RE: Proposals to enhance climate-related disclosures by listed issuers and clarifications of existing disclosure obligations

Dear Mr Cellurale, dear Mr Manning,

BlackRock\(^1\) is pleased to have the opportunity to respond to the consultation paper “Proposals to enhance climate-related disclosures by listed issuers and clarifications of existing disclosure obligations” (hereafter the “consultation paper”) issued by the Financial Conduct Authority (FCA).

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We support the UK’s leading voice in calling for companies and asset owners to disclose their climate-related financial risks, and indeed consider that the FCA could go further than the proposals discussed here. This is in line with our own efforts, whereby we expect all public companies our clients are invested in to be ready to disclose by next year.

We welcome the opportunity to comment on the issues raised by this consultation paper, and welcome further discussion on any of the points that we have raised.

Yours sincerely,

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\(^1\) BlackRock is one of the world’s leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.
Introduction

As an asset manager, BlackRock has a fiduciary responsibility to protect and enhance the value of assets clients have entrusted to us. Climate change poses risks and opportunities that may impact the long-term financial sustainability of the companies in which we invest on behalf of our clients. BlackRock views climate risk as an investment risk which will fundamentally reshape finance.²

In January we announced a series of initiatives to accelerate our sustainability efforts and make sustainable investing our standard.³ Of direct relevance to this consultation is the call from our Chair and CEO, Larry Fink to investee companies worldwide to report their climate and broader environmental, social and governance (ESG) risks and opportunities against the TCFD and SASB (Sustainability Accounting Standards Board) frameworks. This was an evolution of our engagement over several years now with public companies, particularly with those in carbon-intensive industries. Year after year, we have been in direct dialogue with company leadership to understand how a company's strategy, operations and long-term performance would be affected by the transition to a low-carbon economy and other climate risks. This year, we reinforced our expectations and stated that we stand ready to take voting action against management and board directors when companies are not making enough progress. Over the summer, we outlined the voting and engagement actions we had taken with those companies the 2020 voting season.⁴

In addition, we are helping our clients to assess the materiality of sustainability, including climate, considerations in their investment decisions, and we are integrating such considerations in the investments we undertake on their behalf. We are also working on enhancing the transparency of the sustainability risks of their investments, which includes providing data on the carbon footprint for BlackRock investment funds. Finally, as a publicly-traded corporation, BlackRock itself is committed to providing meaningful sustainability information to its own stakeholders. Our current climate-related corporate reporting can be found in our Carbon Footprint Factsheet as well as our annual CDP Climate Change submission, which is aligned to the TCFD Framework. We scored an A-on our last CDP submission. Earlier this year, we have disclosed our ESG-related information using the sector-based SASB framework and, we will also disclose our own BlackRock Inc., TCFD report by the end of this year.

Executive summary

1. While we are broadly supportive of the FCA’s objectives, we are concerned that the suggested approach is not ambitious enough. There is a risk that a comply or explain approach, especially from 2022 only, could have the unintended consequence of slowing down the progress made thus far through investors’ ongoing stewardship efforts. We recommend the FCA start applying the rules from 2021, and that disclosure be mandated apart from exceptional circumstances.

We have been engaging for several years with companies – particularly those in carbon-intensive industries – regarding the need to enhance disclosure of climate risks and how they will impact business models over time. We began this process with a series of letters in 2017 and 2018, prioritising companies with the most carbon-intensive business models where BlackRock’s clients collectively were significant shareholders. Thereafter, in January this year, BlackRock communicated our expectation that all the listed companies our clients invest in should disclose climate-related risks in line with the TCFD’s recommendations by 2021. This expectation kicked-off in this year’s voting season and will continue in the next.

The UK has been at the forefront of corporate governance and stewardship and we believe the proposed rules might undermine its leading position. By sending a signal that disclosure is not expected until 2022, there is a risk that instead of reinforcing the continuous engagement by investors to date, the proposed approach could slow down the progress being made by UK issuers and their investors. We think a reasonable expectation for issuers in the UK is to disclose their climate-related information in time for the 2021 voting season. According to IVIS, the Investment Association’s corporate governance services, there has been a significant increase in FTSE 100 companies disclosing against the TCFD recommendations in 2020. Investors have been engaging with companies in the UK on this topic for several years now. We recognise that other jurisdictions are at different stages in terms of climate risk management and disclosures relevant to investors. But for a country like the UK, given the advances made by UK issuers coupled with their investors’ stewardship efforts, we believe practices are developed enough to make TCFD mandatory for UK commercial listed issuers.

A ‘comply or explain’ approach implies a wide degree of optionality. Clearly in some exceptional circumstances issuers will have legitimate reasons for not being able to make certain disclosures, and the rules should be flexible enough to accommodate this, but except in those circumstances, disclosure in a country such as the UK should be mandatory. We are concerned that otherwise UK issuers could view the FCA’s proposed approach as resetting the clock on their investors’ expectations, allowing laggards to interpret the proposed rules as a way to delay their adoption of TCFD even further. To ensure companies act on the FCA’s and their investors’ expectations, we would recommend strengthening the requirements for non-compliance such that it would only be accepted under exceptional circumstances.

We also see merits in including standard-listed companies in scope, as investors do not distinguish between premium- and standard-listed companies in their stewardship efforts. Consultation paper. This includes when engaging on the materiality of these companies’ climate risks. In the case of the UK, our January expectations on TCFD-aligned reporting are addressed to

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5 According to IVIS, the Investment Association’s corporate governance research services, the number of FTSE 100 companies making TCFD-recommended disclosures has more than doubled in the last year. The majority of these companies now report or have already reported against at least one of the four pillars of TCFD.
both premium-listed and standard-listed issuers, and we think this is a reasonable expectation given the ongoing efforts by companies in the UK to date.

2. **We agree with the FCA’s approach regarding climate disclosures by ‘asset managers’.**

The FCA’s distinction between climate information needs of shareholders of the listed asset management company and its clients is sensible. The former group would be more interested in enterprise level reporting as this would concern the material climate financial risks of the companies they invest in. Clients of an asset manager, on the other hand, would be more interested in portfolio-level disclosures with information on climate integration and reporting on investment strategies and products. We have adopted a similar distinction in our own climate-related disclosures to our shareholders and clients.

3. **We recommend a consistent approach across the financial sector, backed up by concerted efforts between the UK authorities to ensure a smooth and coherent adoption of TCFD by UK financial institutions.**

Building on the UK Government-led cross-regulator taskforce on disclosures, which was announced in the Green Finance Strategy, we would recommend a cohesive approach towards TCFD integration and reporting across the financial sector.

End-investors, saving for retirement or otherwise, need comparability between issuers to be able to make informed decisions. This is recognised in the consultation paper’s Figure 2 on page 15 where the FCA highlights that “consumers (…) may be unable to assess which products meet their needs” in the absence of enhanced climate disclosure by issuers and throughout the investment chain. Different rules for different parts of the financial ecosystem might make it harder for end-investors to navigate. Further concerted efforts between the relevant UK authorities would enable a smoother adoption of the TCFD framework and better support the various parties in the investment chain and the end-investor.

We also recommend greater policy cohesion within UK legislation. As recognised in the consultation paper, the information required from the TCFD framework partly overlaps with the pre-existing Streamlined Energy and Carbon Reporting (SECR) regulation. The asset management entities in scope of the current SECR requirements consist of entities, at both the corporate and product levels, that must comply with the Companies Act 2006. We anticipate that the scope between entities captured by SECR and between those likely to be subject to TCFD by the FCA will partly overlap. **When considering how best to enhance climate-related disclosures by FCA-regulated firms, we would ask for streamlining of the SECR requirements.** This would serve to avoid duplicative efforts and confusion for the reader by accepting the disclosure on energy usage and carbon emissions at a broader level (such as the group in which the corporate entities and products sit).

4. **We will continue to expect that UK issuers disclose, or accelerate their efforts to disclose, their broader, material ESG considerations, alongside their TCFD information.**

Finally, in the Feedback Statement following this consultation we recommend that the FCA encourage **investors in UK listed issuers to stress their expectations on the disclosures on broader sustainability-related material information by premium listed issuers.** In January, we stated our expectation that investee companies report both their TCFD- and SASB-aligned information as we view climate risks as well as the broader ESG risks as increasingly important factors for the prosperity of companies, and therefore of our clients’ investments. UK issuers must be clear that their investors are interested in their broader ESG / sustainability disclosures and should not view the current proposals as a reasonable justification for a narrow approach. In fact,
we believe the TCFD framework’s structure around four pillars — Governance, Strategy, Risk Management, Metrics and Targets — is applicable to corporate reporting of all business relevant or material environmental and social risks and opportunities. We are suggesting broadening the discussion to other sustainability risks and associated metrics as highlighted in the SASB materiality map.⁶

⁶ https://www.sasb.org/standards-overview/materiality-map/
Responses to questions

1. **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?**

We disagree. While we understand the rationale for limiting the initial scope of companies to commercial premium-listed issuers, we expect all UK issuers where our clients are invested to disclose, and to do so by 2021. Investors, including BlackRock, do not necessarily distinguish between premium- and standard-listed companies in their stewardship activities, including when engaging on the materiality of climate risks. Our January expectations on TCFD-aligned reporting, in the UK, are addressed to all publicly-listed companies in the UK, i.e. both premium-listed and standard-listed issuers.

Further, with respect to the timing we believe disclosure requirements should apply from 2021, rather than 2022, as proposed. Since the publication of the TCFD final recommendations in 2017, companies have had time to familiarise themselves with the framework, all the more as their investors, including BlackRock, have been engaging with them on this topic year after year. By sending a signal that disclosure is not expected until 2022, we fear that our and other investors’ stewardship efforts might be undermined and allow lagging companies to delay adoption.

2. **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?**

We agree. Our main focus, as stewards protecting the long-term interests of clients, is that the underlying climate risk is being managed, regardless of ownership. Sovereign-controlled companies with a premium listing should comply like they do with other listing rules and FCA regulations. If necessary, they should explain if their different business model requires some alterations in approach.

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

We agree with the FCA’s approach regarding TCFD reporting by ‘asset managers’. We particularly welcome the distinction between the prime recipients of an asset manager’s climate related disclosures. Asset management companies that are publicly-listed issuers have two constituents using their climate-related financial disclosures: first, their shareholders who seek information about financial risks, including climate ones, material to the company they invest in and, second, their clients who want information about the climate risks and opportunities in the investment strategies and products offered by the asset manager. Disclosure in each case will assist both investors and clients in their decision-making.

The former group needs enterprise-level disclosure, as described in the consultation paper, and the latter is best addressed through portfolio-specific disclosures. Our Chair and CEO, Larry Fink, publicly committed to disclosing our own TCFD enterprise-level report by the end of 2020 and we are on track to do so. With regards to portfolio-level climate-related disclosure at the beginning of the year, we publicly described that we already publish data for BlackRock’s exchange-traded, iShares funds with their individual ESG score and carbon footprint. By the end of 2020, we intend to provide data on sustainability characteristics, including data on controversial holdings and carbon footprint, for all BlackRock mutual funds. This information will be available to all clients, including those in separate accounts. Relevant data from UK issuers would naturally help make the portfolio-level disclosures by asset managers more effective. We therefore support the FCA combining forces with investors in requesting that premium-listed companies disclose their climate-related information. We also take note of FCA’s Christopher Woolard’s [letter](#) to Pensions Minister Guy...
Opperman setting the intention “to consult on implementing client-focused TCFD-aligned disclosures for asset managers (...) in the first half of 2021”.

When determining the disclosure requirements for FCA-regulated asset manager entities, there are several factors the FCA should consider. In particular, we highlight the following:


We welcome the PRA’s and FCA’s initiative convening this Forum. BlackRock was one of the members participating in the Disclosures Working Group. The Forum will continue its work for a second year, which is likely to accelerate the disclosure of UK asset managers’ climate financial risks and opportunities. A potential area of future work could be to support and assess the adoption of the Guide by asset managers.

- *The disclosure of TCFD by an ‘asset manager’ can be made by different legal entities; it will be important for the FCA to clarify the exact scope and expectations.*

Cross-border asset managers whose main headquarters are outside the UK are likely to disclose their enterprise-level TCFD report from the jurisdiction where they are listed. This practice is adopted by other financial institutions, too. The question raised for such cross-border asset managers is whether enterprise-level TCFD disclosure by the issuer based outside the UK would satisfy the FCA that its regulated entity has disclosed climate-related information. For an asset manager operating in a multitude of countries and regions, we favour one broader TCFD report, rather than one per jurisdiction for each of its national regulated asset manager entities. In addition, the data with one enterprise-level TCFD report would be more complete and avoid confusing duplication for the company’s stakeholders, including its shareholders, clients and supervisors.

- *Streamlining pre-existing requirements on greenhouse gas emissions reporting for FCA-regulated asset manager firms.*

As noted in the consultation report (paragraph 2.13), UK legal entities must already report information on their greenhouse gas (GHG) emissions. The Streamlined Energy and Carbon Reporting requirement, based on the Companies Act (CA) 2013 and related 2013 and 2018 Regulations, apply to an asset manager’s UK-based entities that are “large unquoted companies” or “large limited liability partnerships” and products such as investment trusts as “quoted companies”. The FCA rightfully recognises the overlap in content (and potentially in scope) between their proposed reporting on climate-related information and the pre-existing reporting on energy usage and carbon emissions. Instead of a piecemeal approach to disclosing GHG emissions by the various asset manager entities and products in scope of the CA, we recommend the FCA and the other concerned governmental departments streamline the requirement for regulated entities and accept data on carbon emissions and energy usage at the broader (for instance group) level. Such streamlining would simplify access of the information for the end-reader and avoid duplicative efforts by asset managers.

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

Yes, we agree.

5. Do you agree that we should make explicit reference in 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?

An explicit reference in the Handbook to both the cross-sector TCFD recommendations and the sector-specific supplemental guidance might be useful. However, the reference would need to be revised to follow the updates of the supplemental guidance. As the FCA recognises that climate and broader sustainability disclosures is an evolving space, we would strongly recommend the FCA continues staying up to date and engaged with the resources produced by the relevant organisations such as TCFD, SASB, CFRF, among others.9

6. 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?

See our response to Question 5. The benefits of wider relevant references would guide issuers in navigating the TCFD literature but would require the FCA to update wording on a regular basis.

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

While we recognise the FCA is one of the first countries globally looking at climate disclosure so closely, we are concerned that the suggested approach, including the timing as discussed in our answer to Question 1, could have unintended consequences in slowing down the progress made thus far in the UK. In fact, this proposal might undermine the UK’s position at the forefront of corporate governance and stewardship matters.

Investors have been engaging on climate-related issues for several years and the framework should therefore be familiar to UK listed issuers as a whole. We recognise that other jurisdictions are at different stages in terms of climate risk management and disclosures relevant to investors. But for a country like the UK, given the advances made by issuers10 coupled with their investors’ stewardship efforts, we believe practices are developed enough to make TCFD mandatory for UK commercial listed issuers. A ‘comply or explain’ approach implies too wide a degree of optionality that lagging issuers might use to delay their climate disclosure. Clearly some issuers will have legitimate reasons for not being able to make certain disclosures, and the rules should be flexible enough to accommodate this, but except in such exceptional circumstances, disclosure in a country such as the UK should be mandatory.

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9 See, for example, the complementary handbook CDSB and SASB have produced with their “TCFD Good Practice Handbook”, September 2019.
10 See footnote 5.
8. **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, we agree that the recommended disclosures under the “governance” and “risk management” recommendations should not be subject to a materiality assessment as these themes should be included in annual financial filings, per the TCFD framework. We would expect all companies to be able to comment on the governance and risk management of climate change issues even if the materiality of these issues is relatively low.

However, we find paragraphs 4.36 and 4.37 of the CP confusing as there seems to be a distinction between the “governance” and “risk management” sections which would be in the “financial annual filings”, and the “strategy” and “metrics and targets” sections to appear in the “annual report”. If the “governance” and “risk management” sections are deemed material enough to be included in the annual financial filings of UK companies, we do not see the reason not to exclude from disclosing risks and opportunities under the “strategy” section, for example. We would ask for greater clarification about this distinction.

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

Yes, see our response to Question 8.

10. **Do you agree that no explicit guidance is needed to clarify that it would be acceptable for an issuer to explain non-disclosure of these recommended [governance and risk management] disclosures only on an exceptional basis?**

Yes, we agree.

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

We have a preference that the statement of compliance and the TCFD disclosures are made in the annual report, as this is an established best practice in Europe, though a stand-alone TCFD report with a reference or condensed version in the annual report is also acceptable. Climate-related financial information is financial information, and, on that premise, including climate financial disclosures in the annual financial report makes sense. In addition, this location will enable comparability, reliability and the highest level of oversight by the company’s management, which is an important governance mechanism for investors. Should the issuer opt to include their TCFD information in a separate report, to provide more details for example, we agree with the FCA that the issuer should reference its location in the annual report. In addition, the stand-alone TCFD should come out around the same time as the annual report so that it can inform our proxy voting as it will be relevant to investors’ voting decisions on the ballot, be they management- or shareholder-proposed. We recommend the FCA specifies that this point.

See also our response to Question 7 regarding the perceived distinction between the “annual report” and the “annual financial filings”.


12. 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?

Yes, as said in our answer to the previous question, a description of where the information can be found, in other words, a cross-referencing ‘table of contents’ is valuable guidance for their shareholders. The lack of reference would impair usability and comparability for their investors.

13. 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.

We understand the FCA’s initial hesitation in instituting third-party assurance. While it is an established practice in certain European jurisdictions, it is not necessarily the case in others, including the UK. A number of points arise with this question of third-party assurance, which we recommend the FCA consider in the future:

- Per our answer to Question 11, on the premise that TCFD information is financially material information, there could be a question whether the independent review of climate information should not be in scope of the existing annual audit of UK issuers rather than a separate one.
- Issuers and investors would seek clarity on whether the FCA or the Financial Reporting Council (FRC) / upcoming Audit, Reporting and Governance Authority (ARGA) sees itself using its supervisory competences on the annual reports of UK premium-listed issuers to include the supervision of their climate-related information.
- There could be a spectrum in the case of assurance, covering various aspects, including the presence of the required information in the annual report, the fair and accurate presentation of the data, additional diligence on some of the metrics and the consistency between the company’s targets and external benchmarks such as two-degree scenarios (see for example the Science-Based Target Initiative). It would be important to specify the scope of the third-party assurance on climate matters if this is the route opted by the UK authorities.

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

No comments.

15. 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 commend the FCA’s focus on climate related risks and we will continue engaging on this topic with UK investee companies. In order to keep the momentum high on the broader sustainability agenda, we would stress the importance for investors that issuers continue working on reporting their broader material ESG factors, alongside the climate specific ones. Broader ESG considerations remain essential for investors to further integrate material information in their investment decisions, and not least to respond to the 2020 UK Stewardship Code requirements. We would therefore ask the FCA to indicate to issuers, for example in the Feedback Statement following 11 See for example the independent third party’s report on the consolidated non-financial performance statement presented in the management report of French companies in consistency with ISAE3000.
this consultation, that their TCFD reporting exercise must not become a pretext to put broader ESG reporting on hold. Rather it should facilitate issuers to work on managing and disclose broader material environment and social factors.

As said earlier, BlackRock expects investee companies to disclose a TCFD- and broader SASB-aligned reports. These two frameworks consider the physical, liability, and transition risks associated with climate change and provide guidance to companies for disclosing material, decision-useful information that is comparable within each industry. SASB provides industry-specific standards for disclosing performance on material sustainability topics (including, but not limited to climate) to investors in a comparable manner. TCFD provides an overarching four-part framework applicable regardless of sector, (with limited additional guidance for select sectors) to report to investors about their governance, strategy, risk management, metrics and targets related specifically to climate risk. In fact, we believe the TCFD framework’s four pillars — Governance, Strategy, Risk Management, Metrics and Targets — are applicable to corporate reporting of all business relevant or material environmental and social risks and opportunities.

UK issuers could use resources available to support their reporting exercise. For example, in 2019, the SASB and the Climate Disclosure Standards Board (CDSB) issued their joint TCFD Implementation Guide to provide practical guidance for companies in fulfilling the recommendations and make the recommended disclosures in their main annual reports.¹²

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

We have made several suggestions earlier to avoid unintended consequences. We have recommended:
- Including standard-listed commercial companies, at least in the scope too, and requiring disclosure from 2021 – so as to align with investors’ ongoing expectations on TCFD reporting by both premium- and standard-listed UK issuers (see our answer to Question 1)
- Mandating TCFD reporting, given the progress made by UK issuers so far and the ongoing related engagement by their investors except in exceptional cases – to reinforce the issuer’s plan to disclose its TCFD information (see our answer to Question 7)
- Further considerations on third-party assurance or indeed on the relevant authority’s supervisory powers on climate disclosures by issuers – to appreciate the different avenues available to verify TCFD information (see answer to Question 13)
- An explicit reference of investors’ expectations on all sustainability risks and reporting aligned with TCFD and SASB – to ensure issuers continue to respond to their shareholders and wider stakeholders’ information needs (see answer to Question 15)

17. Do you agree that our new rule should take effect for accounting periods beginning on or after 1 January 2021? If you consider that we should set a different timeframe, please explain why?

We disagree. As said in our response to Question 1 and Question 7, the new rule should take affect for accounting periods beginning on or after 1 January 2020, with reporting beginning in 2021. The proposed timeline would slow down the already well-advanced expectations of investors investing in UK listed companies. BlackRock will be expecting TCFD-aligned reporting at the 2021 voting season as it did at this year’s voting season.

¹² See footnote 9.
18. Do you agree with the conclusion and analysis set out in our cost benefit analysis (Annex 2)?

Our experience is that it is likely that there will be more than one direct FTE working on preparing climate related disclosure. In addition, anecdotal evidence suggests that there is a significant difference between the cost of reporting for companies for which climate is less of a material issue, and the cost of extensive TCFD inspired strategic reviews based on scenario analysis for companies in carbon intensive sectors.

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

No comments.