

17 February, 2021

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Submitted by e-mail to: mark.manning@fca.org.uk; Federico.cellurale@fca.org.uk;
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Dear Mr. Manning, Mr. Cellurale & Mr. Heidrich,

CFA UK response to the FCA regarding PS20/17: proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations

Firstly, many thanks for sending through the above document to us as soon as the FCA published it. It was very helpful to be made immediately aware of it and to share it wider straight away with relevant CFA UK Society members.

CFA UK broadly welcomes the decisions the FCA has made within PS20/17 and are heartened to see that so many of the opinions expressed in our surveys and formal response letter to CP20/3 have been shared by many other respondents and endorsed by you.

We have, however, noted a few areas where in hindsight, and with the benefit of reading PS20/17, we may not have been as clear as we could have been in our original response to CP20/3. We therefore thought it worthwhile to clarify our thoughts in the three following areas:

SCOPE: (Questions 1,2)

We were pleased to read that you share our view that the application of TCFD reporting to premium-listed companies is only an interim measure. We were particularly encouraged by your reference to the upcoming BEIS review for consideration of the potential use of the Companies Act as the means by which to ensure that private and public companies will be treated equally in this regard in the future.

We do not wish to encourage companies to go private, or to avoid listing, to avoid obligations like reporting under TCFD. Also, whether a company is listed or private is of no direct consequence to either its carbon foot-print or its vulnerability to climate change. Many of our members invest in private equity and would welcome these disclosures not least because public IPO is a key exit-option for many private equity investments.

COMPLY-OR-EXPLAIN: (Question 7)

We concede that it was potentially confusing that we ran two surveys: one, a whole membership survey (<https://www.surveymonkey.com/results/SM-QB27S8GG7/>) on the broader subject of climate change which 300 of our members responded to and second, a more detailed survey (<https://www.surveymonkey.com/results/SM-GN7HGM8B7/>) with just 49 respondents

which honed-in on the questions in CP20/3 and the subject of issuer climate change disclosure reporting. The results of these two separate surveys should not be conflated. We had sought to prevent this in footnote 2 of our response letter and in our answer to question 7. We apologise if that had not been clear.

The comply-or-explain questions featured in the second 'expert' survey with 49 respondents focusing on climate disclosures and not in the first 'whole membership' survey of 330:

- The first question (Qu.3) asked whether members support the FCA proposal of a comply-or-explain approach and 40 of 48 respondents (83%) did - and so one locates the figure which you cite in PS20/17, but do so unfortunately relating to a survey of 300 (and not 49) investment professionals.
- For the working group, the more interesting results and those which guided our answer to question 7, were those to the next question (Qu.4) of the same survey which asked the same 49 experts whether they would prefer (i) mandatory disclosures; (ii) part-mandatory or part comply-or-explain; (iii) just comply-or-explain; or (iv) mostly voluntary. The most popular response (22, or 46%) by far was for part-mandatory, part comply-or-explain. We then went on to propose which areas of TCFD reporting should be mandatory and which comply-or-explain.

This is a complex area to unpick, but we see two immediate consequences that emerge from this:

- First, we would ask that you closely consider the specific recommendations made in our answer to question 7 of CP20/3 when shaping your proposals in the next consultation on this issue. Our recommendations identified the four specific areas of reporting listed below that we felt could lead the way and should be made mandatory:

Governance:

a) Describe the board's oversight of climate-related risks and opportunities.

Strategy:

a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

Risk Management:

b) Describe the organization's processes for managing climate-related risks.

Metrics and Targets:

a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

- Second, we leave the decision with you as to whether you need to correct the statement in 3.41 of PS20/17 when you consult again on this matter.

SPONSORS: (Question 14)

We agree with your analysis and description of the important role that sponsors should play in ensuring TCFD disclosures (which are of course now required of premium listed clients) going forward.

We wish to highlight that our members are investors both in fixed income and equity products and that therefore these disclosures should appear in relevant bond documentation (bond/MTN programme documentation) for such companies.

For this to happen, it may mean the definition of ‘sponsor’ needs to be more precisely - and perhaps more widely – defined, than may have been the original intention. We think this would be welcomed for those CFA UK members active on the fixed income side. Most importantly it would establish the proper precedent for the future when more companies and issuers fall into the scope of TCFD reporting.

We hope very much that these points of clarification are helpful. Should you wish to discuss any of this further, we and the members of our working group would be happy to assist.

Yours sincerely,



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