Institute and Faculty of Actuaries

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IFoA Response to DESNZ Call for Evidence on Scope 3 Emissions in the UK Reporting Landscape

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the DESNZ call for evidence on Scope 3 Emissions in the UK Reporting Landscape. This response was written by the IFoA's Sustainability Board and has been considered from an independent, public interest perspective.

The IFoA has a global membership of over 32,000 actuaries, working across the financial sector. Actuaries have a crucial role to play in promoting the understanding and integration of climate risks and opportunities within decision-making, and in supporting making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. By evaluating systemic sustainability impacts on the financial systems, actuaries are involved in assessing how sustainability topics and the transition to net zero may impact on our assessment of future liabilities and the adequacy of returns to meet these future liabilities.

Q 5. Do you agree or disagree with the ISSB's assessment of the value of Scope 3 information?

1. As we change our practises to take into account climate risk, we need the data to inform those positions. We agree with the ISSB that information on Scope 3 emissions is important to understand the risks and exposures of the full value chain, as well as the opportunities.

2. Reporting on Scope 3 emissions will expose when company emissions are pushed down the supply chain through outsourcing.

Q 6. In general, what is your view on the approach to Scope 3 reporting contained within IFRS S2? Please consider the ISSB's approach to materiality in your answer.

3. The purpose and objective of establishing the TCFD was to integrate climate disclosures into financial reporting and disclosures. This is to enable understanding of financial risks and impacts of climate change on a business or organisation. The ISSB's approach to materiality is consistent with this – i.e., that materiality should be based on the potential effect on the company's enterprise value.

4. Considering materiality from the perspective of existing and potential investors and lenders will help focus on decision-useful information to support business strategy resilience and the management of physical and transitional risks.

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5. Materiality will differ according to different sectors and investors. Rather than prescribing what should be reported, the user should consider the type of materiality framework they wish to apply and then test them against the disclosures.

6. This information will need to be audited, so preparers need to ensure the information can be verified and eventually assured.

7. From a public interest perspective, the IFoA supports double materiality – i.e. that companies should consider their broader environmental and societal impact. This acknowledges the systemic risk of climate change. For instance, insurance leaders have unequivocally stated that, if climate change raises average temperatures to 4°C above pre-industrial levels, most assets will be uninsurable.

8. Our Climate Change Statement sets out our mission to support actuaries in their understanding of climate change and to use the actuarial skillset to help equip the wider global financial services markets to accelerate a just and sustainable transition to net zero.

Q 7. What is your view on the use of the GHG Protocol for the purposes of Scope 3 reporting within IFRS S2? Will this lead to comparable and consistent reporting that is useful for investors and users of accounts?

9. We welcome the decision by ISSB to incorporate the measurement guidance in the GHG Protocol Corporate Standard, and the categories in the GHG Protocol Value Chain Standard. Not all Scope 3 emissions are the same (which is why there are 15 categories) and it does matter in which category the emissions are. We believe reporting should be at sector not industry level, and that the GHG Protocol to disclose Scope 3 emissions (which includes Category 15: Investments) is adequate for this purpose.

10. We support GHG Protocol's methodology of calculating total projected lifetime emissions from project finance and debt investments in the initial year the project is financed. This gives investors and shareholders a clearer understanding of the impact of a project.

Q 12. How, if at all, do you expect to use the Scope 3 information that could be disclosed by businesses in accordance with IFRS S2? If you are an investor, how will this information influence your decision-making?

11. Scope 3 information should be material from an investor perspective and, as such, integrated into the business strategy. It may be used for risk assessment, benchmarking and performance measurement.

12. It is not requested in areas where the financial institution has no element of control, such as assets under advisement and personal pensions.

13. Companies may apply internal weightings to compare value versus risk. For instance, equity earnings are generally higher than debt earnings for the same level of emissions.

14. The data should be audited to increase user confidence in the information and processes to collect the information. Investors should be informed whether the Scope 3 information is subject to reasonable assurance (in which the auditor affirms that the information reported is materially correct) or limited assurance (where the auditor is not aware of any material modifications that should be made). Where a benchmark is used, this needs to be part of the disclosure.

15. Information should focus on the most decision-useful. Otherwise, the information burden for investors with multiple companies to monitor could be significant.

Q 13. If you are a user of annual reports, which of the Scope 3 GHG emissions categories do you most value information on and why?

16. The most valuable information is that which is most material for a particular company, as part of a risk-based approach.

Q 14. When making investment decisions, does the usefulness of Scope 3 data vary depending on the sector and the size of the reporting organisation?

17. The usefulness of Scope 3 data inevitably varies from sector to sector and size, depending on the impact on the reporting organisation.

18. For SMEs, there needs to be a simplified approach to ensure the data they supply is still decision-useful. This is where having conversion factors can be useful. Supplying SMEs with industry factors can be helpful.

Q 15. What are your views on the overall costs and benefits of Scope 3 reporting? Please be as specific as possible.

19. Understanding a company's Scope 3 emissions is important to understand the risks and exposures of the full value chain, as well as the opportunities.

20. It has less value at a portfolio level for investors, life companies and asset managers, with limited quality and reliability.

21. Comparing portfolios in the same sector in the same country can allow analysis of the difference in risk exposure, and performance measurement. However, a mixed portfolio has investments that may be subject to very different carbon regulatory frameworks and jurisdictions.

22. Calculating Scope 3 emissions is currently almost impossible without resorting to estimations. Investors should be looking to reward companies for material reductions in carbon emissions, as well as their plans and policies. Using proxies where data is missing can be counterproductive to the goal of realigning capital flows with a low carbon economy, as companies get no credit where emission reductions are made, while proxies often vary significantly from actual emissions.

Q 19. What are, or do you anticipate being, the greatest barriers to producing consistent Scope 3 data?

23. The measurement of Scope 3 emissions is more complex and significantly less mature than Scope 1 and 2 measurements. Companies should carefully consider their disclosure approach and requirements around data quality assessment. Assessing what is material is not yet robust – particularly for social, governance and biodiversity issues - but will improve over time.

24. Obtaining data from the value chain to enable reporting at the same time as the financial statements can be a challenge for many companies. The compliance burden for companies is high.

25. Many mid-size companies outsource their procurement function. They, therefore, may not even know how many suppliers they have.

Should you want to discuss any of the points raised please contact Caroline Winchester, Policy Manager (caroline.winchester@actuaries.org.uk / 01259 761020) in the first instance.