



## CP20/3 Proposal to enhance climate-related financial disclosures by listed issuers and clarification of existing disclosure obligations

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### **Q3: Do you agree with our approach?**

1. Overall we support the FCA's approach. There are several places where we think the approach could be strengthened or refined to bring about greater alignment with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.
2. In particular, paragraph 4.17 of the consultation paper identifies the expectation that in-scope asset managers and insurance companies with insurance management businesses will prepare enterprise-level disclosures in their capacity as issuers rather than regulated firms. We note that the TCFD recommendations do not limit asset managers to preparing disclosures in their capacity as issuers only. An asset manager who limits their disclosures in this capacity would not be fully compliant with TCFD.
3. Paragraph 4.17 also identifies that the FCA will separately clarify its approach to enhancing climate-related financial disclosures by asset managers as FCA-regulated firms. We encourage the FCA to consider whether the proposed rule could be extended to capture this.

### **Q4: 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?**

4. We agree that the rule should reference the 4 recommendations and 11 supporting recommendations included in the TCFD's June 2017 final report. We support the 'comply or explain' approach which allows firms to clarify the extent to which they have or have not been able to disclose against specific supporting recommended disclosures.

### **Q5: 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?**

5. We agree that the FCA should make explicit reference to the TCFD guidance listed.

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**Beijing****Edinburgh****Hong Kong****London (registered office)****Oxford****Singapore**

14F China World Office 1 · 1 Jianwai Avenue · Beijing · China 100004 · **Tel:** +86 (10) 6535 0248  
Level 2 · Exchange Crescent · 7 Conference Square · Edinburgh · EH3 8RA · **Tel:** +44 (0) 131 240 1300  
1803 Tower One · Lippo Centre · 89 Queensway · Hong Kong · **Tel:** +852 2147 9418  
7th Floor · Holborn Gate · 326-330 High Holborn · London · WC1V 7PP · **Tel:** +44 (0) 20 7632 2100  
1st Floor · Park Central · 40/41 Park End Street · Oxford · OX1 1JD · **Tel:** +44 (0) 1865 268 200  
163 Tras Street · #07-05 Lian Huat Building · Singapore 079024 · **Tel:** +65 6906 0889

**Q6: Do you agree that we should include additional guidance which references the wider set of materials that have been published both with and alongside the TCFD’s final report, as useful sources of guidance and interpretation when complying with our proposed rule?**

6. We agree that the FCA should include additional guidance to support firms in interpreting and complying with the proposed rule.
7. Complying fully with the TCFD recommendations will be an evolving process for many firms. We encourage the FCA to articulate its expectations of firms, including how long it should take for firms to become fully compliant, within this additional guidance.

**Q7: 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?**

8. We support the new rule being introduced on a ‘comply or explain’ basis. We recognise firms will refine their approach to disclosure over time and as accepted good practice evolves. However, it is most important that firms simply start. Requiring disclosure on a ‘comply or explain’ approach will enable this.
9. As this approach allows firms space to evolve, it is appropriate to widen the scope of the rule so that it captures the maximum number of firms possible. Where smaller firms are unable to comply with a particular recommended disclosure as they have yet to develop the necessary capacity, for example, they are able to provide this explanation in the required statement in their annual financial report.

**Q8: Do you agree that the recommended disclosures under the “governance” and “risk management” recommendations should not be subject to materiality assessment? If not, what alternative approach would you prefer and why?**

10. We agree that these disclosures should not be subject to a materiality assessment.
11. Section 3b of the TCFD’s June 2017 final report identifies only disclosures related to the Strategy and Metrics and Targets recommendations as involving an assessment of materiality.<sup>1</sup> Requiring recommended disclosures under the Governance and Risk Management recommendations to be subject to a materiality assessment will impede the greater alignment with TCFD that the proposed rule is seeking.
12. There is scope to go further and make these disclosures mandatory. The Prudential Regulation Authority’s (PRA) *Supervisory Statement 3/19: Enhancing bank’s and insurer’s approaches to managing the financial risks from climate change* requires firms to carry out these actions. While the PRA’s Supervisory Statement only applies to PRA regulated entities, firms captured within the scope of the FCA’s proposed rule should be able to articulate how they are considering these risks.

**Q9: Do you agree that issuers should ordinarily be able to make the recommended disclosures under the “governance” and “risk management” recommendations?**

13. Issuers should be required to make recommended disclosures under the Governance and Risk Management recommendations. Where they are unable to, they should explain why they have been unable to within their annual financial report. Should a large proportion of issuers find themselves

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<sup>1</sup> TCFD (2017) *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*. <https://www.fsb-tcfid.org/wp-content/uploads/2017/06/FINAL-TCFD-Annex-062817.pdf>

unable to make the recommended disclosures, we encourage the FCA to consider what additional guidance it can provide to issuers to support them.

**Q10: Do you agree that no explicit guidance is needed to clarify that it would be acceptable for an issuer to explain non-disclosure of these recommended disclosures only on an exceptional basis?**

14. It would be helpful for guidance to provide greater clarity on what the FCA considers to be an exceptional circumstance. It is right that non-disclosure should only occur on an exceptional basis. However, we note it is likely there will be instances of partial disclosure, which could occur on a less exceptional basis. Further, guidance should clarify whether the FCA will require firms to articulate the exceptional circumstance in their annual financial report.
15. Guidance should also include the FCA's expectations around timeframes for compliance i.e. when exceptional status might wear off and firms might be expected to fully comply.

**Q11: 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?**

16. It is appropriate for the statement of compliance and proposed disclosures to be made within an issuer's annual financial report as this is a public document and should be easily accessible.

**Q12: 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?**

17. We agree with this approach.

**Q13: Do you agree that the FCA should not require third-party assurances of issuer's climate-related disclosures at this time? More generally, we welcome views on the role of assurance for climate-related disclosures.**

18. We agree that third-party assurances should not be required. However there should be greater clarity on how validation of disclosures will occur. Paragraph 4.44 of the consultation paper requires auditors to satisfy themselves of the internal consistency of the disclosures with the issuer's wider financial statements. It also states that 'where climate-related risks are financially material for a company, auditors may wish to consider whether and how these should be reflected in the issuer's annual accounts'.
19. We recognise it is not within the remit of the FCA to place requirements on auditors. However, we encourage the FCA to consider whether it is appropriate to engage with the Financial Reporting Council to determine whether it should obligate auditors to determine if climate-related financial risks are financially material. At a minimum, the FCA should provide guidance to auditors about when and how they should do this.
20. We encourage the FCA to consider whether the scope of financial materiality can be expanded to cover climate-related risk beyond the company. Such clarity should be included in any guidance for auditors.

**Q14: Do you have any feedback on the interactions between our proposed rule and the role of sponsors in assisting premium listed issuers?**

21. We note the high standards required for premium listed issuers. Given these high standards, we think it would be appropriate to require companies seeking a premium listing to demonstrate some prescribed level of compliance with the proposed rule from the outset.
22. Paragraph 4.52 of the consultation paper states that, 'sponsors will need to consider whether companies have established procedures to enable them to comply with the new rule as part of the work they undertake in order to make these declarations.' Sponsors should therefore be well-equipped to support companies seeking premium listing to demonstrate their compliance with the proposed rule.

**Q15: 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?**

23. There are a number of disclosure requirements placed on firms by the FCA and other regulators. It would be helpful to understand whether the FCA intends to determine how these requirements interact to ensure there is no conflict. Obtaining feedback from firms as they begin to make their disclosures could inform the FCA's understanding of this.
24. The focus of the proposed rule is purely on the recommendations of the TCFD. Since the publication of the recommendations, the conversation around the disclosure and management of climate-related financial risks has evolved to consider alignment with net zero targets. Last year, Government introduced the target of reaching net zero by 2050. It would be useful to understand how the proposed rule aligns with this legislation.

**Q16: Do you consider that our proposals adequately address the challenges, risks and unintended consequences described above? If not, what additional measures do you suggest?**

25. Firms that fail to reach the intended targets included within their disclosures may be increasing their exposure to litigation risk. We note that the FCA raises the legal liability of forward looking statements at paragraph 4.56 of the consultation paper. This may be an area of concern for some firms.
26. We note the FCA intends to engage with firms about this, and the other unintended consequences identified in the paper. We would encourage the FCA to be more explicit about what this engagement will look like and the expected timeframes. This engagement should be prior to the implementation of the proposed rule. The FCA should also clarify what additional protection firms might have from this and other unintended consequences.

**Q17: 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?**

27. We agree that the proposed timeframe for introduction of the rule is appropriate.

Should you want to discuss any of the points raised please contact Faye Alessandrello, Policy Manager (faye.alessandrello@actuaries.org.uk) in the first instance.