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FCA Consultation CP21/17: Enhancing climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers

ClientEarth Response

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- ClientEarth welcomes that the FCA is proposing to expand climate-related disclosure requirements to asset managers, life insurers and FCA-regulated pension providers in its consultation CP21/17. We support many of the proposals in CP21/17, and in particular support the introduction of product-level disclosures. However, as detailed below, the FCA needs to go further on certain disclosure requirements (in particular in relation to transition plans) and on the scope of companies subject to them, in order to ensure that consumers, investors and other stakeholders receive the granular detail they need and are entitled to expect to make informed decisions.

- It is clear from the IPCC's recent sixth assessment report (the "**2021 IPCC Report**") that we must, globally, achieve rapid emissions reductions and transition to net-zero emissions by 2050, in line with the IPCC's very low emissions scenario,[1] in order to limit warming to 1.5°C by the end of the century. Mandatory, transparent climate-related disclosures are a necessary first step to achieving this transition by: (i) facilitating the timely reallocation of capital away from carbon-intensive business; and (ii) ensuring accountability in relation to harnessing (or failing to manage) climate change, including its associated risks, impacts and opportunities.

- This document sets out ClientEarth's response to CP21/17 and our recommendations on improving climate-related reporting. We believe that our recommendations, if adopted, will:

    - facilitate the timely disclosure of more granular and company-specific information about climate change-related risks, impacts and opportunities for consumers, investors and other stakeholders, which is material to their decision-making[2]; and

    - better enable the FCA to: (i) meet its statutory objectives to make markets function well, protect consumers, enhance the integrity of the financial system and promote competition;[3] and (ii) meet its remit from HM Treasury to take into account the UK's net-zero target[4].

1. Key recommendations

1. Transition plans: While we support the FCA's proposals to require in-scope firms to disclose transition plans, the FCA must specify that transition plans must **at a minimum** be aligned with the temperature goals of the Paris Agreement and the UK Government's emissions reduction commitments, in line with the best available science.

[1] See Scenario SSP1-1 of the sixth assessment report from the Intergovernmental Panel on Climate Change, 'Climate Change 2021: The Physical Science Basis' (9 August 2021).
[2] See, for example, Climate Action 100+'s 2020 Progress Report on investor-engaged focus companies' growing net zero commitments, related IIGCC press release, and most recently the Climate Action 100+ Net–Zero Company Benchmark.
[3] Section 1B(2), Financial Services and Markets Act 2000 (as amended).
[4] HM Treasury, Letter providing recommendations for the FCA (24 March 2021). This is also reflected in the Financial Services Act 2021 and the new section 143G Financial Services and Markets Act 2000 (FSMA) (coming into force from 1 January 2022).

2. Enforcement: The FCA must procure that it is adequately empowered and resourced to hold laggards accountable for failures to satisfy climate change-related reporting obligations, and must commit to taking such action.

3. Scope: The scope of companies to which the new rules should apply must be expanded: (i) the new 'entity-level' disclosures should be a requirement for **all** FCA-regulated firms of all sizes (not just asset managers, life insurers and FCA-regulated pension providers with assets under management ("**AUM**") of £5 billion or over); (ii) the new core metrics in the 'product-level' disclosures should apply to asset managers, life insurers and FCA-regulated pension providers of all sizes (i.e. removing the £5 billion or over AUM threshold); and (iii) the additional metrics in the product-level disclosures should be mandatory for asset managers, life insurers and FCA-regulated pension providers with AUM of £5 billion or over (rather than being on a best efforts basis, as currently proposed).

4. Timing: The FCA's new rules should be introduced for all in-scope companies for periods beginning January 2022 (instead of the FCA's current proposal to extend to some companies only from January 2023).

2. Consultation Question Responses

Q1: Do you agree with our proposed scope of firms, including the £5 billion threshold for asset managers and asset owners? If not, please explain any practical concerns you may have and what scope and threshold would you prefer.

We strongly support the FCA extending climate-related disclosures to asset managers and asset owners. We welcome that the proposed scope (which includes asset owners and asset managers with AUM of £5 billion or over) would capture the majority of AUM by asset owners/managers in the UK (CP21/17 states that it would capture 98%). However, the scope of companies to which the new rules apply should be expanded:

(i) The new TCFD entity report should be a requirement for **all** FCA regulated firms of all sizes; not just asset managers, life insurers and FCA-regulated pension providers with AUM of £5 billion or over.

(ii) The new core metrics in the 'product-level' disclosures should apply to asset managers, life insurers and FCA-regulated pension providers of all sizes (i.e. removing the £5 billion or over AUM threshold).

(iii) The additional metrics in the product-level disclosures should be **mandatory** for asset managers, life insurers and FCA-regulated pension providers with AUM of £5 billion or over (rather than being on a best efforts basis, as currently proposed).

This extension of scope is needed because:

(i) The extension of the TCFD entity report to all FCA-regulated firms would implement climate-related disclosures across the whole financial sector, which would have the following benefits:

   a. The FCA is required under its latest remit from HM Treasury to take into account the UK's net-zero emissions target in the Climate Change Act 2008. Mandatory, transparent climate-related disclosures across the whole financial sector are a necessary first step to achieving the UK's emissions reduction commitments, in line with this remit, by: (i) facilitating the timely reallocation of capital away from carbon-intensive business; and (ii) ensuring accountability in relation to harnessing (or failing to manage) climate change, including its associated risks, impacts and opportunities. The FCA should not miss this opportunity to roll out climate-related disclosures across the whole financial sector.

b. The extension would help to achieve the recommendation by the Advisory Group on Finance for the UK's Climate Change Committee that all financial institutions must make net-zero transition plans (see also our response to Question 5 below in relation to transition plans). There is no time for any delay in the rolling out of climate-related disclosures and transition plans across the financial sector, in light of the need for urgent climate action and emissions reduction in the next decade, as underlined by the 2021 IPCC Report.[5]

c. Current rules are not sufficient to ensure that all banks and insurers provide adequate, detailed and comprehensive climate-related disclosures. The PRA has set expectations that banks and insurers disclose and manage climate-related risks, but those expectations are not binding and, in our view, do not go far enough. For example, they do not expressly require disclosures under all of the TCFD's recommendations and recommended disclosures in its 2017 Final Report[6] (the "**TCFD Recommendations and Recommended Disclosures**"), nor do they require transition plans.[7] Given the urgency outlined above, all FCA-regulated firms – including all banks and insurers – must be expressly required to make detailed climate-related disclosures, in line with the TCFD's Recommendations and Recommended Disclosures and the additional proposals in this consultation response.

(ii) The extension of scope of the core metrics in the product-level disclosures should not place any undue or disproportionate burden on firms. The core metrics are increasingly commonly disclosed, and data and methodologies are sufficiently well advanced that they should be capable of disclosure by all asset owners and asset managers.[8]

(iii) In relation to mandating of additional metrics for larger asset owners and asset managers, we acknowledge that methodologies for some of the additional metrics are less well developed. For example, there is not yet a universally accepted standard model for climate value-at-risk, so the approach can vary between data providers. Whilst methodologies are being developed, the FCA can give some leeway to asset managers and asset owners as to the precise methodologies they use, provided their assumptions and methodologies are reasonable, evidence-based and transparently disclosed. However, the lack of a standard methodology is not a reason for non-disclosure. On the contrary, mandating that large asset managers and

[5] See the IPCC Sixth Assessment Report (2021) and Summary for Policymakers. The IPCC assessed that each 1000 GtCO2 leads to warming of 0.45°C, and that rapid and strong reductions in greenhouse gas emissions (in line with the IPCC's very low emissions scenario SSP1-1) in order to limit warming to 1.5°C by the end of the century.
[6] TCFD, 'Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures' (2017).
[7] See PRA, 'SS3/19: Enhancing banks' and insurers' approaches to managing the financial risks from climate change' (2019).
[8] For example, the TCFD has stated that methodologies are sufficiently advanced such that disclosure of scope 3 emissions is appropriate for all companies. See the TCFD's Consultation on Proposed Guidance on Climate-related Metrics, Targets and Transition Plans (2021).

asset owners disclose the additional metrics (whilst allowing leeway as to the methodologies used) will help promote the development of methodologies and best practice.

(iv) The above extensions of scope would be proportionate. The costs to firms of extending the scope would be minimal, as evidenced by the FCA's own cost/benefit analysis.[9] That cost/benefit analysis not only makes a clear case for including asset managers/owners with £5 billion or over AUM within scope of the rules, but also demonstrates that the cost to smaller asset managers/owners below that threshold would be proportionate. In addition, the TCFD Recommendations and Recommended Disclosures (which the FCA proposes to incorporate in the entity-level disclosures) are sufficiently flexible to allow companies to make disclosures that are appropriate to their size and circumstances. Finally, data and methodologies for the preparation of climate-related disclosures, while not perfect, have now advanced significantly, and can be further refined through common use.[10]

Q2: Do you agree with our proposed scope of products? If not, what types of products should, or should not, be in scope and why?

As set out in our response to Question 1, we propose that all FCA-regulated firms should be required to issue a TCFD entity report. In line with this, we propose that the TCFD entity report should cover all FCA-regulated activities conducted by the firm (rather than the FCA's proposal to include only certain assets managed or administered by the firm). This is because:

(i) Transparent, comparable climate-related disclosures are increasingly of interest to wider consumers and firms (not solely those investing assets), who wish to ensure that they deal with environmentally and socially responsible businesses.[11] The FCA should actively help consumers obtain information to allow them to do so. In addition, mandating detailed climate-related disclosures across firms' entire business would reduce the risk of greenwash.

(ii) Expanding climate-related disclosures to all firms' FCA-regulated business would give a better picture to investors of firms' overall resilience to climate-related risks.

(iii) As noted in relation to Question 1 above, disclosure of such information is a necessary first step towards meeting the UK's emissions reduction target and the FCA's remit in respect of climate change.

Q3: Do you agree with our phased implementation and timings? If not, what approach and timings would you suggest and why?

The 2021 IPCC Report underlines the urgency with which action to reduce emissions is required, in order to meet its very low emissions scenario.[12] Mandatory, transparent climate-related disclosures are a necessary first step to achieving such reductions, by: (i) facilitating the timely reallocation of capital away

[9] The FCA has acknowledged that for its own proposals, "*the estimated costs of compliance are small relative to total assets under management of in-scope asset managers and asset owners. Total one-off and ongoing costs represent 0.002% and 0.001% of total assets under management for asset managers and asset owners, respectively*" – see paragraphs 2.7 and 45 of Annex 2 ('Costs benefit analysis') at pages 50 and 58, CP21/17 (FCA, 22 July 2021).
[10] 'Uncertainty Is Not an Excuse. Integrating Climate Risks into Monetary Policy Operations and Financial Supervision' (SUERF Policy Briefs No 72, April 2021).
[11] See for example ICM Unlimited 'Barclays and HSBC Fossil Fuels Research' (2021) and summary.
[12] Scenario SSP1-1.

from carbon-intensive business; and (ii) ensuring accountability in relation to harnessing (or failing to manage) climate change, including its associated risks, impacts and opportunities.

In view of this urgency, the FCA's new rules should be introduced for all in-scope companies for periods beginning January 2022 (instead of the FCA's current proposal to extend the rules to some companies only from a second phase commencing in January 2023). This would require companies to start publishing information by 30 June 2023. While ambitious, we consider this timeframe is realistic and proportionate given advancements in data and methodologies, which can be further refined through common use. The TCFD Recommendations and Recommended Disclosures were issued in 2017 and have been widely adopted as the baseline industry standard for climate-related information, so firms should by now be familiar with the concept of climate risk and TCFD disclosures. Indeed, to the extent firms are able to provide TCFD-aligned disclosure in advance of this date, the FCA should encourage them to do so.

Q4: Would there be significant challenges in using proxy data or assumptions to address data gaps? If so, please describe the key challenges and implications as well as any preferred alternative approach.

We have no comments in relation to this question.

Q5: Do you agree with our proposals for the provision of a TCFD entity report, including the flexibility to cross-refer to other reports? If not, what alternative approach would you prefer and why?

We welcome the introduction of TCFD entity reports. However, as set out below, we would urge the FCA to add further requirements in relation to the disclosure of: (i) transition plans which are specifically aligned with the goals of the Paris Agreement ("**Paris Goals**")[13] and UK emissions reduction commitments; and (ii) the emissions of investee companies. In addition, in order for those transition plans to be effective and credible, they must be reflected in the organisation's financial accounts (for example, in asset valuation and/or impairments).

Paris-aligned transition plans

The FCA's proposals would require all in-scope firms to disclose transition plans in their TCFD entity reports, by virtue of incorporating the TCFD's upcoming revised guidance on metrics, targets and transition plans (the "**TCFD Proposed Guidance**").[14] While we support this introduction of a requirement to disclose transition plans, we would urge the FCA to go further than the TCFD Proposed Guidance and specify detail on their content.

Transition plans must be aligned with limiting warming to 1.5°C above pre-industrial levels (in line with the best available science). **At a minimum,** this must include:

[13] In particular, Article 2.1a of the Paris Agreement under the United Nations Framework Convention on Climate Change sets the goal of *"Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above preindustrial levels"* and Article 2.1.c sets the goal of *"Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development"*.

[14] Which was set out in draft in the TCFD's Consultation on Proposed Guidance on Climate-related Metrics, Targets and Transition Plans (2021). The revised guidance on transition plans states: *"An organization should release a transition plan component of its strategy if an organization determines it has material climate-related transition risks, including if it operates in a jurisdiction with an emissions reduction commitment, has made an emissions reduction commitment, or seeks to meet emissions reduction expectations from financial market participants"*.

(i) Emissions reduction targets (covering scopes 1-3)[15] that are aligned with the UK Government's commitment to achieve net-zero emissions by 2050 and to reduce emissions by 68% and 78% (compared to 1990 levels) by 2030 and 2035 respectively,[16] and with the sectoral emissions reductions under the balanced net-zero pathway in the Climate Change Committee's Sixth Carbon Budget.[17]

(i) A credible, science-based strategy for meeting emissions reduction targets. In order to be credible, the strategy must not unreasonably rely on unproven or un-costed emissions reduction technology, and should only rely on carbon offsets in relation to residual emissions, which it is not technologically feasible to eliminate.[18]

(ii) Short-term (e.g. 2 to 5 year) and medium-term (e.g. 6 to 10 year) interim emissions reduction targets.

(iii) Plans covering all aspects of their business, including capital expenditure plans.[19]

(iv) A description of the firm's strategy for shareholder engagement and/or divestment in relation to relevant carbon-intensive sectors.

(v) The company's underlying methodologies for setting targets and measuring progress (including detailing any material assumptions and uncertainties in those methodologies).

In addition, the disclosures on governance should allocate responsibility for implementing the transition strategy to specific individuals within the company, and set out a remuneration policy that incentivises senior managers to implement the company's transition strategy and to meet the targets.

All firms should be required to adopt transition plans containing the above emissions reduction targets. Any firms that fail to set such targets (in breach of the rules) should be liable to potential enforcement action for non-compliance with these requirements.

A mandate that all firms specifically target such emissions reductions is necessary because:

(i) Firms must align with national emissions reduction commitments, in order to mitigate transition risks in an effective and orderly manner (including the burden of responding to further regulatory and legal step changes to achieve the IPCC's very low emissions scenario, which we consider is inevitable in circumstances where the UK Government's roadmap for climate related disclosures[20] is currently out of step with that scenario).

(ii) The urgency of the climate emergency and escalating government action mean that investor information needs and company disclosures have evolved beyond the TCFD framework's focus on risks and opportunities towards disclosure of alignment with Paris Goals.[21] Investors are

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[15] For the avoidance of doubt, this should include scopes 1-3 of investee company emissions, as well as the disclosing company's own scopes 1-3 emissions.
[16] The Government's 'UK Nationally Determined Contribution' (2020) commits to reduce emissions by 68% (compared to 1990 levels) by 2030, and the Carbon Budget Order 2021 implies a 78% reduction in emissions (compared to 1990 levels) by 2035.
[17] The Climate Change Committee, 'The Sixth Carbon Budget: The UK's Path to Net-Zero' (2021).
[18] For more information on issues with carbon offsets, see ClientEarth's response to the TCFD's consultation proposed guidance on metrics, targets and transition plans (2021) at paragraph 8 onwards.
[19] See the Climate Action 100+ Net-Zero Company Benchmark (2021) at Disclosure Indicator 6.
[20] A Roadmap towards mandatory climate-related disclosures (2020).
[21] For example, see Climate Action 100+, 'Net-Zero Company Benchmark' (2020); Transition Pathway Initiative, 'TPI State of Transition Report 2021' (2021); ISS, 'Climate & Voting – 2020 Review and Global Trends' (2021). The

demanding information about firms' strategic alignment with Paris Goals,[22] and are clear that such information is material to their investment and stewardship decision-making.[23] In addition, the increasing number of industry and company-led initiatives demonstrates that expectations regarding climate-related disclosures have shifted towards Paris-alignment (see for example the Glasgow Financial Alliance for Net-Zero, Net-Zero Asset Owner Alliance, Net-Zero Asset Managers Initiative, Net-Zero Insurance Alliance, Principles for Responsible Banking and Science Based Targets Initiative).[24] Failure to reflect this reality in the new disclosure obligations will cause confusion for companies and undermine investor efforts to secure material information to guide their decision-making.

(iii) The FCA must ensure the new rules incentivise firms to reduce emissions in line with the UK Government's emissions reduction commitments, in order to meet its new remit from HM Treasury on climate change. Requiring firms to disclose and manage their own financial risks is not sufficient to incentivise them to meet these emissions reduction commitments, and will not effectively mitigate systemic climate risks (i.e. risks that climate change poses to the stability of the economy and financial sector as a whole). Instead, it is necessary to mandate that firms specifically target net-zero emissions, as the UK's Climate Change Committee has recommended.[25] Given the UK Government's emissions reduction commitments and the FCA's remit, as well as the urgency of the climate crisis, the FCA must go beyond the TCFD's current position on transition plans (and similarly cannot wait for any standards on disclosure of transition plans from the International Sustainability Standards Board).

(iv) Failure to introduce requirements to disclose Paris-aligned transition plans will create costly inconsistency with new EU requirements, which will require such disclosures.[26]

(v) It is clear, in light of the TCFD Proposed Guidance, that the direction of travel is for all companies to be disclosing Paris-aligned transition plans. The UK has a timely opportunity to take the lead on mandating this and in setting the standards for credible and effective transition plans.

(vi) While currently there are a wide variety of frameworks and methodologies being used by companies in order to set Paris-alignment or net-zero targets, the lack of a single market

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TCFD states in its Consultation on Proposed Guidance on Climate-related Metrics, Targets and Transition Plans (2021) that: *"Since the publication of the IPCC special report, the concept of net-zero targets has entered mainstream corporate and political debate, with many leading companies, financial institutions, and a growing number of governments setting net-zero targets for mid-century."*

[22] For example, see Larry Fink's 2021 letter to CEOs which states *"we are asking companies to disclose a plan for how their business model will be compatible with a net zero economy"*; UNFCCC, 'Race to Zero' (2020); UNEPFI, 'Net-Zero Asset Owner Alliance'; Sarasin & Partners, 'Paris-aligned accounting is vital to deliver climate promises' (2020); Carbon Tracker, 'When Capex met climate'. Climate Action 100+, 'Net-Zero Company Benchmark' (2020).

[23] For example, see Climate Action 100+; S&P Global, 'BlackRock voted against management at 53 companies over climate concerns' (2020); Nest, 'Nest going net-zero to support green recovery' (2020). The Institutional Investors Group on Climate Change has 250 members across 16 countries with over €33 trillion in assets under management.

[24] See: Science Based Targets Initiative; the UN's Net Zero Asset Owner Alliance, Net Zero Insurance Alliance and the Principles for Responsible Banking; the Net-Zero Asset Managers Initiative; and press release, 'New Financial Alliance for Net Zero Emissions Launches' (UNCC, 21 April 2021).

[25] For example, the Advisory Group on Finance for the UK's Climate Change Committee recommended in 'The road to Net-Zero Finance' (2020) that the UK must mandate that financial institutions make net-zero plans, rather than solely seek to mitigate financial risks.

[26] See European Commission, Proposal for a Directive amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting (2021).

standard should not be used as an excuse for inaction. Numerous initiatives are now underway to standardise and consolidate the different approaches being used, and Climate Action 100+ (representing $54 trillion investments) has issued a Net-Zero Company Benchmark,[27] which provides a framework to assess companies' climate strategies. In addition, we recognise that data on climate risks in respect of certain asset classes (for example, private equity) is less well developed. In the interim, some flexibility can be permitted to allow issuers to select the most appropriate approach for their business, as long as assumptions are reasonable, evidence-based and transparently disclosed. ClientEarth's 2020 Position Paper on Principles for Paris-alignment provides an example of a flexible and principles-based form of disclosure obligation which could be adopted, while standards and methodologies continue to develop.[28]

Paris-aligned accounts

Firms need to accurately reflect climate-related risks and opportunities in their financial accounts (for example, reflecting climate-related asset impairments), in order to set and implement credible transition plans and provide investors with decision-useful information. The accounts need to reflect the firm's transition plan and narrative climate-related disclosures, as well as the impact that the upcoming transition of the wider economy (in line with UK emissions reduction commitments and Paris Goals) will have on the firm. All climate-related assumptions used need to be clearly disclosed, so they can be assessed. In addition, investors have made clear that they expect auditors to test that climate factors are properly reflected in Paris-aligned accounts (see the Institutional Investor Group on Climate Change's ("**IIGCC**") expectations for Paris-aligned accounts).[29]

We therefore call on the FCA to encourage in-scope firms to align their financial statements with their own transition plan and climate-related narrative disclosures, as well as with Paris Goals and the UK's emissions reduction commitments. Where appropriate, the FCA should work with the FRC[30] to ensure that firms, and their auditors, comply in full with their legal duties in relation to climate change-related reporting, and test their accounts against Paris-aligned assumptions and estimates. In our view, this would necessarily include the FRC and/or the new regulator, the Audit, Reporting and Governance Authority (once established ("**ARGA**")), taking steps to ensure that auditors test accounts against Paris-aligned assumptions and estimates (and the auditors must flag to shareholders where any assumptions fall short). The IIGCC's expectations for Paris-aligned accounts could serve as a basis for the FCA or FRC to produce their own guidance on the issue.

Investee company emissions

The FCA's proposed product-level core-metrics would require the disclosure of investee companies' scopes 1-3 emissions, as well as total carbon emissions, total carbon footprint and weighted average carbon intensity. For the avoidance of doubt, the FCA should also specify that the entity-level report should provide this information for the firm's overall investment portfolio.

[27] See the Climate Action 100+ Net-Zero Company Benchmark (2021).
[28] ClientEarth, 'Position Paper on Principles for Paris-alignment' (2020)..
[29] IIGCC, 'Investor expectations for Paris-aligned accounts' (2020).
[30] We refer you to the Memorandum of Understanding in place between the FRC and the FCA, dated 20 December 2017, in particular clauses 5 (the commitment to pursue its aims and purposes in good faith, and intent to act in accordance with its terms), 13 (Information-sharing), 25 (Co-operation), and 30(c) (Cooperation in Monitoring and Supervision concerning the behaviour and performance of accounting, actuarial, and auditing professionals).

Q6: Do you agree with our proposed approach to governance, strategy and risk management, including scenario analysis? If not, what alternative approach would you prefer and why?

We agree with the FCA's proposal to require disclosures in line with the governance, strategy and risk management recommendations in the TCFD Recommendations and Recommended Disclosures in the TCFD entity report and in the product-level disclosures (subject to the additional proposals in this consultation response, including in relation to Paris-aligned transition plans).

In relation to scenario analysis:

(i) The 'hothouse world' scenario should be specified to assume warming of at least 3°C by the end of the century or in line with the IPCC's scenario SSP3-7.0 in the 2021 IPCC report. The FCA's current proposal to *"assume only currently implemented policies are preserved, current commitments are not met and emissions continue to rise"* does not give a clear enough steer to firms on the level of warming that should be assumed.

(ii) In line with the TCFD Recommendations and Recommended Disclosures in relation to strategy, firms should be required to undertake climate-related scenario analysis in the TCFD entity report in relation to their overall strategy and business model, including quantitative analysis. The FCA's current proposals do not expressly require firms to undertake any overall scenario analysis in their TCFD report. Mandating such scenario analysis will help ensure firms take into account climate-related risks and set more robust strategies that account for a wider range of uncertain future conditions, and will also be useful for investors in assessing the resilience and robustness of firms' strategies.

Q7: Do you agree that firms not yet setting climate-related targets must explain why not? If not, what alternative approach would you prefer and why?

Targets

As set out above in relation to Question 5, all firms should be required to set emissions reduction targets (including a strategy for shareholder engagement and stewardship); the option of explaining why they have not set targets should not be available. Any firms that fail to set such targets (which should itself constitute a breach of the rules) should be liable to potential enforcement action for non-compliance with these requirements.

Enforcement

The FCA must close the accountability gap on climate-related reporting. Currently, it is failing to ensure the requisite degree of accountability that investors and other stakeholders need and are entitled to expect[31].

Specifically, the FCA must: (i) procure that it is adequately empowered and resourced to hold laggards accountable for failures to satisfy climate change-related reporting obligations – both those existing and to be implemented – via robust, consistent, and timely enforcement action; and (ii) commit to taking such action where companies fail to meet their obligations.

Without sufficient action to ensure regulated firms are held accountable for complying with the rules, the FCA will fail to fulfil its new remit on climate change (to have regard to the UK Government's commitment

[31] See ClientEarth's recent letter to the FCA, 'Climate change and corporate reporting: the role of the FCA' (18 August 2021).

to achieve a net-zero economy by 2050 when considering how to advance its objectives and discharge its functions[32]). If the FCA does not secure compliance, it risks being ignored by those it regulates; its inaction to date already poses a direct threat to market function, consumer protection, and the integrity of the UK's financial markets.

Q8: Do you agree with our proposals for AFMs that delegate investment management services to third-party portfolio managers? If not, what alternative approach would you prefer and why?

We have no comments in relation to this question.

Q9: Do you agree with our proposals for asset owners to cross-refer to group-level, third-party or delegate reports, where relevant? If not, what alternative approach would you prefer and why?

While we welcome the FCA's proposal that any such cross-referencing should be in a 'prominent place' on firms' main websites, the FCA must ensure it has in place proper monitoring and oversight capacity to ensure that reports asset owners rely upon from group-level, third-party or delegate reports are: (i) in fact, clear and easily accessible and comprehensible; and (ii) compliant for the purposes of the UK legal and regulatory regime, and provide the granularity of detail that users of the information need to be able to properly understand, compare, and assess the relevant climate-related risks and impacts to the business in question. Furthermore, firms should be expressly required to ensure that any cross-referenced disclosure remains clear and readily comprehensible.

Q10: Do you agree with our proposed requirements for product or portfolio-level disclosures, including the provision of data on underlying holdings and climate-related data to clients on demand? If not, what alternative approach would you prefer and why?

We have no comments in relation to this question.

Q11: Do you agree with the list of core metrics, including the timeframes for disclosure? If not, what alternative metrics and timeframes would you prefer and why?

We strongly support the FCA's proposal to mandate product-level disclosures, and welcome that the UK is leading on this issue. We agree that in-scope firms should be required to disclose under each item of the FCA's proposed list of core metrics. In addition, the existing list of core metrics should be supplemented by the cross-industry, climate-related metrics in the TCFD Proposed Guidance, which are:

(i) Carbon price(s) (external and shadow/internal).

(ii) Proportion of assets and/or operating, investing, or financing activities materially exposed to physical risks, based on key categories of commonly accepted risks.

(iii) Proportion of assets and/or operating, investing, or financing activities materially exposed to transition risks, based on key categories of commonly accepted risks.

(iv) Proportion of assets and/or operating, investing, or financing activities aligned toward climate-related opportunities, based on key categories of commonly accepted opportunities.

(v) Amount of senior management remuneration impacted by climate considerations.

(vi) Amount of expenditure or capital investment deployed toward climate risks and opportunities.

[32] HM Treasury, Letter providing recommendations to the FCA (24 March 2021).

Mandating the disclosure of the above metrics will: (i) provide important information on many basic aspects and drivers of climate-related risks and opportunities; and (ii) contribute to the availability of standardised, comparable climate-related metrics (in view of the fact that the TCFD is proposing that all organisations disclose these metrics).

We note that CP21.17 proposes that firms should have regard to the TCFD Proposed Guidance as relevant in their product-level disclosures, but does not expressly provide that the firms should disclose under the above metrics set out in that TCFD Proposed Guidance.

See Question 3 above in relation to timeframes.

Q12: Do you agree that firms should calculate metrics marked with an asterisk according to both formulas set out in columns A and B of Appendix 3? If not, please explain why, including any challenges in reporting in accordance with either or both regimes.

We have no comments in relation to this question.

Q13: Do you agree that, subject to the final TCFD guidance being broadly consistent with that proposed in the current consultation, our proposed rules and guidance should refer to:

a. The TCFD Final Report and TCFD Annex in their updated versions, once finalised

b. The TCFD's proposed guidance on metrics, targets and transition plans and the proposed technical supplement on measuring portfolio alignment

If not, what other approach would you prefer and why?

We agree that the proposed rules and guidance should incorporate the TCFD Final Report and TCFD Annex in their updated versions, and the TCFD Proposed Guidance and the proposed technical supplement on measuring portfolio alignment. However, there are some areas where the FCA needs to go further than the TCFD Recommendations and Recommended Disclosures and accompanying guidance, as set out in this consultation response. In particular, see our response to Question 5 above in relation to Paris-aligned business plans. Further detail on our position on the TCFD Proposed Guidance can be found in our response to the TCFD's consultation.[33]

Q14: Do you agree with our approach to additional metrics and targets? If not, what alternatives would you suggest and why?

See our response to Question 1 above, which states that the additional metrics should be mandatory for asset managers, life insurers and FCA regulated pension providers with AUM of £5 billion or over (rather than being on a 'best efforts' basis).

Q15: Do you agree with our approach to governance, strategy and risk management, including scenario analysis at product or portfolio-level? If not, what alternative approach would you prefer and why?

As set out in our response to Question 6 above, the FCA should: (i) require firms to undertake entity-level scenario analysis; and (ii) provide more detail on the content of the assumptions in the hothouse world scenario.

[33] ClientEarth, Response to TCFD consultation on metrics, targets and transition plans (2021).

Q16: What form(s) could quantitative scenario analysis outputs at product or portfolio-level take? What do you consider the cost and feasibility of producing such outputs might be? How useful would such outputs be for users' decision-making?

We have no comments in relation to this question.

Q17: Do you agree with our proposed approach that would require certain firms to provide product or portfolio level information to clients on request? If not, what approach and what types of clients would you prefer and why?

We have no comments in relation to this question.

Q18: Do you agree with our proposed approach for life insurers when mirroring an external asset manager's strategy? If not, what alternative approach would you prefer and why?

We have no comments in relation to this question.

Q19: Do you agree with our specific proposals for asset owners, including the proposed threshold to exclude the smallest default schemes? If not, what alternatives would you prefer and why?

We have no comments in relation to this question.

Q20: Do you agree with the analysis in our CBA? If not, we welcome feedback in relation to the one-off and ongoing costs you expect to incur and the potential benefits you envisage. Contextual information about your firm's size and structure would be helpful

We have no comments in relation to this question.

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