ZENITH AUDIT
REGISTERED AUDITORS

Department for Business, Energy & Industrial Strategy
1at Floor, Victoria 1
1 Victoria Street
London SW1 0ET

21st of April, 2021

Dear Sirs / Madams,

Zenith Audit UK is pleased to have the opportunity to respond to the consultation on ***requiring mandatory climate-related financial disclosures by publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs)***. Our target client base is comprised of financial services firms smaller than 500 employees but still considered in-scope for disclosure reporting due to their registered or authorised status. As such, the onus of administrative burden for disclosure falls asymmetrically on smaller registered firms, and their sector's perspective should be represented in the response.

The expanding and accelerating physical and transition risks are likely to cause volatility in asset pricing, disruption in supply chains, loss of access to certain markets and inconsistency in provision of business services. Financial institutions in insurance, investments or banking will need to understand and accurately portray the impact of these risks to them directly and to their public clients through assets held in custody. Requiring a greater degree of disclosure by all market participants will prompt smaller firms to focus on these risks and will likely raise the quality of available information for use in their disclosures and for use by their public clients.

Smaller firms will not have the same resources to commit to disclosure reporting and expectations for smaller firms may not be entirely clear in the first reporting period. Therefore, it would be helpful if regulators and supervisors enforcing these requirements provided guidance on expectations for smaller firms, either in the handbooks or in targeted communications. Similarly, guidance for expectations of challenger audit firms on testing for proper alignment of disclosures with supervisory expectations would be beneficial.

Please see our responses in the following pages and incorporate our feedback in the regime's design.

Respectfully,

Arthur J. Flynn, CIA, CFSA, FLMI
Director, Internal Audit and Risk Management Services
Tel: 07519 006 086

BEIS Consultation Response - requiring mandatory climate-related financial disclosures by publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs)

QUESTION 1: Do you agree with our proposed scope for companies and LLPs?

We agree. The scope could also be expanded to include any registered firm that holds assets in custody or manages portfolios for the public.

QUESTION 2: Our proposed scope includes UK registered companies with securities admitted to AIM with more than 500 employees. Do you have any views on expanding this to include other unregulated markets and Multilateral Trading Facilities (MTFs)?

We feel that it is prudent to expand the requirement to all platforms where an investment's value could be significantly impacted by the transition. The aim of the requirement is clarity and transparency regarding climate risk in investment decision making and excluding any facilities through which the public or managers of public assets trade runs counter to this aim.

QUESTION 3: Do you agree with the proposal to require climate related financial disclosures for companies and LLPs at the group level?

We agree. The UK is a leading jurisdiction for supervision and governance in financial services and requiring group level disclosures for multinationals such as BP sets a clear precedent for regulators elsewhere in the world.

QUESTION 4: Do you agree that the Strategic Report is the best place for the disclosure of climate-related financial information by companies?

We agree. Key information about the sustainability of the enterprise is included here and climate risks are best positioned for ease of analysis in this section.

QUESTION 5: Do you have views on whether LLPs should be required to disclose climate-related financial information in the Strategic Report (where applicable), or the Energy and Carbon Report?

Where Energy and Carbon Reports are required, these appear to be the appropriate place for disclosure information.

QUESTION 6: Do you agree that requiring disclosure in line with the four pillars of the TCFD recommendations, rather than at the 11 recommendation level is suitable?

We agree. The four pillars provide usable and comparable information which investors and analysts require in a timely enough manner for it to be relevant. While greater levels of detail and expanded disclosure are always preferable, they may present too onerous a reporting obligation to be practical.

QUESTION 7: Do you agree that information provided in line with the obligations set out above would provide investors, regulators and other stakeholders with sufficient information to assess the climate-related risks and opportunities facing a company or financial institution?

We agree. If there is a transparent accounting of the climate risks according to the guidance of the four pillars then analysts should be able to price climate risk with a good degree of accuracy and data for analysis should be comparable across organisations.

QUESTION 8: Do you agree with our proposal that scenario analysis will not be required within a company or LLP's annual report and accounts?

We agree that the gap in skills required to complete scenario analysis makes such a requirement impractical. The government should encourage scenario analysis in all cases and where human resources do not allow for quantitative scenario analysis, qualitative scenario analysis should be encouraged.

QUESTION 9: Would alignment of the scope for climate-related financial disclosures and SECR requirements, such that large unquoted companies and LLPs would be subject to the same reporting requirements under SECR as quoted companies, aid reporting of climate related financial disclosures and simplify reporting procedures?

Alignment of the scope and elimination of the exemptions would simplify the reporting process and provide comparable information for organisations which are truly of like size.

Do you have any views on the continuation of voluntary Scope 3 emissions reporting under SECR requirements?

Scope 3 emissions reporting should be mandatory, in keeping with the aim to provide comprehensive disclosure of the full extent of emissions exposure. Other primary reporters may need this information to fully disclose their own second order exposure through suppliers or service providers, for example.

QUESTION 10: Do you have comments on the proposal to permit non-disclosure if the information is not material and the reasons why climate change is not material are properly explained?

Providing that materiality (or immateriality) was properly explained, exemption from disclosure requirements appears reasonable.

QUESTION 11: Do you have comments on the proposed timing for these regulations coming in to force?

The timing for the applicability of the regulations appears appropriate.

QUESTION 12: Do you have any comments regarding the existing enforcement provisions for companies and the BEIS proposal not to impose further provisions?

The existing enforcement provisions appear fit for purpose.

QUESTION 13: Do you have any comments regarding duties and enforcement provisions for LLPs?

The existing enforcement provisions appear fit for purpose.

QUESTION 14: Do you have any comments on the responsibilities of auditors in relation to climate-related financial disclosures?

If the proposed recommendation by BEIS for Public Interest Entities to adopt an Audit and Assurance Policy (based on the Brydon report) goes ahead, then we believe that each Audit Committee should decide if the auditor's responsibility towards the climate risk disclosure in the Annual Report should be enhanced beyond the standard auditor review of non-financial information for consistency with the financial statements.

QUESTION 15: Do you have any comments regarding the proposed enforcement of our disclosure requirements?

FRC is the best placed institution to enforce compliance with the new disclosure requirements.

QUESTION 16: Do you have any comments regarding the impact of our proposals on protected groups and/or how any negative effects may be mitigated?

We feel that the cost of the administrative burden may be overstated. The in-scope entities are mainly large organisations that have reporting functions in place which are used to dealing with changing reporting requirements. We expect that the actual administrative cost may be lower.

QUESTION 17: Do you have any further comments about our proposals?

We consider the proposals reasonable and measured, and the timeline for implementation is appropriate. It is likely that the economic value of securities of listed issuers will be volatile and opaque over the coming years and these measures will help to provide investors and decision makers with the information they need. In conjunction with the consultation resulting from the Brydon Report, requiring verification of the efficacy of the controls that generate climate risk reporting should be considered.

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