



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

Nest's response

1 About us

Nest was established in 2010 as part of the auto enrolment programme to help people save for retirement. Unlike any other pension scheme in the UK, Nest has a legal obligation to accept any employer that wishes to use us to discharge their auto enrolment obligations. Over 890,000 employers have signed up to use Nest.

Over the last decade, Nest has grown to be one of the largest pension schemes in the UK. We are operating at scale as a high quality, low cost pension scheme helping over 9.9 million members save for their retirement. Many are low to moderate earners who may be saving into a pension for the first time. A typical Nest member earns around £20,300 per year and nearly half our members are aged under 35 years old.

Nest is built around the needs and behaviours of our members, from our approach to responsible investment to our focus on customer service. We now occupy a place in the market as a major Master Trust, helping to drive up standards and best practice across the industry. Nest has great potential for delivering pensions to mass market consumers for many years to come, leveraging our scale to deliver value through the combination of low costs, our market leading investment strategy and modernised services all overseen by strong trustee governance.

2 Response

We welcome this consultation and agree that there is a need for mandatory disclosures in the corporate sector. As a pension scheme subject to the mandatory disclosure requirements of the Pension Schemes Act 2021, we are reliant on the disclosures by companies that we invest in to fulfil our own disclosure obligations. The financial industry has a key role to play in mobilising capital to transition to net zero, but it cannot do so without high-quality disclosures from companies and other entities¹. While the TCFD recommendations have been adopted by many companies globally since they were published in 2017, the quality of voluntary disclosures is currently very mixed. Increased quality of reporting and greater standardisation is important to help us and other stakeholders assess how companies assess and respond to climate-change related financial risks.

The UK can lead by example in this space and use its G7 and COP26 presidency to set an international standard for disclosure by the corporate and financial sector.

¹ Such as alternative investment vehicles

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

We would be in favour of extending the scope to all UK premium and standard listed companies, irrespective of number of employees (option 2b in the impact assessment). Publicly listed companies will be widely held by both institutional and retail investors and for some companies, climate change may be material. According to the impact assessment this would bring an additional 400 companies in scope of the regulations.

For private companies, it may be appropriate to consider a materiality approach and mandating disclosures in sectors that are most sensitive to climate change risks irrespective of number of employees (such as energy, materials and transport).

2.2 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)?

This scope could be extended to other vehicles such as EIS, SEIS and VCTs given their popularity for private client portfolios and trusts.

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

Yes, in most cases reporting at group level makes sense. However, where there is a significant difference in the materiality in a parent and subsidiary aggregation would not always be appropriate.

2.4 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 with the proposal to include the disclosures in the strategic report as our understanding is that TCFD concerns narrative financial disclosures designed for the narrative front-end of annual reports which is where the strategic report is located.

2.5 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?

We believe disclosures should be located in the Strategic Report where applicable as it concerns financially material information. This would also provide greater alignment across listed and non-listed companies. There may be some overlap in the metrics section with the existing Energy and Carbon reports and BEIS should provide clarity about the metrics that should be disclosed in the Strategic Report and ensure this aligns with mandatory disclosures in other sectors.

2.6 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 do agree with the proposal to mandate the disclosure in line with the TCFD recommendations, however we note that there is currently great disparity among those who are already voluntarily disclosing in line with the recommendations. We believe greater agreement on topics such as metrics and targets in particular would be helpful. The DWP in its draft statutory guidance has been more specific about which metrics pension schemes should disclose. We believe there should be alignment of the disclosure requirements across the economy and consistent approaches by regulators. As a

result, we would like to see statutory guidance on the four pillars of the TCFD recommendations rather than non-binding Q&A.

2.7 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?

As noted previously, voluntary reporting has led to a wide range of disclosures that do not allow for much comparison. We are in favour of greater standardisation on the types of scenarios and metrics used to report on climate-related risks and opportunities.

2.8 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?

Scenario analysis is a core part of the TCFD recommendations and fundamental to assessing how climate change will impact a company's strategy. It is also the key tool to assess future risks, where metrics such as carbon emissions are usually backward-looking. While we recognise the challenges of scenario analysis, we don't believe this to be more challenging than for pension schemes, who under current proposals will be required to disclose up to two years earlier than some corporates. Off-the-shelf solutions are increasingly being developed and we expect to see much progress in this area in the short term. We would therefore like to see scenario analysis as a reporting requirement but would encourage BEIS to issue some guidance and work with the other regulators on alignment.

2.9 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?

Consistent reporting of Scope 3 emissions is still being developed. Therefore, we are supportive of keeping this voluntary for now but this should be kept under review.

2.10 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?

We do not agree with the proposal to permit non-disclosure. Due to the systemic nature of climate change, we believe that it is potentially material for all companies. We therefore do not expect to see a company or LLP state that it has not reported in line with TCFD because climate change is not a material risk. The TCFD recommendations ask companies to highlight which risks have been identified over different timeframes. Companies and LLPs may state that they have identified no material risks over their chosen timeframe, however they should still disclose the process for identifying potential risks including any metrics and targets used.

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

The proposed date of commencement on or after 6th April 2022 means that for many companies whose financial year runs from 1st April to 31st March, the first accounting year in scope would begin on 1st

April 2023 and not be disclosed until Q2 2024. We believe this is too late and further is not in line with the government's expectation that all listed companies should disclose in line with the TCFD recommendations by 2022. Companies with a premium listing will need to report on accounting periods starting 1st January 2022 and large pension schemes will also be required to disclose from 2022. We believe it is crucial to achieve economy-wide disclosures as soon as possible. A phased approach would be preferable to waiting until 2024 for all disclosures.

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

We are not convinced that the existing enforcement provisions and lack of more specific reporting guidance will lead to the high-quality disclosures that are needed. We do not want to see a two-tier reporting system of high-quality disclosures for companies that also fall under the FCA premium listing rules and lower quality disclosures for those that don't.

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

We agree with the proposals regarding duties and enforcements.

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

We agree with the proposals for auditors to review the climate-related financial disclosures. We are responding separately to the consultations on audit reform and will elaborate on our views there.

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

As highlighted in response to question 12, we agree that BEIS should work closely with the FCA to ensure that the reporting required for issuers with a premium listing are not significantly higher than for those that fall these proposals.

2.16 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?

No comments on this question.

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

No further comments.

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