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# CONSULTATION RESPONSE: MANDATORY CLIMATE-RELATED FINANCIAL DISCLOSURES

This is Third Generation Environmentalism (E3G)'s response to the consultation from the Department for Business, Energy & Industrial Strategy (BEIS) on requiring mandatory climate-related financial disclosure by publicly quoted companies, large private companies, large private companies and Limited Liability Partnerships (LLPs), closing 5<sup>th</sup> May 2021.

## 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.

## Overview

As referenced in the Executive Summary of the consultation document, we recognise the ongoing improvement in the quality and quantity of voluntary disclosures of climate-related financial information. The launch of the recommendations of the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD) in 2017<sup>1</sup> was a pivotal moment in driving voluntary disclosure, as have been the subsequent market signals from investors, both on an individual level such as with BlackRock<sup>2</sup>, and collectively as with the Glasgow Financial Alliance for Net Zero<sup>3</sup>.

This progress, however, must be rapidly scaled up to provide financial institutions with the information required to transition to a net zero financial sector, to enable net zero in the real economy, and to ensure that individual companies can strategically address the climate-related risks and opportunities

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<sup>1</sup> <https://www.fsb-tcfd.org/about/>

<sup>2</sup> <https://www.blackrock.com/corporate/investor-relations/2020-larry-fink-ceo-letter> and <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

<sup>3</sup> <https://racetozero.unfccc.int/wp-content/uploads/2021/04/GFANZ.pdf>



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facing their operations. Disclosure regulation, on a global scale, will be an indispensable lever to delivering government and industry net-zero goals.

We welcome the UK's leadership and its aim to be the first G20 country to make climate-related financial disclosures mandatory across the economy.<sup>4</sup> This leadership, combined with the UK's joint Presidencies of the G7 & COP26, raises the profile of disclosure regulation on the global stage as a tool to help the private sector on its journey to net zero.

With the upcoming US Securities and Exchange Commission's consultation on climate change disclosures and strong messaging from Treasury Secretary Yellen that policy on climate risk disclosure is necessary<sup>5</sup>, the new US Administration is racing to join the UK in elevating this conversation. Global leadership and collaboration will be necessary to make corporate climate disclosures impactful on the scale required to drive change in the financial system and real economy, through mechanisms such as the G20 Sustainable Finance Working Group, the International Platform for Sustainable Finance and the International Financial Reporting Standards Foundation. It will be important to ensure that UK disclosure requirements are open to, and enable, international alignment.

In the following consultation response we call on Her Majesty's Government (HMG) to ensure that the introduction of mandatory climate-related financial disclosures leads to an increase in the quality, and underlying rigour, of material climate disclosures from companies and LLPs and in turn helps financial institutions make better climate-informed decisions.

Our recommendations include:

- **Mandating the disclosure of climate transition plans, in addition to disclosure on material climate-related risks and opportunities.** These plans should include:
  - (1) 5-year plans for near-term emissions reductions targets,
  - (2) Longer-term net-zero target or end goals, and
  - (3) Any strategies for (relating prior items with) Paris Alignment

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<sup>4</sup> <https://www.gov.uk/government/publications/uk-joint-regulator-and-government-tcdf-taskforce-interim-report-and-roadmap>

<sup>5</sup> <https://www.wsj.com/articles/treasury-may-be-able-to-facilitate-climate-stress-tests-on-u-s-financial-firms-11614004778>



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- **Further regulatory support and guidance to improve the quality of disclosure under the proposed TCFD pillars (i.e. using the 11 TCFD recommendations as a baseline) and for climate transition plans.**

## Outline

Our consultation response is focused on the following 11 questions provided in the consultation document. A short summary of our response to each of these is outlined below.

**Question 1** – We agree that the initial priority should be on ensuring the disclosure of climate-related risks and opportunities from those companies and LLPs most responsible for the climate crisis. HMG should however encourage all companies, including small and medium-sized enterprises (SMEs), to start evaluating and disclosing on their climate-related risks and opportunities.

**Question 3** – Climate related financial disclosures for companies and LLPs should be done at the group level. This must not, however, be done at the expense of transparency on different sectoral activities occurring within a group and their respective exposures to different types of climate-related risks and opportunities.

**Question 4** – It is vital that material climate-related financial information is disclosed by companies as part of the Strategic Report. HMG can mainstream the reporting of climate-related financial information within the Strategic Report on a global scale by requiring this of UK companies.

**Question 6** – Using the four pillars of the TCFD recommendations as the structural basis of disclosure for UK companies and LLPs will allow for comparability. However, there needs to be a clear articulation that TCFD’s 11 recommendations should be addressed within this and provide actionable guidance on what to include when disclosing. We propose mandatory climate transition plans as an additional new disclosure requirement, ensuring companies and LLPs demonstrate they have robust science-based strategies in place to transition to a low carbon future.

**Question 7** – Whether the proposed disclosure obligations will provide investors, regulators and other stakeholders with sufficient information to assess the climate-related risks and opportunities facing a company or financial institutions depends heavily on the content and quality of disclosures made under the TCFD pillars. Further support and guidance from HMG will be required to assist companies and LLPs with this and to help investors and actors be able to make climate-informed decisions. Ongoing stakeholder consultation should be carried out to ensure the mandated disclosure continues to be fit for purpose.



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**Question 8** – Whilst scenario analysis is a challenging aspect of the TCFD recommendations it is one that companies are and should be working on. Companies and LLPs should be required to disclose whether scenario analysis has informed their strategy and associated disclosed climate-related risks and opportunities and what type of scenarios were used.

**Question 9** – The scope for climate-related financial disclosures and SECR requirements should be aligned and Scope 3 emissions included as a mandatory reporting requirement. To effectively disclose on climate-related risk, and create a strategy to tackle these risks, a full value chain perspective of a business' operations is required with Scope 3 emissions a key part of this.

**Question 10** - We are opposed to non-disclosure being an option for companies and LLPs that fall within the scope requirements outlined in the consultation document. A comply or explain approach here fundamentally undermines the UK's aim to be the first G20 country to make climate-related financial disclosures mandatory across the economy.<sup>6</sup>

**Question 11** - Given the scale of challenge ahead in tackling the climate crisis, it is crucial that all companies take urgent action to address their climate-related risks and opportunities and embed climate-informed strategies across their businesses. It is paramount that the proposed mandatory climate related financial disclosures are rolled out rapidly and that in the interim HMG encourages voluntary disclosure.

**Question 12** - For the proposed disclosure requirements to support investment decisions aligned with a transition to a low-carbon economy and lead to a genuine increase in transparency from companies then they must be strongly enforced. This will necessitate new dedicated resource and funding to ensure robust fulfilment of these new disclosure requirements by companies and LLPs.

**Question 17** - Supplementary guidance is necessary to ensure that disclosure is robust and managed, and the TCFD disclosure should be aligned with the upcoming roll out of the green taxonomy. Further work should also be done to streamline processes for stakeholders to access sustainability data disclosed by companies and LLPs, for example through the use of data tagging.

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<sup>6</sup> <https://www.gov.uk/government/publications/uk-joint-regulator-and-government-tcf-taskforce-interim-report-and-roadmap>



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## Consultation response

### **QUESTION 1: Do you agree with our proposed scope for companies and LLPs?**

The proposed scope for companies and LLPs provided in the consultation document is a logical one. We agree that the initial priority should be on ensuring that those companies and LLPs most responsible for the climate crisis are disclosing on their exposure to climate-related risks and opportunities and associated strategies for risk management and decarbonisation.

This mandated responsibility to disclose for the companies and LLPs in scope should, however, be accompanied by a clear expectation from HMG that all companies need to start on the journey to evaluate and disclose their climate-related risk and opportunities, including small and medium-sized enterprises (SMEs). Articulating an encouraging expectation for disclosure, similar to that which accompanies the UK Gender Pay Gap reporting guidelines<sup>7</sup>, would convey a strong message that the actions of all UK companies are vital if the UK is to meet its new target of reducing GHG emissions by 78% by 2035<sup>8</sup>.

The recently published Corporate Sustainability Reporting Directive proposal (CSRD) by the EU Commission additionally includes an expansion in reporting scope to include listed SMEs, except for listed micro-enterprises<sup>9</sup>. Within this there is also a proposal for the development of separate, proportionate standards for SMEs. SMEs listed on regulated markets could use these simpler standards to meet their legal reporting obligations, while non-listed SMEs could choose to use them on a voluntary basis.

### **QUESTION 3: Do you agree with the proposal to require climate related financial disclosures for companies and LLPs at the group level?**

We agree that climate related financial disclosures for companies and LLPs should be done at the group level, particularly in the context of disclosure within the Annual Report. This must not, however, be done at the expense of transparency on different sectoral activities occurring within a group and their respective exposures to different types of climate-related risks and opportunities.

It, therefore, may be necessary to supplement group-level disclosure against the proposed requirements with deep dives into individual businesses. This reflects

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<sup>7</sup> <https://www.gov.uk/guidance/who-needs-to-report-their-gender-pay-gap#voluntary-reporting>

<sup>8</sup> <https://www.gov.uk/government/news/uk-enshrines-new-target-in-law-to-slash-emissions-by-78-by-2035>

<sup>9</sup> [https://ec.europa.eu/commission/presscorner/detail/en/QANDA\\_21\\_1806](https://ec.europa.eu/commission/presscorner/detail/en/QANDA_21_1806)



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the need for a company to have a climate strategy tailored to the specific nuances of its constituent parts and geographies of operations. It should also be ensured that a despite a focus on group-level reporting that UK businesses, meeting the outlined scope requirements, sitting under non-UK groups are required to disclose.

**QUESTION 4: Do you agree that the Strategic Report is the best place for the disclosure of climate-related financial information by companies?**

It is vital that material climate-related financial information is disclosed by companies as part of the Strategic Report. HMG can mainstream the reporting of climate-related financial information within the Strategic Report on a global scale by requiring this of UK companies.

To date reporting of climate-related financial information is often very high level within the Annual Report, or not included at all, with relevant content instead populating the pages of a separate Sustainability Report or TCFD addendum. This separation is in opposition to the recommendations of the TCFD, which encourage disclosure in mainstream annual financial filings so as to encourage shareholder engagement on the topic and to ensure robust governance processes for the information being disclosed as material to the business.

Ensuring that sufficient detail is provided within the Strategic Report on material information is crucial if this step up in disclosure requirements is to drive a step up in action by both individual companies and financial institutions. Where appropriate, additional resources that underpin the material disclosures can be hyperlinked within the Strategic Report for interested stakeholders. This could include case studies, scenario analysis and quantitative data.

As referenced in the consultation document, the Strategic Report only requires disclosure of information that is material to a company. An opportunity to strengthen disclosure here, in the context of climate-related risks and opportunities, is to reflect the EU's use of "double materiality" to incorporate environmental & social materiality (reflecting the impact of a company) alongside financial materiality.<sup>10</sup> Within this there is an explicit emphasis placed on the evaluation of the full value chain.

**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?**

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<sup>10</sup> [https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/654213/EPRS\\_BRI\(2021\)654213\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/654213/EPRS_BRI(2021)654213_EN.pdf)



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Using the four pillars of the TCFD recommendations as the structural basis of disclosure for UK companies and LLPs will allow for comparability of disclosure approach by companies within and across sectors. However, the government should clearly articulate that the TCFD's 11 recommendations should be addressed within this and should provide actionable guidance on what to include under each of these recommendations in the Q&A mentioned in the consultation document.

The importance of guidance from HMG on what to include when disclosing is underscored by a Vigeo Eiris Analysts' Study, referenced in the TCFD 2020 Status Report, that found that only 11% of companies disclosed at least one element recommended by TCFD in the Governance pillar.<sup>11</sup> This lag from companies that have chosen to disclose voluntarily in fully aligning with the TCFD recommendations offers a stark warning that without clear, and regulatory, guidance on 'what good looks like' disclosure from companies and LLPs is likely to be insufficient.

It is crucial that companies and LLPs are held to account in addressing all aspects of the TCFD recommendations, even those that may be challenging in Year 1 or 2 of reporting. This necessitates stronger disclosure requirements and guidance than that outlined in the consultation document. Companies and LLPs should also be expected to evolve their disclosure approach as time progresses to reflect increasing action taken to address climate-related risks and opportunities.

Whilst disclosure on climate-related risks and opportunities from companies and LLPs is important it is not a silver bullet to addressing the climate crisis. It is vital that companies are taking explicit action to decarbonise their value chains and realise ambitious climate targets. We propose an additional disclosure requirement to those outlined by HMG to reflect this – that of mandatory climate transition plans aligned to the goals of the Paris Agreement.

This would require companies and LLPs to go beyond risk focused approaches to climate disclosure and demonstrate that they have robust science-based strategies in place to transition to a low carbon future. A crucial next step if the UK is to meet its target of reducing emissions by 78% by 2035 and its net zero ambition by 2050.<sup>12</sup>

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<sup>11</sup> [https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD\\_Status-Report.pdf](https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Status-Report.pdf) pg 15

<sup>12</sup> <https://www.gov.uk/government/news/uk-enshrines-new-target-in-law-to-slash-emissions-by-78-by-2035>



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The inclusion of mandatory climate transition plans is particularly salient in the context of greening the UK finance sector, as increased transparency from companies and LLPs on their transition plans will help financial institutions make better climate-informed decisions and manage their own transition. The launch of the Glasgow Financial Alliance for Net Zero (GFANZ) in April 2021<sup>13</sup> and the associated ramp up in the quantity of net zero commitments from financial institutions underscores the need for transition plans. If these targets are to be delivered on time, then the financial sector will need expansive and robust disclosures from companies in the real economy.

The need for mandatory climate transition plans, in this vein, has been recently underscored by a paper from Policy Exchange<sup>14</sup> and a joint paper from Grantham Research Institute on Climate Change and the Environment, at LSE, and the SOAS Centre for Sustainable Finance<sup>15</sup>. These papers, respectively, call for the UK to require supervised financial firms and premium listed firms on UK exchanges to adopt transition plans and for all regulated financial institutions to have to submit net zero transition plans. There has also been recent congressional approval of the Spanish Climate Change and Energy Transition law which includes a requirement for large companies (owned by the State or with a State shareholding) to have and publish climate action plans.<sup>16</sup>

Emerging best practice on what disclosure on climate transitions plans should include, includes methodologies such as the Science Based Targets financial sector methodology<sup>17</sup>, CA100+ Net Zero Benchmark<sup>18</sup> and the IIGCC Paris Aligned Investment Initiative<sup>19</sup>.

Based on this emerging best practice, we propose that companies should be required to disclose on the following within the proposed mandatory climate transition plans:

- (1) 5-year plans for near-term emissions reductions targets,

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<sup>13</sup><https://unfccc.int/news/new-financial-alliance-for-net-zero-emissions-launches>

<sup>14</sup><https://policyexchange.org.uk/wp-content/uploads/Capital-Shift.pdf>

<sup>15</sup><https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2021/03/Net-zero-central-banking.pdf>

<sup>16</sup><https://www.lavanguardia.com/natural/cambio-climatico/20210408/6635930/congreso-punto-aprobar.html>

<sup>17</sup><https://sciencebasedtargets.org/resources/files/Financial-Sector-Science-Based-Targets-Guidance-Pilot-Version.pdf>

<sup>18</sup><https://www.climateaction100.org/progress/net-zero-company-benchmark/methodology/>

<sup>19</sup>[https://www.parisalignedinvestment.org/media/2021/03/PAII-Net-Zero-Investment-Framework\\_Implementation-Guide.pdf](https://www.parisalignedinvestment.org/media/2021/03/PAII-Net-Zero-Investment-Framework_Implementation-Guide.pdf)



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- (2) Longer-term net-zero target or end goals, and
  - (3) Any strategies for (relating prior items with) Paris Alignment

As the voluntary disclosure of climate transition plans by companies and LLPs is still in early stages, we suggest that this requirement would not immediately come into effect with the rest of the proposed disclosure requirements but follow in Year 2 or 3 of reporting under the requirements. An example of an early adopter of climate transition plans is Unilever, with its board announcing at the end of 2020 that the Unilever Climate Transition Action Plan would voluntarily be put before a shareholder vote.<sup>20</sup> In doing so, Unilever joined a growing list of companies voluntarily embracing a Say on Climate.<sup>21</sup>

**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?**

Whether the proposed disclosure obligations will provide investors, regulators and other stakeholders with sufficient information to assess the climate-related risks and opportunities facing a company or financial institutions depends heavily on the content and quality of disclosures made under the four TCFD pillars.

To date the quality and specific content of voluntary disclosure against the recommendations of TCFD has been incredibly variable, as found by an artificial intelligence study conducted by Moody's and referenced in the 2020 TCFD Status Report.<sup>22</sup> Further guidance from HMG will be required to ensure that companies and LLPs can be effectively assessed based on these disclosures and to allow investors, regulators and other stakeholders to subsequently take action based on these assessments.

Engaging with investors, regulators and other stakeholders to understand how actionable the disclosures from companies and LLPs, as proposed by HMG, will be key in ensuring the medium- and long-term functionality of the requirements. Our proposed addition of mandatory climate transition plans to these requirements, as detailed in response to Question 6, serves this agenda of providing investors, regulators and other stakeholders with greater transparency on the actions companies and LLPs are taking now to decarbonise their

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<sup>20</sup> <https://www.unilever.com/news/news-and-features/Feature-article/2021/why-we-are-putting-our-climate-plans-to-a-shareholder-vote.html>

<sup>21</sup> <https://www.sayonclimate.org/supporters/>

<sup>22</sup> [https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD\\_Status-Report.pdf](https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Status-Report.pdf) pg 15



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businesses and how this relates to their short-, medium- and long-term emission reduction targets. This will in turn aid climate-informed decisions to be made by investors and regulators.

To support UK businesses in producing and disclosing effective and ambitious climate transition plans, HMG should put in place regulatory support and guidance to help guide businesses, at the practitioner and C-suite level, through the process and ensure comparability within and across sectors. A recent letter to the UK Prime Minister from a financial institutions and organisations working on finance and climate action, called on the UK to make a commitment to a net zero financial system ahead of the G7 in June.<sup>23</sup> This reflects appetite from major financial institutions to move to a net zero financial system but that this can only happen with policy support from HMG.

Additional actions from HMG that would support an improvement in the quality of disclosure, and associated actionability, include the successful development and deployment of the UK Green Taxonomy, and supplementary guidance from regulators as to what good looks like.

TCFD disclosure should be designed to be compatible with the upcoming green taxonomy, even though there will be a significant time lag between the implementation of TCFD and that of the taxonomy.

**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?**

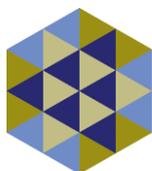
Whilst scenario analysis is a challenging aspect of the TCFD recommendations it is one that companies are and should be working on. This is particularly in terms of helping them build their own understanding of the climate-related risks and opportunities their business could encounter due to climate change and ensure the development of a science-informed climate strategy.

Companies and LLPs should be required to disclose whether scenario analysis has informed their strategies and subsequent disclosures. This should include whether the scenarios used were qualitative or quantitative in nature, with quantitative scenarios preferable, and evidence of scenario alignment with a 1.5°C trajectory.

Those companies that have carried out scenario analysis should be asked to give a high-level summary of the scenarios used in relation to the climate-related

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<sup>23</sup> <https://www.cityam.com/exclusive-johnson-faces-calls-to-commit-to-net-zero-financial-system/>



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risks and opportunities identified and how this has, or will, inform their strategy and targets. Further detail can be provided on detailed scenario analysis here or in the sustainability report to provide further detail to interested stakeholders. This could include information on specific geographic risks and opportunities or aspects of the business (such as products).

If scenario analysis has not been used, companies and LLPs should be required to give a timeframe for when they expect to have conducted scenario analysis and be able to report on the results of this (i.e. within the next two years). Companies and LLPs should be held to account on meeting the timeframes they give here, with repercussions possible for those that indefinitely postpone using scenarios.

**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?**

Yes, the scope for climate-related financial disclosures and SECR requirements should be aligned and Scope 3 emissions included as a mandatory reporting requirement within a specific time frame (i.e. by 2024).

To effectively disclose on climate-related risk, and create a strategy to tackle these risks, necessitates a full value chain perspective of a business' operations. Scope 3 emissions are a vital part of this and excluding them undermines the ambition of mandating such disclosures to provide investors, regulators and other stakeholders with sufficient information to assess climate-related risks and opportunities facing the company, as referenced in Question 7. Recent research from ClientEarth found that to date two-thirds of FTSE 250 companies do not disclose their Scope 3 emissions, and those that do disclose often lack transparency on methodologies used and exclusions applied.<sup>24</sup>

Given the challenges associated with collecting and reporting robust Scope 3 emissions data, this is a key area for HMG to provide further guidance on at a sectoral level to set expectations on what should be disclosed.

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<sup>24</sup> <https://www.clientearth.org/latest/documents/accountability-emergency-a-review-of-uk-listed-companies-climate-change-related-reporting-2019-20/>



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**QUESTION 10: Do you have comments on the proposal to permit non-disclosure if the information is not material and the reasons why climate change is not material are properly explained?**

We are opposed to non-disclosure being an option for companies and LLPs that fall within the scope requirements outlined in the consultation document. A comply or explain approach here would fundamentally undermine the UK's aim to be the first G20 country to make climate-related financial disclosures mandatory across the economy.<sup>25</sup>

The qualifications provided in Question 10 of *“if the information is not material and the reasons why climate change is not material are properly explained”* additionally hinge on robust detailed enforcement of the proposed requirements for disclosure which, as detailed in our response to Question 12, requires a significant step-up in resourcing and funding. Without that it is possible that insufficient disclosure, where climate change has been classified as non-material incorrectly, could be missed.

**QUESTION 11: Do you have comments on the proposed timing for these regulations coming in to force?**

Given the scale of challenge ahead in tackling the climate crisis, it is crucial that all companies take urgent action to address their climate-related risks and opportunities and embed climate-informed strategies across their businesses. In line with this, we believe it is paramount that the proposed mandatory climate-related financial disclosures are rolled out rapidly.

The timeline suggested in the consultation document, that *“Accounting periods starting on or after 6 April 2022 will need to be compliant with these regulations”* will provide sufficient time for guidance to be developed and distributed by HMG for companies and LLPs with these new disclosure requirements. In the interim, however, HMG should continue to advocate for voluntary disclosure against the TCFD recommendations.

**QUESTION 12: Do you have any comments regarding the existing enforcement provisions and the BEIS proposal not to impose further provisions?**

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<sup>25</sup> <https://www.gov.uk/government/publications/uk-joint-regulator-and-government-tcf-taskforce-interim-report-and-roadmap>

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For the proposed disclosure requirements to support investment decisions aligned with a transition to a low-carbon economy and lead to a genuine increase in transparency from companies then they must be strongly enforced.

As referenced in our response to Question 7, companies and LLPs must be held to account in addressing all aspects of the TCFD recommendations and HMG should ensure that the more challenging aspects of disclosing on climate-related risks and opportunities are not omitted and that reporting is accurate. If companies do not believe that requirements will be enforced, they will have little incentive to comply.

To deploy and enforce these disclosure requirements effectively, additional resource and funding will need to be put in place to afford scope to assess the sufficiency of disclosures made by individual companies and LLPs and engage with these businesses on their reporting. The challenges faced by Companies House in identifying inadequate corporate reporting have been widely discussed in recent years in the context of financial malpractice and it is clear that existing resources are insufficient for enforcement of current requirements. This requirement will add an additional enforcement burden and should be properly resourced, as part of a wider provision of resources for enforcement.

**QUESTION 17: Do you have any further comments about our proposals?**

TCFD is an important step towards a Net Zero Finance System. However, assessing climate risk will be insufficient alone to support the scale and pace of the net zero transition required to align UK finance with the Paris Agreement<sup>26</sup>, as former Bank of England Governor Mark Carney's comments earlier this year demonstrated.<sup>27</sup>

Supplementary guidance is necessary to ensure that disclosure is robust and managed, and the TCFD disclosure should be aligned with the upcoming roll out of the green taxonomy, Green Gilt Investment Framework and UK Infrastructure Bank Investment Principles on “what green is” to be announced in the spring and summer of 2021.

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<sup>26</sup> <https://www.ft.com/content/fbd397f9-d414-494d-9099-7cf63092f44f>

<sup>27</sup> [Carney's comments on the role of offsets in fulfilling Net Zero targets](#)

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In seeking to strengthen the quantity and quality of climate-related financial disclosures made by companies and LLPs it is vital to acknowledge the complexities of the disclosure landscape in which these entities operate within. With a growing myriad of sustainability indices, companies are fielding countless individual requests for specific data points and disclosures. An opportunity to simplify this, and reduce the reporting burden on companies, is through the uptake of electronic tagging of data within annual reports and sustainability reports. By requiring sustainability data points to be tagged in accordance with a common methodology (e.g. XBRL), this would make them machine readable and allow for the creation of a database of the sustainability data of UK companies which could be used as a central resource for interested stakeholders. The EU Corporate Sustainability Reporting Directive now has provisions for the information to be disclosed in a digital, machine-readable format. The requirement is for undertakings to prepare their financial statements and their management report in a single electronic reporting format and to tag sustainability information within this.<sup>28</sup>

**E3G, May 2021**

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<sup>28</sup> [https://ec.europa.eu/commission/presscorner/detail/en/QANDA\\_21\\_1806](https://ec.europa.eu/commission/presscorner/detail/en/QANDA_21_1806)