

October 11, 2023

The Financial Reporting Council
125 London Wall
Barbican
London

RE: UK endorsement of IFRS S1 and S2: Call for Evidence

To whom it may concern,

The American Property Casualty Insurance Association (“APCIA”) appreciates the opportunity to comment on the *UK endorsement of IFRS S1 and S2: Call for Evidence*. APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe. A number of our members have operations or interests in the UK and are directly impacted by climate disclosure requirements implemented in the UK. APCIA is submitting this comment letter in an effort to provide recommendations focused on the feasibility in the application of IFRS S1 and S2. We have focused on our significant concerns with Scope 3 emissions reporting. This call for evidence “seeks views on whether application of these standards in a UK context will result in disclosures that are understandable, relevant, reliable and comparable for investors. It also considers technical feasibility, timeliness alongside financial reporting, and proportionality of costs to benefits.” We suggest that at the present time Scope 3 emissions reporting for property casualty insurers is not technically feasible given the problems described below.

We also note that Interoperability with standards in other jurisdictions, such as the U.S. Securities and Exchange Commission proposed rule on climate related disclosures, is critical to allow for comparability across jurisdictions, and to ensure that information provided to investors and other stakeholders is meaningful and decision useful. APCIA has filed comprehensive [comments](#) in response to the SEC proposed rule that further elaborate on our concerns with Scope 3 emissions reporting.

Concerns with GHG Scope 3 Emissions Reporting

Disclosures of Scope 3 emissions should not be required at this time. Scope 3 emissions disclosure standards, definitions, and techniques are still evolving. Disclosing Scope 3 emissions presents significant challenges to a property casualty insurance company.

A significant concern for insurers is the difficulty of avoiding double-counting of Scope 3 emissions. Many insurers deal with business partners in multiple upstream and downstream activities. For example, an insurance company (Company A) may cede or reinsure some of its risks to a reinsurer that is a division of another insurance company (Company B) where both Company A and Company B write or assume risks from the same energy sector company. Company A may provide claim adjudication services that Company B uses to administer its auto insurance claims. Company A may also hold an investment in common equity of Company B within its available-for-sale investment portfolio. With these inter-relationships, it would be difficult to avoid double-counting of GHG emissions. Furthermore, estimating the effect of double-counting is unduly burdensome as it would require a full understanding of the relationships that each third party has with other third parties of the registrant, information the registrant is not privy to. The double-counting could render the disclosure meaningless to investors or potentially misleading.

The greenhouse gas (GHG) emissions data for the vast majority of a typical property and casualty insurance company's underwriting portfolio, and the substantial majority of a typical property and casualty insurance company's investment portfolio, is not readily available and, where it is available, the data quality remains uneven.

With regard to calculating Scope 3 GHG emissions related to a property and casualty insurance company's investment portfolio, there are significant challenges in determining how to attribute companies' GHG emissions to owned investments. In making such a determination, it is important to distinguish between an accounting-based approach and a risk-based approach. The accounting-based approach commonly attributes an investee company's GHG emissions to the investor based on the investor's total investment (debt and equity investment) divided by a measure of the investee company's enterprise value. While this approach might seem straightforward, it does not differentiate between the relative riskiness of potential transition costs associated with a company's GHG emissions borne by debt versus equity holders. We also note that Scope 3 reporting by investees is plagued with data quality issues.

The data shortcomings described above related to calculating GHG emissions associated with a property and casualty insurance company's underwriting portfolio are exacerbated by significant challenges in determining how to allocate companies' GHG emissions among the many lines of insurance coverage an individual or company may purchase. Most commercial insurance customers purchase multiple lines of coverage, including, for example, general liability, commercial auto, workers compensation, umbrella, professional liability, cyber and employment practices liability coverages.

Even small businesses tend to purchase 5 or more lines of coverage, and middle market customers sometimes purchase 10 or more lines. These lines of coverage are often purchased from several different insurance companies. Further complicating this, many large customers have multiple insurers providing the same line of coverage in

order to assemble the desired total limits. In both of these situations, it is unclear to what extent a commercial customer's GHG emissions should be attributable to each of its many insurers. Further complicating the allocation challenge is that primary insurance carriers often reinsure a portion of their underwriting portfolio, and there is no established or credible methodology to allocate the GHG emissions among the primary insurance carriers and the reinsurers. For all of these reasons, at this time, most, if not all, property and casualty insurers cannot accurately calculate the total emissions of their overall underwriting portfolio. Until a mechanism is developed that can deal with these shortcomings underwriting portfolio Scope 3 emission reporting should not be required.

Conclusion

APCIA urges a delay in Scope 3 emissions reporting until these concerns are addressed. Thank you for considering the topics addressed in this letter, and please do not hesitate to contact us if you have any questions.

Sincerely,

The APCIA