

Financial Conduct Authority  
12 Endeavour Square  
London E20 1JN

25 September 2020

Dear Federico Cellurale,

Please find enclosed our response to your Exposure Draft: Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations

This response has been prepared by the 100 Group Investor Relations and Markets Committee, in collaboration with the Financial Reporting Committee, and is intended to speak on behalf of the Group as a whole. The 100 Group membership represents around 90% of the FTSE100 market cap as well as a number of equally significant sized unlisted businesses.

We note that whilst this letter expresses the views of the 100 Group as a whole, these views are not necessarily those of individual members nor their respective employers. We thank you for the opportunity to comment on your proposal and would invite any further dialogue which you would deem of value.

Overall we are supportive of the intentions of this project: to improve issuer disclosures around climate risk and opportunity, as well as the broader frame of ESG; doing so through an integrated approach to risk; and thereby fostering a competitive market with consumer focus at the centre. Having said that we do have some concerns around the current proposal.

In particular, we would expect to see additional clarity over what it means to comply with a set of 'recommendations', as well additional, sector specific, guidance on best practice ways to report. We understand the urgency to transform and develop in this area of reporting and are consequently keen to see fast progress. Therefore, we do not want to allow 'best' to become the enemy of 'good', however if we are to drive clarity and comparability then additional strength and depth of framework is, in our view, essential.

Further, we note that there are a number of live projects and initiatives, both in the UK and globally, in relation to reporting on these matters, and it is therefore important that any proposed reporting requirements are well-coordinated with other reviews. The FCA may want to consider issuing further guidance as this subject matter develops, to ensure there are no areas of contradiction or ambiguity in the reporting by stewards and businesses.

Our detailed responses to the questions outlined in the Consultation Paper are included as an appendix. We have sought to be clear and constructive in our feedback, providing where possible, practical solutions and alternatives to the issues and requirements identified. We hope you find that they provide helpful insight as you move to the next stage of the project.

Please do contact our secretariat Hannah Maughan at [secretariat@the100group.co.uk](mailto:secretariat@the100group.co.uk), who would be happy to put you in touch with us should you wish to discuss any of our comments in further detail.

Yours sincerely,



**Julia Wilson,**  
Chair of the 100 Group Investor Relations  
and Markets Committee



and **Iain MacKay,**  
Chair of the 100 Group Financial  
Reporting Committee

## APPENDIX 1 – Responses to questions

- Question 1** Do you agree that our new rule should apply only to commercial companies with a premium listing, at least initially? If not, what alternative scope would you consider to be appropriate, and why?
- 100G response** We understand the appetite for quick action in this area and are cognisant of the fact that smaller businesses may not be as equipped as larger businesses to respond immediately and that the premium listing measure is not an unsuitable one to differentiate between them. Therefore, in the interests of setting a pace, we are not uncomfortable with the proposal for the rules to apply only to premium issuers in the first instance. However, we note that we do not see that it would be a significant burden for smaller entities to disclose within their accounts that they do not comply, even if there were little expectation that they should.
- Question 2** Do you agree that sovereign-controlled commercial companies with a premium listing should also be in scope? If not, why should these companies not be included?
- 100G response** We understand that the creation of the sovereign controlled category within the premium listing regime was designed to recognise that the relationship between a sovereign controlled company and the state that owns it is likely to be different from the relationship a company would have with a private controlling shareholder. Further, we do not see how this relationship should be different in the context of any company's responsibility to provide good climate related disclosures consistent with the high benchmark of standards expected from premium UK issuers. We are therefore in agreement with the proposal that sovereign controlled companies with a premium listing should be in scope.
- Question 3** Do you agree with our approach?
- 100G response** While we understand the rationale for the approach, driven by the unique stakeholder profile of asset management businesses, we believe that their engagement in any mandatory disclosure framework is crucial and we understand that they are by and large keen to be included. Therefore, while we are supportive of the proposed approach we would urge fast action in terms of specific frameworks and guidance for the industry, in order to ensure that they are not left behind the pack.
- Question 4** Do you agree that our rule should reference the 4 recommendations and 11 supporting recommended disclosures included in the TCFD's June 2017 final report? If not, what alternative approach would you prefer, and why?
- 100G response** We understand the rationale for the choice as articulated in paragraphs 4.24 and 4.25, and agree that it is the most appropriate framework, not least because it is already widely used (in varying degrees) by many entities. If the four recommendations and 11 supporting recommended disclosures are used as a basis then we would suggest that explicit guidance be provided alongside the recommendation to promote consistency and comparability of disclosures while recognising the unique nature of different sectors or industries (i.e. there should be no one-size-all solution). Further, as the TCFD recommendations are refined and developed over time, consideration will need to be made around whether and how to incorporate changes into the reporting and associated guidance.
- Question 5** Do you agree that we should make explicit reference in Handbook guidance to the TCFD's "guidance for all sectors" as well as the "supplemental guidance for the financial sector" and the "supplemental guidance for non-financial groups" accompanying each recommended disclosure? If not, what alternative approach would you prefer, and why?
- 100G response** We are very supportive of any additional guidance, in particular of sector specific guidance, which in our view will allow for tailored treatment and drive the goal of consistency and comparability. Where the guidance developed by the TCFD is sufficiently explicit and detailed we would support making reference to it, however if the guidance were vague or indicative then we would expect to see additional guidance being produced to the meet the required level of clarity.
- Question 6** Do you agree that we should include additional guidance which references the wider set of materials that have been published both within and alongside the TCFD's final report, as useful sources of guidance and interpretation when complying with our proposed rule?
- 100G response** As with our response to question 5, in general we support all additional guidance but only on the condition that the development of explicit guidance is not delayed or halted based on the fact that vague guidance is already available in another form or context.

We understand that there is already a significant amount of guidance being drafted by the TCFD and while we are fully supportive of the plan to leverage this guidance we believe that once it is released new questions will inevitably arise and that a plan for further guidance is always appropriate at this stage of developing a framework.

- Question 7 Do you agree that we should introduce the new rule on a 'comply or explain' basis? If not, what alternative approach would you prefer, and why?
- 100G response The comply or explain basis of reporting has worked in the past and we are supportive of its use here, however we have some concerns around the current level of clarity around what it means to comply which we believe must be expanded on.
- While we understand and appreciate the intention is to be accommodating as businesses develop their capability in this area of reporting, with the level of detail currently available we are not clear as to what compliance entails and are therefore hesitant to say that we agree with allowing businesses to determine whether or not they do comply.
- For example – if I believe that I deliver on three of the four recommendations and seven of the eleven disclosures, and I do not believe that the remaining items are relevant to my business in any material way, then can I say I am in compliance? Do I need to disclose why?
- We believe that it is important that 'compliance' be defined very specifically – especially since the TCFD recommendations themselves are so general.
- Question 8 Do you agree that the recommended disclosures under the "governance" and "risk management" recommendations should not be subject to a materiality assessment? If not, what alternative approach would you prefer, and why?
- 100G response We agree that all businesses seeking to be compliant should be required to disclose their processes and allocation of responsibilities as described in the TCFD recommendations and recommended disclosures. However, in doing so, businesses must be able to determine the most suitable way of communicating, and this will inevitably require decisions about what detail to include to be made based on inherent materiality considerations.
- So, while disclosures under "governance" and "risk management" recommendations should be made despite materiality, the content could be much briefer if deemed immaterial, allowing focus to remain on the critical areas for the business / sector.
- Question 9 Do you agree that issuers should ordinarily be able to make the recommended disclosures under the "governance" and "risk management" recommendations?
- 100G response Yes, we agree that for companies with a premium listing, dedicated organisational structures ought already to exist to analyse and manage those aspects of an issuers business.
- Question 10 Do you agree that no explicit guidance is needed to clarify that it would be acceptable for an issuer to explain nondisclosure of these recommended disclosures only on an exceptional basis?
- 100G response Yes, we agree, that since all companies with a premium listing should be presumed able to meet the disclosure requirements, and that this requirement is on a comply or explain basis, that there is no need to release explicit guidance around exceptional nondisclosure.
- However, we would be keen to see non-binding guidance around what good non-disclosure reporting might look like.
- Question 11 Do you agree that the statement of compliance and the proposed disclosures should be made within the issuer's annual financial report? If not, what alternative approach would you prefer and why?
- 100G response We are supportive of the statement of compliance and the proposed disclosures being included in the annual report. However, care should be given to avoid any duplication with the statement of non-financial information under the NFRD.
- Further, in our view, the integration of financial and non-financial disclosures is a fundamental element to the success of the effort to more effectively price environmental risk through the Financial Markets. So, as the appetite for information and assurance increases, the volume of disclosures must be managed to ensure that they continue to fit with the requirement for concise reporting.
- Notwithstanding our assertion that material climate related reporting covered by the TCFD recommendations should be included within an entity's financial reporting, we believe businesses should continue to have the

flexibility to report related disclosures or information in supplementary reports, e.g. sustainability reports, where they may have other business rationale for doing so.

**Question 12** Do you agree that an issuer should be required to include within the statement of compliance a description of where in its annual financial report (or other relevant document) its TCFD-aligned disclosures can be found? If not, what alternative approach would you prefer and why?

**100G response** Yes we agree that issuers should be required to point users to the location of their TCFD-aligned disclosures.

**Question 13** Do you agree that the FCA should not require third-party assurance of issuers' climate-related disclosures at this time? More generally, we welcome views on the role of assurance for climate-related disclosures.

**100G response** We agree that, at this time, assurance of climate related disclosures should not be made mandatory.

It is our view that mandatory assurance might have a restrictive impact on the nature and depth of the disclosures thereby reducing the level of disclosures being made. We support a framework which enables entities to report as transparently as possible without mandatory assurance. It should be up to the business to seek voluntary assurance over certain elements as they see fit.

**Question 14** Do you have any feedback on the interactions between our proposed rule and the role of sponsors in assisting premium listed issuers?

**100G response** Given the significant depth and breadth of reporting required in a relatively short space of time we anticipate that this proposal will represent a significant learning curve for sponsors of premium listed issuers, in particular those with clients operating across different sectors.

**Question 15** Do you have any other feedback related to the interaction between our proposed rule and existing legislative and regulatory requirements and industry standards and practice?

**100G response** We have some concerns around the volumes of disclosures required, and in order to ensure that reporting in general remains targeted, clear, and focussed, we are keen to avoid any duplication of information across the annual report. In particular, for those entities already captured by industry specific regulatory reporting frameworks, it is important that the most suitable treatment of any overlap with the TCFD recommendations is carefully considered.

We would favour a holistic approach to the reporting requirements which would allow for the information to be placed throughout the annual report (and other supplementary reports where relevant), subject to it being clearly signposted from the TCFD comply or explain statement as referenced in question 12.

To aid in the effort to deliver an annual report with a consistent approach we would be in favour of language reflective of that used in existing frameworks, for example the FRC's Corporate Governance and Stewardship Code.

Further we would note that there is a significant volume of regulatory activity in this area, all with clear intentions but with no real indication of which will lead as a basis. Not least of which would include the EU taxonomy which continues to take shape and given the prominence of the UK as a driver we consider likely to still be relevant post Brexit.

More generally, we have observed that as well as the many existing legislative and regulatory frameworks there are numerous other voluntary structures for companies to sign up to, such as those defined by ESG ratings providers. A holistic overview of all frameworks and structures would help companies to ensure that their own internal processes are designed in the most suitable way to ensure compliance with all mandatory disclosure requirements as well as those which are optional but desirable.

**Question 16** Do you consider that our proposals adequately address the challenges, risks and unintended consequences described above? If not, what additional measures would you suggest?

**100G response** We agree with the challenges, risks and unintended consequences as identified in paragraphs 4.56 however we do not feel that a "comply or explain" corporate reporting obligation, although practical in the short term, is necessarily the ultimate solution. As an example, there will only be a handful of companies with the resources required to truly stay abreast of developing scientific knowledge in the field of 'climate change'. However, many more would still be expected to comply despite the limited resources at their disposals.

We believe that these challenges, risks and unintended consequences can only be managed through the development of a fit for purpose reporting framework – similar to that of financial reporting (e.g. IFRS) – which of course will take time.

- Question 17** Do you agree that our new rule should take effect for accounting periods beginning on or after 1 January 2021? If you consider that we should set a different timeframe, please explain why?
- 100G response** We believe that the best way to deliver world class reporting in this area is to begin to do it and refine through experience. However, we feel that 1 January 2021 is ambitious, as many companies will not have adequate resources to implement the reporting requirements in such short period of time. This applies in particular to those businesses which have been most heavily disrupted by the effects of Covid-19 and are currently prioritising numerous issues with significant impact across their stakeholder population; as well as businesses at the smaller end of the scope of premium listing who don't necessarily have sophisticated financial reporting structures to be leveraged.
- Overall, and as referenced in our response to question 15, we request the FCA to consider a holistic timetable which takes into account other related legislative developments such as the Green New Deal and the EU Taxonomy Regulation.
- Question 18** Do you agree with the conclusion and analysis set out in our cost benefit analysis (Annex 2)?
- 100G response** We agree that if more informed asset pricing encourages capital flows to those companies that better manage climate related risks, and the human cost of climate change is thereby reduced, then the benefits to the whole stakeholder population would be far in excess of the costs projected. However, crucial to this is a reporting structure which allows for clear comparison and focus on the material opportunities at large.
- We agree that the cost analysis presented represents an example of some of the costs which are likely to be incurred throughout an implementation process such as this, but the exact costs and benefits to each company will vary depending on many factors that could be unique to the company concerned or to the industry.
- Question 19** Do you agree with the guidance provided in the draft technical note set out in appendix 2? Are there any changes that you would suggest? If so, please describe.
- 100G response** Yes, we agree with the guidance and have no changes to suggest.

#### Other comment

Further to our response to the questions asked in the consultation paper, we would like to elaborate more generally on the topic of assurance which is raised in question 13.

In general we are supportive of applying assurance to company reporting however there are a number of relevant factors to be carefully considered and addressed before TCFD-aligned reporting can be assured. Each factor would need to be considered against the others and weighed against the benefits to the user. Many of these factors are very relevant to the audit reform review currently underway and so alignment with this will be crucial.

- *Framework for audit/assurance practice*
- In order to obtain any assurance of value the framework for reporting would need to be far more clearly defined. A standard for audit or assurance would then need to be overlaid – this could be the application of an already existing framework or an altogether new one depending on the level of assurance required.
- *Benefits analysis of the time taken to perform the assurance*

As touched on in our response to question 11 assurance adds to the reporting timeline. Where the level of assurance required may lead to later overall reporting the benefits derived from the assurance would need to be weighed against the benefits derived from having the reporting included within the annual report and available at the time of the annual report. We are of the opinion that more timely information is the most valuable and would therefore not be in favour of any heavy assurance requirement which might lead to lengthy reporting timelines far beyond those achieved for financial reporting.
- *Understanding of the level of assurance which can reasonably be achieved*

Given the nature of the reporting, it is likely to include information unlike anything currently reported on, and which could therefore prove challenging to assure – especially at the outset. More clarity will be needed so that companies can decide on the appropriate level of disclosure, regardless of the level of assurance which may be required.
- *Cost of assurance*

As with all reporting requirements there is a cost associated, and the level of assurance required increases this cost. The benefits to be obtained from the assurance achieved should be clear and weighed against the potentially high cost of obtaining such assurance. We would suggest that where assurance is required it is required to place reliance on the processes behind the reporting – thereby requiring companies to focus on their own internal process solutions as the reporting framework develops rather than building processes to meet the needs of audit / assurance providers.

