

FRC responses to the Task Force on Climate-related Financial Disclosures report consultation questions

Q4a & 4b. If organizations disclose the recommended information (or information consistent with the Task Force's recommendations), how useful will that information be to your organization in making decisions (e.g., investment, lending, and insurance underwriting decisions)?

The FRC supports the publication of the FSB Task Force on Climate-Related financial disclosures as a stimulus to develop thinking and practice in this area. We agree that climate change is an area that boards need to consider when identifying the principal risks and uncertainties facing the company, when disclosing information about environmental matters (including the impact of a company's business on the environment) and when describing the company's strategy. We also agree that information on climate change is important for investors when making investment decisions and support clear and concise disclosures of climate risk for those entities where the impact is material.

However, we are concerned that the size, complexity and detail of the recommendations may impair their usefulness. There are risks that, on the one hand, some companies will be dissuaded from engaging because they consider the recommendations to be too onerous or, on the other hand, the recommendations will lead to disproportionate focus on one risk, irrespective of its specific impact on a company or the other potentially more immediate and significant risks it faces.

It is not clear to us that climate change is a principal risk for all companies, and therefore we believe that the disclosures described in the recommendations may not be relevant for all companies. We believe that it is for a board to determine the extent of the disclosures required in the annual report given its assessment of the risk posed by climate change.

The intended audience of such reports will also be set by the reporting framework – it is not appropriate for the recommendations to assume an extension of these user groups. In particular, insurance underwriters are not appropriate targets for general purpose financial information and reporting.

Where climate change is considered by a board to be a principal risk, the UK Companies Act requires information on that risk, and the impact of the company's business on the environment, to be disclosed in the strategic report. We support the publication of the Task Force's recommendations as a tool to help companies identify the most appropriate disclosures for it to make, however we believe that a list of suggested disclosures may risk companies adopting a checklist mentality and boilerplate approach.

The annual report of a company must be fair, balanced and understandable. The FRC supports and increase in the disclosure by companies of climate change matters where that information is material however, we have concerns that disclosures at the level envisaged by the Task Force could lead to a lack of balance and understandability in a company's annual report. Accordingly, we encourage the Task Force to also consider other reporting mechanisms outside of the annual report to implement the more detailed disclosures.

Q6 & 7. The Task Force recommends organizations describe how their strategies are likely to perform under various climate-related scenarios, including a 2°C scenario (see page 16 of the TCFD report). How useful is a description of potential performance across a range of scenarios to understanding climate-related impacts on an organization’s businesses, strategy, and financial planning?

We are concerned that the recommendations may be seen as setting detailed scenario analysis as a base requirement for all companies irrespective of their size, complexity and resources or the extent to which climate related risks are important.

Such analysis could be helpful where it is proportionate. In practice, scenario analysis is most likely to provide useful information on the range of possible outcomes (for both external reporting and internal governance purposes) when utilised by more complex businesses that are particularly sensitive to climate change and have the resources to model various possibilities in a meaningful way.

The recommendations should explicitly recognise this so companies can do what is relevant to them, rather than being dissuaded from engagement.

In relation to disclosures in a company’s annual report, we emphasise the importance of applying a materiality filter to such disclosures. However, as noted above, this does not preclude the disclosure of additional material through alternative mechanisms.

We believe that it is important that the Task Force’s final report emphasises that its recommendations are aspirational and are expected to stimulate incremental improvement. The availability of reliable inputs to models and the robustness of modelling techniques are expected to develop over time, leading to an increase in the disclosure of meaningful and useful information.

Q8 & 9. The Task Force recognizes that there are challenges around disclosing sufficient information to allow a better understanding of the robustness of an organization’s strategy and financial plans under different plausible climate-related scenarios. Some challenges may arise from unfamiliarity with scenario methodologies and metrics, insufficient practice standards or cost. What do you view as effective measures to address potential challenges around conducting scenario analysis and disclosing the recommended information?

Many companies currently lack the expertise and resources to be able to collect the data and develop the models envisaged by the Task Force. The development of methodologies by experts in the field will help companies to begin the process of providing meaningful analysis and, over time, this should lead to the development of best practices.

We believe that this process of incremental improvement is more likely to be a success if companies and investors work together with climate-change experts. This will ensure that that expectations are proportionate, achievable and meet investors’ needs. We believe that a collaborative approach is likely to be more effective than standard-setters attempting to establish restrictive practice standards or rules.

Given that the recommendations are voluntary and practice is expected to develop over time, a particular specified time period for implementation should not be necessary. However, the Task Force can play an important educational role, providing support and advice and sharing insights through practical examples and case studies.

Q10a The Task Force is recommending that organizations disclose the metrics they use to assess climate-related risks and opportunities in line with their strategy and risk management process. For certain sectors, the report provides some illustrative examples of metrics to help organizations consider the types of metrics they might want to consider. How useful are the illustrative examples of metrics and targets?

We agree that it is helpful to provide illustrative examples of the types of metrics and targets that may be relevant for companies with significant activities or operations in specific areas. However, the Task Force's guidance on suggested disclosures is both extensive and detailed and may result in check list mentality and boilerplate disclosures.

We believe that it is important that a target of achieving comparability between companies and across sectors is balanced with encouraging companies to provide relevant, entity-specific information. The metrics and targets adopted should not be considered in isolation based on categorising the company's activities; it is important that the measures selected are relevant in the context of a particular company's business model, strategy and the specific risks it faces.

Q14 Which types of organizations should describe how performance and remuneration take climate-related issues into consideration?

When climate change is a material issue to the business and forms part of the metrics determining remuneration, how these metrics impact the remuneration calculation should be explained.

Q19 Additional feedback

In our view, the TCFD's recommendations could be presented in a more concise and accessible manner in its final report. Scalability and proportionality of the recommendations is vital to ensure that they are not onerous for smaller or less heavily impacted companies and result in meaningful and relevant disclosures. It would be helpful for the recommendations to be restructured with these aims in mind.

We believe that a more principles-based approach, with less emphasis on detailed lists of suggested disclosures, is likely to be more effective. The explanation of different types of climate-related risks and opportunities, set out in section B of the TCFD's recommendations document, provides an excellent starting point for companies to identify and analyse the potential impacts for their particular business. The TCFD could build on this to provide tools to assist companies with analysing these risks and opportunities in the context of the four key areas set out in the recommendations (governance, strategy, risk management and metrics and targets). The recommendations should encourage an integrated approach to incorporating climate-related considerations within current governance processes.. This approach, in conjunction with the fundamental principles for

effective disclosure set out in Appendix 6, could provide a principles-based framework to guide companies from identification through integration and mitigation to effective disclosure.

The Task Force has an important educational role to play in communicating its intention for a gradual implementation process and incremental improvements, with more sophisticated methodologies developing over time. The Task Force can facilitate this through stakeholder outreach, bringing companies and investors together to develop best practice. We believe that this will be crucial for achieving the widespread adoption envisaged.