



CONSULTATION ON REQUIRING MANDATORY CLIMATE-RELATED FINANCIAL DISCLOSURES BY PUBLICLY QUOTED COMPANIES, LARGE PRIVATE COMPANIES AND LLPS

Issued 5 May 2021

ICAEW welcomes the opportunity to comment on the *Consultation on requiring mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs* published by Department for Business Energy and Industrial Strategy (BEIS) in March 2021, a copy of which is available from this [link](#)

ICAEW is a strong supporter of the distinctive approach adopted by the Taskforce on Climate-related Financial Disclosures (TCFD), which focuses on communication of the financial impact of climate change on the reporting organisation. We continue to believe that TCFD will contribute to improvements in the quality and consistency of disclosures and governance in this area and broadly welcome the Government's proposals to mandate wider use of the framework by UK entities.

This response of 5 May 2021 has been prepared by the ICAEW Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 156,000 chartered accountant members in over 149 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

© ICAEW 2021

All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact: representations@icaew.com

ICAEW

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
T +44 (0)20 7920 8100 F +44 (0)20 7920 0547 icaew.com

The Institute of Chartered Accountants in England and Wales (ICAEW) incorporated by Royal Charter (RC000246)
Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

KEY POINTS

OUR SUPPORT FOR CLIMATE ACTION

1. ICAEW has been developing thought leadership and practical guidance for members and the wider business community on sustainability for over 16 years and is a leading voice among professional bodies on this subject. Flagship projects include setting up the Finance Innovation Lab, named by The Observer and NESTA as one of 50 New Radicals actively changing their communities for the better across the UK, and establishing and hosting the Natural Capital Coalition, now the Capitals Coalition. ICAEW has also led by example. In November 2020 we became the first major professional body to become carbon neutral and we have placed the United Nation's Sustainable Development Goals (SDGs) at the heart of our strategy.
2. We believe that chartered accountants should be at the forefront of efforts to tackle the severe challenges arising from climate change. Achieving climate goals, or indeed wider sustainability targets such as the SDGs, will require businesses to make significant changes to resource allocations and behaviours. It is in the interest of all business globally to plan for this shift and to make the necessary changes as soon as they are able. The need to measure, report and assure are all critical steps to ensure the best possible business decisions are made, and chartered accountants are in a strong position to provide these skills.
3. We have long been strong supporters of the distinctive approach adopted by the Taskforce on Climate-related Financial Disclosures (TCFD), which focuses on communication of the financial impact of climate change on the reporting organisation. We continue to believe that TCFD will contribute to improvements in the quality and consistency of disclosures and governance in this area and broadly welcome the Government's proposals to mandate wider use of the framework by UK entities.

A NEW ERA FOR CORPORATE REPORTING

4. The growing demand for business to report on a wider range of matters and to a broader set of stakeholders has been central to debate about the future of corporate reporting for many years. The UK has often been at the forefront of these discussions and has been a global leader in developing non-financial reporting requirements for companies. In particular, the introduction of the Strategic Report in 2013 was a crucial step towards UK companies providing a broader and more integrated narrative on their position, performance, and prospects alongside their financial statements.
5. While there is still much work to be done to improve the depth and quality of non-financial information, we have clearly entered a new era of corporate reporting. Non-financial information now ranks alongside financial information in terms of its importance in improving understanding of how a company creates and maintains value. It can also provide crucial information about a company's impacts on its external environment, which is seen as essential in improving transparency and driving better corporate behaviour over time.
6. The development of a global set of non-financial reporting standards is a vital next step and ICAEW strongly supports the IFRS Foundation's plans to set up a Sustainability Standards Board to set sustainability reporting standards. There is significant demand for and momentum behind the development of a truly international corporate reporting system, which can bring greater consistency, comparability and reliability to non-financial reporting. Progress towards this goal is now taking place at a pace and it is a question of when rather than if the first international sustainability reporting standards will be available for adoption by

jurisdictions around the world. In the coming months, ICAEW will continue to engage actively with the IFRS Foundation's plans. We will respond to the current consultation on the planned institutional arrangements for the proposed new Sustainability Standards Board (SSB) and will review details of the SSB's future planned work, including any proposed sustainability reporting standards.

7. Although the primary focus of this consultation is the introduction of climate-related financial disclosures, we have considered the proposals in the context of this bigger picture for non-financial reporting. For example, we have highlighted implementation challenges relating to UK legislation including scope, level of detail, and location of information in the annual report. These are all important issues to be considered, not just in relation to the current proposals but for non-financial reporting more generally. Taking the time to stand back and assess the broader legislative landscape and global developments is vital to ensure that UK companies are properly equipped to communicate effectively on a broad range of matters, including climate change.
8. We believe that the UK has a unique opportunity to again lead the way in how non-financial reporting requirements are implemented, including those outlined in this consultation, while setting out a bold vision for the future for corporate reporting which recognises the importance in the annual report of non-financial information alongside financial information.

GETTING THE FOUNDATIONS RIGHT

9. We appreciate that there are certain legislative considerations which determine the location of non-financial information within the annual report. In this instance, the proposed disclosures would be attached to the legislative requirements relating to the non-financial information statement, which is required as part of the Strategic Report for some entities. While introducing the requirements into the Strategic Report in this way may be necessary for legislative reasons, it is nevertheless a rather cumbersome mechanism, not least due to existing complexities within the legislation relating to the non-financial information statement.
10. Indeed, we have very serious concerns with the legislation underpinning non-financial reporting in the UK. Part of our concern stems from the fact that, since the introduction of the Strategic Report in 2013, new non-financial reporting requirements have been added in a piecemeal way. The same is true for the Directors' Report. The result is a confusing set of requirements which often overlap, with multiple layers of complex scoping.
11. Although it may not be possible as part of this package of proposals, we believe that there is a pressing need for the Government to review the underlying legislative framework for the reporting of non-financial information in order to rationalise the scope and requirements for the Strategic Report and Directors' Report. If the UK continues to add requirements without consideration of the purpose of requiring the information, how it interrelates with other requirements, and where it should be presented within the annual report as a whole, then we risk undermining the ability of companies to communicate in a clear and meaningful way.
12. The UK's exit from the EU presents an opportunity for the Government to revisit this area of company law, some of which has its roots in EU law. Now, more than ever, there is a need to ensure that the legislative foundations are sufficiently clear and robust in order to support the rapid growth in non-financial reporting.

NEED FOR CLEAR and PRAGMATIC GUIDANCE

13. It will be important for the Government to produce clear and pragmatic guidance to help companies and LLPs provide climate-related financial disclosures in line with the TCFD

framework. An important aspect of this guidance will be to emphasise how reporting under the TCFD framework is a journey which demonstrates how an entity understands and manages climate-related risks and opportunities over time. This is an important message, particularly when it comes to some of the more challenging reporting areas such as scenario analysis. The guidance could also helpfully discuss important matters such as materiality, scope, and the location of information ie, what information should be provided within the Strategic Report and what information can be presented elsewhere.

ENSURING A COORDINATED APPROACH

14. The Government is in the process of consulting on a wide range of proposals as part of the separate and ongoing BEIS consultation *Restoring trust in audit and corporate governance*. There is some important cross-over between these proposals relating to climate-related financial disclosures, and the White Paper. For example, the latter is consulting on proposals to introduce a Resilience Statement (possibly as part of the Strategic Report) and is requesting views on whether TCFD information should be included within such a statement. There are also relevant questions relating to a revised definition of a public interest entity (PIE).
15. As noted, we that believe there is a need for the Government to rationalise the scope and reporting obligations for non-financial information, with a particular focus on the Strategic Report. In carrying out such an exercise, we urge the Government to have regard for the feedback and developments arising from the White Paper, and vice versa. The issues highlighted in this response require a consistent, joined up and comprehensive approach from Government.

ASSURANCE OF CLIMATE-RELATED INFORMATION

16. With investors increasingly making decisions based on information outside of the audited financial statements – including climate-related reporting – questions about the reliability of such information are becoming more common. We believe that external assurance has a key part to play in efforts to improve the confidence of investors and other stakeholders in climate-related financial disclosures. We note, however, that these proposals are not intended to alter the role of auditors in relation to climate-related financial disclosures.
17. Recognising the ongoing and important debate regarding climate-related reporting and assurance, ICAEW plans to develop during 2021 a resource hub of practical guidance and examples of leading practices in relation to all forms of assurance and risk management over climate and environmental disclosures. The purpose of these resources will be to upskill audit committees and boards so that they can better help their organisations think through their assurance needs on climate-related reporting. These resources will be designed to support organisations of all sizes, including smaller and medium sized companies, in determining how and where they might seek assurance.
18. The hub will build on the recommendations provided in the Buyer's Guide to Assurance on Non-Financial Information (produced in 2019 by ICAEW in collaboration with the WBCSD) and ICAEW Audit and Assurance Faculty's recent report, *Developing a meaningful Audit and Assurance policy*.

ANSWERS TO SPECIFIC QUESTIONS

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

General comments

19. In recent years, requirements for companies and LLPs to provide non-financial information within their annual reports have increased, often with different scopes attached to the various reporting requirements. This has resulted in a deeply confusing body of reporting requirements in UK company law which, in our view, risks undermining efforts to ensure clear, concise and high-quality reporting of non-financial information.
20. To expand on this concern, we would point out that currently, in relation to the Strategic Report and Directors' Report, different reporting requirements can apply depending on whether an individual company is:
 - Medium-sized or large.
 - Quoted with < 500 employees.
 - Public interest entity (PIE) with >500 employees.
 - A company with 2,000 employees and/or more than £200 million turnover and a global balance sheet total of more than £2 billion.
 - A company with > 250 employees.
21. This complexity is exacerbated in group situations, with different rules applying to different sets of reporting requirements. For example, some requirements are only required at a group level with exemptions available for subsidiaries, while others are required at an individual company level.
22. It is, therefore, with some concern that we have considered the Government's proposed scope for climate-related financial disclosures, which would introduce yet another threshold for companies and LLPs. The scope includes a new category for companies and LLPs with more than 500 employees and £500m turnover and AIM listed companies with more than 500 employees.
23. We understand the rationale behind introducing these new thresholds, which is to align the scope of these new requirements with an expected future revised definition of a PIE that is being consulted on as part of the BEIS consultation **Restoring trust in audit and corporate governance**. However, attempting to align the scope before the revised definition of a PIE has been agreed and implemented is problematic. In particular, there is a distinct risk that companies and LLPs are brought into the scope of these new climate-related financial disclosures, only to be scoped out at a later date if they do not fall into the revised definition of PIE.
24. There is also a question as to how helpful it is to introduce a new threshold for climate-related financial disclosures which essentially pre-judges the outcome of the separate discussion on the definition of PIEs in the White Paper. There are still many factors to be considered and the outcome of the discussions is by no means clear. Indeed, there is a risk that the final definition may not be appropriate for the purpose of determining which entities should be within scope of climate-related financial disclosure requirements.
25. Perhaps a simpler approach would be for the scope of the climate-related financial disclosures to be aligned with the existing scope of companies required to produce a non-financial information statement ie, PIEs (as currently defined) with more than 500 employees. When the definition of a PIE is expanded, for example, to include large private companies, and AIM-listed companies, the thresholds could be revisited to assess how climate-related disclosure requirements could become applicable across a broader population of entities.

However, we recognise that this would mean delaying the introduction of climate-related disclosures for a wider range of entities which, for many, is not a satisfactory outcome and would be out of alignment with the Government's 2020 Roadmap and Interim Report.

26. The absence of any clear, objective criteria to determine which type and size of entity should be required to provide climate-related financial disclosures, together with the existing complexity in the scope for non-financial reporting requirements, presents a conundrum when assessing the scope of the Government's proposals. While there is no ideal solution, we suggest the Government considers the following matters when finalising the scope for these proposals:
- **Start small and grow** – we have outlined one alternative approach in paragraph 25. However, if the Government is looking to expand the scope beyond PIEs (as currently defined) with more than 500 employees, we suggest that it would be sensible to keep the population of large private companies, LLPs, and AIM-listed companies as small as possible, at least in the early stages and until the revised definition of PIE is agreed. Otherwise there is a risk of unnecessary disruption for entities that are brought into scope only on a temporary basis.
 - **Examine existing thresholds** – our strong preference would be for the Government to apply an existing threshold for large companies and LLPs when bringing such entities into scope. Although we accept that the Government may have been through this process in reaching the proposed scope outlined in this consultation document, we nevertheless take this opportunity to emphasise the importance of examining all options and providing a clear rationale for why existing thresholds or categories are not suitable on this occasion.
27. If, having considered these matters, the Government concludes that the introduction of a new threshold is unavoidable, then we would accept this on pragmatic grounds. However, as highlighted by the issues raised in this response, we strongly believe that there is a pressing need for the Government to rationalise and simplify the current complexity in scope for non-financial reporting requirements in the UK.

QUESTION 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)?

28. It is not clear why the Government has identified only large companies with securities admitted to the AIM market, and not included other unregulated markets and Multilateral Trading Facilities. In our view, if AIM-listed companies are included in the scope then other unregulated markets and MTFs should also be included.

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

29. Yes, we agree with the proposal that reporting would be at the group level on a consolidated basis and that the scope thresholds should be applied on a consolidated basis. We also agree with the proposal to include a subsidiary exemption if a company's results and relevant climate-related disclosures are included in a consolidated report of a UK parent company.
30. In time, and with an appropriate mechanism in place to ensure equivalence, we suggest that consideration is given to providing a subsidiary exemption when a parent company is producing climate-related disclosures on a consolidated basis in accordance with TCFD, even if that parent company is located outside of the UK.

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

31. The purpose of the Strategic Report is to inform shareholders and help them assess how the directors of a company have performed their duty in accordance with s172 of CA 2006 to promote the success of the company for the benefit of its members as a whole. In meeting this objective, the Strategic Report should contain information that is material to shareholders. This concept of materiality is woven into many of the underlying legal requirements, for example, providing details of the principal risks and uncertainties facing the company, key performance indicators, and providing information only to the 'extent necessary', ie, focussing on significant matters.
32. We note that the intention of the TCFD framework is to provide information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks and opportunities. Therefore, in our view, the intended purpose and audience of information provided under TCFD aligns well with that of the Strategic Report.
33. We are also aware that there is a significant wealth of guidance available under the TCFD framework which enables entities to carry out a more detailed analysis of their climate-related risks and opportunities. To ensure that the Strategic Report remains balanced, it will be important that the accompanying non-binding guidance clarifies that the requirement to include climate-related financial disclosures in the Strategic Report is limited to information that is material to shareholders. Any more detailed analysis that an entity chooses to prepare, beyond that which is material to shareholders, should be located elsewhere, with appropriate cross-references when necessary.
34. On a final note, we note that the proposed disclosure requirements would be included in the non-financial information statement included as part of the Strategic Report. However, not all of the entities within the proposed scope are currently required to produce a non-financial information statement. This inconsistency will need to be resolved when finalising the final requirements.

QUESTION 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?

35. Yes, we agree that requiring disclosure of climate-related financial information in the Energy and Carbon Report is a sensible approach. The accompanying non-binding guidance should make clear that information provided in the Energy and Carbon report should be material to members of the LLP, with any more detailed analysis presented elsewhere.

QUESTION 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?

36. In considering whether or not companies and LLPs should be required to disclose in line with the four pillars of the TCFD framework or the 11 recommended disclosures, we have considered:
 - Information needs of users of climate-related financial disclosures.
 - Ease of application by companies and LLPs (including consistency with the FCA listing rules).
 - The forthcoming International Sustainability Reporting Standard on climate.
 - The role of accompanying non-binding guidance.

37. Having considered these key areas (see below for our more detailed reasoning) we have concluded that a better approach would be for the regulations to require companies and LLPs to disclose in line with the four pillars of the TCFD and in doing so, to 'have regard to' the 11 recommended disclosures set out in the TCFD framework, but without explicitly setting out the 11 recommendations in the regulations.
38. To be clear, we do not agree with the proposed reporting obligations as drafted on pages 24–25 of the consultation document. In our view, the proposed obligations are an unhelpful mix of requirements between the pillars and 11 recommendations and introduce new terminology, all of which could lead to confusion. Instead, a simpler and more effective approach would be for the legislation to refer to the four pillars using the same terminology used in the TCFD framework as set out below, and to direct companies to the 11 more detailed recommended disclosures to help meet their obligations under the four pillars:
- **Governance** - Disclose the organization's governance around climate-related risks and opportunities.
 - **Strategy** - Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.
 - **Risk Management** - Disclose how the organization identifies, assesses, and manages climate-related risks.
 - **Metrics and Targets** - Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
39. In taking this alternative approach it will be crucial for the Government to produce clear and pragmatic guidance to support companies and LLPs reporting under the TCFD framework.
40. If, however, the Government chooses to go ahead with the approach as set out in the consultation paper we believe there is scope for significant improvements to be made to the drafting of the detailed reporting obligations. We are happy to discuss this separately with BEIS and provide detailed input on this point if needed.

Information needs of users of climate-related financial disclosures

41. Complying with the 11 recommended disclosures under the TCFD framework is intended to provide information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks and opportunities. In our view, the intended purpose and audience of this information aligns well with that of the Strategic Report, as discussed above in question 4. Therefore, it would seem logical to require companies and LLPs to provide information in line with the 11 recommended disclosures, rather at the level of the four pillars, which might not result in helpful information for users.
42. On the other hand, we appreciate that some aspects of the 11 recommended disclosures may require new information or skills which could take time for companies and LLPs to develop, in particular the reporting requirements relating to scenario analysis. Taking into account both the information needs of users and the need for preparers to evolve their own systems and skills over time, we suggest that a better approach would be to require companies and LLPs to disclose in line with the four pillars of the TCFD and in doing so, to have regard to the 11 recommended disclosures set out in the TCFD framework.
43. In our view, this approach would provide companies and LLPs with clarity over the specific disclosures required, provide users with the necessary level of information, while still allowing some flexibility as companies adapt to some of the more challenging reporting requirements over time.

Ease of application by companies and LLPS

44. The proposed reporting obligations as set out on pages 24 and 25 of the consultation document have been developed from the four pillars of the TCFD framework, although not using consistent language, and in places drawing on certain elements of the 11 recommended disclosures. In our experience, developing new reporting requirements which are 'similar but different' to other reporting requirements results in confusion and complexity for companies. This seems particularly important in this instance as the proposed reporting obligations are intended to require companies to align with the TCFD framework but the proposed reporting obligations themselves are not presented consistently with the framework. It is essential that any differences in terminology between the reporting requirements set out in the regulations and the TCFD are kept to an absolute minimum.
45. Ensuring this consistency will be particularly important for companies reporting under the FCA listing rules, as they will be referring to both the requirements in law, the listing rules, and the TCFD framework. Any differences in terminology open the door to unnecessary confusion and complexity, and risk undermining the ability of entities to communicate effectively.

Forthcoming International Sustainability Reporting Standards

46. As noted in the consultation document, the IFRS Foundation is proposing to set up a Sustainability Standards Board which would set Sustainability Reporting Standards. The first standard is expected to relate to climate, and to be based on the existing TCFD framework. We agree with the Government's view that it is important not to bring in legislative requirements at this stage which could hinder the ability for the UK to subsequently align with the first international standard on climate.
47. Taking into account the development of international standards, introducing legislative requirements at the level of the four pillars appears sensible, although not in the way proposed in the consultation document. Please see our comments above.

The role of accompanying non-binding guidance

48. In our view, it will be crucial for the Government to produce clear and pragmatic guidance to help companies and LLPS provide climate-related financial disclosures in line with the TCFD framework. We believe an important aspect of this guidance will be to make clear that reporting under the TCFD framework is a journey which demonstrates how an entity understands and manages climate-related risks and opportunities over time. Also, that scenario analysis, when provided, can be both qualitative and quantitative. These are important messages, particularly when it comes to some of the more challenging areas such as scenario analysis. While some entities may be ready to carry out and report on detailed scenario analysis, for others this will be a completely new area. Similarly, for some entities a more complex analysis might be needed, while for others a simpler exercise might be sufficient to meet user needs.
49. The need for clear guidance will be particularly important if introducing legislative requirements at the level of the four pillars. And, even if explicit reference is given to the 11 recommended disclosures as we suggest above, companies will need advice on how to get started, and how to integrate this information with other elements of the Strategic Report. We envisage that the non-binding guidance would be a helpful source of reference for entities within the scope of disclosure requirements and that it should be clear that entities are not required to refer to or comply with the extensive range of other guidance available from the FSB's TCFD website.

50. ICAEW stands ready to assist BEIS in the development of this non-binding guidance.

QUESTION 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?

51. As noted above, we have some concerns with how the proposed obligations in the consultation document have been drafted and we suggest an alternative approach to introduce climate-related financial disclosures into company law.

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

52. Scenario analysis is one of the more challenging aspects of the TCFD framework. That said, as discussed elsewhere in our response, the level and extent to which scenario analysis is required under the TCFD framework will vary between entities and over time. Nevertheless, we appreciate that this is a relatively new and evolving area of sustainability reporting, and that the required data and expertise needs time to develop. Therefore, we agree with the proposal that scenario analysis should not be mandated into company law. Instead, we suggest that the legislation states that entities should have regard to the 11 recommended disclosures (including disclosures relating to climate-related scenarios) to enable them to report in line with the four pillars. This would provide a clear direction to the full set of disclosures but allow flexibility for entities at an early stage in their journey towards effective climate reporting.

QUESTION 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?

53. It is our understanding that there is currently a great deal of complexity with the current SECR regulations, which has made implementation of these requirements difficult and continues to prompt large number of questions from entities within scope. As a result, we would suggest that the requirements are not changed at this stage as many entities will have only recently got to grips with the reporting requirements. Instead, we suggest these regulations need a thorough review and rationalisation. In our view, it would be sensible to wait until the revised definition of the PIE has been finalised, and as part of a wider review of the overall non-financial reporting legislative landscape.

54. That said, we would be open to the possibility of aligning the SECR requirements for quoted companies and unquoted companies, but only for those unquoted companies that are currently within the scope of SECR and will be within the scope of the proposed climate-related financial disclosures.

55. We agree that disclosure of Scope 3 emissions should remain voluntary. Assessing the level of Scope 3 emissions and capturing the relevant data continues to be a highly complex and evolving area and is not yet at the stage where mandatory disclosures would result in meaningful or reliable information.

QUESTION 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?

56. Yes, we agree with the proposed qualification to a company's duty to make climate-related financial disclosures for companies. It will as a result be important for the non-binding guidance to explain the importance of clearly disclosing the reasons for not providing the information ie, reasons why it is not considered material. The guidance might also helpfully outline the potential implications of not providing the information, for example, the impression it may present to investors. It is our expectation that disclosures on governance and risk management will always be material as these processes are needed in order to determine what other information on climate change is material to the entity.
57. Making materiality judgements in relation to climate-related information might also be a challenging area for entities. This might, therefore, be another area that could be helpfully discussed in the non-binding guidance.

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

58. We understand that should the rules come into force on the 6 April 2022 as proposed, the disclosures will be required for accounting periods beginning on or after 6 April 2022 (the earliest possible date that can be set within the legislative framework). Therefore, although it is an unusual commencement date for new reporting requirements, we support the proposed timings.
59. This commencement date means that the first period for providing climate-related financial disclosures will be 2023 year-ends, although we note that premium-listed entities are already required to report in line with the TCFD framework, on a comply or explain basis, from 1 January 2021. In light of the proposed timetable, BEIS should expediate plans to produce the non-binding guidance to help entities to start planning at an early stage for the new requirements.

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

60. We have no comments at this stage on existing enforcement provisions and agree with the proposal not to impose further provisions.

QUESTION 13: Do you have any comments regarding duties and enforcements for LLPs?

61. We have no comments at this stage regarding duties and enforcements for LLPs.

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

62. The annual report is a trusted vehicle for corporate information and therefore appropriate as a repository for climate-related financial disclosures. However, there is a common misconception that all information in the annual report is audited as part of the statutory audit of the financial statements, and this 'expectation gap' may apply to the proposed new disclosures.
63. Auditor's responsibilities for these new disclosures, as pointed out in the consultation paper, will be to read this 'other information' with a view to identifying any material inconsistencies between this information and the financial statements (as required by ISA 720). The external

auditor's ability to do this well will depend on the approach taken to the risk assessment they performed and their knowledge of how climate risk affects the financial statements.

64. If climate-related financial disclosures are deemed insufficient, in the context of external auditors' current responsibilities, they are unable to qualify their audit opinion. As a result, there is potentially less incentive for directors to make improvements to these disclosures. We note that the scope of assurance beyond the statutory audit of the financial statements is also considered in the White Paper and that ICAEW will be responding in more detail on this topic as part of that separate consultation.

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

65. We have no comments at this stage regarding the proposed enforcement of the disclosure requirements.

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

66. We have no comments at this stage regarding the impact of the proposals on protected groups.

QUESTION 17: Do you have any further comments about our proposals?

Public sector considerations

67. We would like to take this opportunity to remind BEIS that the climate crisis and transition to operating in a net-zero environment will affect public sector entities just as much as private sector entities. We have seen a plethora of initiatives aimed at the private sector and would like to see this replicated proportionately for the public sector. Starting with some of the largest government departments, BEIS should consider mirroring the private sector requirements regarding non-financial reporting disclosures on climate. The Government will also face risks and opportunities as well as considerable costs in transitioning to net zero, costs borne by taxpayers who also require transparent, meaningful and decision-useful disclosures in central and local government financial statements.

European developments

68. We note that the European Commission has recently published proposals for a Corporate Sustainability Reporting Directive. The draft legislation is comprehensive in scope and ambitious in timing, potentially paving the way towards a corporate reporting system that fully encompasses financial and sustainability reporting. EU legislative change and the forthcoming scrutiny of the proposals will provide an important point of reference for other jurisdictions too, including the UK.