

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

ICAS Response

5 May 2021



Introduction

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

Our CA qualification is internationally recognised and respected. We are a professional body of almost 23,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practices, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK's, and the world's, great companies.

Our Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Any enquiries should be addressed to Anne Adrain, Head of Sustainability and Reporting
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General comments

ICAS welcomes the proposals issued by the Department of Business, Energy & Industrial Strategy (BEIS) to make climate-related financial disclosures mandatory for publicly quoted companies, large private companies and LLPs. These proposals are a key part of the UK Government's Green Finance Strategy and will help the UK to meet its commitment to the Paris Agreement on climate change.

Whilst we are supportive of the overall direction, we have highlighted in our responses to the specific questions some areas for further consideration. The most significant of these areas relates to the need for the UK Government to be aligned with other UK and global developments in non-financial and sustainability reporting.

Our responses to the specific questions in the consultation document are listed below.

Specific questions

Question 1

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

Response 1

We have some concerns around the introduction of a new threshold whereby climate-related financial disclosures would become mandatory adding further complexity within the non-financial reporting environment. We would therefore encourage, in due course, a fundamental review of existing thresholds to seek, where possible, the adoption of a consistent approach that is aligned with the finalised proposals of the BEIS consultation 'Restoring trust in audit and corporate governance' in relation to the definition of a public interest entity (PIE). These propose to include certain large private companies within the definition of a PIE.

In the interim, we support that mandatory climate-related financial disclosures will apply to large private companies and LLPs as proposed in the consultation. The emissions generated by such organisations may be significant, therefore, there is a need for them to measure, manage and report the climate-related impacts of their activities and operations if we are to realistically meet our ambitious targets under the Paris Agreement.

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)?

Response 2

We have no views or comments in relation to this proposal.

Question 3

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

Response 3

We agree with this proposal as an appropriate approach.

Question 4

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

Response 4

The Strategic Report would appear to be the best place for disclosures of this nature. However, we would suggest that it would be helpful if all climate-related information, including that required under Streamlined Energy and Carbon Reporting (SECR), was located in the same place within the annual report. However, as stated in our response to question 17, there is a need to also consider the financial implications of climate change therefore the potential impact on the financial statements should not be overlooked.

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?

Response 5

At present, an LLP is only required to produce a strategic report if it is a traded LLP or a banking LLP, although any LLP can of course choose to voluntarily produce a strategic report. As a result, both options may be necessary whereby the disclosures are included in the Strategic Report, if one is required or produced, otherwise they would be located in the SECR. However, we recognise that there may be some value in having a consistent approach for all LLPs by requiring that the disclosures always appear in the same place, in which case the best option, as an interim solution, would be for them to appear in the SECR. However, as stated in our response to question 4, it would be helpful if, in time, all climate-related information could be located in the same place.

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?

Response 6

We agree that this is an appropriate and proportionate approach but would suggest that the requirements and accompanying guidance should provide companies with the freedom to report against the 11 disclosure recommendations if the information is material.

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?

Response 7

We have no comments on this question.

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?

Response 8

We recognise that scenario analysis is one of the most challenging areas of the TCFD recommendations and therefore agree with the proposal. However, we would emphasise that a plan needs to be in place to enable organisations to acquire and obtain the necessary skills and expertise to perform scenario analysis on a range of different outcomes, and their financial implications, to meet the commitment in the Paris Agreement to maintain global temperature increases below 2°C, aiming for 1.5°C.

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?

Response 9

We believe that it would be beneficial to align 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. We would however emphasise our response to question 11 below, regarding the timetable for these regulations coming into force.

On the continuation of voluntary scope 3 emissions reporting, we are supportive of the continued voluntary approach in the short-term but would recommend a future ambition to include scope 3 emissions within the information disclosed.

Question 10

Do you have comments on the proposed qualification to a company's duty to make climate-related financial disclosures for companies?

Response 10

We believe this to be a sensible approach but the challenge here will be determining what is material in the context of climate-related disclosures both in terms of the impact on the organisation and the impact of the organisation.

Question 11

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

Response 11

Whilst we are supportive of the proposed timetable, we would highlight the need to allow sufficient time for those organisations who do not yet have the systems and processes in place to collect the information required. Particularly, if comparative information is expected to be included. That would mean that organisations would need to start gathering this information for accounting periods commencing on or after 6 April 2021, i.e. now.

Question 12

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

Response 12

We do not have any comments on this question.

Question 13

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

Response 13

We do not have any comments on this question.

Question 14

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

Response 14

Whilst we acknowledge that there is no intention for the government to alter the auditor's role in relation to climate-related financial disclosures, this is an area which is likely to evolve as a result of the BEIS consultation on 'Restoring trust in audit and corporate governance'.

We would also encourage the government to ensure that the UK proposals are in line with those emerging globally, most recently within the European Commission proposals to revise the Non-financial Reporting Directive (NFRD) with a new Corporate Sustainability Reporting Directive (CSRD). Under the proposed CSRD, assurance would become mandatory, initially at a limited assurance level, for those organisations in scope, with a move to reasonable assurance over time. It is important that the UK remains aligned with other jurisdictions with regard to assurance over this information.

We also believe that the provision of assurance would introduce some credibility and reliability over the climate-related financial disclosures and therefore would be supportive of the provision of assurance over this information.

Question 15

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

Response 15

We do not have any comments on this question.

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? (see 8.1 above)

Response 16

We do not have any comments on this question.

Question 17

Do you have any further comments about our proposals?

Response 17

Whilst we agree that mandatory climate-related financial disclosures aligned with the TCFD recommendations are key to tackling the issue of climate change, these disclosures alone may not necessarily be sufficient, in our view, to drive the systemic and behavioural change needed to meet the ambitions and targets within the Paris Agreement. As such, we would emphasise that these disclosures should be required not only in the strategic report but their potential impact on the financial statements should also be considered. An article produced by International Accounting Standards Board (IASB) member Nick Anderson in 2019 highlighted some of these potential impacts <https://www.ifrs.org/news-and-events/news/2019/11/nick-anderson-ifrs-standards-and-climate-related-disclosures/>

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