CDSB Response to the U.K. Government consultation the Government's proposals "Restoring trust in audit and corporate governance"

The Climate Disclosure Standards Board (CDSB) would like to thank the BEIS for the opportunity to provide comments on its agenda regarding audit and corporate governance disclosures.

The Climate Disclosure Standards Board (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 and social capital with financial capital.

We do this by offering companies a framework for reporting environment- and social-related information[1] with the same rigour as financial information. In turn this helps them to provide investors with decision-useful environmental and social information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators have also benefited from CDSB's compliance-ready materials.

Recognising that information about natural, social and financial capital is equally essential for an understanding of corporate performance, our work builds 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 is used by large, listed companies globally and is referenced in Government guidance to the UK Companies Act 2006, E.U. Commission Guidelines to the EU Non-Financial Reporting Directive, as well as in stock exchange guidance in London, Australia, Singapore, Egypt, Santiago de Chile and elsewhere. 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. CDSB is also member of the IFRS Foundation technical readiness working group providing observations to support the establishment of an International Sustainability Standards Board.

Our detailed comments relating to specific discussion points and questions are provided in the Appendix below.

Please do not hesitate to get in touch with my colleague Charlotte Zhou (charlotte.zhou@cdsb.net) if we can be of further assistance.

With kind regards,

Mardi McBrien
Managing Director
Climate Disclosure Standards Board

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

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

4th Floor
60 Great Tower Street
London EC3R 5AZ

Appendix: CDSB responses to Questions for Consideration

Please note: Based on our expertise, CDSB has only provided comment on questions that address climate or environment disclosure.

Chapter 1 – The Government's approach to reform

CDSB has no comments on this matter.

Chapter 2 – Directors' accountability for internal controls, dividends and capital maintenance

CDSB has no comments on this matter.

Chapter 3 – New corporate reporting on resilience, assurance and payment practices

Question 19. Do you agree that the above matters should be included by all companies in the Resilience Statement? If so, should they be addressed in the short- or medium-term sections of the Statement, or both? Should any other matters be addressed by all companies in the short and medium-term sections of the Resilience Statement?

CDSB agrees that all companies should include the above matters in their Resilience Statement. We recommend that the company addresses them in the short term, medium term and long term. REQ-02 of the CDSB Framework states that disclosures shall report management's environmental policies, strategy and targets, including the indicators, plans and timelines. Moreover, it is critical to note that assessing and reporting on a range of timelines helps companies identify their risks and opportunities and provides investors with a better view of their long-term commitment and financial viability.

Non-finical impacts in particular could take years to materialise into an impact that affects its enterprise value. The *combination of timeframes* help the company adapt to the change, mitigate risk, and find new opportunities, which will transfer to a long-term financial outcome.

We also strongly recommend that Government expand its scope from climate risk to include all sustainability risks, including those arising from environmental and social matters, as all of these can materially impact the resilience of an organisation. Studies such as the Dasgupta Review on the Economics of Biodiversity[3], among others[4], have provided clear evidence of the impact of environmental and social matters on the future ability of an organisation to create value.

Question 20. Should the Resilience Statement be a vehicle for TCFD reporting in whole or part?

The Resilience Statement can be part of the vehicle for TCFD reporting, yet we highly recommend disclosing information across different sections within one report.

[3] Dasgupta, P. (2021), The Economics of Biodiversity: The Dasgupta Review. [PDF]. Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/962785/The_Economics_of_Biodiversity_The_Dasgupta_Review_Full_Report.pdf

[4] More examples and summaries of seminal issues, with a focus on financial impact, can be found on the CDSB website, for example: https://www.cdsb.net/natural-capital/912/can-we-bring-nature-back-brink and https://www.cdsb.net/corporate-reporting/1216/covid-inequalities-highlight-pressing-need-social-reporting

A core principle of the CDSB Framework is that disclosures should be connected with other information in the mainstream report to explain the links between an organisation's governance, strategy, risk management and environmental results. Therefore, preparers must recognise that none of the four core elements can stand on its own. Companies need to think about how best to use the existing structure of their mainstream annual reports to integrate these new disclosures. Think of integration and connectivity as the north star: the annual report should tell a clear and coherent story and guide the report user, connecting the dots between governance, strategy, risk management, target-setting, and performance.

Along with an organisation's financial statements, they inform and reinforce one another, establishing a more complete and holistic picture of the organisation's approach to identifying, assessing, measuring, managing, and monitoring climate-related risks and opportunities. For example, an organisation's Strategy disclosures may provide insight into how it has elected to respond to key risks and opportunities. Meanwhile, its Metrics & Targets disclosures would be more likely to shed light on the effectiveness of those strategies. At the same time, performance metrics could be construed as incidental and targets as arbitrary in the absence of a discussion of the organisation's strategy for achieving them.

Connectivity across a number of reports will likely be a more significant challenge for preparers than connectivity of content within one report, mainly if the responsibility for developing each of the reports sits with different functions within a company. Companies should be encouraged to cross-reference to other reports / another part of the same report, where there is connectivity between information. Digital reporting can further help users in accessing connected information quickly and easily, presented in the same, or other reports.

Question 21. Do you agree with the proposed company coverage for the Resilience Statement, and the proposal to delay the introduction of the Statement in respect of non-premium listed PIEs for two years? Should recently-listed companies be out of scope?

We strongly advise the Government to reconsider the expand the scope and include non-premium listed PIEs and recently-listed companies as well.

The world needs urgent climate action. Climate change, the global pandemic and the increasingly clear connection between sustainability performance and financial risk and return are driving the urgency.

Investors need complete, clear and comparable information from their investee companies. Starting early will prepare non-premium listed PIEs for more comprehensive reporting as they grow into large businesses and help to meet the proposed criteria in this consultation. Furthermore, an organisation's business model and growth strategy, considered and integrated climate-related financial risks and opportunities, will give the company a competitive advantage in the global arena.

Additionally, the direct correlation between company size and climate risk does not exist the same way in sustainability as it may in financial matters: 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. With this in mind, we propose that *materiality* of a particular issue be the determining factor of whether it should be reported, rather than company size.

Question 22. Do you agree with the proposed minimum content for the Audit and Assurance Policy? Should any other matters be addressed in the Policy by all companies in scope?

Government should also stipulate the level of assurance regarding environmental or climate disclosure.

This requirement should be designed to demonstrate transparency about and accountability for the organisation's oversight of environmental policies, strategy and information. Organisations should also describe the assumption and approach used for collecting source data for preparing environmental information, together with any controls and quality assurance processes used to ensure the quality of information.

Question 23

CDSB has no comments on this matter.

Question 24. Do you agree with the proposed scope of coverage and method for implementing the Audit and Assurance Policy?

We remain of the view that the Government should first meet investors' urgent needs for consistent, comparable and reliable information; therefore, we should move forward quickly for premium listed companies.

However, we strongly encourage the Government to consider a wider scope; see the response for questions 26.

Question 25 - 27

CDSB has no comments on these matters.

Chapter 4 – Supervision of corporate reporting

Question 28. Do you have any comments on the Government's proposals for strengthening the regulator's corporate reporting review function set out in this chapter?

We highly support the extension of the Corporate Reporting Review process to the whole of the annual report and accounts and increase the statutory requirement, particularly in the scope of climate or environmental disclosure. We believe this will empower execute its objective fully.

Chapter 5 – Company directors

CDSB has no comments on this matter.

Chapter 6 – Audit purpose and scope

CDSB has no comments on this matter.

Chapter 7 – Audit committee oversight and engagement with shareholders

CDSB has no comments on this matter.

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

4th Floor
60 Great Tower Street
London EC3R 5AZ

Chapter 8 – Competition, choice and resilience in the audit market

CDSB has no comments on this matter.

Chapter 9 – The supervision of audit quality

CDSB has no comments on this matter.

Chapter 10 – A strengthened regulator

Question 74. Do you agree with the proposed general objective for ARGA?

We agree with the objective for ARGA. Corporate reporting is a means by which stakeholders, including investors, can understand and evaluate companies' performance. The proposed general objective brings confidence to the investors and ensures market stability by providing consistent, comparable and reliable information. We also believe the reported information should concentrate on investors as the primary users of the information, while recognising that the information should satisfy the needs of broader public interests as well.

Question 75. Do you agree that ARGA should have regard to these regulatory principles when carrying out its policy-making functions? Are there any other regulatory principles which should be included?

With regards to *promoting brevity, clarity and usefulness in corporate reporting*, as well as *working closely with other regulators from the UK and internationally*, we encourage ARGA to engage with the IFRS Foundation's efforts to develop a common set of global sustainability standards, which aim to help meet investor needs and to set a sound baseline for jurisdictions to consider when setting or implementing their sustainability-related disclosure requirements.

Chapter 11 – Additional changes to the regulator's responsibilities

Question 76- 93

CDSB has no comments on this matter.

Question 94. Are there others matters which PIE auditors should have to report to the regulator? Could this duty otherwise be improved to ensure that viability and other serious concerns are disclosed to the regulator in a timely way?

We agree on the proposal for the PIE Auditors to report to the regulator if the PIE didn't report ESG related risks (a material threat or doubt about the continuous functioning of the PIE). A more pro-active role could help the regulator in identifying and assessing severe issues in a timely way.

Question 95. Should auditors receive statutory protection from breach of duty claims in relation to relevant disclosures to the regulator? Would this encourage auditors to report viability and other concerns to the regulator?

Yes, in light of our response to Question 94, we believe that auditors should receive statutory projection from breach of duty claims.

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www.cdsb.net

4th Floor
60 Great Tower Street
London EC3R 5AZ

Question 96

CDSB has no comments on this matter.

Question 97. Should the regulator be able to publish a summary of the expert reviewer's report where it considers it to be in the public interest?

Yes.

Question 98

CDSB has no comments on this matter.

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