

Jamie Baker
Director of External Relations

37-39 High Holborn
London
WC1V 6AA

Direct telephone: 020 7269 7605
UKPIA switchboard: 020 7269 7600
Email: jamie.baker@ukpia.com

5th May 2021

BEIS
climatedisclosure@beis.gov.uk

UKPIA response to the Consultation on Mandatory Climate Related Financial Disclosures

Dear Sirs and Madams,

UKPIA represents the eight main oil refining and marketing companies operating in the UK. UKPIA member companies – bp, Essar, ExxonMobil, Petroineos, Phillips 66, Prax Lindsey Oil Refinery, Shell, and Valero – are together responsible for the sourcing and supply of oil products meeting over 85% of UK inland demand, accounting for a third of total primary UK energy.¹ The sector is highly integrated with the petrochemicals industry and, further downstream, the wider manufacturing sector to which it supplies both fuels and vital feedstocks. The industry makes a significant contribution to the UK economy, security of supply, resilience, non-financial sector growth, investment, exports, skills and employment.

As the UK works towards meeting the legislated Net-Zero target, clear and consistent data on emissions will be increasingly important. Nonetheless, UKPIA has concerns regarding the increasingly complex and multiple legislative instruments covering carbon emissions and energy use, each with their own monitoring reporting and verification requirements, which are a growing and increasingly duplicative reporting burden on companies. Many of these concerns were raised in the UKPIA response to the earlier HM Treasury consultation “Reforming the business energy efficiency tax landscape” in November 2015, and the Streamlined Energy Carbon Reporting (SECR) response of January 2018.

UKPIA understands the intent of these mandatory requirements, but trusts that efforts will be made before their introduction to ensure that the new reporting is derived from existing data and makes use of existing verification mechanisms. Such efforts will avoid incurring unnecessary cost and resource for companies, which will still be coping with the financial impacts of COVID-19 for a number of years, and will still meet the objective of the proposed legislation to “support investment decisions aligned with our transition to a low-carbon economy.”

Yours faithfully,



Jamie Baker
Director of External Relations

¹ BEIS Digest of UK Energy Statistics (DUKES) 2020 Tables 3.2-3.4 (see <https://www.gov.uk/government/statistics/petroleum-chapter-3-digest-of-united-kingdom-energy-statistics-dukes>)

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

The proposals seek to capture large companies and LLPs and are clearly defined through the respective legislation proposed to govern them (Companies Act and Limited Liability Partnerships Act) and it makes sense to base the scope on employees and / or turnover measures which are readily identifiable. UKPIA, as noted in our response to the Streamlined Energy Carbon Reporting (SECR) consultation in 2018, views that such mandatory requirements must cover the whole of the UK as this proposal does to ensure that there is a level playing field for all UK operators in scope of the proposals.

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)?

UKPIA does not have a view on this question.

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

UKPIA does not represent LLPs, however, for companies reporting at the group level, it worth clarifying that we interpret the requirement would be at a UK group level headed by a company meeting the threshold, which should avoid unnecessary duplicative reporting of the parent and subsidiary companies.

It is at this point unclear how the fact of there being a corporate group impacts on whether a company is in scope. The consultation says: “In most cases this will be reporting at group level on a consolidated basis and therefore we propose that climate-related reporting will also apply at this level on a consolidated basis and the scope thresholds should also apply on a consolidated basis”, however, greater clarity on how companies should interpret this would be useful.

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

Yes, UKPIA members agree that the Strategic Report is the best place for these disclosures. The Strategic Report will be common to all companies within scope, whereas non-listed companies would not have to produce certain reports that would otherwise serve a similar purpose e.g. Annual Reports, therefore, this will ensure consistency among all companies.

The Strategic Report - by its public nature - will also meet the intentions of the new mandatory reporting of increasing transparency to shareholders and civil society and thereby support investment decisions consistent with meeting Net-Zero. We note that the SECR reporting requirement is to be in the Directors' Report but that there is the flexibility already in place to report in the Strategic Report instead, with a statement in the director's report to indicate and explain this decision.

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?

This question does not directly concern UKPIA members, however, as per Question 4, we believe the Strategic Report will generally be a good fit for all companies who are captured in scope, including LLPs.

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?

UKPIA views that the four pillars approach is suitable and will allow for reporting at the 11 recommendation level for companies for whom that is appropriate. The work published in 2017 by the Task Force on Climate-Related Financial Disclosures (TCFD) in defining the specific information that companies will be expected to report is available publicly and will guide companies who are expected to report.²

UKPA notes that the petroleum industry has long recognised the need for GHG reporting and UKPIA member companies are already engaged in voluntary reporting for their global activities via corporate citizen and sustainability reports. This involves voluntary reporting in accordance with the GHG Protocol developed by the World Business Council for Sustainable Development (WBCSD) and World Resources Institute (WRI) in 2001 and revised in 2004.³

UKPIA notes that for large pension schemes which are already expected to report in line with TCFD, the Department for Work and Pensions has issued additional guidance on what is expected in meeting the requirements which may be a useful approach for companies in scope of these proposals. Energy Intensive Industries such as our own already are expected to deliver considerable reporting of GHG emissions and abatement under the UK Emissions Trading Scheme (UK ETS), the SECR and other mechanisms such as the Energy Savings Opportunity Scheme (ESOS) and we believe that guidance from HMG that ideally would streamline, but at least reduce the additional overall reporting requirement would be beneficial. As well as clarification or guidance, it will be important to understand before implementation what verification requirements or expectations will be on the information being reported. Companies already incur significant costs in getting third party verification of their GHG emissions under some of the schemes noted above and while independent auditors may be expected to have the capability to verify the proposed reporting requirements, this may not always be the case and may be another source of cost of meeting the mandatory disclosure requirements.

UKPIA notes that by having mandatory reporting under the 4 pillars but also some (already listed) companies already being expected to report to the 11 recommended

² “Recommendations of the Task Force on Climate-Related Financial Disclosures”, 2017, <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf>

³ See <http://www.ghgprotocol.org>.

disclosures, that there is potential for *some* companies to be captured by both regimes. Given this potential, we would urge BEIS to consider how best to coordinate and avoid duplications between the two systems.

Overall, however, UKPIA and some of our members view that the four pillars approach allows for companies to i) deliver the objectives of the policy of greater reporting and transparency and ii) respond how is most appropriate for them. Companies that are more 'mature' in their reporting, which would include those that are already impacted by the FCA listing rule, may well be ready to respond against the 11 disclosures and would be able to do so with the implementation of a mandatory regime based on the 4 pillars. However, for those companies which are not fully able to report against the 11 disclosure recommendations, requiring reporting against the 4 pillars will offer a requirement that is still achievable and improves available information.

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?

Yes, the proposed information captured under the 4 pillars would be adequate to achieve its aims and, as per Question 6, allows for reporting at the 11 disclosures level from companies.

As noted in Question 6, however, the information may well be available already for our members and we would welcome efforts from HMG to reduce the additionality of reporting assuming the Mandatory Climate Related Financial Disclosures come into force.

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?

The majority of UKPIA members agree that scenario analyses not be required.

There is considerable publicly available scenario analysis provided by our sector already with annual, global scenario reporting from bp, Shell and ExxonMobil available as ready examples.^{4 5 6}

While not all companies already publish scenario analyses, a number may well already deliver internal scenario analyses. However, any analysis, which has not been written with an external audience in mind may cause considerable extra burden if it is needed to be made public as it is likely to contain considerable commercially sensitive information that would need to be redacted, removed or

⁴ bp Energy Outlook, 2020, <https://www.bp.com/en/global/corporate/energy-economics/energy-outlook.html>

⁵ Shell scenarios, 2020, <https://www.shell.com/energy-and-innovation/the-energy-future/scenarios.html>

⁶ ExxonMobil Outlook for Energy, 2019, <https://corporate.exxonmobil.com/Energy-and-innovation/Outlook-for-Energy/Outlook-for-Energy-A-perspective-to-2040>

revised, and may be of little benefit by the time this has been adapted for a completely different intended audience.

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

As has been noted in Questions 6 and 7, there is likely to be considerable overlap in reporting requirements proposed here and the SECR, UK ETS and ESOS requirements and particularly with SECR which is already public information in a Director's Report, the additional benefit of this new proposal may be limited. As such, alignment of climate-related financial disclosures should be implemented where possible to reduce unnecessary resource, administrative and cost burdens on companies.

UKPIA views that reporting under this mandatory scheme proposal only - rather than for both this scheme and SECR as some companies (or parent and subsidiary companies) may be expected to do under the current proposals - would be preferable. Given that as noted before, there is already flexibility for SECR reporting to be undertaken in a Strategic Report rather than the Director's Report, we view that such streamlining should be possible, but as also noted above, may require additional guidance from HMG so that companies can be confident of their compliance.

UKPIA notes that the key metrics section of the TCFD is extensive for companies in the oil and gas sector and may well go beyond Scope 1 & 2 emissions already. However, given the difficulties at this point of reporting Scope 3 emissions which may be very far removed from direct supply chains and therefore reporting that companies can exert control over, we would not be in favour of mandatory reporting of Scope 3 emissions.

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?

UKPIA has no response to this question.

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

UKPIA notes that some premium listed companies and occupational pension schemes are already expected to report in line with TCFD recommendations and

HMG and the TCFD have been clear about the expectations of this reporting regime to come in the November publication of the Roadmap to financial disclosures.⁷

For UKPIA members, while some companies may have to report as early as 2023, for many (depending on when their accounting year runs) it may not be until 2024 that they are required to meet this reporting mandate. Given the volume of information that will need to be reported, verified and captured for the first time in a Strategic Report as well as the potential duplication and overlap noted in Questions 6, 7 & 9, the timelines will still be challenging and potentially costly.

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

UKPIA members are content that existing enforcement provisions will be used as they are well understood.

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

UKPIA has no response to this question.

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

As noted in our response to Question 6, UKPIA and member companies have concerns about both the cost of verification and capability of auditors to verify information. We note in the consultation document that “auditors will be required to obtain an understanding of the legal and regulatory requirements applicable to the entity and how the entity is complying with those legal and regulatory requirements”, however, it is unclear how easily or quickly auditors will be able to gain this competence, nor of how it will impact on costs incurred by the companies which are expected to report. As suggested previously, making use of existing data (that has already been verified) is essential to ensure additional costs of regulatory compliance are not excessive.

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

UKPIA is content that the FRC and FCA will hold responsibility for enforcement of these requirements, however, notes that greater clarity on the respective regulators’ responsibility would be of use to companies, particularly where companies are subject enforcement under both entities.

⁷ A Roadmap towards Mandatory Climate-Related Financial Disclosures, November 2020, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933783/FINAL_TCFD_ROADMAP.pdf

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?

UKPIA has no response to this question.

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

UKPIA has no response to this question.