approaches or estimation techniques can provide valuable insights into drivers of change, future risk areas and potential opportunities.

Consultation 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?

IIGCC's position is that all possible measures should be taken to align and ensure consistency between climate-related disclosures across all companies in scope of the consultation.

There are several overlaps between the proposed TCFD rules and reporting to be provided under SECR, notably in relation to the content of information to be disclosed (e.g. GHG emissions) and the scope of companies that are required to report. To avoid duplicative reporting and additional costs for in-scope companies, IIGCC's members expect the SECR reporting rules to be aligned with the BEIS TCFD disclosure requirements.

In line with the disclosure indicator requirements established by the CA100+ Benchmark and IIGCC's positions on the EU's Non-Financial Reporting Directive (NFRD), IIGCC's proposed position is that companies (especially those operating in material sectors) should be reporting their material scope 3 emissions on a mandatory basis, using a consistent and methodologically robust process.

Consultation 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?

In line with the response to Question 1, IIGCC's position is that climate change poses a material risk for all companies, and we do not support the proposed basis for non-disclosure outlined by BEIS. We would support greater alignment with the approaches taken under the FCA and DWP rules, which highlight specific and limited examples of when non-disclosure would be permissible (e.g. transitional challenges in obtaining data or embedding modelling capabilities), and which set expectations that in-scope companies make all TCFD-aligned disclosures 'as far as they are able'.

In addition, we propose that BEIS introduce requirements for in-scope firms to set out the steps they are taking in order to be able to make TCFD-aligned disclosures in future, if they are not doing so already, and the timeframe within which these disclosures will be made.

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[7] TCFD Guidance on Scenario Analysis for Non-Financial Companies, available here.
[8] Climate Financial Risk Forum Guide 2020, Scenario Analysis chapter, available here.
[9] IIGCC Guide on Navigating Climate Scenario Analysis, available here.

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

To ensure coherent disclosures across the investment chain, BEIS will need to carefully manage any potential misalignment between the implementation timelines of the various TCFD roadmap initiatives. Collaboration between BEIS, DWP and the regulators will be critical in ensuring consistency between the requirements and to mitigate the risk of reporting gaps within the different organisational categories across the investment chain that are in scope of the HMT roadmap.

For example, large occupational pension schemes and master trusts will need to begin collecting data on investee companies to inform their TCFD disclosures from October 2021, approximately six months before companies in scope of the BEIS consultation will be expected to start producing TCFD-aligned disclosures. In addition, the FCA has yet to publish its own consultation on TCFD disclosure requirements for regulated firms.

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

IIGCC recommends the introduction of mandatory assurance and audit requirements for climate-related disclosures.

Effective investment decision-making depends on the underlying information provided by companies being robust, and third-party assurance is an important means of improving the reliability of companies' climate-related financial disclosures. This should be results focused rather than only process focused. The narrow focus on process has been one of the weak points of financial audit today, and one criticised for allowing auditors to 'tick boxes' but failing to deliver on the ultimate purpose – alerting shareholders to inaccuracies. Assurers should provide an opinion as to whether the actual data provided is reliable, not just whether it was gathered in the right way.

As noted in the consultation, auditors play a key role in ensuring that financial statements are free from material misstatement or omissions and supporting effective investor stewardship by reporting on the financial statements to shareholders. Consequently, independent audits are essential for delivering reliable accounts that incorporate material climate considerations.

We would like to highlight the European Commission's proposed approach to assurance requirements under the revised NFRD (now known as the CSRD). Under the proposed CSRD, sustainability disclosures will be subject to limited assurance engagements by the statutory auditor. The European Commission will review the requirements once the rules have been in force for three years, which could be accompanied by proposals to introduce reasonable assurance requirements as the market evolves. IIGCC recommends that BEIS should consider the introduction of similar requirements in the context of TCFD assurance, with a view to moving towards reasonable assurance as the market develops. This would support of greater quality and reliability of TCFD disclosures over time.

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-	The company employs climate-scenario planning to test its strategic and operational resilience.

indicator)	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.