ICAEW
REPRESENTATION 83/21

ENHANCING CLIMATE-RELATED DISCLOSURES BY STANDARD LISTED COMPANIES AND SEEKING VIEWS ON ESG TOPICS IN CAPITAL MARKETS

Issued 10 September 2021

ICAEW welcomes the opportunity to comment on the consultation paper on *Enhancing climate-related disclosures by standard listed companies and seeking views on ESG topics in capital markets* published by the Financial Conduct Authority (FCA) in July 2021, a copy of which is available from this link.

We agree with the FCA's proposal to extend application of the existing TCFD-aligned disclosure requirement to apply to issuers of standard listed equity shares. Doing so will help increase transparency ,which ensures that securities are more accurately priced and ultimately helps accelerate the transition to the low carbon economy.

This response of 10 September 2021 has been prepared by the ICAEW Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

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KEY POINTS

SUPPORT FOR IMPROVED CLIMATE-RELATED DISCLOSURES

1. ICAEW is committed to ensuring that chartered accountants are at the forefront of efforts to tackle the severe challenges arising from climate change. We have long been strong supporters of the distinctive approach adopted by the TCFD, which focuses on communication of the financial impact of climate change on the reporting organisation. We continue to believe that TCFD will contribute to improvements in the quality and consistency of disclosures and governance in this area. It is within this context that we have reviewed the FCA’s proposals.

NEED FOR A JOINED-UP APPROACH

2. We note that the FCA’s proposals have been put forward within the context of the UK Government’s roadmap for moving to mandatory TCFD-aligned disclosures, including the recent proposals from BEIS. The consultation document also takes account of international developments, in particular the work of the IFRS Foundation to set up an international sustainability reporting standards board and the involvement of the TCFD in this initiative.
3. While we appreciate that best efforts are being made to align the various initiatives during this transitionary stage, it is nevertheless a confusing landscape for preparers. Getting to grips with the various current and forthcoming requirements, implementation timetables, as well as understanding how they fit together in the short, medium and long term is no simple task. We are concerned that this fragmented regulatory landscape, which appears to be a growing feature of the UK reporting regime, is leading to confusion and may ultimately undermine efforts by entities to start preparations to provide TCFD-aligned disclosures.
4. In our view, it would be helpful for the FCA to provide an overview of how its proposals/disclosure requirements fit with the Companies Act requirements being proposed by BEIS, and how the FCA’s disclosure requirements might be expected to interact with any future standard arising from the new international sustainability reporting standards board. As part of this overview, it might also be helpful to reiterate how the actions taken by companies to address climate change, and reporting under the TCFD framework, are a journey which will evolve over time. Providing this bigger picture across a longer time frame might help bring the various initiatives together, demonstrating that while the regulatory landscape is evolving, the fundamental principles underpinning the TCFD framework will continue to be relevant. It is important to clarify that work undertaken by entities in order to prepare and provide TCFD-aligned disclosure in the coming years will not become redundant as the regulatory environment evolves.

RATIONALE FOR EXTENDING DISCLOSURE REQUIREMENTS

5. We agree with the FCA’s proposal to extend application of the existing TCFD-aligned disclosure requirement to apply to issuers of standard listed equity shares. Doing so will help increase transparency, which ensures that securities are more accurately priced and ultimately helps accelerate the transition to the low carbon economy. Notwithstanding our support, we have observed the absence of a broader conceptual underpinning which can be used when determining what disclosure requirements, or other regulatory requirements, should be applied by issuers of standard listed equity shares more generally. This might be something for the FCA to revisit as a separate project to assist with future deliberations regarding the regulatory framework for issuers of standard listed equity shares.

ANSWERS TO QUESTIONS 1 - 11

Question 1
Do you agree with our proposal to extend the application of our existing TCFD-aligned disclosure requirement (set out in LR 9.8.6R(8)) to issuers of standard listed equity shares, excluding standard listed investment entities and shell companies? If not, what alternative scope would you consider to be appropriate, and why?

6. Yes, we agree that the existing TCFD-aligned disclosure requirements that already apply to premium-listed issuers should be extended to issuers of standard listed equity shares.

Question 2
Do you consider that issuers of standard listed GDRs and standard listed issuers of shares other than equity shares should also be subject to our TCFD-aligned disclosure requirements? If not, what alternative approach would you consider to be appropriate, and why?

7. Yes, we believe that issuers of standard listed global depository receipts (GDRs) should also be subject to the FCA's TCFD-aligned disclosure requirements.

Question 3
We welcome views from market participants on whether to apply TCFD-aligned disclosure rules to issuers of standard listed debt (and debt-like) securities, and how best to do this. In particular, we seek input on the following:

a. What climate-related information from issuers of these securities would market participants find decision useful and how far would these information needs be met by TCFD-aligned disclosures?

b. Do market participants' information needs differ according to the different types of issuer in LR 17?

c. If you consider that we should apply TCFD-aligned disclosures rules to issuers of standard listed debt (and debt-like) securities, should some issuer types be excluded from the rule to deliver an effective and proportionate approach? If so, which types of issuers should be included/excluded and how can the scope best be defined?

d. Are there any other matters we should take into consideration – eg, competitiveness, complexity of the application of the rule, burden on issuers in LR 17, or the feasibility to comply with any potential rules?

8. While we have not considered all aspects of this question in our discussions, we have considered more generally whether issuers of standard listed debt (and debt-like) securities should provide climate-related disclosures. In our view, before considering what information might be required, it is important to break down this group into different categories. This is because the information needs of users will differ according to those different categories. Factors to consider include:
   - Issuers of standard listed debt (and debt-like) securities that are subsidiaries may already be included within disclosures made in the group accounts. Is there a case for exempting some/all subsidiaries from providing the disclosures at the individual entity level?
   - Issuers of standard listed debt (and debt-like) securities that are stand-alone entities may not be subject to the same level of corporate governance requirements. Could

this present an issue with regards to the provision of TCFD-aligned disclosures, particularly around governance?

- Public sector issuers of standard listed debt (and debt-like) securities – how would this align with disclosure requirements required more broadly by other public sector entities?
- The maturity period of the securities – this might also be a relevant factor for consideration.

9. In our view, the first step should be to identify the various different categories of issuers of standard listed debt (and debt-like) securities and consider the information needs of users. The next step should be for the FCA to consider which categories of issuer will be caught by other requirements, for example, taking account of the scope of the forthcoming BEIS mandatory TCFD-aligned reporting requirements, including consideration of the ongoing discussions regarding the definition of PIE as part of the BEIS White Paper *Restoring Trust in Audit and Corporate Governance*. Having performed these two steps, the FCA might be able to focus its attention on a particular category of issuer not caught by requirements elsewhere, avoiding duplication.
10. If the FCA concludes that there is a need to introduce climate-related disclosures for a particular category of issuers of standard listed debt (and debt-like) securities, then we suggest that any disclosures are as aligned as possible to the existing TCFD framework, albeit subject to any consideration of user needs. As discussed elsewhere, the FCA's proposals form part of the UK Government's wider roadmap for moving to mandatory TCFD-aligned disclosures, which itself will be an important building block for any future international sustainability reporting standard on climate. Ensuring alignment with the TCFD framework at this stage will not only ensure consistency and comparability between entities but will help any future transition towards international sustainability reporting standards.

Question 4
Do you agree with our proposal to mirror the structure and wording of LR 9.8.6R(8) and LR 9.8.6BG to LR 9.8.6EG for companies with a UK premium listing? If not, what alternative approach would you consider to be appropriate, and why?

11. Yes, we agree that the TCFD-aligned disclosure requirements for issuers of standard listed equity shares should mirror the requirements already introduced for UK premium listed companies. Mirroring the existing requirements will ensure consistency and comparability between entities, while minimising complexity in the listing rules.

Question 5
Do you agree that, subject to the TCFD's final guidance materials being broadly consistent with those proposed, we should incorporate them into our existing and proposed handbook guidance provisions as described (including both the existing guidance relating to LR 9.8.6R(8) and our proposed new guidance relating to LR 14.3.27R):

a. the TCFD's proposed updates to the TCFD Final Report and TCFD Annex

b. the TCFD's proposed standalone guidance document on metrics, targets and transition planning

c. the TCFD's technical supplement on measuring portfolio alignment.

If not, what alternative approach would you prefer?

12. In principle we agree that, subject to the TCFD's final guidance materials being broadly consistent with those proposed, the FCA should incorporate them into its existing and proposed handbook guidance provisions. That said, we believe it would be helpful for the FCA to clarify the status of the TCFD's guidance with regards to its own listing rules. In our view, the listing rules could be interpreted as requiring companies to follow the guidance to the letter in order to state compliance with the disclosure requirements, rather than as a guide which will help entities comply with the disclosure requirements. We believe this is an important clarification, especially when considering the potential for future updates to the TCFD guidance. For example, it is not clear how frequent or extensive future changes to the TCFD guidance will be, and how much time will be available for entities to absorb any changes. Clarification of the status of the guidance would help alleviate any uncertainty on this point and minimise any unnecessary burden on reporting entities.

Question 6
Do you agree that we should update the Technical Note 801.1 to reflect the proposed new rule and associated guidance in this CP?

13. Yes, we agree that it would be helpful to update the Technical Note in order to reflect the proposed new rule and associated guidance as discussed in the consultation paper.

Question 7
Do you agree with our encouraging listed companies to consider the SASB metrics for their sector when making their disclosures against the TCFD's recommended disclosures, as appropriate? If not, please explain.

14. Yes, we believe it would be helpful to encourage listed companies to consider the SASB metrics for their sector. The SASB metrics provide useful information alongside information provided under the TCFD framework. We also believe that encouraging disclosure of relevant SASB metrics will provide another helpful interim step while waiting for more comprehensive and complete standards to be issued by the IFRS Foundation's proposed new international sustainability reporting standards board.

Question 8
Do you agree with our approach to maintain a 'comply or explain' compliance basis until such time as a common international reporting standard has been published and adopted in the UK? If not, what alternative approach would you prefer, and why?

15. Yes, agree with the proposal for the disclosure requirements to be introduced on a 'comply or explain' basis. This approach would be consistent with the approach adopted for premium-listed companies. Furthermore, given the proposed implementation timetable (see question 10), the comply or explain approach would allow more flexibility for entities to develop their systems and processes over time.

Question 9
Do you agree with our approach not to require third party audit and assurance for issuers' climate-related disclosures at this time? If not, what additional requirements would you consider to be appropriate?

16. This is a rapidly evolving area, and we anticipate demand for climate-related assurance from audit firms and others continuing to increase. That demand is likely to loom large as companies implement the Audit and Assurance Policy regime proposed as part of the recent BEIS White Paper on corporate governance and audit reform. We welcome these

developments. However, we agree with the approach of not requiring third party assurance for issuers' climate-related disclosures at this time.

17. While we believe that audit and assurance will be important in ensuring that issuers comply with the regulations, many issuers are still at an early stage of developing the management of their climate-related risks and opportunities. The requirement for third-party assurance would be likely to encourage them to concentrate on disclosures. In turn, this could stifle efforts and innovation in developing suitable methods of reporting under the TCFD framework.

18. In our view, one of the major challenges of providing assurance on non-financial information generally is the strength of an organisation's control systems and governance structures that support the process of producing the information. A common refrain heard in ICAEW's engagement with assurance providers is that they are often unable to accept assurance engagements of non-financial information when the organisation's control system is not mature enough, as it leaves them unable to rely on the system as part of the engagement.

19. In order for assurance of non-financial information to become more commonplace, it will be necessary for many issuers to consider the need to up-skill boards and audit committee chairs and strengthen control systems and reporting processes. These are not quick fixes and will take a concerted effort to move forward.

Question 10
Do you agree that our new rule should take affect for accounting periods beginning on or after 1 January 2022? If you consider that we should set a different timeframe, please explain why.

20. Yes, we agree with the proposed timetable.

Question 11:
Do you agree with the conclusions and analysis set out in our cost benefit analysis (Annex 2)?

21. We have no comments on the cost benefit analysis at this stage.

RESPONSE TO QUESTIONS 12-21

22. We note that the focus of the individual questions outlined in the 'discussion paper' section of this consultation is on i) issues related to green, social or sustainable debt instruments and ii) ESG data and rating providers. While we have not commented directly on the specific questions, we agree that these are important matters to consider within the wider ESG reporting eco-system.

23. In particular, we refer to the September 2020 *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting* issued by the CDP, CDSB, GRI, IIRC and SASB. This paper helpfully highlighted the important role of frameworks and standards within the sustainability reporting eco-system. However, while robust and high-quality standards can ensure high quality information, consideration is also needed as to how reporters collect and process information, how information is assured, the available software to process information, the role of data providers, how the information is consumed by end users, and how information is regulated/enforced. We believe Chartered Accountants have an important role to play throughout this wider eco-system and we welcome the FCA exploring these matters in more detail.