**Brunel Pension Partnership’s Response to the FCA’s proposals to enhance climate-related disclosures by listed issuers and to clarify existing disclosure regulations.**

Brunel, an FCA-regulated MIFID firm, was formed in July 2017 and manages the investment of the pension assets (around £30bn/$40bn) of ten Local Government Pension Scheme funds in the UK: Avon, Buckinghamshire, Cornwall, Devon, Dorset, the Environment Agency, Gloucestershire, Oxfordshire, Somerset and Wiltshire.

Climate change presents an immediate, systemic and material risk to the ecological, societal and financial stability of every economy and country on the planet. It has direct implications for our clients and their beneficiaries.

Brunel published is [Climate Policy](https://www.brunelpensionpartnership.org/wp-content/uploads/2020/01/Brunel-Climate-Change-Policy-rev01.pdf) in January 2020, where it clearly stated that the financial system was “not fit for purpose”. The key objective of our Climate Policy is to systematically change the investment industry to ensure that it is fit for purpose for a world where the temperature rise needs to be kept to well below 2°C compared to pre-industrial levels.

A key constraint on the financial system is the disclosure of climate-related financial disclosures all the way down/along the investment chain – this must start with companies and other issuers. Or position is unequivocal: we support mandatory disclosure for companies.

*We support “mandatory climate change disclosure requirements for companies. Our ability to fully integrate climate change into our investment research and decision-making and our engagement with companies is limited by the consistency, comparability and quality of the data they provide and by the lack of attention paid to climate change-related risks and opportunities in discussions around strategy and capital investment.”  
Brunel’s Climate Change Policy 2020.*

In our policy we set out a five-point plan – this included encouraging policy makers to establish comprehensive and robust climate change policy frameworks. These frameworks should be used to deliver significant reductions in greenhouse gas emissions, accelerate progress towards the low carbon economy, and enable effective adaptation to the unavoidable impacts of climate change.

**FCA Consultation Questions:**

**Q1. Do you agree that our new rule should apply only to commercial companies with a premium listing, at least initially? If not, what alternative scope would you consider to be appropriate, and why?**

No, we support the introduction of mandatory reporting in line with the Taskforce on Climate-related Financial Disclosures (TCFD) for all companies and issuers. Like any pension fund with fiduciary duties, it is essential that we have access to high quality, consistent, comparable information on climate risk for all entities in which invest.

The requirement to report to TCFD on asset owners is already in train. It feels highly inappropriate to introduce this obligation – which we fully support – without the necessary flow of information across the investment chain.

Limiting the application to premium-listed companies is against the spirit of the TCFD guidelines, which sought to provide end-to-end climate risk and opportunity information all the way along/down the investment chain.

Furthermore, it aggravates the large premium-listed companies if their risk management requirements are stepped up, while smaller or private companies in their supply chain are not required to provide relevant information.

We would, however, acknowledge that some phasing might be necessary for very small entities. But we would caution against delay, given the acceleration of climate impacts and the urgency with which they need remedial corporate action.

**Q2. Do you agree that sovereign-controlled commercial companies with a premium listing should also be in scope? If not, why should these companies not be included?**

Yes

**Q3. Do you agree with our approach?**

We agree in part. We welcome the FCA steps but do not agree with a ‘comply or explain’ basis overall. If needed, companies could explain why they are unable fulfil a limited number of elements of the TCFD, but to be offered a get-out at the overall level undermines their responsibility to manage financial, economic, and societal risk.

Mandatory TCFD in our view is completely consistent the FCA’s three operation objectives and not to proceed on this basis would be a huge, missed opportunity.

**Q4. Do you agree that our rule should reference the 4 recommendations and 11 supporting recommended disclosures including in the TCFD’s June 2017 final report? If not, what alternative approach would you prefer, and why?**

TCFD is increasingly out of step with the need of investors and end-consumers. We would support setting the 4 recommendations and 11 supporting disclosures as minimum requirements. We would also encourage additional disclosures relating to alignment with Paris. For example, that might mean providing a statement of intent and a credible transition plan.

We currently use the Transition Pathway Initiative to assist in assessing alignment for the most carbon-intense companies. We have committed to a full ‘Stocktake’ in 2022, part of which will involve reviewing our continued investment in those organisations that cannot demonstrate progress and capacity to align by 2050.

As outlined above, we do not agree with ‘comply or explain’.

**Q5. Do you agree that we should make explicit reference in the Handbook guidance to the TCFD’s ‘guidance for all sectors’ as well as the supplemental guidance for non-financial groups’ accompanying each recommended disclosure? If not, what alternative approach would you prefer and why?**

Yes

**Q6. Do you agree that we should include additional guidance which references the wider set of materials that have been published both within and alongside the TCFD’s final report, as useful sources of guidance and interpretation when complying with our proposed rule?**

Yes, both supplemental and sector-specific guidance is being developed at a rising rate.

We would also recommend the FCA direct companies to the tools, such as the Transition Pathway Initiative (TPI), which investors use to assess companies’ disclosures to TCFD. The TPI also provides a completely transparent indicator framework and methodologies for sectoral comparisons on carbon performance. These have proved very useful for the corporates in defining decision useful metrics for TCFD.

**Q7. Do you agree that we should introduce the new rule on a ‘comply or explain’? If not, what alternative approach would you prefer, and why?**

No, we support full mandatory TCFD reporting for all companies and sovereign-controlled companies, irrespective of market capitalisation, sector or geographical base.

**Q8. Do you agree that the recommended disclosures under the ‘governance’ and ‘risk management’ recommendations should not be subject to a materiality assessment? If not, what alternative approach would you prefer, and why?**

Yes

**Q9.** **Do you agree that issuers should ordinarily be able to make the recommended disclosures under the governance and risk management recommendations?**

Yes

**Q10. Do you agree that explicit guidance is needed to clarify that it would be acceptable for an issuer to explain non-disclosure of these recommended disclosures only on an exceptional basis?**

We do not agree with ‘comply or explain’, but if it *is* used, then non-disclosure should be seen as the exception and we would welcome frequent supporting statements from seniors members of the FCA and other policy makers to this effect. We need TCFD to be applied in spirit as well as practice.

**Q11 Do you agree that the statement of compliance and the proposed disclosures should be made within an issuer’s annual financial report? If not, what alternative approach would you prefer and why?**

We strongly recommend that TCFD statements are included in the Annual Financial Report. Brunel publishes its own TCFD report in its Annual Financial Report and provides additional metrics and supporting evidence on its website.

**Q12. Do you agree that an issuer should be required to include within the statement of compliance a description of where in its annual financial report (or other relevant document) its TCFD-aligned disclosures can be found? If not, what alternative approach would you prefer and why?**

We support the inclusion in the Annual Financial Report. In addition, references to where additional supporting evidence can also be found should be included in the statement of compliance.

**Q13. Do you agree that the FCA should not require third-party assurance of issuers’ climate-related disclosures at this time? More generally, we welcome views on the role of assurance for climate-related disclosures.**

Partially, we support third party assurance of issuers climate-related disclosures for large and high climate impact companies but would support the phasing of this requirement over time to allow for smaller and less climate impactful companies. Introducing it for the largest and most climate-material companies but phasing for others would allow a) for companies to learn from larger (presumably better resourced companies) and b) those providing the service to build skills and capacity.

We support the inclusion of climate risks as part future audits/ audit quality assessments and auditor skills and knowledge.

**Q14.** **Do you have any feedback on the interactions between our proposed rule and the role of sponsors in assisting premium listed issuers?**

We would strongly recommend specific requirements on the skills and knowledge of sponsors in this regard. Climate risk is complex and manifests itself in many ways that pose significant financial risk. The level of skills and knowledge in the finance sector, whilst improving, are still woefully short of the levels needed to address climate-related financial risk.

“We will support the development of skills, knowledge and professional standards of those intermediaries who are critical influencers in the action of investors and companies. These include, but are not limited to, investment consultants, actuaries, lawyers and auditors”   
*Brunel’s Climate Change Policy 2020.*

We would also propose that these need to be updated as part of CPD as climate risk, the tools and techniques and perceived appropriate practice are evolving rapidly.

**Q15.** **Do you have any other feedback related to the interaction between our proposed rule and existing legislative and regulatory requirements and industry standards and practice?**

We welcome the FCA’s intention to use a Technical Note to clarify when and how climate change and other ESG matters need to be taken into account to comply with the Listing Rules (LR), Disclosure Guidance and Transparency Rules (DTR), the Prospectus Regulation (PR) and the Market Abuse Regulation (MAR).

However, we think further work on the draft Technical Note would be needed to clarify how to apply the materiality tests that are basic legal tests for the regulations above. Moreover, the lack of a clear definition of ‘materiality’ undermines investor’s access to decision-useful information and exposes issuers to increased legal risks.

We support the IFRS accounting standards and the Financial Reporting Council (FRC) definition which both broadly define information as ‘material’ if it could reasonably be expected to influence the decisions of investors.

**Q16. Do you consider that our proposals adequately address the challenges, risks and unintended consequences described above? If not, what additional measures would you suggest?**

If the FCA is going to fulfil its objectives, then the proposals need to be supported by robust accountability and enforcement mechanisms. A clear definition of ‘materiality’ provides an essential principles-based test for climate-related and ESG disclosures to evolve in line with investors’ reasonable expectations.

**Q17. Do you agree that our new rule should take effect for accounting period beginning on or after 1 January 2021? If you consider that we should set a different time frame, please explain why?**

Yes, we agree with the 1 January 2021 implementation timescale.

**Q18. Do you agree with the conclusion and analysis set out in our cost benefit analysis (Annex 2)?**

No comment

**Q19. Do you agree with the guidance provided in the draft Technical Note set out in Appendix 2? Are there any changes that you would suggest? If so, please describe.**

See comments above relating to further clarity on the tests that issuers must apply to determine climate-related or ESG materiality.