Climate Disclosure Standards Board

CDSB Response to the Consultation on requiring mandatory climate-related financial disclosures by publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs)

The Climate Disclosure Standards Board (CDSB) would like to thank the Department for Business, Energy and Industrial Strategy for the opportunity to provide comments on its consultation on requiring mandatory climate-related financial disclosures by publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs).

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[1] 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[2] 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 proposals and have set out 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,

Michael Zimonyi
Policy & External Affairs Director
Climate Disclosure Standards Board

[1] Climate Disclosure Standards Board (2019) CDSB Framework for reporting environmental and climate change information. [PDF]. Available from: http://cdsb.net/Framework
[2] TCFD & Climate Disclosure Standards Board (2020) TCFD Knowledge Hub. [Online]. Available from: https://www.tcfdhub.org/

T: +44 (0) 203 818 3939
www.cdsb.net
4th Floor
60 Great Tower Street
London EC3R 5AZ

Appendix: CDSB responses to consultation questions

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

The proposed scope should be the minimum level of the proposed obligations and we strongly encourage BEIS to consider a broader scope. The main reasons for this are:

1. Completeness of data: investors need such information from all of their investee companies;
2. Lack of direct correlation between company size and climate risk: smaller businesses may have significantly larger exposures to climate-related financial risks and opportunities than some larger ones. This is in part due to the fact that the activities of a business determine their climate risk, not their turnover or the number of employees; and
3. It is key to start early and medium-sized businesses will hopefully grow into large businesses: The consideration of climate-related financial risks and opportunities and the subsequent reporting on these issues should form an integral part of a business' business model and growth strategy. Starting early will prepare them for more comprehensive reporting as they grow to meet the proposed criteria in this consultation.

We highlight materiality as a key factor in our response to Question 6 below, which we believe is a more appropriate tool to ensure that there is no undue burden on businesses.

Based on the experience of similar amendments in the past to the Companies Act, we recommend including a set of questions (or similar) that businesses can use to determine whether they are covered by these requirements.

QUESTION 2: Our proposed scope includes UK registered companies with securities admitted to AIM with more than 500 employees. Do you have any views on expanding this to include other unregulated markets and Multilateral Trading Facilities (MTFs)?

CDSB does not have any views on this matter.

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

Yes, for listed companies under the proposed requirements. On the listed entity reporting side of these requirements, the group is likely to be listed on the exchange and therefore group likely to be the *unit* under assessment by current or potential investors. A consolidated approach therefore allows the user of the report to get a complete picture of the various businesses of the group.

A consolidated approach can also help balance the reporting burden by centralising the process of report preparation to the head of the group, relieving the, perhaps smaller, entities within the group from that element of the process.

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

Overall, the strategic report should contain much of the climate-related financial information that companies disclose, but should not be restricted to this section.

T: +44 (0) 203 818 3939
www.cdsb.net

4th Floor,
60 Great Tower Street
London EC3R 5AZ

As Section 414C(1) of the Companies Act states, *"The strategic report should provide shareholders of the company with information that will enable them to assess how the directors have performed their duty to promote the success of the company for the benefit of shareholders as a whole, while having regard to the matters set out in section 172."*[3]

Given that climate-related financial information satisfies these criteria and that the TCFD recommendations in particular have strong focus on senior management oversight that is the essence of the strategic report, it follows that reporting it in the strategic report will enhance its content and usefulness to shareholders.

With this in mind, it is also important to note that the information should not be restricted to the non-financial statement, nor should it end in the Strategic Report. As the FRC's Guidance on the Strategic Report states:

"The various content elements to be included in the strategic report should not be addressed in isolation; there are numerous relationships and interdependencies between those elements and other disclosures in the annual report which [...] should be highlighted and explained in the strategic report. In particular, relevant non-financial information should be considered as integral to the strategic report and should be linked, where appropriate, to other content elements. The relevance and strength of the relationships and interdependencies between the content elements will vary according to the facts and circumstances of the entity."[4]

The purpose of climate-related financial disclosure is to ensure that climate-related matters are considered alongside all other factors that impact a business' ability to create value and reported the same way and alongside these factors. As such, the objective should be to ensure that climate-related financial information should be interspersed throughout the annual report.

Companies must also consider how climate-related matters impact their financial statements. As noted by IFRS Trustee Nick Anderson[5], climate change should be considered in the application of International Financial Reporting Standards (IFRSs) already in their current form. CDSB has built on this work to develop more specific guidance[6] on how to interpret IFRSs more comprehensively, taking into account climate risk. We believe that these can serve as a useful resource to companies as they comply with these upcoming requirements, by ensuring that the reported information in the strategic report is also reflected and consistent with the financial statements in the back half of the report.

Last but not least, BEIS could also include a note in its non-binding FAQs that recognises the importance of information that support or complements the information within the scope of this consultation (such as information on broader sustainability impacts and supporting information) and advises companies to ensure that such information is reported clearly in supporting report(s) at the same time and prepared with the same rigour as, and connected to the strategic report. While this is beyond the immediate scope of the proposed requirements, setting out how it should

---

[3] HM Government (2013) The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. [Online]. Available at: https://www.legislation.gov.uk/ukdsi/2013/9780111540169/contents
[4] Financial Reporting Council (2018) Guidance on the Strategic Report, Paragraph 7A.5. [PDF]. Available from: https://www.frc.org.uk/getattachment/fb05dd7b-c76c-424e-9daf-4293c9fa2d6a/Guidance-on-the-Strategic-Report-31-7-18.pdf
[5] IFRS Foundation (2019) Nick Anderson—IFRS Standards and climate-related disclosures. [PDF]. Available from: https://www.ifrs.org/content/dam/ifrs/news/2019/november/in-brief-climate-change-nick-anderson.pdf
[6] CDSB (2020) Accounting for climate. [Online]. Available at: https://cdsb.net/IFRS

interact with other corporate information related to sustainability will ensure that the entire package of information can be read as a whole if the user wishes to do so.

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?

If part of the desired outcomes of this legislative change is to provide a better picture of a company's management of climate-related matters and their implications on the future ability of the business to create value and thereby enabling investors/owners to make better decisions, as well as companies better managing climate-related risks to their business, it will be more meaningful if this information is reported within the Strategic Report (as applicable).

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?

While we appreciate the reasoning behind the four pillar-level proposal, we believe that this level of granularity without any further binding guidance will not be sufficient to elicit the consistent, comparable and comprehensive information that is needed by investors to inform their decision-making.

The very large amount of flexibility allows for a broad range of options in which a business may comply with the proposed requirements. This can result in significantly different disclosures which might cover significantly different issues, making it very difficult to use on aggregate, essentially resulting in a patchwork of disclosed information that do not create a complete picture.

While it is not always necessary to have a complete report from every reporting entity and flexibility can allow for more concise reports that tell a clearer story, it is necessary to have a complete picture of *material* issues. As such, including all 11 recommended disclosures with materiality clauses included for recommended disclosures under Strategy and Metrics & Targets, would be a more useful and appropriate way to find a balance between reaching the necessary completeness of information without overburdening the reporting entity unduly. This is the reason that the concept of materiality is key to all provisions that focus on reporting sustainability information in the annual report, including the TCFD recommendations, CDSB Framework, International <IR> Framework and SASB Standards.

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?

While the proposed obligations cover important areas, they do not cover sufficient detail to be able to ascertain a sufficient picture of the business. We also note that while the requirements do relate to the topics of the TCFD's recommended disclosures, in some cases they cover different aspects than what the TCFD recommendations cover. We recognise that these obligations were drafted in the context of and building on existing requirements and the legislative context, but in some cases, additional obligations would achive these additional requirements better.

For example, obligations around Governance are quite similar to those of the TCFD recommendations, but fall short of being specific enough to result in comparable reporting on an international level. For example, a company can report against a) (i) and (ii) without describing the board's oversight of climate-related risks and opportunities, i.e. TCFD recommended disclosure Governance (a).

We also do not initially see Risk Management (a), (c), as well as Metrics and Targets (a) and (b) covered in the proposed obligations, but note that some of the Metrics and Targets requirements are already covered by existing obligations.

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?

No. While we are mindful of the need to avoid disruptively large burdens on businesses, we do not believe that conducting a simple scenario analysis exercise and reporting on its outcomes should result in this. We believe that a combination of the materiality threshold provided by the TCFD recommendations under the Strategy element and the advice of the TCFD for companies starting out with scenario analysis ensure that scenario analysis is only conducted when it is absolutely necessary and then done so in with a reasonable amount of effort.

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?

CDSB is broadly supportive of this notion.

Do you have any views on the continuation of voluntary Scope 3 emissions reporting under SECR requirements?

CDSB has no comments on this matter.

QUESTION 10: Do you have comments on the proposed qualification to a company's duty to make climate-related financial disclosures for companies?

While we agree with and support the materiality threshold for requirements on Strategy- and Metrics and Targets-related disclosures under the obligations, Governance and Risk Management of climate change-related matters is universally material to all businesses and should be part of the foundations of the Strategic Report. As such, we believe that obligations under Governance and Risk Management should not be linked to a materiality threshold.

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

We believe that the proposed timing strikes a good balance between the urgency of addressing climate risk and allowing businesses to prepare for these upcoming obligations over the next two years. The expectation has also been clearly set in the Government's Green Finance Strategy for the requirements under the proposed obligations.

QUESTION 12: Do you have any comments regarding the existing enforcement provisions and the BEIS proposal not to impose further provisions?

We do not believe that current enforcement provisions will be sufficient to effectively monitor and correct the market in its implementation of the proposed obligations. Supervision is an essential tool to support the market to develop practices that are in line with requirements and their desired objectives.

First and foremost, it is also essential for the obligations to be as specific as possible for enforcement to take place, further supporting the need to establish the obligations at the 11 recommended disclosures level.

We also believe that further clarity is needed within the mandate of the FRC/ARGA and the FCA to further strengthen their supervisory powers in this respect. We have been encouraged with the significant work that the FRC has done to scale up supervision of these matters in the past, but we believe that a significantly larger effort is needed to meaningfully address this important and urgent matter.

QUESTION 13: Do you have any comments regarding duties and enforcements for LLPs?

CDSB does not have any comments on this matter.

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

CDSB does not have any comments on this matter.

QUESTION 15: Do you have any comments regarding the proposed enforcement of our disclosure requirements?

We are broadly in agreement with the proposals on this matter.

QUESTION 16: Do you have any comments regarding the impact of our proposals on protected groups and/or how any negative effects may be mitigated?

Research by the Prudential Regulatory Authority and an increasing number of other authoritative bodies has concluded that the risk of inaction far outweighs the costs of a transition to a low carbon economy. The proposals in this consultation are an essential building block to support this transition.

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

We commend BEIS for supporting businesses and the market to meaningfully integrate climate risk into its decision making and operations, thereby providing urgent action and financing to support the transition to more sustainable and resilient economic, social and environmental systems. We would like to reaffirm our offer and commitment to support in any way we can with this effort.

T: +44 (0) 203 818 3939
www.cdsb.net

4th Floor,
60 Great Tower Street
London EC3R 5AZ