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# ENHANCING CLIMATE-RELATED DISCLOSURES BY ASSET MANAGERS, LIFE INSURERS, AND FCA-REGULATED PENSION PROVIDERS

This is Third Generation Environmentalism (E3G)'s response to the consultation from the Financial Conduct Authority (FCA) on enhancing climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers.

## Overview

E3G is pleased to note and provide feedback on the FCA's proposals on introducing climate-related financial disclosure rules and guidance in alignment with the Roadmap published by the HM Government in late 2020<sup>1</sup>, which set out a pathway towards mandatory climate-related disclosures across the UK economy by 2025. Our feedback in this response is focused on the FCA's consultation on the rules and guidance for asset managers, life insurers, and FCA-regulated pension providers (CP21/17).

The most recent remit letter to the FCA from the UK's Chancellor of the Exchequer underscores the need for the FCA to give consideration to HM Government's commitment to reach net zero emissions by 2050<sup>2</sup>. This is important not only in the framing of these proposals, as referenced in the consultation itself, but in the granular detail of what is being proposed and the associated governance and enforcement mechanisms.

The recent consultation from the Taskforce on Climate-Related Financial Disclosures (TCFD) on proposed updates to its recommendations and guidance on

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<sup>1</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/933783/FINAL\\_TCFD\\_ROADMAP.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933783/FINAL_TCFD_ROADMAP.pdf)

<sup>2</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/972445/CX\\_Letter\\_-\\_FCA\\_Remmit\\_230321.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/972445/CX_Letter_-_FCA_Remmit_230321.pdf)



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metrics, targets and transition plans represents a key moment in the evolution of climate-related financial disclosures<sup>3</sup>. With the voluntary uptake of TCFD across the world and the moves to make TCFD-aligned reporting mandatory, for example the G7 announcement made earlier in 2021<sup>4</sup>, inclusion of transition plans presents an opportunity to broaden and strengthen the disclosures made by corporates and financial institutions at scale. Success, however, is contingent on how effectively such recommendations are enacted and, where appropriate, enforced.

To that end, we are pleased to see that in the FCA's proposal this proposed TCFD guidance is included in scope—however, as we fed back directly to TCFD during its consultation process, there are several key areas where proposals need to be strengthened. Without such strengthening, the ability of financial actors and other stakeholders to make climate-informed decisions will be limited.

The FCA and other UK regulators will be central in ensuring requirements for climate-related disclosures are met robustly across UK financial institutions and corporates. This necessitates ensuring that rules and guidance are aiding rather than lagging the delivery of the UK's net zero target. **Whilst the FCA's reference to the new guidance on transition plans from the TCFD, i.e., requiring firms to consider the updated versions of the TCFD Final Report and TCFD Annex, is encouraging, we propose strengthening the language to explicitly require the disclosure of transition plans from firms, particularly in terms of firms' decarbonisation plans.** Not doing so could exacerbate systemic financial risks and would be a serious omission by macro-prudential regulators that could undermine the Government's transition to net-zero.

In the following consultation response, we propose that the FCA strengthen the requirements in the following ways:

- **Require in-scope firms to disclose transition plans for aligning with net-zero, the goals of the Paris Agreement and a 1.5°C trajectory**
- **Require detail on implementation approaches such as active ownership and how measures reduce emissions in the world, not only the portfolio.**
- **Require 5-year interval interim decarbonisation targets to be disclosed as part of transition plans.**

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<sup>3</sup> <https://www.fsb-tcfid.org/publications/>

<sup>4</sup> <https://www.gov.uk/government/publications/g7-finance-ministers-meeting-june-2021-communique/g7-finance-ministers-and-central-bank-governors-communique>



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A final area where we would like to see further detail on efforts by the FCA is the **supervision and enforcement of the proposed requirements**. The reference to this within the consultation remains quite high-level for example, “...we expect to conduct supervision in this area in the coming years, both through resolving problems we identify and proactively in line with our Approach to Supervision. We will also consider how best to use data analytics tools to help us assess firms’ implementation of the requirements...”. Providing greater clarity on what this will look like in practice will be essential for compliance from in-scope firms and holding these to account on what is, or is not, being disclosed.

## Outline

Our consultation response is focused on the following 12 questions provided in the consultation document. A short summary of our response to each of these is outlined below.

**Question 1** – We agree with the proposed scope of firms but recommend that coverage of the proposed scope be routinely monitored to ensure sufficient coverage and uptake of climate-related disclosures by firms is realised.

**Question 2** – There should be alignment in the scope of products included with that of DWP’s draft regulation to ensure consumers receive consistent climate-related financial information (including net-zero) about their pension products. We recommend strengthening guidance given for overseas funds operated by UK firms to strongly encourage aligned voluntary public disclosure in addition to entity-level requirements that the responsible firm would be in scope of.

**Question 3** – For these requirements to be effective, all firms must produce robust and thorough disclosures; delaying the requirement does not automatically make a smaller firm more prepared to disclose. For a phased approach to be effective, the FCA will need to take an active role in supporting smaller firms to be able to report against the requirements.

**Question 5** – In addition to allowing the flexibility to cross-refer to other reports we would also expect entity-level reports to be referenced within reporting at a Group-level. It however is important that entity-level reporting does not simply become an exact replication of group-level disclosures and provides additional granularity on entity-specific climate-related information.



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**Question 6** – We reinforce the importance of firms disclosing on any variations or nuances in their approach related to different parts of the business, investment strategies or products. Regarding guidance on scenario analysis, we would recommend strengthening this to more explicitly require firms to disclose on the temperature alignment of the scenarios they are using – for example whether they are aligned to a 1.5°C mitigation trajectory and the goals of the Paris Agreement.

**Question 7** – We are in agreement that firms that have not yet set climate-related targets must explain why not—however, we recommend a requirement to disclose transition plans include disclosure of targets where feasible. Where entity-level climate-related targets have not been set but group-level targets exist, we suggest that the FCA asks entity-level reporting to demonstrate strategic alignment with these targets.

**Question 8** – We agree that the Authorised Fund Manager should be responsible for producing a TCFD entity report that sets out its approach to the TCFD’s recommendations, including a signed compliance statement. AFMs should also be required to disclose the governance processes in place to ensure compliance from third-party portfolio managers.

**Question 10** – The FCA should require firms, where public disclosure may be inappropriate, to communicate the option to request data and information to relevant clients rather than leave it solely to clients to be aware that they can ask for the information.

**Question 11** – It is logical that the core metrics required to be disclosed are aligned with those outlined by the TCFD and we would underscore the importance of Scope 3 emissions being included within this. It is important that the FCA encourages those firms able to start disclosing on Scope 3 emissions ahead of 2024 to do so and provides methodological guidance to assist those firms that are not yet ready to disclose to prepare for disclosure in subsequent reporting periods.

**Question 13** – We agree with the inclusion of the TCFD’s proposed guidance and recommendations on metrics, targets and transition plans. There, however, are areas where the TCFD’s guidance and recommendations require strengthening and the FCA, and other UK regulators, will need to provide additional guidance to ensure associated disclosures are sufficiently robust and ambitious. This includes transition plans for aligning with the goals of 2050 net-zero, the Paris Agreement and a 1.5° C trajectory. The FCA should also strengthen the language it uses to more explicitly require the disclosure of transition plans for net-zero from firms.



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**Question 14** – As in our response to Question 13, we are pleased to note alignment with the TCFD’s most recent consultation but suggest further refinement and specification is required. This includes requiring interim targets to have a timeframe of 5 years specifically, rather than 5-10 years.

**Question 15** – We agree that portfolios or products with concentrated exposures or higher exposures to more carbon-intensive sectors should be the priority for more detailed disclosure requirements. The FCA should outline its plans for further guidance on and enforcement of such requirements and how it will work with firms to ensure compliance in their product- and portfolio-level disclosures.

## Consultation response

**QUESTION 1: 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?**

Based on the statement by the FCA that the threshold proposed for asset managers and asset owners would capture 98% of both the UK asset management market and held by UK asset owners, we agree with the proposed scope of firms. We do, however, suggest that coverage of the proposed scope is routinely monitored to ensure sufficient coverage and uptake of climate-related disclosures by firms is realised. The FCA should also encourage smaller firms that are below the £5 billion threshold to disclose on a voluntary basis, and provide resources to help them on their disclosure journey.

**QUESTION 2: Do you agree with our proposed scope of products? If not, what types of products should, or should not, be in scope and why?**

We agree with the alignment of proposed scope of products with DWP’s draft regulation to ensure that consumers receive broadly consistent climate-related financial information about their pension products, regardless of whether those providers are subject to the FCA’s or DWP’s requirements.

We would underscore the importance of overseas funds, operated by UK firms, being captured by these requirements – both through the entity-level and product-level reporting requirements. To that end, we recommend strengthening



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the guidance given for such products to strongly encourage aligned voluntary public disclosure, as opposed to putting all the impetus on clients requesting information, in addition to the entity-level requirements that the responsible firm would be in scope of. This would encourage cross-firm alignment on public disclosure at a product or portfolio-level and ultimately make entity-level reporting more robust.

**QUESTION 3: Do you agree with our phased implementation and timings? If not, what approach and timings would you suggest and why?**

In acknowledging that a phased approach, that remains in line with the Government's Roadmap and does not slip further back, may be suited to successfully implementing these reporting requirements, we would nevertheless stress that there is a key role for the FCA to play in helping guide the smaller firms to build their capabilities in this arena.

For these requirements to be effective, all firms must produce robust and thorough disclosures and delaying the requirement does not automatically make a smaller firm more prepared to disclose. The FCA should develop specific guidance (supplementing the handbook) and interventions (such as training) for smaller firms to guide them on their disclosure journey as otherwise there is a risk that the disclosures will be insufficient even with "additional" time to prepare. Smaller firms, covered by the Second Phase of the rollout, should also be encouraged to disclose on a voluntary, and/or partial, basis from 2023.

**QUESTION 5: 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 requirement for firms to need to produce an entity-level report, consistent with the TCFD's recommendations and recommended disclosures, on an annual basis. In doing so, however, we would stress the importance of material information being included in disclosures at a group-level with the Annual Report and encourage the FCA to reiterate this importance in its guidance for disclosure.

Therefore, in addition to allowing the flexibility to cross-refer to other reports we would also expect entity-level reports to be referenced within reporting at a Group-level – to encourage stakeholders to delve deeper into the granularity of TCFD disclosures at an entity-level. It is important that entity-level reporting does



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not simply become an exact replication of group-level disclosures and provides additional granularity on entity-specific climate-related information.

Given the flexible approach the FCA is proposing, we are pleased to note the requirement of a compliance statement confirming alignment with the requirements.

**QUESTION 6: 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 are in broad agreement with the proposed approach to governance, strategy and risk management and would reinforce the importance of firms disclosing on any variations or nuances in their approach related to different parts of the business, investment strategies or products. We would additionally echo the importance of firms making disclosures accessible to less technical audiences and including tangible outcomes and case studies in their disclosures alongside more granular disclosures for expert audiences.

It is very important that companies are being transparent to their stakeholders on the scenarios being used to shape their strategies. We accordingly agree that firms should disclose on the following:

- Their approach to climate-related scenario analysis
- How they apply climate-related scenario analysis in their investment and risk decision-making process
- Quantitative examples to demonstrate their approach to climate-related scenario analysis, where reasonably practicable

These requirements should, however, be strengthened to more explicitly require firms to disclose on the temperature alignment of the scenarios they are using – for example whether they are aligned to a 1.5°C trajectory and the goals of the Paris Agreement. We would additionally recommend that under “*Their approach to climate-related scenario analysis*” any firms that have not yet carried out scenario analysis are required to disclose a timeline for doing so, enabling the FCA and external stakeholders to hold the firm accountable for advancing its approach.



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**QUESTION 7: 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?**

Yes, we are in agreement that firms that have not yet set climate-related targets must explain why not – however, we recommend a requirement to disclose transition plans which includes required disclosure of targets where feasible. Regarding the additional comment provided by the FCA in the consultation document, *“We recognise that some firms may not set such targets at the entity level due to the particular profile of their business or client base”* we would encourage the FCA to require firms in this situation to relate their climate strategy at the entity level to group-level climate-related targets and the significance of their emissions and strategy to the timely achievement of the group-level climate related targets.

**QUESTION 8: 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 agree that the Authorised Fund Manager should be responsible for producing a TCFD entity report that sets out its approach to the TCFD’s recommendations, including a signed compliance statement. In addition to the compliance statement and the disclosure of how climate-related matters have been taken into account in selecting delegates and relying on their products and services, AFMs should be required to disclose the governance processes in place to ensure the third-party portfolio managers are complying. This could include disclosure on training and guidance provided as well as auditing procedures to ensure compliance.

This should be additional to reporting that cross-references activities and strategies the delegated manager itself has produced. In cases where these delegated managers are not covered by mandatory climate-related disclosure obligations, i.e. overseas firms, the AFMs should take particular care to ensure that the reporting they do carry out is sufficiently detailed to align with the TCFD’s recommendations. If it is insufficient AFMs should not only link this reporting but supplement it with further detail, liaising with the delegated manager to obtain this detail as required.

**QUESTION 10: Do you agree with our proposed requirements for product or portfolio-level disclosures, including the provision of data on underlying**





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**holdings and climate-related data to clients on demand? If not, what alternative approach would you prefer and why?**

We agree that timely and effective communication to clients is necessary in addition to publishing product or portfolio-level disclosures annually online. In cases where public disclosures may not be appropriate, the FCA outlines that disclosures should be made to the client *upon request*, once a year. We would recommend that the FCA requires firms, where this may be the case, to communicate this option to relevant clients rather than leave it solely at the discretion of the client to be aware that they can ask for the information.

It is important that such disclosures to clients include data on the underlying holdings of products. Regarding the proposal that if a client relationship starts after 1 July 2023, the client would not be able to request data that precedes the start of the relationship – we propose that an exclusion to such a condition is the provision of any baseline data, for example, related to the achievement of carbon reduction targets.

**QUESTION 11: 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 acknowledge the suitability of aligning the core metrics required to be disclosed with those outlined by the TCFD and would underscore the importance of Scope 3 emissions being included within this. Based on the current levels of disclosure of Scope 3 emissions, and the methodological challenges associated with this, we agree with the rationale behind staggering this disclosure requirement relative to the other metrics.

However, it is important that the FCA encourages those firms able to start disclosing on Scope 3 emissions ahead of 2024 to do so and to provide methodological guidance to assist those firms unable to do so to prepare to disclose in subsequent report periods. Accordingly, ahead of 2024 we would recommend that all firms are required to report on work underway to measure their Scope 3 emissions to demonstrate engagement and action to date. This aligns with the FCA's proposal that all metrics are supported by contextual information to explain how they should be interpreted and any limitations. Providing context on when Scope 3 emissions can be expected to be disclosed and efforts underway to capture this data will be useful for firms' stakeholders.



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**QUESTION 13: 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 is 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 were pleased by the proposed introduction of transition plans detailed in the TCFD’s recent consultation and accordingly are pleased to note the FCA’s intention to refer to the updated Final Report, Annex and associated guidance in its rules and guidance.

It is, however, important that we highlight some key points that we fed back to the TCFD via its consultation process as the guidance, as it stands requires further refinement. For example, there should be an overarching expectation that climate transition plans should be aligned with government net-zero targets, the goals of the Paris Agreement, and an associated 1.5°C trajectory. The language currently provided by the TCFD, when mapping aspects of climate transition plans to the TCFD framework is as follows: *“Description of alignment to a global temperature goal (e.g., 1.5°C alignment, any relevant regulatory mandate and/or sectoral decarbonization strategies (e.g., Poseidon, CORSIA)”*. However, it is essential that plans be required to demonstrate alignment to a 1.5°C trajectory, in the context of global goals under the Paris Agreement and government objectives.

Given the FCA’s remit, as in the most recent remit letter by the Chancellor of the Exchequer, to give regard to the Government’s commitment to achieve a net zero economy by 2050, it is vital that the FCA builds on the work of the TCFD and ensures that the state of FCA regulation contributes to assisting rather than retarding the UK’s delivery of net zero by 2050. If, therefore, TCFD recommendations do not require transition plans to demonstrate alignment with mid-century net-zero or a 1.5°C trajectory, the FCA must go further to do this for firms within its scope.

**QUESTION 14: Do you agree with our approach to additional metrics and targets? If not, what alternatives would you suggest and why?**



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We are once again pleased to see alignment with the TCFD but as in our response to Q13, it is important to emphasise that the proposals made by TCFD in its recent consultation did have some gaps that we recommended they address in the final guidance. A target-focused example of this, is that we proposed a tightening of the descriptor for interim targets. This was from “5-10 year” to “5 year” intervals, to keep targets front of mind and necessitate continued and consistent effort towards their achievement; 10-year intervals may undermine the urgency of taking action. This is particularly pertinent given recent reports from both the International Energy Agency (IEA)<sup>5</sup> and Intergovernmental Panel on Climate Change (IPCC)<sup>6</sup> that reinforce the need for urgent transformational action to be taken on climate and net-zero within the next three decades (29 years) to 2050.

As outlined previously, it is important that the FCA ensures that the climate disclosure rules are aligned with the Government’s commitment to achieve a net zero economy by 2050. This underscores the importance of tightening the timeframe for interim targets, relative to those initially proposed by the TCFD. With less than three 10-year cycles between now and 2050, 10-year intervals do not match (UK) national or international policy timeframes.

**QUESTION 15: 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?**

For universal asset owners as well as other asset owners, there is a clear need to ultimately assess risks at a portfolio-level for different scenarios of mitigation measures and of global warming. With regards to the proposed approach to governance, strategy and risk management, including scenario analysis at the product or portfolio-level we agree that portfolios or products with concentrated exposures or higher exposures to more carbon-intensive sectors should be the priority for more detailed disclosure requirements.

However, as the FCA will not be defining thresholds for “concentrated” or “higher” exposures there is the potential that firms could work around and avoid such requirements. Accordingly, the FCA should clearly outline plans for further guidance on and enforcement of such requirements and how it will work with firms to ensure compliance in their product and portfolio-level disclosures. This

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<sup>5</sup> <https://www.iea.org/reports/net-zero-by-2050>

<sup>6</sup> <https://www.ipcc.ch/report/sixth-assessment-report-working-group-i/>



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should be guided by standards from best available literature such as the IEA's Net Zero Report concerning the energy sector, which note that no further investment in new coal-fired power generation or in new oil and gas fields can be compatible with the goal of net-zero by 2050. The purpose of this is not to constrain financial sector activity, or encourage divestment, but to ensure that all firms are expansive in their disclosures to ensure sufficient flow of climate-related information between stakeholders.

**E3G, September 2021**

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## About E3G

E3G is a not-for-profit public interest organisation with offices in London, Brussels, Berlin and Washington DC. E3G's mission is to accelerate the global transition to a climate-safe world. E3G has a track record of experience and expertise on sustainable finance and international climate finance.