

Association of  
Accounting Technicians  
(AAT) response to the  
FCA consultation  
“CP21/17: Enhancing  
climate-related  
disclosures by asset  
managers, life insurers  
and FCA-regulated  
pension providers”

# Association of Accounting Technicians (AAT) response to the FCA consultation CP21/17: Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers

## 1. Executive summary

### Highlighted text

- 1.1 Recent reports from the UN and the UK Climate Change Committee have shown that there is no time to lose in acting to prevent catastrophic climate change. AAT therefore strongly supports any efforts to increase the visibility of climate related risks in financial markets, and investment in particular. The driver of investment competition will be an important part of the UK net-zero ambition. Support the use of TCFD recommendations as a basis of reporting, as a consistent and widely adopted reporting standard.

## 2. AAT response to consultation

**Question 1: Do you agree with our proposed scope of firms, including the £5 billion threshold for asset managers and asset owners? If not, please explain any practical concerns you may have and what scope and threshold you would prefer.**

- 2.1. AAT notes that the £5bn threshold captures 98% of the UK asset management sector but nevertheless believes the threshold should be kept under review given investors utilising small asset managers may miss out on decision-useful TCFD information. AAT accepts that for those operating beneath the threshold, the costs of compliance may present some challenges but given many are undertaking this on a voluntary basis, it appears reasonable to consider reducing the threshold over time

**Q2: Do you agree with our proposed scope of products? If not, what types of products should, or should not, be in scope and why?**

- 2.2. The proposed scope of products appears reasonable.

**Q3: Do you agree with our phased implementation and timings? If not, what approach and timings would you suggest and why?**

- 2.3. As recent reports from the UN and the UK Climate Change Committee have clearly laid out, there is no time to lose when dealing with climate action. There is therefore a strong argument for bringing all businesses into scope in Phase 1 (January 2022).

**Q4: Would there be significant challenges in using proxy data or assumptions to address data gaps? If so, please describe the key challenges and implications as well as any preferred alternative approach.**

- 2.4. AAT accepts that this is still a developing area, and in some cases proxy data and assumptions may be required. AAT supports the view that where proxy data and assumptions are used, the rationale and methodology must be clear and unambiguous, and we would welcome government guidelines on this. This must not be a loophole to be exploited by those who either do not wish to go to the trouble of proper measurement or wish to obfuscate their true data.

**Q5: Do you agree with our proposals for the provision of a TCFD entity report, including the flexibility to cross refer to other reports? If not, what alternative approach would you prefer and why?**

- 2.5. AAT supports the proposals for the provision of a TCFD entity report but question the freedom to cross refer. The value of the report is that it is specific to the TCFD recommendations and should contain all relevant information in an easily accessible format. It should not be overly onerous for business to amalgamate the available information in a stand-alone report rather than cross-referencing what may be numerous other reports.

**Q6: Do you agree with our proposed approach to governance, strategy and risk management, including scenario analysis? If not, what alternative approach would you prefer and why?**

- 2.6. AAT agrees with the proposed approach, although would suggest that all reporting should attempt to be as accessible as possible to all potential interested parties, and not just a 'sophisticated institutional audience'.

**Q7: Do you agree that firms not yet setting climate-related targets must explain why not? If not, what alternative approach would you prefer and why?**

2.7. AAT accepts that the reporting of climate related targets should initially be on a 'comply or explain' basis although given the importance of the issues involved, a requirement to comply should be the ultimate objective. As AAT recently highlighted in its response to the FCA consultation on Diversity & Inclusion, the "comply or explain" approach, long established in the UK financial landscape, often leaves a great deal to be desired.

**Q8: Do you agree with our proposals for AFMs that delegate investment management services to third-party portfolio managers? If not, what alternative approach would you prefer and why?**

2.8. AAT agrees with the proposed approach that AFMs should bear the responsibility for reporting. However, we note that proposals on cross-referencing and refer back to our response to Q5 regarding all information being available in a single report.

**Q9: Do you agree with our proposals for asset owners to cross-refer to group-level, third-party or delegate reports, where relevant? If not, what alternative approach would you prefer and why? 43 CP21/17 Annex 1 Financial Conduct Authority Enhancing climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers.**

2.9. We refer back to our responses to Q5 and Q8 and propose that as the relevant information is available through group-level or third-party reporting, it should be the responsibility of the asset owners to collate that information into an easily accessible report. This would appear to be particularly important in this area as the suggestion is that this may be more likely to affect consumer investors.

**Q10: Do you agree with our proposed requirements for product or portfolio-level disclosures, including the provision of data on underlying holdings and climate-related data to clients on demand? If not, what alternative approach would you prefer and why?**

2.10. AAT supports the proposed requirements but reiterates that reporting at levels where consumer stakeholders are involved must be produced at a level of accessibility suitable to the audience, with a strong emphasis on decision-useful information

**Q11: Do you agree with the list of core metrics, including the timeframes for disclosure? If not, what alternative metrics and timeframes would you prefer and why?**

2.11. We agree with the core metrics listed and the mapping to the TCFD recommendations, not least given they are already firmly established metrics, widely used by the industry

**Q12: Do you agree that firms should calculate metrics marked with an asterisk according to both formulas set out in columns A and B of Appendix 3? If not, please explain why, including any challenges in reporting in accordance with either or both regimes.**

2.12. This appears to be a reasonable approach.

**Q13: Do you agree that, subject to the final TCFD guidance being broadly consistent with that proposed in the current consultation, our proposed rules and guidance should refer to: a. The TCFD Final Report and TCFD Annex in their updated versions, once finalised b. The TCFD's proposed guidance on metrics, targets and transition plans and the proposed technical supplement on measuring portfolio alignment. If not, what other approach would you prefer and why?**

2.13. AAT agrees with the proposed approach.

**Q14: Do you agree with our approach to additional metrics and targets? If not, what alternatives would you suggest and why?**

2.14. AAT would support the approach to additional targets and metrics and support the underlying attempts to drive reporting forward as quickly, and in as much detail, as possible. However, we would refer back to our response to Q4 on ensuring that 'best efforts' or similar phrases are not used as a method by businesses to limit their reporting responsibilities. Clear guidance on expectations will therefore be required.

**Q15: Do you agree with our approach to governance, strategy and risk management, including scenario analysis at product or portfolio-level? If not, what alternative approach would you prefer and why?**

2.15. AAT agrees with the approach and understands that scenario analysis will vary quite dramatically in detail and relevance according to the assets in question. Once again, the key driver is sufficiency of information and we believe that this is an area where potential investors will soon identify where such analysis has or has not been undertaken with due diligence, and will act accordingly to hold those entities to account.

**Q16: What form(s) could quantitative scenario analysis outputs at product or portfolio-level take? What do you consider the cost and feasibility of producing such outputs might be? How useful would such outputs be for users' decision-making?**

2.16. Relying on descriptive, written narratives can certainly be decision useful but, as a professional body for accountants, AAT naturally supports proposals to require quantitative scenario analysis and believes numerical data and models are likely to be very important in informing investment decisions. The costs of doing this should not be prohibitive, particularly because such analysis is likely to be being undertaken anyway, especially for portfolios with concentrated exposures or higher exposures to more carbon-intensive sectors.

**Q17: Do you agree with our proposed approach that would require certain firms to provide product or portfolio-level information to clients on request? If not, what approach and what types of clients would you prefer and why? 44 CP21/17 Annex 1 Financial Conduct Authority Enhancing climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers**

2.17. Like the FCA, AAT recognises that for some client relationships, public disclosures are not appropriate. AAT agrees that requiring firms to provide product or portfolio-level disclosures to such clients once in each 12-month period appears reasonable to ensure that their TCFD obligations can be met.

**Q18: Do you agree with our proposed approach for life insurers when mirroring an external asset manager's strategy? If not, what alternative approach would you prefer and why?**

2.18. AAT agrees with the FCA proposals in relation to life insurers mirroring a selected third-party asset manager's fund strategy and believes it is reasonable for the insurer to be able to rely solely on disclosures by the mirrored fund and simply cross-reference these.

**Q19: Do you agree with our specific proposals for asset owners, including the proposed threshold to exclude the smallest default schemes? If not, what alternatives would you prefer and why?**

2.19. AAT agrees with the proposal and notes that for many people (consumers in particular), this is where their investments will be held and therefore access to clear and accurate information is essential. The power of consumer investors should not be underestimated, and this level of reporting should not be skewed toward an audience of sophisticated, corporate investors.

**Q20: Do you agree with the analysis in our CBA? If not, we welcome feedback in relation to the one-off and ongoing costs you expect to incur and the potential benefits you envisage. Contextual information about your firm's size and structure would be helpful.**

2.20. The cost benefit analysis appears to be broadly in line with what AAT would expect although it should be noted that as we are not asset managers, we are not best placed to comment on this particular CBA. That said, these new requirements are certainly likely to help manage climate-related risks and opportunities more effectively and should also direct capital towards projects and activities that better support the transition to a more sustainable, low-carbon economy.

### 3. About AAT

- 3.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 5,000 licensed accountants who provide accountancy and taxation services to over 500,000 British businesses.
- 3.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

### 4. Further information

- 4.1. If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Adam Williamson, AAT Head of Responsible Business and Policy:
- 4.2. E-mail: [adam.williamson@aat.org.uk](mailto:adam.williamson@aat.org.uk)

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