



Quoted Companies Alliance

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Friday 10 September 2021

Dear Thorben,

**Enhancing climate-related disclosures by standard listed companies and seeking views on ESG topics in capital markets**

We welcome the opportunity to respond to your consultation on Enhancing climate-related disclosures by standard listed companies and seeking views on ESG topics in capital markets.

The Quoted Companies Alliance *Accounting, Auditing and Financial Reporting Expert Group* and *Corporate Governance Expert Group* has examined the proposals and advised on this response from the viewpoint of small and mid-sized quoted companies. A list of Expert Group members can be found in Appendix A.

In taking forward any proposals relating to the enhancement of climate-related disclosures, we stress the importance of the regulator and UK Government being mindful of the developments within the TCFD's recommendations and guidance. While the TCFD's recommendations are recognised and broadly accepted globally, it is important that changes to these are monitored on an ongoing basis, and that the FCA and Government do not simply adopt the recommendations prior to changes being made that could materially deviate from the original recommendations.

For instance, the additional metrics for TCFD disclosure added in 2021 will create much higher burdens for companies. In this light, the regulator should issue guidance so that companies, and especially those at the smaller end of the markets, understand how to comply or explain with the TCFD recommended disclosures, and in particular with regards to the metrics.

At present, there is a greenhouse gas (GHG) emissions data paucity at the bottom end of the market. This means it will be very challenging for the smallest companies to report on this, and for small cap portfolio fund managers to report on aggregate carbon data. A situation must not arise whereby small companies, and investors in these small companies, cannot comply with the TCFD disclosures, and as a result of this, investment is steered away from such companies. This would be a perverse outcome, as it is often smaller, more innovative companies that contribute products and services that help provide solutions to the climate change challenges being faced.

The QCA does, however, recognise that these additional disclosures are inevitable, but it is imperative that there is support for less well-resourced companies in order to ensure they are able to comply or explain with the requirements. As suggested, this could be achieved with the regulator publishing guidance on how they expect companies to comply or explain with the TCFD recommended disclosures.

In order to effect such guidance, please would you advise who is the best person to speak to at the FCA.

If you would like to discuss our response in more detail, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'TW', is positioned below the closing text.

Tim Ward  
Chief Executive

**Q1 Do you agree with our proposal to extend the application of our existing TCFD-aligned disclosure requirement (set out in LR 9.8.6R(8)) to issuers of standard listed equity shares, excluding standard listed investment entities and shell companies? If not, what alternative scope would you consider to be appropriate, and why?**

Yes – the QCA is supportive of the proposal to extend the application of the existing TCFD-aligned disclosure requirement to issuers of standard listed equity shares. In effect, the Department for Business, Energy and Industrial Strategy’s (BEIS’s) own consultation creates partial overlap with the scope of the proposed Listing Rules in this consultation.

The basis of our support for the proposed extension is centred on the guidance set out in LR 9.8.6R(8), and more specifically, the consideration of proportionality (as described in para 3.31(a)). As highlighted in the consultation, the majority of in-scope standard listed companies (as measured by market capitalisation) are small and mid-sized, with around two-thirds of the total number having a market capitalisation below £250 million. It is, therefore, important that the guidance explicitly notes that the appropriate level of detail for an in-scope listed company’s disclosures is contingent on the “nature, size and complexity of the listed company’s business”. It is important that guidance is provided by the FCA.

**Q2 Do you consider that issuers of standard listed GDRs and standard listed issuers of shares other than equity shares should also be subject to our TCFD-aligned disclosure requirements? If not, what alternative approach would you consider to be appropriate, and why?**

Yes – the QCA considers that issuers of standard listed GDRs and standard listed issuers of shares other than equity shares should also be subject to the TCFD-aligned disclosure requirements.

**Q3 We welcome views from market participants on whether to apply TCFD-aligned disclosure rules to issuers of standard listed debt (and debt-like) securities, and how best to do this. In particular, we seek input on the following:**

**a) What climate-related information from issuers of these securities would market participants find decision useful and how far would these information needs be met by TCFD-aligned disclosures?**

The QCA considers that this should be addressed predominantly by investors and other users of the disclosures. That being said, it is important that there is standardisation, and as such, disclosures aligned with the TCFD framework would be appropriate. That being said, the disclosures must be proportionate, taking into account the size and level of resources of the issuer.

**b) Do market participants’ information needs differ according to the different types of issuer in LR 17?**

No – on the whole, the QCA does not consider that information needs differ.

**c) If you consider that we should apply TCFD-aligned disclosures rules to issuers of standard listed debt (and debt-like) securities, should some issuer types be excluded from the rule to deliver an effective and proportionate approach? If so, which types of issuers should be included/excluded and how can the scope best be defined?**

In the first instance, we do not consider that debt securities should be captured. Issuers of standard listed debt (and debt-like) securities are a very diverse population, and a more appropriate approach would be to apply the requirements to issuers of standard listed equity share first. Following this, the requirements can be applied more widely to debt issuers, who will be in a better position to comply.

- d) Are there any other matters we should take into consideration – e.g., competitiveness, complexity of the application of the rule, burden on issuers in LR 17, or the feasibility to comply with any potential rules?**

We have no comments.

**Q4 Do you agree with our proposal to mirror the structure and wording of LR 9.8.6R(8) and LR 9.8.6BG to LR 9.8.6EG for companies with a UK premium listing? If not, what alternative approach would you consider to be appropriate, and why?**

Yes – we agree with the proposal to mirror the structure and wording of LR 9.8.6R(8) and LR 9.8.6BG to LR 9.8.6EG for companies with a UK Premium Listing. In particular, and as mentioned in our answer to Q1, we stress the importance of the wording contained in para 3.31(a) concerning the “nature, size and complexity of the listed company’s business” in determining the appropriate level of detail needed in the company’s disclosure. As previously mentioned, guidance for both investors and issuers (particularly small-cap) is essential.

**Q5 Do you agree that, subject to the TCFD’s final guidance materials being broadly consistent with those proposed, we should incorporate them into our existing and proposed handbook guidance provisions as described (including both the existing guidance relating to LR 9.8.6R(8) and our proposed new guidance relating to LR 14.3.27R):**

- a) the TCFD’s proposed updates to the TCFD Final Report and TCFD Annex**
- b) the TCFD’s proposed standalone guidance document on metrics, targets and transition planning**
- c) the TCFD’s technical supplement on measuring portfolio alignment**

Yes – broadly, the QCA believes that, subject to the TCFD’s final guidance materials being broadly consistent with those proposed, they should be incorporated into the FCA’s existing and proposed handbook guidance provisions. It is important that there is as much standardisation as possible, and the TCFD guidance should be kept up to date in the listing rules.

However, it should be noted that, from a smaller company perspective, the guidance is extensive and the current wording of the FCA Listing Rule can be interpreted as meaning some or all of this guidance must be considered by companies in arriving at their disclosures required by the Listing Rule. This means there is a large amount of additional material for companies to consider and apply. It would be helpful if the FCA could clarify the status of the guidance, which should be viewed as additional guidance for entities to consider when preparing their disclosures rather than effectively adding additional disclosure requirements.

Moreover, we would stress that the FCA, and UK Government, need to be mindful of any substantive changes to the TCFD’s final guidance materials, particularly where they deviate significantly from the TCFD’s 2017 recommendations. For instance, the new incremental financial reporting guidance includes a lot more metrics and will be more onerous for issuers. It is important that a situation does not arise whereby the FCA

and/or Government signs up to following the TCFD without having control of these standards or knowing the direction of travel that these standards will take.

**If not, what alternative approach would you prefer?**

We have no comments.

**Q6 Do you agree that we should update the Technical Note 801.1 to reflect the proposed new rule and associated guidance in this CP?**

Yes – we agree that the Technical Note should be updated to reflect the proposed new rule and guidance.

**Q7 Do you agree with our encouraging listed companies to consider the SASB metrics for their sector when making their disclosures against the TCFD’s recommended disclosures, as appropriate? If not, please explain.**

Yes – we agree with the FCA encouraging listed companies to consider the SASB metrics for their sector when making their disclosures against the TCFD’s recommended disclosures. The SASB standards are helpful for companies in trying to comply with the TCFD recommended disclosures on metrics and targets. However, we stress that the FCA must only encourage companies, rather than require them to consider SASB metrics.

**Q8 Do you agree with our approach to maintain a ‘comply or explain’ compliance basis until such time as a common international reporting standard has been published and adopted in the UK? If not, what alternative approach would you prefer, and why?**

Yes – we agree with the “comply or explain” approach until a common international reporting standard has been published and adopted.

**Q9 Do you agree with our approach not to require third-party audit and assurance for issuers’ climate-related disclosures at this time? If not, what additional requirements would you consider to be appropriate?**

Yes – the QCA agrees with the approach not to require third-party audit and assurance for issuers’ climate-related disclosures at this time. This seems logical given the significant changes in the audit and assurance market at present. In particular, if the proposed changes in the BEIS audit and corporate governance reform consultation are taken forward, there will be significant supply shortages in the audit market. The addition of a requirement for third-party audit and assurance for issuers’ climate-related disclosures will exacerbate this problem.

As identified in the consultation, the market is still very much in a developmental stage in terms of its approach to climate-related disclosures.

**Q10 Do you agree that our new rule should take effect for accounting periods beginning on or after 1 January 2022? If you consider that we should set a different timeframe, please explain why.**

We have no comments.

**Q11 Do you agree with the conclusions and analysis set out in our cost benefit analysis (Annex 2)?**

We have no comments.

**Q12 If future changes were considered in relation to the UK prospectus regime, we would welcome views on also taking the opportunity to introduce specific requirements in relation to UoP bond frameworks and their sustainability characteristics?**

At present, we do not consider that it is appropriate to introduce specific requirements in relation to UoP bond frameworks and their sustainability characteristics. As this is a fairly new area for most, it is important to manage the implementation of requirements to ensure they are not introduced too quickly.

**Q13 Should the FCA explore supporting the UoP bond market by recognising existing standards (eg, ICMA Principles), potentially through our recognition of industry codes criteria and process?**

We have no comments.

**Q14 We would also welcome views on more ambitious measures the FCA could consider, for example to require that the central elements of UoP bonds be reflected in contractual agreements and set out in the prospectus.**

We do not consider that this is appropriate at present. This should be a longer-term goal.

**Q15 We would welcome views on the potential harm set out above and what, if any, actions the FCA or the Treasury should consider.**

We have no comments.

**Q16 Should the FCA, alongside the Treasury, consider the development and creation of a UK bond standard, starting with green bonds?**

We have no comments.

**Q17 Do you agree with how we have characterised the challenges and potential harms arising from the role played by ESG data and rating providers? If not, please explain what other challenges or harms might arise?**

We have no comments.

**Q18 Would further guidance for firms on their use of ESG ratings – and potentially other third-party ESG data – be useful, potentially clarifying expectations on outsourcing arrangements, due diligence, disclosure and the use of ratings in benchmarks and indices? Are there other aspects such guidance should include?**

We have no comments.

**Q19 We would welcome views on whether there is a case either to encourage ESG data and rating providers to adopt a voluntary Best Practice Code, or for the FCA to engage with the Treasury to encourage bringing ESG data and rating providers' activities inside the FCA's regulatory perimeter.**

We have no comments.

**Q20** If there is a case for closer regulatory oversight of ESG data and rating providers, we welcome views on:

- a) Whether transparency, governance and management of conflicts of interest are the right aspects of ESG data and rating providers' operations and activities to prioritise in regulatory oversight, and if not, what other aspects should be considered
- b) Whether and how regulatory priorities should differ between ESG rating providers and other ESG data providers
- c) The similarities and differences between the policy issues that arise for ESG rating providers and those that arise for CRAs, and how far these similarities and differences might inform the appropriate policy response

We have no comments.

**Q21** What other ESG topics do you consider that we should be prioritising to support our strategic objective? Please explain.

We have no comments.

## **Appendix A**

### **The Quoted Companies Alliance *Accounting, Auditing and Financial Reporting Expert Group***

Rochelle Duffy (Chair)	PKF Littlejohn LLP
Elisa Noble (Deputy Chair)	BDO LLP
Edward Beale	Western Selection PLC
Matthew Brazier	Invesco Asset Management Limited
Anna Hicks	Saffery Champness LLP
Mark Hodgkins	Trackwise Designs PLC
Matthew Howells	Smith & Williamson LLP
Michael Hunt	ReNeuron Group PLC
Clive Lovett	Bilby PLC
Laura Mott	Haysmacintyre
Giles Mullins	Grant Thornton UK LLP
James Nayler	Mazars LLP
Matthew Stallabrass	Crowe UK LLP
Helena Watson	KPMG LLP
Peter Westaway	Deloitte LLP

### **The Quoted Companies Alliance *Corporate Governance Expert Group***

Will Pomroy (Chair)	Hermes Investment Management Limited
Tracy Gordon (Deputy Chair)	Deloitte LLP
Anthony Appleton	BDO LLP
Edward Beale	Western Selection PLC
John Beresford-Pierse	Hybridan LLP
Amanda Cantwell	Practical Law
Richie Clark	Fox Williams LLP
Kathy Cong	Prism Cosec
Louis Cooper	C/o Non-Executive Directors Association (NEDA)
Edward Craft	Wedlake Bell LLP
Ed Davies	LexisNexis
Tamsin Dow	Hogan Lovells International LLP
Peter Fitzwilliam	Mission Marketing Group PLC
David Fuller	CLS Holdings PLC
Nick Graves	Burges Salmon
Ian Greenwood	Korn Ferry
David Hicks	Charles Russell Speechlys LLP



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Kate Higgins	Mishcon De Reya
Daniel Jarman	BMO Global Asset Management LLP
Colin Jones	Candid Compass
Tim Kendall	Vistra Limited
Kam Lally	Wedlake Bell LLP
Kalina Lazarova	BMO Global Asset Management LLP
Darius Lewington	LexisNexis
James Lynch	Downing LLP
Paul Norris	MM & K Limited
Laura Nuttall	One Advisory Group Ltd
Jack Shepherd	CMS
Julie Stanbrook	Slaughter and May LLP
Peter Swabey	C/o ICSA
Chris Taylor	Young & Co's Brewery Plc
Melanie Wadsworth	Faegre Baker Daniels LLP
Joan Yu	Armstrong Teasdale