



**ICGN**

International Corporate Governance Network

Department for Business, Energy, and Industrial Strategy  
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**Subject: Mandating climate-related financial disclosures by publicly quoted companies, large private companies, and LLPs**

The International Corporate Governance Network (ICGN) is pleased to respond to the Department for Business, Energy, and Industrial Strategy (BEIS) consultation on mandating climate-related financial disclosures by publicly quoted companies, large private companies and limited liability partnerships (LLPs).

Led by investors responsible for assets under management in excess of US\$54 trillion, ICGN is a leading authority on global standards of corporate governance and investor stewardship. Our membership is based in more than 30 countries and includes companies, advisors and other stakeholders. ICGN's mission is to promote high standards of professionalism in governance for investors and companies alike in their mutual pursuit of long-term value creation contributing to sustainable economies world-wide.

ICGN offers an important investor perspective on corporate governance to help inform public policy development and to encourage good practices by capital market participants. Our policy work is conducted through five committees, including our Disclosure and Transparency Committee (DATC) which focuses on enhancing company communications through robust integrated reporting, quality audit and metrics. DATC members have supported and contributed to the formulation of this response.

ICGN recognises the urgency of addressing climate change as a systemic risk, and that this is a matter of great importance for investors, companies, and society more broadly. At a macro level, we encourage governments to establish and disclose a net zero target for their economies, accompanied with an action plan for achievement. This will help incentivise the market – companies and investors – to embrace the risks and opportunities presented by climate change and our transition towards net-zero. This means weaning our dependence away from fossil fuels and mobilising private capital towards sustainable environmental and social infrastructure. This, in turn, will help optimise the world's finite resources while fuelling economic growth. In doing so, companies that commit to transitioning towards net-zero carbon emissions will not only mitigate the negative effects of climate change, but also benefit from opportunities arising from renewable energy, resource efficiency and smart technology.

To accelerate this transition, we share the view with BEIS that disclosure requirements can be a positive mechanism for change for individual companies. They encourage companies to explain to investors how they embed the effects of climate change in their business models and risk management systems to ensure they are properly identified, measured, monitored and managed.

In recognition of this, ICGN's own Global Governance Principles ("ICGN Principles") have been updated this year (subject to Member approval at the ICGN AGM in September) with a greater focus on the responsibility of the board for the governance of sustainability and its integration with company strategy, risk and innovation. Of particular relevance is new Guidance 7.5 regarding climate-related disclosure as follows:

*"The board should assess the impact of climate change on the company business model and how it will be adapted to meet the needs of a net zero economy as part of a long-term strategy. This includes setting and disclosing a clear plan to reduce carbon emissions and a period for achievement. Where climate change risks, whether physical or transitional, are identified as material and relevant, reporting should include discussion of the diligence process, strategy, metrics, targets and initiatives used to manage the risks. This disclosure would help investors understand the resilience of companies facing climate change risks and to assess progress towards achieving net zero targets."*

We agree with BEIS that the reporting framework developed by the Task Force on Climate-related Financial Disclosures (TCFD) is regarded credibly and is widely used in markets around the world. A 2020 ICGN Viewpoint on boards and climate change articulates investor expectations regarding how board should govern for climate related risks. This Viewpoint report made specific reference to the TCFD as a key foundation both for board awareness and governance of climate risks – and an important source of information concerned about climate change impacts on investee companies.<sup>1</sup>

ICGN's response to the recent IFRS Foundation consultation on sustainability reporting also encouraged the proposed Sustainability Standards Board (SSB) to consider how the TCFD framework might feature as part of its overall standard setting.<sup>2</sup> The four pillars of the TCFD -- governance, strategy, risk management and metrics/targets -- have a logical and intuitive appeal. We believe this is a simple structure that can lend itself well to other forms of sustainability reporting beyond climate risk.

Against this background we are supportive of the BEIS proposal to mandate TCFD disclosures in the UK for publicly quoted companies, large private companies, and large limited liability partnerships (LLPs). It is a natural complement to the UK government's strategy for leadership in green finance, and we think the specific proposals outlined in the consultation are sensible. As a specific point we would support the initial focus to be on the four basic pillars of the TCFD, but would also support a requirement that a Premium listed company will be required to report against the 11 detailed TCFD recommendations.

However, we would like to make a few observations:

### **Beyond climate?**

The urgency of climate risk warrants the attention and prioritisation it is receiving. Having said that, climate risk is not the only systemic risk that is relevant to companies and investors.

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<sup>1</sup> ICGN Viewpoint, *The Board of Directors & Climate Change*, July 2020: <https://www.icgn.org/board-directors-climate-change>

<sup>2</sup> ICGN comment letter on the IFRS Foundation's Consultation Paper on Sustainability Reporting, 21 December 2020: <https://www.icgn.org/sites/default/files/27.%20ICGN%20Letter%20to%20IFRS%20Foundation's%20Consultation%20Paper%20on%20Sustainability%20Reporting.pdf>

There are many other pressing sustainability issues that pose material risks to companies, investors, and financial markets, including the 17 Sustainable Development Goals relating to both natural capital and human capital. In view of this the ICGN Principles have been updated to emphasise that corporate boards should adopt a comprehensive approach to the oversight of systemic risks such as ecological degradation, social inequality and digital transformation that affect company sustainable value creation and preservation and reviewing policies annually, or with any significant business change. Risk oversight should extend beyond financial capital to include human capital and natural capital and in particular, systemic risks identified in the United Nations Sustainable Development Goals.

With initiatives currently in place globally to develop international standards for sustainability reporting, it is our hope in the UK and other jurisdictions that sustainability reporting will come to be mandated for a broader range of factors than climate alone.

### **International standards**

ICGN has long encouraged the integration of financial reporting with sustainability reporting and has advocated for the consolidation of sustainability standards and frameworks globally to achieve greater quality, consistency, and comparability of environmental, social and governance (ESG) information. While initiatives such as the development of a Sustainability Standards Board create a hope for greater consolidation globally, at present we remain in a state of flux. But is important that as global standards evolve and consolidate relating to climate reporting (or other sustainability factors) that the UK will be aligned with global standards as they develop. This might involve the TCFD or could potentially evolve to another reporting framework that builds international acceptance. Therefore, we agree with the BEIS comment in the consultation paper that the currently proposed use of TCFD should not hinder the ability of the UK to align against prevailing international standards, as they evolve.

### **Audit and links to financial accounting**

We are aware of the separate BEIS consultation on corporate governance and audit reform that is under way. Audit of financial statements and assurance relating to non-financial reporting are important to provide rigour and quality to the reporting process. We agree that auditors should be required to consider if there is material inconsistency between climate reporting and a company's financial statements, and whether climate risks should be reflected in the financial statements themselves through cost allocation and asset valuation.

We hope that our comments are helpful, and we look forward to engaging with you in this or other matters where we could provide meaningful input. Should you wish to discuss our comments further, please contact me or George Dallas, ICGN's Policy Director, by email at [george.dallas@icgn.org](mailto:george.dallas@icgn.org).

Yours faithfully,



**Kerrie Waring,**  
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