THE
INVESTMENT
ASSOCIATION

BEIS Consultation on requiring mandatory climate-related financial disclosures by publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs).

IA Response

About the Investment Association

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £8.5 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 40% of this is for overseas customers. The UK asset management industry is the largest in Europe and the second largest globally.

Executive Summary

The IA welcomes the opportunity to provide input into BEIS' consultation on requiring mandatory TCFD aligned disclosures for large private and public companies.

For the UK to honour its commitments to bring about net zero greenhouse gas emissions by 2050 ("Net Zero") and to achieve the Paris Agreement goals this century, significant change will have to occur across the entire economy. Public and private companies alike will have to make changes to their business to reduce emissions and manage the impact of climate change.

The risks presented by climate change to business, society and the environment are clear. The need for companies, institutional investors, and regulators to act with urgency to address them is undeniable. Climate change, and efforts to mitigate its impact, could result in a significant loss of value in companies both public and private. This will impact the UK economy generally but also ordinary savers, whose pensions and savings are invested in these companies. TCFD-aligned disclosures are a crucial step forward to managing the impact of climate change; supporting companies to focus on the effects of climate change on their business and communicate how these are being managed to their shareholders and other stakeholders.

Managing assets for both retail and institutional asset owners, the IA's members are major investors in UK listed and private companies. They rely on quality disclosures on climate risk to effectively integrate these into the investment process. Quality disclosures, contribute to accurate asset valuations, which in turn supports financial stability. Enhancing climate-related disclosures enables investment managers to provide the necessary support and challenge, through their stewardship role, to their investee company's transition to

more sustainable business models. This will be crucial in contributing to the UK's goal to achieve net zero carbon emissions by 2050.

Mandating TCFD disclosures by investee companies is also essential for investment managers to make their own disclosures on the climate risks their portfolios are exposed to. Following regulations requiring occupational pension schemes to report on climate change-related matters, pension funds will need to obtain climate-related information from their managers and investment managers will shortly be required under FCA rules to make their own TCFD disclosures. The quality of TCFD disclosures made by investment managers to the public and to their clients, is contingent on the quality of disclosures by investee companies both public and private.

The IA supports the proposals to introduce TCFD reporting for large public and private companies. We are pleased that the proposals in this consultation will see the UK Government demonstrating global leadership and delivering on the recommendation set out in the Asset Management Taskforce report, Investing with Purpose: placing stewardship at the heart of sustainable growth, to advance a legislative underpin, requiring both public and large private companies to make TCFD disclosures.

We recognise that companies, investment managers, asset owners, and other stakeholders are on a journey to understanding and managing the impact of climate change. While we support efforts to ensure disclosure expectations are proportionate, it is essential that efforts are made with urgency to provide transparency and accountability on climate risk across the economy. It is imperative that these proposals provide consistency and comparability and are set at the right level of granularity to enable investment managers and asset owners to meet their own reporting requirements. Specifically, the forthcoming requirements expected within the FCA's consultation on TCFD-aligned disclosures by UK-authorised asset managers, life insurers and FCA-regulated pension schemes, and expectations on managers to support their pension fund clients to meet their own reporting requirements in line with DWP's Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

We have made a number of recommendations in our response to the below questions. These recommendations will better facilitate the integration of climate risk into the investment process and support our members to meet their own reporting obligations. We believe that these changes will support the UK Government's ambition to be a world leader on climate change and sustainable finance, paving the way for other jurisdictions. We ask the UK Government to strengthen these reporting requirements to:

- Ensure that climate *metrics and targets* disclosures are provided at the subsidiary-level, if that subsidiary has raised capital through a debt or equity issuance – this is essential for investment managers to form a portfolio-level view of climate risk and to report this to their clients in line with forthcoming DWP and FCA regulations.
- Require disclosures to be aligned with all 11 recommendations of TCFD, to provide investment managers with sufficient granularity of disclosures to assess and manage climate risk and to ensure regulatory alignment of requirements across the investment chain.
- Require disclosure of scenario analysis – this is an essential tool for companies to assess, manage and explain to their stakeholders (including investors) the exposure of their business model to climate risk.

- Require mandatory disclosure of material Scope 3 emissions data under SECR – this is essential to support investment managers to report Scope 3 emissions of investments to their clients, in turn supporting pension fund clients to meet their obligations under DWP's statutory guidance.
- Require disclosures of climate change related metrics and targets in addition to KPIs – this will allow investment managers to make a more accurate assessment of risk-adjusted returns and allow stakeholders to assess the company's commitments to responding to climate change.
- Remove the qualification that companies only have to comply with the obligations if they consider climate-related disclosures to be material. Climate change has the potential to be a material risk for every company. Without the removal of this qualification, we are concerned that some companies won't take necessary steps to assess the impact of climate risks on their business model and strategy. The TCFD framework already allows companies to make this initial materiality assessment and then disclosures that are proportionate to the impact that climate change will have on their business; if climate change is not a significant consideration for a company the reporting burden will be proportionately low.

As global investors, investing in companies and assets around the world, the IA's members are affected by the impact of climate change across different geographies. Investment managers therefore, would like to see global coverage of TCFD mandated disclosures to ensure they can develop a complete view of their client's exposure to climate risk and meet their own reporting obligations. The UK should leverage its position as a global leader in sustainable finance to encourage other markets to adopt similar obligations. We, therefore, ask the UK government to use its platform as hosts of the 2021 G7 summit and of the COP26 conference to encourage other global leaders introduce mandatory TCFD reporting across the economy in their respective markets.

Questions

1. Do you agree with our proposed scope for companies and LLPs?

Yes. The IA has supported the need for large public companies to report in line with TCFD, having called for FTSE All-Share companies to report in line with TCFD since 2020. We called for this to be made mandatory through the listing rules in our response to the FCA's consultation on Enhancing Climate Disclosures for Premium Listed Issuers.

Private companies also play a key role in society, delivering employment, significant services, output and wealth to the economy. Private companies and LLPs will make a significant contribution to efforts to transition to a net zero carbon economy and there are no distinctions between the impacts that climate change will have on a company based on its legal or ownership structure. Investment managers investing in both public and private companies must assess how the company's exposure to climate-related risks and opportunities affects its long-term value and will be required to report on this impact.

We, therefore, support the proposed scope of the consultation to include publicly quoted companies, private companies and LLPs. This will support company management to proactively identify and manage climate-related risks and opportunities that relate to their business. These steps are critical for companies to minimise the negative impacts of climate change on their long-term value and to help realise the financial opportunity of a sustainable transition. This will enable investment managers to better assess the climate risk they are exposed to through investment in these companies and support and challenge them to transition to a more sustainable footing as well as to meet their own reporting obligations. These developments will also help ensure climate risk is comprehensively priced into the financial system across both public and private companies, helping to drive an economy-wide transition to Net Zero.

The IA recognises the need to ensure that the reporting burden on companies is proportionate, which is why we are supportive of TCFD aligned disclosures. TCFD is based on principles of strong governance and materiality, and allows for a company to make disclosures consistent with the impact that climate change will have on its business. Policy makers and regulators need to balance the flexibility permitted by the unlisted sector with the need for large private companies to meet wider investor and societal expectations on how they contribute to climate change and make disclosures to their investors and other stakeholders consistent with this. Asymmetric requirements on private and listed companies can disincentivise listing and hamper the competitiveness of the UK as a place to do business, so we are pleased to see the scope of these proposals applied to both large private and public companies.

To help achieve this balance, we encourage the Government to consider rationalising the differing thresholds applicable to the reporting requirements for private companies, as part of their revision of the definition of Public Interest Entities in the White Paper on Restoring Trust in Audit and Corporate Governance. This review should include the Streamlined Energy and Carbon Reporting (SECR) regulations, the Corporate Governance Reporting Requirements for Large Private Companies, reporting on Directors Duties, and other reporting requirements.

Several entities that are captured by the proposed scope also fall under the scope of other climate-related reporting requirements from the FCA. Some IA members are already

required by the FCA's Listing Rule 9.8 to make TCFD-aligned disclosures, and several more will fall under the expected scope of rules for FCA regulated entities, following their consultation on TCFD-aligned disclosures by UK-authorised asset managers, life insurers and FCA-regulated pension schemes. We encourage BEIS to work with the FCA to ensure that they adopt a complementary approach so that the entity-level TCFD reporting required by the FCA will meet BEIS' reporting requirements.

We encourage the UK Government to leverage its position as a global leader in sustainable finance, and its roles hosting the 2021 G7 summit and COP26 to ensure consistent approaches to TCFD reporting requirements across other international markets. For large global companies, it will be important to ensure a proportional approach to the duplication of reporting across different jurisdictions, such that jurisdictional requirements are compatible with requirements for global parent companies.

2. Our proposed scope includes UK registered companies with securities admitted to AIM with more than 500 employees. Do you have any views on expanding this to include other unregulated markets and Multilateral Trading Facilities (MTFs)?

We ask that the proposed scope treats all publicly listed companies consistently, such that the scope is expanded to include companies with more than 500 employees, with securities admitted to any unregulated market and MTFs. This helps to provide consistency between the treatment of different listing segments and ensuring that differing treatment does not result in a disincentive to participate in those markets.

3. Do you agree with the proposal to require climate related financial disclosures for companies and LLPs at the group level?

While we agree with the expectation for disclosures at the consolidated group level; there are a number of circumstances where investment managers expect companies to provide TCFD disclosures at the subsidiary level.

Investment managers purchase securities in different asset classes including equities, fixed income, and undertake direct investment and ownership in the underlying asset in real assets. In assessing the value of their investments, investment managers asses the risk associated with the relevant securities. Where the securities are issued at the subsidiary level, these assessments rely on the disclosures associated with the subsidiary in addition to wider group-level disclosures.

Several subsidiaries will act as an extension of the parent company or group and have a similar exposure to climate-related risks, conversely some subsidiaries will operate almost entirely independent of the parent company, have distinct climate risk profiles, operate independent balance sheets, and maintain their own lines of credit, this is especially true for corporate debt where the capital raised is ring fenced from the assets of the parent company (e.g. special purpose vehicles).

IA members expect to see a clear overview of how the governance arrangements of different entities within the group structure ensure the proper management of climate risk. These disclosures should be made under the governance and risk management pillars of TCFD within the group-level disclosures. In addition, where any subsidiary has a

substantially different climate risk profile from the group, investors will expect to see more granular disclosures.

In addition, where a subsidiary is issuing equity or debt to investors, IA members require some subsidiary-level climate-related disclosures so that they may accurately assess the climate risk associated with the securities they are invested in. This will also enable them to properly reflect these investments in their own reporting obligations; through, for example, expressing a portfolio level metric for weighted average carbon emissions intensity.

IA members recognise that a proportional approach is required, balancing the information requirements of investors with the reporting burden on companies. As such we do not believe that TCFD reporting aligned with all four pillars is necessary at subsidiary level, however investment managers do require those subsidiaries that are issuing equity or debt to disclose security level metrics and targets.

Security level disclosure of metrics and targets is important for investment managers to meet their own risk management and reporting requirements. These disclosure requirements should be aligned with and enable investment managers to comply with their reporting obligations such as the EU's Sustainable Finance Disclosure Regulations (SFDR) and those within the FCA's upcoming consultation on TCFD-aligned disclosures by UK-authorised asset managers, life insurers and FCA-regulated pension schemes, and to provide their pension fund clients with the information that they need to comply with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

We encourage BEIS to work with the FCA to explore the appropriate mechanism to secure issuer level metrics and targets disclosures for bond and equity issuances where these disclosures are not found in parent company annual reports.

4. Do you agree that the Strategic Report is the best place for the disclosure of climate-related financial information by companies?

Yes. The governance and management of the risks and opportunities presented by climate change should be a central component of a company's business operations and strategy, so we agree that the Strategic Report is the best place for these TCFD disclosures.

The Strategic Report must be approved by the Board and signed on behalf of the directors, and so the content of the disclosures and process surrounding them are elevated to the attention of the Board. This ensures that those responsible for setting the company's strategy have consideration of the impacts of climate change, the relevant risks and opportunities and how the company will mitigate or manage such risks. Requiring TCFD aligned disclosures to be located in the Annual Report will also increase public accountability of a company's response to climate change, and will empower a wider range of stakeholders to hold companies to account on the issue.

Furthermore, as TCFD disclosures increasingly inform investment decision making, it is essential that investment managers have confidence in the quality and accuracy of this information. Auditors are already required to assess whether there is any inconsistency between the narrative disclosures provided within the annual report and the company's accounts, therefore locating these disclosures in the annual report provides investors with

the confidence that the disclosures have been subject to this minimum level of assurance, this guarantee would not exist were they disclosed in an external document.

In response to question 6, we recommend that the proposals require in-scope companies to make disclosures in line with the 11 recommendations of TCFD as opposed to only the four pillars. Given that disclosures at the 11-recommendation level are likely to be more extensive, the company may wish to provide a summarised version of its TCFD disclosures at the four-pillar level in the strategic report with clear references to more comprehensive disclosures at the 11-recommendation level in a separate document.

BEIS' consultation on Restoring Trust in Audit and Corporate Governance includes a proposal to introduce a statutory requirement on PIEs to publish an Annual Resilience Statement and asks for views on whether the Resilience Statements could provide a means and location for TCFD aligned disclosures. We encourage BEIS to ensure that the implementation of the recommendations within that consultation are aligned with the approach taken in implementing mandatory TCFD disclosures.

5. Do you have views on whether LLPs should be required to disclose climate-related financial information in the Strategic Report (where applicable), or the Energy and Carbon Report?

LLPs should be required to disclose climate-related disclosures in their Strategic Report. As we set out in response to question 4, the governance of, and management of the risks and opportunities presented by climate change should be a central component of a company's business and strategy, the location of TCFD disclosures in the body of corporate reporting should reflect this and so the Strategic Report is the best place for these disclosures.

In addition, we believe that the location of disclosures should be consistent across LLPs and companies, recognising that the importance of climate change to business and strategy, is common to both LLP's and companies.

6. Do you agree that requiring disclosure in line with the four pillars of the TCFD recommendations, rather than at the 11-recommendation level is suitable?

No. The IA believes that for these proposals to have the greatest effect they should require disclosure in line with all 11 recommendations of TCFD.

TCFD's 11 recommendations provide a useful and widely accepted framework for climate-related financial disclosures from companies. TCFD-aligned reporting embeds principles of materiality and strong governance that are important to investment managers. The disclosures are essential evidence of how well companies are responding to climate change and used to inform the investment process, as well as engagement and voting activities.

For company disclosures to be decision-useful for investment managers they need to be comprehensive and comparable. Disclosures at the four-pillar level are too broad and inconsistencies between company reports do not always provide investors with information specific enough for it to be comparable. In addition, the IA's analysis on the quality of TCFD disclosures in 2020 for FTSE 100 companies suggested that there are several 'coverage gaps', for example only 55% of FTSE 100 companies analysed made specific reference to the impact that climate change has had on capital management and

allocation. A lack of comprehensiveness undermines the quality, comparability, and therefore, the value of TCFD disclosures and reduces their usefulness for investors.

Requiring disclosures at the 11-recommendation level will also mean that the requirements are consistent with those of Listing Rule 9.8 for premium listed companies and DWP regulations on occupational pension schemes, both of which require disclosures aligned with all 11 TCFD recommendations. We believe that the scope associated with this consultation already ensures a proportionate approach and that extending the requirements to the 11 recommendations will not overburden non-listed companies.

Recognising that a full TCFD report may result in an excessively long strategic report, we suggest that an overview of TCFD disclosures consistent with the four pillars be made in the strategic report, with clear signposting to an additional document which contains comprehensive TCFD disclosures aligned with all recommendations of TCFD.

The IA notes that the proposals provide additional requirements from those in TCFD. Namely, the proposals will require disclosure on 'who has operational responsibility for climate change'. While there is no similar requirement under TCFD the IA welcomes this requirement and notes that it aligns with IA members' expectations as set out in our Shareholder Priorities for 2021, naming individual board members or committees with responsibility provides essential accountability and leadership on this critically important issue.

7. Do you agree that information provided in line with the obligations set out above would provide investors, regulators and other stakeholders with sufficient information to assess the climate-related risks and opportunities facing a company or financial institution?

No. As discussed in our responses to questions 3, 6, 8, and 9, there are some disclosures not required by these recommendations that are necessary for investment managers to have sufficient information to assess the climate-related risks and opportunities facing a company and meet their own disclosure obligations – specifically the obligations to support their pension fund clients meet DWP regulations on TCFD reporting and forthcoming obligations expected within the FCA's consultation on TCFD-aligned disclosures by UK-authorised asset managers, life insurers and FCA-regulated pension schemes.

To support investment managers to meet these obligations, the proposals should be strengthened to include the following:

- Disclosure of subsidiary level data and metrics, where the subsidiary has raised capital from investors;
- Mandatory disclosures aligned with all 11 TCFD recommendations;
- Mandatory disclosure of scenario analysis; and
- Mandatory disclosure of Scope 3 emissions data under SECR.

The IA is also concerned about the following wording for disclosure d) of the obligations, which is not consistent with the TCFD framework:

"Provide disclosure relating to: …a description of how the company manages those areas of risk and opportunity including:

i. *a description of its business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and*
ii. *a description of how it manages the principal risks"*

The wording is ambiguous and lacks the necessary clarity to encourage consistent and comparable disclosures from companies. We would therefore encourage BEIS to revisit the wording and provide some clarity on the definition of adverse impacts.

We also note that the wording for disclosure f) of the obligations:

"a description of the key performance indicators relevant to the entity's exposure to climate change risk and opportunity, and the targets set by the business for those key performance indicators"

We are concerned that this wording does not make explicit reference to metrics or targets consistent with the Metrics and targets pillar of TCFD which requires disclosure of *"the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material".* For investment managers to be able to make an informed decision on the company's ongoing response to climate change they need the disclosure of material data beyond KPIs. We encourage BEIS to provide clarity on which key metrics used to measure and manage climate-related risks and opportunities will be required under these proposals and are seen as KPIs.

8. Do you agree with our proposal that scenario analysis will not be required within a company or LLP's annual report and accounts?

No. The IA's members strongly believe that scenario analysis should be required within a company's or LLP's annual report and accounts. This is one of the foundational recommendations of TCFD and one of the most valuable disclosures for investors.

Scenario Analysis is a key governance and risk management tool for companies and encourages longer-term thinking about how the company and its business model will be impacted by different climate change risk, specifically transition and physical risks. The complex nature of these risks mean that it is not always immediately apparent which direct or indirect impacts are financially material. However, adopting a systematic risk assessment which considers impacts on their products and services, operating model, assets and financial position, supply chain, as well as on their key stakeholders, employees and customer base, will enable companies to better navigate these risks, and to take advantage of any arising opportunities.

For investors, the disclosure of scenario analysis allows them to gain a broader understanding the resilience of a company and to assess the impact of climate change on the company's long-term value. It also gives them the confidence that the company's management is actively seeking to understand the risks and is committed to the management of the impact of climate change will have on their business model and strategy. As long-term investors, IA members' ability to create sustainable value on behalf of savers is significantly affected by how well companies manage these impacts, and so we strongly recommend that the recommendations require disclosures of scenario analysis.

BEIS' consultation on 'Restoring trust in audit and corporate governance', and the proposals relating to the resilience statement recognises that climate change is a resilience

issue common to many, if not all, businesses, and recommend greater use and disclosure of scenario testing by companies. There needs to be greater alignment when the recommendations of both consultations are implemented. It is also important to note that under Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 trustees are required to undertake scenario analysis assessing the impact on the scheme's assets and liabilities every three years – it is, therefore, important to ensure consistency in the requirements right across the investment chain.

IA members recognise that scenario analysis is challenging and many companies are still developing their capabilities. However, considering the value of scenario analysis for both investors and the company itself, and the need for climate risk to be tackled with urgency, we believe it is entirely appropriate for it to be mandated. Moreover, requiring scenario analysis disclosure will also encourage companies to develop these capabilities at pace. Where companies believe they have significant skills gap and will not be able to produce quantitative scenario analysis, they should start by producing qualitative scenario analysis which is less technically demanding before developing the more sophisticated quantitative scenario analysis capabilities. We would note that this is consistent with the approach taken by DWP on the requirement for scenario analysis by pension funds.

We also note the technical support and guidance developed by TCFD for the use of scenario analysis, and the Climate Financial Risk Forum's guide for industry on scenario analysis, serve as useful documents for those companies who are yet to fully develop their capabilities.

9. Would alignment of the scope for climate-related financial disclosures and SECR requirements, such that large unquoted companies and LLPs would be subject to the same reporting requirements under SECR as quoted companies, aid reporting of climate related financial disclosures and simplify reporting procedures? Do you have any views on the continuation of voluntary Scope 3 emissions reporting under SECR requirements?

IA members believe that SECR requirements should be amended such that material Scope 3 greenhouse gas emissions are required by both quoted, and large unquoted companies and large LLPs.

Investment managers will require material Scope 3 emissions data from investee companies to inform their own reporting obligations such as those in the EU's Sustainable Finance Disclosure Regulations (SFDR) (required from 1 January 2023) and to allow their clients to comply with their respective reporting obligations such as those under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

Without material Scope 3 emissions reporting from companies, further disclosures along the investment chain are extremely challenging.

As set out in response to question 1, we would encourage BEIS to revisit reporting thresholds that apply to large private and public companies. Included in this review should be consideration of duplication of the reporting requirements between SECR and TCFD, in particular in relation to the metrics and targets pillar of TCFD, as a part of a broader review of the reporting thresholds.

It is also important that these regulations are consistent with the upcoming FCA consultation on TCFD-aligned disclosures by UK-authorised asset managers, life insurers and FCA-regulated pension schemes.

10. Do you have comments on the proposal to permit non-disclosure if the information is not material and the reasons why climate change is not material are properly explained?

IA members believe that the disclosures should be mandatory in all cases.

Climate change has the potential to be a material consideration that affects all companies, and no company should ignore the impact of climate change when assessing the potential risks and opportunities they face. This is why it is essential for companies to undertake scenario analysis as set out in response to question 8. Where the impact of climate change on a company is relatively low, the TCFD framework provides companies with an effective means of communicating this to investors and other stakeholders. Disclosing in line with the TCFD recommendations also provides the company's investors with the assurance that the company has the proper governance, oversight and risk identification process in place to assess the future impact of climate change. In addition, conducting and disclosing climate-based scenario analysis is an effective means to communicate to investors the resilience of a company to climate change, and under what scenarios climate change would become a material concern.

In this regard, if a company believes that climate change is not expected to materially affect its business model or strategy the best way for it to provide a clear and reasoned explanation for this conclusion is through reporting consistent with the four recommendations of TCFD.

Were the permission of non-disclosure of information to apply, the recommendation would in effect be more akin to a 'comply or explain' approach, and therefore several information or data gaps are likely to arise. Given the mandatory nature of DWP's approach on climate disclosures by occupational pension schemes and the likely mandatory nature of proposal within the FCA's upcoming consultation on TCFD-aligned disclosures by UK-authorised asset managers, life insurers and FCA-regulated pension schemes, we are concerned that without truly mandatory requirements on investee companies investment managers will not have the necessary information to assess climate risk within their portfolio and fulfil their own reporting obligations.

11. Do you have comments on the proposed timing for these regulations coming in to force?

IA members believe that the timing for these regulations coming into force is appropriate.

12. Do you have any comments regarding the existing enforcement provisions and the BEIS proposal not to impose further provisions?

N/A

13. Do you have any comments regarding duties and enforcements for LLPs? Mandating climate-related financial disclosures by publicly quoted companies, large private companies and LLPs

N/A

14. Do you have any comments on the responsibilities of auditors in relation to climate-related financial disclosures?

Investors rely on the quality and reliability of the information provided by company reporting when making investment decisions and holding company management and boards to account through their stewardship approach. This extends to non-financial information such as TCFD aligned disclosures and it is essential that investors have confidence in the quality and accuracy of these disclosures.

Auditors are already required to assess whether there is any inconsistency between the narrative disclosures provided by the company and the company's accounts. However, companies are not required to state whether the level of assurance has extended beyond this requirement. As we set out in our Shareholder Priorities for 2021, IA members expect auditors to alert shareholders to any inconsistency between the narrative disclosures around climate-related matters, and the company's account

We believe that the common framework provided by TCFD allows for the information disclosed to be subject to audit or assurance, particularly so under the metrics and targets pillar. However, we recognise that it will take time for these disclosures to develop comparability and consistency at a level that allows for this. In lieu of auditable disclosures, we expect clarity on the level of assurance provided by auditors so that investment managers and other market participants will have the confidence to use the disclosed information to make decisions and assessments about the company. We recommend that the BEIS require companies to state whether or not the TCFD aligned disclosures were subject to third-party assurance and, if so, the level of assurance that was provided.

We note that the responsibilities of auditors are likely to evolve over time as some of the proposals within the BEIS consultation on 'Restoring trust in audit and corporate governance' are implemented. Specifically, if the Audit and Assurance Policy is implemented, the scope of the audit and the level of assurance provided to climate-related disclosures will evolve with market practice.

15) Do you have any comments regarding the proposed enforcement of our disclosure requirements?

N/A

16) Do you have any comments regarding the impact of our proposals on protected groups and/or how any negative effects may be mitigated?

N/A

17) Do you have any further comments about our proposals?

The IA would like to stress the importance that regulatory and non-regulatory guidance will have in supporting in-scope entities to produce TCFD-aligned disclosures.

This is especially true regarding the more challenging aspects of TCFD such as:

- Scenario analysis - to assist those companies who are yet to develop capabilities for comprehensive scenario analysis.
- Metrics and targets – where guidance will need to promote the adoption of consistent methodologies; and
- Scope 3 emissions reporting – to support common approaches to identifying material Scope 3 emissions.