Introduction

The Climate Change Act 2008 gives the Secretary of State the power to direct reporting organisations (those with functions of a public nature or statutory undertakers) to produce reports detailing:

- the current and future projected impacts of climate change on their organisation;
- proposals for adapting to climate change;
- an assessment of progress towards implementing the policies and proposals set out in previous reports.

This is known as the Adaptation Reporting Power (ARP).

The ARP was introduced to help ensure reporting organisations are taking appropriate action to adapt to the future impacts of climate change. It helps to do this both directly, through engaging organisations in reporting, and indirectly, through raising awareness, building capacity in organisations, and making examples of good practice publicly available.

Under the Climate Change Act 2008, the government's proposed approach or strategy for exercising the ARP should be subject to consultation with relevant parties.

1. What is your name?

Name

Adam Peirce, Technical Director, Climate Disclosure Standards Board

2. What is your email address?

If you enter your email address then you will automatically receive an acknowledgement email when you submit your response.

Email

3. What is your organisation?

Organisation

Climate Disclosure Standards Board

4. Would you like your response to be confidential?

Please indicate answer here (Required)
No
If yes, please explain here (Required)

Proposal for reporting

In the third round of reporting the government is seeking to build on the previous cycles of reporting. We propose to develop a hybrid between the top-down approach of the first round and the bottom-up flexible approach in the second round, by agreeing with reporting organisations sector- or organisation-specific reporting proposals.

Government does not intend to issue directions under the third round of the ARP, but proposes that reporting is done in line with the reporting power on a voluntary basis.

We propose to build on the work of reporting organisations from the second round of reporting by focussing on the following **principles**, to:

- be proportionate, risk-based and streamlined to minimise burdens or duplications;
- build on previous rounds of reporting to improve report quality and participation; and
- be clear that the primary objective of reporting is to support the integration of climate change risk management into the work of reporting organisations, with a secondary objective of understanding the level of preparedness of key sectors to climate change, from critical infrastructure operators and public bodies at a sectoral and national level to feed into the ASC's reports to Parliament.

By seeking to agree sectoral or organisational proposals on reporting, we will address much of the feedback from our evaluation and achieve the following benefits:

- greater consistency and detail of reporting;
- freedom for reporters to set out their perspectives and approaches to climate risks in accordance with the needs and priorities of their organisation;
- an increase in participation within sectors, driven by greater clarity on content and expectations in reporting proposals;
- greater coherence between the work of reporting organisations and the work of the ASC in reporting to Parliament on progress addressing climate change risks and implementing the NAP;

- acknowledgement of the differences between organisations across and within sectors and of the unique sector characteristics including their specific regulatory processes;
- appreciation of the diversity of approaches and experiences across all reporting organisations and history of previous work undertaken on climate change adaptation.

5. Do you agree that reporting in the third round should continue to be voluntary?

Please select you answer here (Required) No

Please give your justification here. If you are a reporting organisation please include information on how effective a voluntary or mandatory approach to reporting would be for your sector.

The Climate Disclosure Standards Board (CDSB) would like to start by thanking the Department for Environment, Food & Rural Affairs (DEFRA) for the opportunity to offer our written response. The overall focus on the climate-adaption information requested under the ARP, appears to focus on the longer-term physical risks from climate change, and not the potential market disruption from transitioning to a low carbon economy, and the consequent impacts on the reporting bodies.

Following the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), and the newly released EU Action Plan on Sustainable Finance [https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en], there is growing momentum for organisations to disclose the future impacts of climate change to investors and other key stakeholders. The forward-looking recommendations of the TCFD have clearly outlined that as organisations move away from fossil fuels, to assess the impact on the financial performance of organisations and in aggregate on the stability of the economy at large, the physical (acute and chronic) risks should be considered together with the transition risks (policy and legal, technology, market and reputation).

We would therefore like to bring to DEFRA's attention, four reasons why mandatory reporting is required by companies.

1. As discussed in the 2016 WBCSD report "Reporting matters" [http://ry.com/media/2443/wbcsd_reporting_matters_2016_interactive.pdf], there is a disconnect between organisations identifying climate-related risks and considering the risks as material to the organisation. To ensure organisations are taking appropriate action to adapt to the future impacts of climate change - both the longer-term physical risks, and potentially disruptive transition risks, the Adaption Reporting Power should enforce mandatory disclosure, together with supporting guidance on how to identify, assess and manage climate-related risks including using scenario analysis, to assist organisations with disclosure and provide markets with forward looking information.

2. We disagree that a mandatory approach is unlikely to drive up the quality of reporting. Since the second round of reporting, a number of significant changes have occurred, including the Paris Agreement (2015) and the TCFD recommendations (2017), which has brought climate change further into the mainstream business and geopolitical narrative. As we transition to an economy able to deliver on the climate change commitments we now have in place, organisations should now have an awareness and understanding of the potential risks. In addition, given this is the third round of reporting under the Climate Change Act 2008, and the implementation of the Strategic Report and Directors' Report

Regulations 2013 of the UK Companies Act 2006, companies should now be familiar with the associated reporting requirements.

3. The evaluation relating to previous cycles of reporting highlighted that mandatory reporting eases senior level buy in and sign-off. This matches our findings during our engagement with organisations.

4. While the second round of reporting under the ASC provided important evidence to inform Parliament and was considered valuable, it's not clear to what extent that was due to voluntary measures. With the number of organisations dropping from 105 during the first round of mandatory reporting to 86 under the second round of voluntary reporting, it is clear a mandatory approach will be needed to enforce greater engagement by the reporting bodies and could improve quality of reporting[1].

6. Do you agree with the principles for reporting in the third round? (These principles are: proportionate, risk-based and streamlined to minimise burdens or duplications; build on previous reporting rounds to improve report quality and participation; and that reporting will primarily support integration of climate change risk management into organisations' work, with a secondary objective to understand levels of preparedness to feed into the ASC's reports to Parliament).

Please select your answer here (Required) Yes

Please set out your justification here

We agree with the principles outlined, and would also add that the information disclosed in the report should be;

- Integrated into organisations' mainstream reports in line with the CDSB Framework and recommendations of the TCFD.

- Reported with the same rigour, value and quality as financial information, so that investors and other stakeholders are provided with consistent and comparable environmental information, so they can effectively price future outcomes into present day decisions and improve the allocation of capital. This will also benefit regulators with compliance-ready reporting materials.

We believe that the secondary objective should be equally important and that a wider understanding (for example, by Parliament) of the levels of preparedness of reporting organisations is crucial to ensuring reporting organisations are held accountable.

[1] Committee on Climate Change, 2017. Adaptation Reporting Power: second round review [Online] Available at: https://www.theccc.org.uk/wp-content/uploads/2017/03/Adaptation-Reporting-Power-Second-round-review-Committee-on-Climate-Change-March-2017.pdf [Accessed 20 March 2018]

7. Do you agree that reporting in the third round should build on the second round by agreeing sector or organisational reporting proposals?

Please select your answer here (Required) Yes

Please set out your justification here. If you are a reporting organisation, please include information on how effective or otherwise a reporting proposal would be for your sector.

We welcome the objectives from the proposals to achieve "greater consistency and detail of reporting". However, we are not clear what evidence suggests a flexible approach on a sector / organisational basis is proportionate, to achieve the level standardisation and comparability needed as noted in the limitations of the review of the second round mentioned in our response to Question 5.

As Section H of the Consultation identifies, there are numerous organisations under consideration for the third round which come from different sectors. We believe that in order to identify sector or organisational level reporting proposals, which are as comprehensive and sector relevant as possible, a working group should be created, including external stakeholders with sector/industry specific knowledge. This could significantly reduce the burden on Government associated with preparing sector or organisational-level reporting proposals in a short period of time.

In relation to financial regulators (both as a sector and in relation to the individual financial regulators identified) we would recommend that the City of London Green Finance Initiative is involved in the process of generating the sector or organisational-level reporting proposals. The GFI would be well suited to instigating an inclusive process involving key stakeholders (financial regulators, financial institutions and other market participants) to develop these reporting proposals.

We also draw your attention to our response to Question 5 which sets out our concerns about the voluntary nature of the third round of reporting. It appears that there is a tension between maintaining the voluntary nature of the reporting and developing sector or organisational level reporting proposals. In light of the CCC's view that the voluntary nature of reporting under the second round may have affected the quality of the reports that were submitted, it is difficult to see how maintaining this voluntary aspect for the third round will secure the best information is provided to Government (whether or not these sector or organisational level reporting proposals are developed).

Timescales for report submission

We propose that reports should be submitted to a timescale that best suits reporting organisations in order to minimise burdens and streamline the process against any other business or regulatory pressures. We propose that organisations report within the period 2019 – 2021 with a final deadline of 31 December 2021

8. Do you agree that the reporting date should be determined by sector, reflecting regulatory or business pressures, within the reporting window of 2019-2021, with a final deadline of 31 December 2021?

Please select your answer here (Required) No

Please set out your justification here. If you are a reporting organisation please indicate when it would be suitable for your organisation to report

We disagree the reporting window is widened and determined by sector for three reasons:

- The acute physical impacts of climate change and the systemic risk from a disruptive transition away from fossil fuels, are not proportionate with providing a flexible timeframe for reporting on adaptation.

- In comparison to most of the selected organisations' balance sheet and annual revenue, the average costs of reporting seem proportionally low, suggesting the reporting requirements do not reflect a significant business or regulatory pressure. In addition, a shorter, specific timeframe would also enable DEFRA to ensure there are sufficient resources to review the reports in one go, rather than a scattered timetable.

- Between the implementation of the UK Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, the Companies, Partnerships and Groups (Accounts and non-financial reporting) Regulations 2016 and the TCFD recommendations, there is an expectation that organisations should already be reporting what actions they are taking to adapt to the future impacts of climate change on an annual basis. Therefore, the ARP requirements should complement rather than necessarily conflict or add additional burdens to the organisation.

Criteria for identifying reporting organisations

In the government's first reporting strategy, we defined criteria to designate reporting organisations within scope. For the third round we propose that reporting is proportionate, risk based and streamlined to minimise burdens and duplications. We will therefore build on the previous criteria and use the following methodology:

- identifying those organisations which are eligible for reporting;
- identifying those organisations that are vulnerable to the projected impacts of climate change as according to the UK's Climate Change Risk Assessment (CCRA) published in January 2017;
- preventing duplication by identifying organisations which are not already subject to other adaptation reporting requirements, or are not already covered by an existing voluntary agreement;
- targeting reporting organisations proportionately.

Organisations under consideration for reporting

Please see section D of the consultation document for the details on the organisations/sectors referenced below.

1) the following which reported in the last cycle of adaptation reporting:

- transport organisations covering: road, rail, airports, ports and lighthouses
- water companies
- energy companies covering: electricity transmission and distribution, gas transportation and energy generators
- public bodies covering environment, marine, fisheries, health and heritage
- data centres
- water, energy, communications and insurance regulators

The scope of reporting will be expanded to include participation from the following:

- financial regulators
- new rail infrastructure
- environmental heritage organisations
- telecommunications

9. Are there any other sectors which you believe should be included on the list?

Please select your answer here (Required) Yes

If yes, please list here with your justification (Required)

We suggest the scope of reporting should be expanded to include the following sectors, in line with the TCFD recommendations:

- Financial sector (including asset managers, asset owners, banks and insurance companies) – Given the last financial crisis led to the UK Government supporting several financial institutions in order to maintain financial stability, we suggest the government should ensure the financial sector is taking appropriate action to adapt to the impacts of climate change, particularly the transition impacts such as carbon pricing and stranded assets. We believe that reporting should go beyond just the regulators and be extended to include the wider sector.

- Oil and Gas exploration and production - These are potentially significantly exposed to the climate-related risks from transitioning to a low carbon economy, such as the potential stranding of assets in the North Sea and litigation risks.

  Agriculture, Food and Forest Products - This sector will be directly impacted by the acute and chronic physical impacts from climate change and is important for the UK's food security.

Materials and Buildings sector – In accordance with the TCFD recommendations, materials and buildings organisations are typically capital intensive, require high investments in plants, equipment, and buildings, and dependent on sources of raw and refined materials. Many of this group's activities result in financial exposures around high GHG emissions, high energy consumption, dependence on water availability as well as being vulnerable to the acute and chronic physical risks from climate change.

10. Are there any organisations that the Government proposes to invite to report which you believe should not be included?

Please select your answer here (Required) No

If yes, please list here with your justification (Required)

11. Are there any organisations that have not been included which you believe should be?

Please select your answer here (Required) Yes

If yes, please list here with your justification (Required)

We suggest the following sets of nationally significant organisations should be considered:

- Similar to Article 173 of the 2015 French Energy Transition law, organisations crucial to the 'financial system' should be included within the definition of infrastructure operators, such as insurance companies and pension funds with a balance sheet above a certain threshold.

- The Ministry of Housing, Communities and Local Government should be included, as planning decisions for new developments considered by local authorities should include details of appropriate action to adapt to the transitional and physical impacts of climate change.

To support this, we suggest the City of London Green Finance Initiative is involved in the consultation process in generating the sector or organisational level reporting proposals and determining which organisations should be included. The GFI would be well suited to instigating an inclusive process involving key stakeholders (financial regulators, financial institutions and other market participants) to develop these reporting proposals.

Additional circumstances in which reports may be required

We propose that there are additional circumstances which may result in a direction to report being given to organisations. These circumstances are:

- where a future event exposes vulnerability;

- where evidence is obtained of bodies' poor performance to reduce vulnerability to climate change;
- where a new body is created that fulfils the criteria outlined in the previous section; or
- where an existing body's role changes so that it fits these criteria.

12. Do you agree with the additional situations in which organisations may be asked to report?

Please select your answer here (Required) Yes

If no, could you suggest any others should be included? (Required)

Further to the additional organisations and sectors suggested above, we agree there are additional circumstances in which reports may be required. In order to collate the evidence and information needed to assess the additional circumstances, we suggest the use of scenario analysis by DEFRA to determine which organisations and sectors could be impacted.

In this regard, we urge DEFRA to provide supporting evidence and detail on the plans to evaluate performance, and how reporting will be enforced.

Additional information

13. Please include any other information you would like us to consider as part of this consultation

Please include any additional information here

While the request for this information is intended for governmental use, this information is also pertinent to investors and other stakeholders, who require decision-useful environmental information, so they can effectively price future outcomes into present day decisions.

Current evidence suggests that financial \ regulators are not incorporating climate risk considerations into their supervisory remit.

We therefore welcome the scope of reporting to include financial regulators and look forward to seeing how this will be used to assess the impact of climate change on their functions and report on how they will work to mitigate the impacts.

Should the third round be applied as voluntary requirements, we suggest it is made clear that future requirements will be made mandatory if the reporting is not of sufficient quality.

In the case of financial regulators and the important role they play in the financial stability of the UK, we suggest that proactive engagement will be needed to ensure organisations have the right resources in place to respond to the requirements.