

CDSB response to FCA Consultation Paper CP21/18: Enhancing climate-related disclosures by standard listed companies

The Climate Disclosure Standards Board (CDSB) would like to thank the FCA for the opportunity to provide comments on its consultation paper.

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 Hub² 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,



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 Knowledge Hub <https://learn.tcfhub.org/>

Appendix: CDSB responses to Questions for Consideration

Q1: 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?

CDSB agrees with the proposal to extend the application to a broader scope. Per our response to CP20/3, we reiterate the importance of applying the rule to all issuers.

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 this urgency. Stakeholders across the market have recognised this and, through the various initiatives and calls for action from many players, including policymakers, there is a groundswell of support for better integration of climate-related and other sustainability matters into investment decision-making. Therefore, we strongly support issuers start TCFD-aligned disclosure requirements as early as possible. This will help to protect investors by providing them with a more complete picture of companies' future ability to create value, support easier access to capital to support sustainable business models, thereby incentivising the transition to a low-carbon, climate-resilient economy.

Q2: 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?

We strongly advise that all issuers, including standard listed GDRs and standard listed issuers of shares other than equity shares should be subject to TCFD-aligned disclosure requirements. Their exposure to risks arising from climate change does not change by virtue of being listed on an overseas market and its owners require information on these matters regardless of whether they are a private investor or a sovereign nation.

Q3: 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?*

We strongly believe that a requirement to disclose material climate-related disclosures should be incorporated into the disclosure rules and provided in annual reports. Additional information to support these disclosures may be reported elsewhere (such as on the registrant's website) and clearly referenced in the annual report. There is a range of reasons why disclosure in the annual report is essential.

High quality, comparable information should, at a minimum, be provided for material sources of environmental impact from operations, entities and activities within the organisation's reporting boundary (see REQ-07 of the CDSB Framework). Narrative should accompany quantitative results where it assists the reader in understanding them. Where quantitative information is unavailable for sources of environmental impact from operations, entities and activities with the organisation's reporting boundary, results should be expressed in qualitative terms. Where Scope 3 emissions

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expose the reporting organisation to risks, opportunity or financial impacts, the effect should be disclosed.

Full alignment with the TCFD recommendations is essential to ensure that:

- Investors receive comparable information that is suitable for their use. Given the global nature of capital markets, investors need consistent information from all jurisdictions to enable them to compare and contrast issuers globally for their investment, lending or underwriting decisions. The TCFD recommendations are globally recognised and widely adopted and their faithful implementation would support investors by providing them comparable information across markets; and
- Issuers have consistent requirements globally. Given the proliferation of mandatory and voluntary climate risk disclosures globally, dual-listed issuers and issuers with international investors may be facing similar, but different reporting requirements. This would result in a significant reporting burden to them.

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

CDSB is supportive of standardised metrics to ensure comparability for users, particularly across sectors and industries. However, appropriate flexibility should be allowed, where necessary, to ensure that the metrics disclosed are relevant and material for the company in question to ensure they are decision-useful for users.

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?

We do not believe that any issuer should be excluded from the rule. The materiality threshold under the *Strategy* and *Metrics and Targets* pillars of the Task Force's recommendations act as a filter, ensuring that no undue burden is placed on the reporting entity,

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?

CDSB has no views on this matter.

Q4: 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?

CDSB broadly agrees on this consistent approach.

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Q5: 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?

It is of utmost importance to refer directly to the 4 recommendations and 11 supporting recommended disclosures of the TCFD to ensure consistency and take full advantage of the Task Force's recommendations. If the new rules would instead implement an amended version of the TCFD recommendations, such an approach would result in unnecessary divergence from best practice that would result in additional work for report preparers and less comparability for readers of the reports.

With this in mind, it would be important to refer to, and where appropriate to integrate, the TCFD's recommendations and guidance throughout the proposed handbook guidance provisions.

Q6: Do you agree that we should update the Technical Note 801.1 to reflect the proposed new rule and associated guidance in this CP?

Yes. As noted in the consultation paper, it is helpful for preparers.

Q7: 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.

CDSB advocates for an acceleration of progress in the implementation of climate-related disclosures. We think it is important to move forward fast and utilise the existing standard setter, such as TCFD and SASB. As noted in the consultation paper, the FRC has set up a path with anticipated international reporting standards led by IFRS Foundation in due course. We urge that the FCA takes the same approach to ensure and support harmonised, consistent reporting globally.

Q8: 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?

CDSB believes that a comply or explain approach will **not** yield sufficient transparency fast enough to allow financial markets to manage and price these risks appropriately. One of the key weaknesses of "comply or explain" is the tendency towards inadequate explanations and a "checking of the box" by firms choosing not to disclose. Given the urgency and magnitude of climate and other sustainability risks, it is essential for investors to have market-wide information on these matters.

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Instead, setting a mandatory Listing Rule would be a commensurate response to the magnitude and probability of climate risks that the UK market faces and more in keeping with the expectation in the Green Finance Strategy that all listed companies and large asset owners should disclose in line with the TCFD by 2022. While we strongly commend the FCA's consideration to ensure the least amount of friction possible to report preparers, the lack of progress in tackling climate change demands that we fast track the implementation path already set by the TCFD in 2017.

We note that the TCFD recommendations are the foundation of international standardisation, as evidenced by the prototype climate standard³ published by the largest sustainability reporting standard setters and framework providers.

To address the FCA's concerns regarding developing corporate capabilities to report information in line with the TCFD, it could commit to more leniency in its supervision of the first year of reporting under the new requirements. It is important to note however that the TCFD provides sufficient flexibility to gradually improve reporting.

Q9: 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?

We disagree with this approach. Organisations should be expected to apply the same rigour and management responsibility as is appropriate to all statements and disclosures presented in the mainstream financial report, whether audited or not.

Assurance processes and engagements improve the quality of the reported information, reinforce credibility among stakeholders and improve reporting processes. Generally, the financial statements auditor is required to read the information presented in addition to the audited financial statements and to identify any significant inconsistencies between it and the audited financial statements and to consider any observed significant misstatements of fact in those disclosures and that it conforms with regulations. However, the purpose of the consistency check is not to provide assurance on the information published. CDSB encourages organisations to engage with assurance providers to agree on an appropriate assurance approach in line with existing standards.

Government should 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.

³ CDP, CDSB, GRI, IIRC, SASB (2020) Reporting on enterprise value: Illustrated with a prototype climate-related financial disclosure standard, [PDF]. Available at: https://29kjbw3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf

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Q10: Do you agree that our new rule should take effect for accounting periods beginning on or after 1 January 2022? If you consider that we should set a different timeframe, please explain why.

We agree that the rule should apply from 2022. This is in line with the government's intention for companies to be reporting in line with the TCFD recommendations by 2022 and reflects the urgency for better information on climate-related financial disclosures.

Q11: Do you agree with the conclusions and analysis set out in our cost benefit analysis (Annex 2)?

CDSB has no views on this matter.

Q12: If future changes were considered in relation to the UK prospectus regime, we would welcome views on also taking the opportunity to introduce specific requirements in relation to UoP bond frameworks and their sustainability characteristics?

CDSB has no views on this matter.

Q13: Should the FCA explore supporting the UoP bond market by recognising existing standards (eg, ICMA Principles), potentially through our recognition of industry codes criteria and process?

CDSB has no views on this matter.

Q14: We would also welcome views on more ambitious measures the FCA could consider, for example to require that the central elements of UoP bonds be reflected in contractual agreements and set out in the prospectus

CDSB has no views on this matter.

Q15: We would welcome views on the potential harm set out above and what, if any, actions the FCA or the Treasury should consider.

CDSB has no views on this matter.

Q16: Should the FCA, alongside the Treasury, consider the development and creation of a UK bond standard, starting with green bonds?

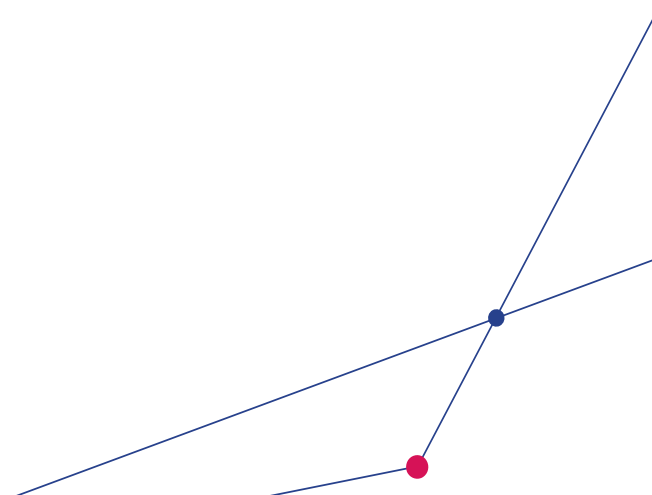
CDSB has no views on this matter.

Q17: Do you agree with how we have characterised the challenges and potential harms arising from the role played by ESG data and rating providers? If not, please explain what other challenges or harms might arise?

CDSB has no views on this matter.

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Q18: Would further guidance for firms on their use of ESG ratings – and potentially other third-party ESG data – be useful, potentially clarifying expectations on outsourcing arrangements, due diligence, disclosure and the use of ratings in benchmarks and indices? Are there other aspects such guidance should include?

CDSB has no views on this matter.

Q19: We would welcome views on whether there is a case either to encourage ESG data and rating providers to adopt a voluntary Best Practice Code, or for the FCA to engage with the Treasury to encourage bringing ESG data and rating providers' activities inside the FCA's regulatory perimeter.

CDSB has no views on this matter.

Q20: If there is a case for closer regulatory oversight of ESG data and rating providers, we welcome views on:

- a) Whether transparency, governance and management of conflicts of interest are the right aspects of ESG data and rating providers' operations and activities to prioritise in regulatory oversight, and if not, what other aspects should be considered
- b) Whether and how regulatory priorities should differ between ESG rating providers and other ESG data providers
- c) The similarities and differences between the policy issues that arise for ESG rating providers and those that arise for CRAs, and how far these similarities and differences might inform the appropriate policy response

CDSB has no views on this matter.

Q21: What other ESG topics do you consider that we should be prioritising to support our strategic objective? Please explain.

CDSB has no views on this matter.

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