Climate Disclosure Standards Board

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

The Climate Disclosure Standards Board (CDSB) would like to thank the FCA for the opportunity to provide comments on its Consultation report[1].

CDSB is an international consortium of business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. We work to provide decision-useful environmental information to markets via mainstream corporate reports. Our mission is to create the enabling conditions for material climate change and natural capital information to be integrated into mainstream reporting.

We do this by offering companies a framework for reporting environmental information with the same rigour as financial information. In turn this helps them to provide investors with decision-useful environmental information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials.

Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems.

The CDSB Framework[2] is used by large listed companies globally and is referenced in government guidance to reporting regulation in the EU Commission Guidelines to the UK Companies Act 2006, the EU Non-Financial Reporting Directive and stock exchange guidance in London, Australia, Singapore, Egypt, Santiago de Chile and elsewhere. CDSB has also contributed to the work of the UN Sustainable Stock Exchanges Initiative through its working groups on disclosure, green finance and financial regulators. CDSB also hosts the TCFD Knowledge Hub[3] on behalf of the Task Force on Climate-related Financial Disclosures (TCFD), which helps report preparers to find the resources they need to understand and implement the TCFD recommendations.

While we strongly welcome the FCA's efforts to speed up the uptake of high-quality climate-related financial reporting by premium listed companies, we are concerned that a comply or explain approach will not result in a timely and adequate response to the climate risks faced by the market, nor is it in line with HM Government's intentions on TCFD implementations outlined in its Green Finance Strategy[4]. Furthermore, we are concerned that TCFD implementation through the FCA's listing rules may create a potential duplication of requirements with the Companies Act 2006 (as amended in 2013 and 2017), as well as with any potential amendments to it in the future as part of HM Government's efforts to deliver on the aforementioned commitments to implement the TCFD recommendations across all listed companies and large asset owners in the UK.

Our detailed comments relating to specific discussion points and questions are provided in the Appendix below. Please do not hesitate to contact us for further information.

With kind regards,

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Climate Disclosure Standards Board

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[1] Financial Conduct Authority (2020) CP20/3: Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations. [PDF]. Available from: https://www.fca.org.uk/publications/consultation-papers/cp20-3-proposals-enhance-climate-related-disclosures-listed-issuers-and-clarification-existing
[2] Climate Disclosure Standards Board (2019) CDSB Framework for reporting environmental and climate change information. [PDF]. Available from: http://cdsb.net/Framework
[3] TCFD & Climate Disclosure Standards Board (2020) TCFD Knowledge Hub. [Online]. Available from: https://www.tcfdhub.org/
[4] HM Government (2019) Green Finance Strategy. [PDF]. Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820284/190716_BEIS_Green_Finance_Strategy_Accessible_Final.pdf

Appendix: Responses to consultation questions

Scope

Q1: Do you agree that our new rules should apply only to commercial companies with a premium listing, at least initially? If no, what alternative scope would you consider to be appropriate, and why?

The rules should apply to all issuers and we do not see a reason for restricting it to only premium listed companies. The UN Intergovernmental Panel on Climate Change (IPCC) has warned that our window to retain the option to limit the effects of dangerous climate change closes in 2030, with significant emission reductions (and investment in emissions reductions activities) needed before then[5]. Evidence by the Bank of England and many others on the risks to financial stability and investor protection from climate change[6] are unequivocal and also support the need for measures to be taken today, not tomorrow. In today's context, it is not an option to take an incremental approach to implementing measures that support the flow of capital towards supporting the low carbon transition. It is also pertinent to the protection of investors and society to ensure that climate-related risks are reported and are therefore priced correctly.

An incremental approach to implementation also limits investors' access to material information on corporate risk, creates an uneven playing field for premium listed issuers and creates uncertainty for businesses that are not premium listed.

HM Government has clearly stated in its Green Finance Strategy that it expects *"all listed companies and large asset owners to disclose in line with the TCFD recommendations by 2022"*[7]. While the UK is a leader in the implementation of the Task Force's recommendations, they are not implemented across all businesses, nor are they always implemented fully or correctly. Implementing a requirement for a segment of the market today would therefore not result in all companies reporting in line with the TCFD recommendations by 2022.

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

We do not see a valid reason why sovereign-controlled commercial companies with a premium listing should not be covered. Their exposure to risks arising from climate change does not change by virtue of being sovereign-controlled and its owners require information on these matters regardless of whether they are a private investor or a sovereign nation. In addition, some sovereign-controlled commercial companies may also have other owners that will benefit from this information.

Asset managers with premium listing

Q3: Do you agree with our approach?

Yes, we agree that in-scope asset managers and insurance companies with asset management businesses should prepare enterprise-level disclosures in their capacity as issuers. As the Consultation Paper states, asset managers have two distinct users that have distinct information needs. As such, a requirement to satisfy the needs of an asset manager's shareholders should not be seen as satisfying the needs of its clients.

The FCA's approach to address clients' needs through a separate workstream is therefore a welcome step to protect the savings and other assets of consumers at large. We urge the FCA to act on this with urgency and to take into account international developments, such as the range of work in the European Union to address information on environmental matters to accompany financial products, among others.

[5] CDSB (2020) Implications of climate science for financial markets. [PDF]. Available from: https://www.cdsb.net/sites/default/files/implications_of_climate_science_for_financial_markets_cdsb_0.pdf
[6] A list of some of the evidence on this matter can be found on the Bank of England website. Available at: https://www.bankofengland.co.uk/climate-change
[7] HM Government (2019) Green Finance Strategy. [PDF]. Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820284/190716_BEIS_Green_Finance_Strategy_Accessible_Final.pdf

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Design of 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, it is of utmost importance to refer directly to the 4 recommendations and 11 supporting recommended disclosures of the TCFD to ensure consistency and take full advantage of the Task Force's recommendations, which have been developed by users and preparers from the G20, covering a broad range of sectors and financial markets, followed by a robust consultation process. The TCFD recommendations have reached effective universal acceptance, allow for consistent disclosures that are comparable internationally and ensure a level of reporting that reliably informs decisions, stands up to scrutiny, directly influences the movement of financial capital and supports the transition and transformation necessary to a low-carbon economy.

If the new rules would instead implement an amended version of the TCFD recommendations, such an approach would result in unnecessary divergence from best practice that would result in additional work for report preparers and less comparability for readers of the reports.

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. As noted in the consultation paper, it is helpful for preparers.

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 interpretations when complying with our proposed rule?

Yes. The TCFD Knowledge Hub is an invaluable resource base to support preparers in finding the resources that are applicable to them, as well as support users of such reports in understanding these disclosures. We believe that referring the resources of the TCFD Knowledge Hub (tcfdhub.org) would be particularly helpful to:

- Introduce report preparers who are not familiar with the TCFD to the recommendations of the Task Force[8];
- Train them on implementing the recommendations through its free online learning modules[9]; and
- Help them find the resources already in existence that can support their particular business in implementing the TCFD recommendations[10].

As CDSB operates the TCFD Knowledge Hub on behalf of the Task Force, we would like to extend an offer to work with the FCA to create a dedicated section on the TCFD Knowledge Hub, containing resources pertaining to the implementation of these upcoming listing rules, if appropriate.

We would also like to note that Reporting on climate-related risks and opportunities in line with the TCFD Recommendations in the mainstream report should not be seen as novel or daunting, as it is often presented. After all, over 8000 companies, including the majority of the world's largest, disclosed to CDP through its climate change questionnaire in 2019. While the information provided in a CDP response covers much of the same ground as the TCFD Recommendations, it is essential for these material climate-related financial disclosures to be included in the mainstream report to meet the expectations and recommendations of the TCFD. The clear and well-structured information contained in CDP responses is, therefore, an ideal basis for satisfying the TCFD and making mainstream disclosures against the eleven recommendations. To do so, though, companies need to translate their CDP questionnaire answers to fit and meet the expectations of the

[8] TCFD & CDSB (2020) TCFD Knowledge Hub – Recommendations Overview. [Online]. Available at: https://www.tcfdhub.org/recommendations/
[9] TCFD & CDSB (2020) TCFD Knowledge Hub – Online courses. [Online]. Available at: https://www.tcfdhub.org/online-courses/
[10] TCFD & CDSB (2020) TCFD Knowledge Hub – Resource database. [Online]. Available at: https://www.tcfdhub.org/resource/

mainstream report. The CDSB Framework for Reporting Environmental and Climate Change Information[11] provides the best means for this. The practicalities of using existing disclosures through the CDP climate change questionnaire with the help of the CDSB Framework to efficiently implement the TCFD recommendations is described in *The building blocks*[12] guidance prepared by CDSB and CDP, which we believe would be helpful to report preparers in their application of these new rules.

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?

While this heightened focus on climate disclosure is a welcome development, a comply or explain approach would not result in enhanced disclosures, because companies still have the option to not report such information. Given the significant risks arising from climate change to the UK and global economy, this approach will not yield sufficient transparency fast enough to allow financial markets to manage and price these risks appropriately. Instead, setting a mandatory Listing Rule would be a commensurate response to the magnitude and probability of climate risks that the UK market faces and more in keeping with the expectation in the Green Finance Strategy that all listed companies and large asset owners should disclose in line with the TCFD by 2022. While we strongly commend the FCA's consideration to ensure the least amount of friction possible to report preparers, the lack of progress in tackling climate change demands that we fast track the implementation path already set by the TCFD in 2017.

To address the FCA's concerns regarding developing corporate capabilities to report information in line with the TCFD, it could commit to more leniency in its supervision of the first year of reporting under the new requirements. It is important to note however that the TCFD provides sufficient flexibility to gradually improve reporting.

We also note that the concept of materiality that is key to two of the four TCFD recommendations also ensures proportionality – if information is not material, it does not need to be disclosed. If it is material however, that means that it should be disclosed regardless of company size and proportionality is not applicable.

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 materiality assessment? If not, what alternative approach would you prefer, and why?

We agree that the recommended disclosures under the 'governance' and 'risk management' recommendations should not be subject to materiality assessment. The TCFD recommendations clearly state that the 'materiality filter' applies only to certain TCFD recommendations and not to governance and risk management.

This disclosure is universally material because the management of any business must be aware of risks and have processes in place to identify them and manage them. Investors want to know that businesses have a process in place to assess risk and a governance structure to manage it, even if the ultimate conclusion of these processes is that such matters do not pose a material risk to the business. As such, disclosing on governance and risk management under the TCFD are applicable to all organisations within scope.

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

Yes. These processes should already be embedded into any business' management. Disclosure on governance and risk management is merely reporting on these processes.

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[11] Climate Disclosure Standards Board (2019) CDSB Framework for reporting environmental and climate change information. [PDF]. Available from: http://cdsb.net/Framework
[12] CDSB & CDP (2020) The building blocks Connecting CDP data with the CDSB Framework to successfully fulfil the TCFD Recommendations. [PDF]. Available from: https://www.cdsb.net/sites/default/files/the_building_blocks_guidance_web_version.pdf

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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?

As above, we do not believe that an explanation for non-compliance is acceptable. Such a caveat is in direct opposition with the UK's Green Finance Strategy, the information needs of investors and ultimately the protection of savers.

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?

Yes, the statement of compliance (if this is meant to be a statement to disclose which standards were applied in the preparation of the report) and the proposed disclosures should be made within the issuer's annual financial report.

A "key feature" of the TCFD recommendations is to be included in financial filings, because it was set up to address a lack of information in such reports.

The TCFD Final Report explains this as follows:
"The Task Force recommends that preparers of climate-related financial disclosures provide such disclosures in their mainstream (i.e., public) annual financial filings. In most G20 jurisdictions, companies with public debt or equity have a legal obligation to disclose material information in their financial filings—including material climate-related information. The Task Force believes climate-related issues are or could be material for many organizations, and its recommendations should be useful to organizations in complying more effectively with existing disclosure obligations. In addition, disclosure in mainstream financial filings should foster shareholder engagement and broader use of climate-related financial disclosures, thus promoting a more informed understanding of climate-related risks and opportunities by investors and others. The Task Force also believes that publication of climate-related financial information in mainstream annual financial filings will help ensure that appropriate controls govern the production and disclosure of the required information. More specifically, the Task Force expects the governance processes for these disclosures would be similar to those used for existing public financial disclosures and would likely involve review by the chief financial officer and audit committee, as appropriate."[13]

The CDSB Reporting Framework[14] is fully aligned with the TCFD recommendations and provides additional guidance to support report preparers in integrating their climate-related financial disclosures into their annual financial reports.

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?

There are benefits to including a description to help the reader find TCFD-aligned disclosures, however some investors may be reading reports as a whole with climate-related matters integrated as appropriate. We do not have a view on whether or not such signposting should be required.

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 views on the role of assurance for climate-related disclosures.

Organisations should be expected to apply the same rigour and management responsibility as is appropriate to all statements and disclosures presented in the mainstream financial report, whether audited or not.

[13] TCFD (2017) Final report – Recommendations of the Task Force on Climate-related Financial Disclosures, page iv. [PDF]. Available from: https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf
[14] CDSB 2019: CDSB Framework for reporting climate change and environmental information. https://www.cdsb.net/sites/default/files/cdsb_framework_2019_v2.2.pdf

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Assurance processes and engagements improve the quality of the reported information, reinforce credibility among stakeholders and improve reporting processes.

Generally, the financial statements auditor is required to read the information presented in addition to the audited financial statements and to identify any significant inconsistencies between it and the audited financial statements and to consider any observed significant misstatements of fact in those disclosures and that it conforms with regulations.

However, the purpose of the consistency check is not to provide assurance on the information published. CDSB encourages organisations to engage with assurance providers to agree an appropriate assurance approach in line with existing standards.

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?

CDSB has no views on this matter.

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?

While we commend the FCA on taking steps to address this disclosure gap, we wonder why the decision was made in the cross-regulator task force on TCFD implementation to address this through the FCA listing rules and not through amending the already existing reporting requirements of the Companies Act 2006, particularly 2013 & 2017 amendments.

We foresee a few areas of disclosure where there may be some overlap with existing requirements under the Companies Act for some quoted companies that are also premium listed, which should be taken into consideration and addressed in the design of the listing rules.

Furthermore, any regulation should be aligned with already existing, internationally accepted standards and regulations on environmental disclosure, as to not create additional burdens for companies and maintain comparability for investors and other users of disclosed data. In this regard, we were pleased to read in the Consultation Paper that the FCA is also monitoring developments in the European Union as well. We would bring the FCA's attention to developments in Australia, China, Canada (including in Ontario on the provincial level), New Zealand, Japan, Brazil and Chile as well. We are happy to provide further briefing on these developments, if helpful.

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 do not believe that the FCA's proposals, nor the amendments made in this response, would cause any significant risks or unintended consequences. Allowing a comply or explain approach to these requirements could however expose the UK to climate-related risks that are hidden from its market.

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 time frame, please explain why?

We agree that the rule should apply from 2021. This is in line with government's intention for companies to be reporting in line with the TCFD recommendations by 2022 and reflects the urgency for better information on climate-related financial disclosures.

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

CDSB has no views on this matter.

Guidance on Existing Disclosure Regulation

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.

CDSB has no comments on this matter.

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