Institute and Faculty of Actuaries

5 May 2021

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

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.

Q1. Do you agree with our proposed scope for companies and LLPs?

1. We agree with the proposed scope for companies and LLPs, acknowledging that the Department for Business, Energy & Industrial Strategy (BEIS) will review the case for expanding the scope of the regulations in 2023.

Q2. 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)?

2. We support the scope being expanded to include other unregulated markets and Multilateral Trading Facilities (MTFs). We recognise companies will refine their approach to disclosure over time and as accepted good practice evolves. However, it is most important that they simply start. Including these companies and MTFs within the scope will encourage this.

Q3. Do you agree with the proposal to require climate related financial disclosures for companies and LLPs at the group level?

3. We agree that climate-related financial reporting requirements should be aligned with the reporting that is of greatest importance to investors, other finance providers and other stakeholders. However we are concerned about an exemption which would remove the requirement for subsidiaries to develop climate-related disclosures if they are included in a consolidated report of a parent company.

4. In developing a climate-related disclosure, an entity is provided with information which enables it to consider the climate resilience of its operations and to make adjustments to align these with net zero ambitions. Where disclosure only occurs at the group level, it may be unlikely that subsidiaries have granular enough information about their operations to make this assessment. Where an individual subsidiary meets the scope threshold, BEIS should require it to develop its own climate-related financial disclosure and include it within its own reports.

Q4. Do you agree that the Strategic Report is the best place for the disclosure of climate-related financial information by companies?

5. We are concerned that requiring companies to disclose their climate-related information in the strategic report will limit the granularity of detail they will be able to provide. We discuss this in more detail in our response to question 6.

6. We encourage BEIS to consider whether it would be more appropriate for companies to include their climate-related financial disclosure within their annual report, more broadly, instead.

Q5. 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?

7. As identified in our response to question 4, we are concerned that requiring entities to disclose their climate-related information in the strategic report will limit the granularity of detail they will be able to provide. As such, the Energy and Carbon Report of an LLP may be a more appropriate place for the disclosure to be included.

Q6. 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?

8. Limiting disclosure to the four pillars of the TCFD recommendations is at odds with the UK's ambitious climate plans. As with the FCA listing rules, disclosure against the 11 detailed recommendations should be required on a 'comply or explain' basis.

9. Entities will refine their approach to disclosure over time and as accepted good practice evolves. However, it is most important that firms simply start. Requiring disclosure on a 'comply or explain' approach will enable this.

10. This approach is proportionate as, where smaller firms are unable to comply with a particular recommended disclosure as they have yet to develop the necessary capacity, they are able to provide this explanation in the required statement in their annual report.

Q7. 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?

11. As identified in our response to question 6, we believe the obligations should be extended to require in-scope entities to disclose against the 11 detailed recommendations, on a 'comply or explain' basis.

Q8. Do you agree with our proposal that scenario analysis will not be required within a company or LLP's annual report and accounts?

12. We are concerned that the proposed approach of not requiring scenario analysis will not encourage firms to develop their capacity or refine their approach in this area. BEIS should consider whether scenario analysis should be required on a 'comply or explain' basis.

13. Alternatively, should it not be appropriate to require an entity with less skill or expertise in this area to provide a full scenario analysis, BEIS should consider whether there is merit in requiring these entities to undertake simpler scenario stress tests. Small entities are not immune to climate risks and it is important they are encouraged to commence thinking about their approach to managing them.

Q9. 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? Do you have any views on the continuation of voluntary Scope 3 emissions reporting under SECR requirements?

14. We do not have a view on the continuation of voluntary Scope 3 emissions reporting under SECR requirements.

Q10. 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?

15. If non-disclosure is to be permitted where information is non-material, and the reason why climate change is not material are properly explained, non-mandatory guidance should support companies and LLPs to understand and identify when this is the case.

Q11. Do you have comments on the proposed timing for these regulations coming in to force?

16. We consider the proposed timings for the regulations coming in to force, as outlined in the consultation document, to be sensible.

Q12. Do you have any comments regarding the existing enforcement provisions for companies and the BEIS proposal not to impose further provisions?

17. The proposed approach of ensuring enforcement provisions are aligned with existing enforcement provisions within the Companies Act 2006 is sensible.

Q13. Do you have any comments on the responsibilities of auditors in relation to climate-related financial disclosures?

18. The proposal to not alter the role of auditors in relation to climate-related financial disclosures while the government delivers its programme of corporate governance and audit reform is sensible. However, there is a need for clarity and convergence on audit standards on sustainability.

19. We encourage BEIS to follow developments in this area to ensure they obligate auditors to determine if climate-related risks are financially material. At a minimum, guidance should be developed for auditors about when and how they should do this. Guidance should also support auditors to in their ability to satisfy themselves of the internal consistency of disclosures with wider financial statements.

20. If developments do not promote this, we encourage BEIS to consider whether it is appropriate to seek to alter the role of auditors in relation to climate-related financial disclosures.

Should you want to discuss any of the points raised in this response, please contact Faye Alessandrello, Policy Manager (faye.alessandrello@actuaries.org.uk), in the first instance.