



1 October 2020

FAO: Federico Cellurale
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

Via email: cp20-03@fca.org.uk

Dear Federico,

CP20/3: Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations

The Corporate Reporting Users' Forum (CRUF) welcomes the opportunity to comment on the FCA's consultation on climate-related disclosures by listed issuers issued in March 2020.

General Comments

The CRUF agrees that using the TCFD with a “comply or explain” mechanism is likely to result in improved disclosure. The TCFD is an appropriate framework for voluntary disclosures, and to date it has already improved investors' understanding of climate-related risks and opportunities facing issuers. Extending this disclosure requirement across the market would be helpful so that investors can better understand and consistently incorporate climate-related issues into investment processes.

While some companies have used TCFD successfully, our view is that the existing quantity and quality of TCFD disclosures is not optimal. We would recommend providing companies with FCA guidance, or links to good practice guidance, to help avoid poor disclosures and to help make high quality disclosures available to the capital markets more quickly.

Common issues we have seen include a lack of clear disclosure on methodology assumptions used in scenario analysis, and a lack of clear disclosure on the linkage between the scenarios, the forward-looking business strategy, and the financial statements in the back-half of the annual report.

It would also be useful to understand the enforcement mechanisms behind this proposal. For example, if a company is found to have not complied with the proposals, how would this be addressed?

In our response to the consultation we have answered those questions which were most relevant to CRUF participants, as shown below.

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?

Yes, we do. This will reduce the chance of misinterpretation and partial reporting.

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?

Yes, we do. TCFD reporting is new, complex and will involve businesses collaborating in new ways. Guidance, particularly around scenario analysis, will likely be considered very helpful.

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?

Yes, we do. The lack of consistent, comparable, and high quality disclosures in this area means that there is a need for companies to actively comply or explain. This will help to inform investors about the performance of a company in relation to climate change risks and opportunities.

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?

We disagree. If a company is operating in a sector where climate change is simply another low-level risk/opportunity (e.g. a recruitment company operating in London), we think it is reasonable that a company does not need to have board level oversight of the issue. Applying the lens of materiality to both governance and risk management and therefore to climate change disclosures is still valuable, in our view. While the definition of materiality is a subject of significant debate, we suggest a qualitative as well as a quantitative interpretation of IFRS's definition is sufficient i.e. – "information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". Where needed, users and preparers can then debate whether such materiality has been properly applied.

Question 11 - Do you agree that the statement of compliance and the proposed disclosures should be made within an issuer's annual financial report? If not, what alternative approach would you prefer and why?

We agree. It is our experience that the majority of UK public listed companies who are going to be significantly impacted by climate change already report to some degree about the issue in their

annual report. This means that the requirement to include the statement of compliance in the issuer's annual financial report should not be onerous and will simply form part of their overall disclosures in this area. We believe that the disclosure should be in the front half of the annual report because it is similar in nature to the Strategic Report and Directors' Report.

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.

We agree. While we are supportive of assurance in general, requiring assurance at the moment would be a step too far, and practically obtaining assurance over a compliance description would be difficult to design effectively under assurance standards such as ISAE3000. The most likely outcome would be that auditors reconcile statements with underlying corporate activities and data but would struggle to provide assurance over areas such as scenario analysis, which are inherently complex, subjective and filled with estimation error. This highlights a broader point around the potential need for a re-design of assurance standards related to climate change. Additionally, in the UK market, it is quite common for large corporates to already obtain a level of assurance over greenhouse gas emissions data, largely due to directors wanting to be comfortable with reporting these numbers accurately.

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?

We think it would be worth highlighting the work of the Climate Disclosure Standards Board, who for many years have highlighted that if climate change is a financially material issue, it should be in the annual report. They have created numerous pieces of guidance over the years, which you could reference for issuers. It might also be worth referencing the extent to which this requirement is expected to link to the EU Non-Financial Reporting Directive and EU Green Taxonomy, since they are all connected.



About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organisations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organisations. The participants in the Forum that have specifically endorsed this response are listed below.



Signatures

Jeremy Stuber

Lloyd McAllister

Peter Elwin

Sawan Kumar
Evenlode Investment

Greg Collett
Pictet Asset Management

Peter Reilly
The Bailey Network

Charles Henderson
UK Shareholders' Association

Sue Milton
UK Shareholders' Association

Peter Parry
UK Shareholders' Association