

Rt Hon Anne-Marie Trevelyan MP
Department for Business, Energy and Industrial Strategy
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Dear Minister,

We are very pleased to respond to the Department for Business, Energy and Industrial Strategy's consultation on requiring mandatory climate-related financial disclosures by publicly quoted companies, large private companies and Limited Liability Partnerships.

UKSIF and our members see this consultation as potentially playing a hugely important role in supporting the UK's transition towards net-zero and promoting the future success of the UK's sustainable finance industry.

UKSIF is the membership organisation for the UK's sustainable finance community, representing more than 260 members with over £10 trillion of AUM, including investment managers, pension funds, banks, financial advisers, data providers, NGOs, among others, committed to promoting a more sustainable and inclusive financial system that works for the benefit of society and the environment.

We are proud of the progress the UK has achieved over recent years to promote the growth of sustainable and responsible finance at home and to demonstrate global leadership. UKSIF and our members have looked to play a key role in this respect by working closely with policymakers and others to find new ways to overcome the barriers to the growth of sustainability in the UK.

For example, recently UKSIF successfully campaigned for pension schemes to report against the Task Force on Climate-related Financial Disclosures ('TCFD') framework as part of the Pension Schemes Act, and for a number of years we called on policymakers to introduce mandatory disclosure across the economy, which we are heartened to see now taking place in the UK.

We know there is much further still to go however to ensure the UK can meet its ambitions. A critical part of this will be to make sure we consider ways to build on the UK's global leadership on climate disclosure, by seeking ways to improve the operation and implementation of TCFD. Below are some of UKSIF's thoughts on how we can help achieve this in relation to disclosures for publicly quoted companies, large private companies and Limited Liability Partnerships.

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

Firstly, we would welcome an explicit commitment by government to a more ambitious scope for companies, which would help fulfil the UK's 'TCFD roadmap' for disclosure across the whole economy by 2025. UKSIF would support BEIS applying a lower threshold for companies immediately; consideration should be given to extending the scope to companies with 250 or fewer employees, particularly vital for those companies operating in high carbon-intensive sectors.

An extended scope for companies from the outset would ensure greater visibility over how all companies manage climate-related risks and identify the opportunities of the net-zero transition. It would ensure greater policy consistency with disclosure requirements for other areas of the economy, such as the pensions sector.

At the very least, we would welcome a clear signal from BEIS that companies with fewer than 500+ employees will, in time, be expected to comply with mandatory disclosure.

It is also important to note that pension schemes that will be required to produce TCFD reports from next year will need sufficient data to comply, and greater levels of disclosure for companies would be very helpful in this respect. The number of companies disclosing against TCFD remains relatively small overall, and the role of government will be important in ensuring disclosure is applied to a broader group of companies over time.

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?

Secondly, on disclosure in line with the four main pillars of TCFD, we are supportive of this in principle, but only on the basis that the UK commits to adopting leading international standards, namely those being developed by the IFRS Foundation, which could address some of the shortcomings we see with TCFD.

We agree on the need to minimise the possibility of significant legislative changes if international standards are implemented in the UK, allowing existing TCFD requirements to be adapted more easily as our collective understanding of 'best practice' evolves in time. Government should be prepared to look at how global standards could be applied in the UK and swiftly introduced when appropriate. This move would help ensure robust and consistent disclosures in different jurisdictions, and serve as a positive signal to our members who invest in companies and assets across the world. Drawing on 'best-in class' global standards within TCFD could ensure greater granularity within TCFD reports in future, including more decision-useful data for our members.

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?

Third, UKSIF supports the proposals to produce non-statutory guidance to support companies in the application of the new requirements. We would encourage BEIS to consider convening business groups, regulators, and other representatives in creating this new guidance, drawing on the success of the Pensions Climate Risk Industry Group in producing effective guidance for pension schemes and the work of the Climate Financial Risk Forum.

In time, consideration could be given by BEIS to highlighting and sharing 'best practice' on TCFD reports, particularly as more companies come into scope over time. We note The Pensions Regulator has recently committed to this action for pension schemes in its recently published climate change strategy. The process of continued improvement and learning on TCFD reports is important, with the aim of encouraging a more consistent format. This would be of value to investors in order for them to make well-informed financial and capital allocation decisions, particularly as they continue to lack decision-useful data in disclosures from companies at present.

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?

Fourth, on scenario analysis we note that the pensions industry will be required under the DWP's recent regulations to conduct their scenario analysis once every three years, with schemes needing to disclose an absolute emissions metric, an emissions intensity metric, and an additional climate change metric.

Despite challenges in this area, including the lack of agreed definitions for what scenario analysis should cover, we do not believe companies should be exempt from conducting scenario analysis, which will be very important to provide a clear and meaningful picture of climate risks and opportunities.

The inclusion of a 'as far as they are able' reference in the rules, which forms part of the DWP's regulations, could be considered by BEIS to ensure companies take reasonable steps to undertake scenario analysis and include these disclosures in their annual report and accounts. Guidance could be provided to better define the specific form of scenario analysis that companies should be required to undertake, starting with less complex models at first as methodologies develop. Government and regulators, alongside industry, have a

role to play in promoting good practice in this area, and the Climate Financial Risk Forum's working group on scenario analysis could be a useful convening body to co-ordinate work here.

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?

Fifth, we do not agree with the proposal outlined to permit non-disclosure under these specific circumstances. We believe BEIS's approach should align with those taken by DWP and the FCA, which both identify limited examples of where non-disclosure is permitted and outline clear expectations that companies make all TCFD-aligned disclosures 'as far as they are able.'

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

UKSIF and our members believe there is a role for government to signal its support publicly for the role of investor stewardship in holding companies to account on their quality of their disclosures. Specifically, UKSIF supports the principle of advisory shareholder votes on companies' TCFD disclosures at their Annual General Meetings (AGMs), and we would request government to signal its public support for this ahead of COP26 to encourage positive change in boardrooms, noting the recent backing of the UN's Special Envoy for Climate Action and Finance, Mark Carney.

We believe this step would help create a robust accountability mechanism for companies' TCFD disclosures, and think the frequency of shareholder votes should be driven by investors in dialogue with company management. We know the critical role that investors can play, and are keen for investors to continue to scrutinise how company boards oversee and engage with their TCFD disclosures.

While progress has been made by companies, there remains a need to strengthen the quantity, and quality, of disclosures, with some continuing to not fully disclose against all four pillars. We have seen some companies choosing to 'cherry-pick' in their disclosures, for example focusing on scope-1 emissions and neglecting scope-2 emissions, while some are not engaging in effective risk management around climate risks.

Overall, a majority of listed companies continue to not provide adequate disclosures for investors and other stakeholders' scrutiny. This is critical for our members looking to make capital allocations decisions based on companies' disclosures, and we know our members can only take concrete action to effectively respond to climate-related risks, and take advantage of the opportunities, if they can access high-quality and consistent disclosures.

This will also have implications for government's approach to the UK's listings regime, and as part of this review we continue to call for strong sustainability standards to be in place for companies seeking to list in the UK, in particular for those seeking entry onto the premium listing segment.

Finally, we believe the proposed measures outlined are now more pressing than ever in the current uncertain economic environment. Good disclosures and access to reliable data within companies is more critical than ever, and the current uncertainty should not be used as a way to dilute the proposals, which will be important to uphold the UK's reputation for strong corporate governance and disclosure.

I hope you will think of UKSIF and our members as a constructive partner as you progress this important work, and I look forward to working with you and your team in this area.

Yours sincerely,



James Alexander
Chief Executive