

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT

Fifth Delegated Legislation Committee

DRAFT COMPANIES (STRATEGIC REPORT)  
(CLIMATE-RELATED FINANCIAL DISCLOSURE)  
REGULATIONS 2021

*Wednesday 15 December 2021*

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**The Committee consisted of the following Members:**

*Chair:* JAMES GRAY

- |   |   |
|---|---|
| † Benton, Scott ( <i>Blackpool South</i> ) (Con)                              | † Maynard, Paul ( <i>Blackpool North and Cleveleys</i> ) (Con)            |
| Beresford, Sir Paul ( <i>Mole Valley</i> ) (Con)                              | † Qaisar, Ms Anum ( <i>Airdrie and Shotts</i> ) (SNP)                     |
| † Buchan, Felicity ( <i>Kensington</i> ) (Con)                                | Sharma, Mr Virendra ( <i>Ealing, Southall</i> ) (Lab)                     |
| Coyle, Neil ( <i>Bermondsey and Old Southwark</i> ) (Lab)                     | Trott, Laura ( <i>Sevenoaks</i> ) (Con)                                   |
| † Fletcher, Colleen ( <i>Coventry North East</i> ) (Lab)                      | † Warburton, David ( <i>Somerton and Frome</i> ) (Con)                    |
| † Goodwill, Mr Robert ( <i>Scarborough and Whitby</i> ) (Con)                 | † Warman, Matt ( <i>Boston and Skegness</i> ) (Con)                       |
| † Hands, Greg ( <i>Minister for Energy, Clean Growth and Climate Change</i> ) | † Whitehead, Dr Alan ( <i>Southampton, Test</i> ) (Lab)                   |
| Harman, Ms Harriet ( <i>Camberwell and Peckham</i> ) (Lab)                    | † Whittaker, Craig ( <i>Lord Commissioner of Her Majesty's Treasury</i> ) |
| † Jones, Darren ( <i>Bristol North West</i> ) (Lab)                           | Guy Mathers, <i>Committee Clerk</i>                                       |
|   | † <b>attended the Committee</b>   |

# Fifth Delegated Legislation Committee

Wednesday 15 December 2021

[JAMES GRAY *in the Chair*]

## Draft Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2021

9.25 am

**The Chair:** Before we begin, I remind Committee members that in these omicron days, Mr Speaker has enjoined us to wear masks when we can and to remain as far apart from each other as we can.

**The Minister for Energy, Clean Growth and Climate Change (Greg Hands):** I beg to move,

That the Committee has considered the draft Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2021.

The regulations were laid before the House on 28 October 2021. They will amend the Companies Act 2006 to require certain publicly quoted and large private companies to include in their annual reports disclosures in line with the international framework for climate reporting developed by the Taskforce on Climate-related Financial Disclosures.

Climate change is the biggest challenge of our time, both to society and to the economy. Internationally the Government are taking a leading role to promote action through our presidency of the United Nations COP26, and domestically we are working to deliver the UK's world-leading target of net zero greenhouse gas emissions by 2050. The Government have published our net zero strategy, which sets out the measures to transition to a green and sustainable future. To support the transition to net zero, it is important that economically significant companies assess, disclose and act to manage climate-related risks and opportunities. Without an accurate assessment of climate risks by companies, it will be impossible to assess what action is needed to address them. Information from those assessments should be taken into account in the business model and strategy of every company to create more climate-resilient businesses. It should also form a key part of all investment decisions.

Some large UK companies are already reporting on climate risks, but to date those disclosures have been variable in both quality and quantity. The inconsistency makes it very difficult for investors to compare opportunities and risks across companies, let alone across markets. Many organisations are also not making the fuller disclosures that are needed to inform business risk and investment decisions.

**Mr Robert Goodwill (Scarborough and Whitby) (Con):** From listening to the Minister, I understand that we are talking about general statements about risks and opportunities, not about accounting for the carbon dioxide or other greenhouse gases produced in the same way as businesses produce business accounts for currency.

**Greg Hands:** This is a qualitative assessment done by the 1,300 largest companies in this country—those with more than 500 employees—of how they see the risks and opportunities of climate change, to help their own company planning and also help investors looking at particular companies and across sectors. At this stage, the idea is to have a qualitative assessment from each company in its annual report. Producing annual reports is part of an established process.

**Mr Goodwill:** Does the Minister think that in due course we might see a carbon balance sheet where companies have detailed information, so we would be able to tell exactly where they were in terms of their own net zero targets?

**Greg Hands:** We already have a separate reporting regime in place for that—streamlined energy and carbon reporting. I think my right hon. Friend is a member of the Environmental Audit Committee, which takes a keen interest in these matters. I refer him to that separate reporting stream, which might satisfy some of his rightful craving for more information.

**The Chair:** And perhaps we can return to the topic under discussion this morning.

**Greg Hands:** Yes, of course, Mr Gray. The regulations will now require the UK's largest companies to assess and disclose actions to manage climate-related risks and opportunities. In November 2021, the Government published "A Roadmap towards mandatory climate-related disclosures", which set out how the UK would become the first G20 country to mandate TCFD-aligned climate-related financial disclosures across major parts of its economy. At the meeting of G7 Finance Ministers in June, the Chancellor of the Exchequer won agreement from his counterparts to include mandatory climate-related financial disclosures in their countries. Major economies are set to introduce similar measures to ours, following our lead.

The Government have already introduced regulations to require climate disclosures, for example from occupational pension schemes. The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 were approved by both Houses and came into force on 1 October 2021. In addition, the Financial Conduct Authority has introduced TCFD-aligned disclosure in the UK listing rules for premium listed companies. It has also conducted a consultation on extending this to standard listed companies. The Government have now laid these draft regulations to integrate TCFD-aligned climate-related disclosures in UK corporate reporting.

The regulations we consider today will amend the Companies Act 2006 to place obligations on certain publicly quoted companies—banks, insurers and large private companies—to incorporate TCFD-aligned climate disclosures into their annual reports. These requirements will apply for an accounting period starting on or after 6 April 2022. Companies in scope will be required to make specific climate change-related disclosures in their annual strategic report in respect of governance, strategy, risk management, metrics and targets. These headings reflect the four thematic pillars of the TCFD framework.

The regulations have been drafted to ensure they fit effectively into the existing corporate reporting framework and, specifically, company reporting on risk in the strategic report where these new climate disclosures will be located. The disclosure requirements will apply to all public interest entities and companies traded on AIM—the alternative investment market of the London Stock Exchange—where those companies have more than 500 employees. They will also apply to private companies with over 500 employees and over £500 million in turnover. This will bring over 1,300 of the most economically significant companies in the UK economy into the scope of the disclosure requirements.

Large private companies are also included in the scope of the draft regulations. Increasing disclosures of climate risks and opportunities to inform decision making is just as relevant for private companies, which are an important part of value chains across our economy, as for listed companies. The Government will introduce separate regulations to apply the same climate disclosure requirements to large limited liability partnerships according to equivalent size thresholds. This separate statutory instrument will be laid before Parliament at a later date and will be subject to the negative resolution procedure.

The Department is preparing to publish non-binding guidance to help companies in the scope of these regulations. The guidance will provide additional information to help companies to understand the requirements and to improve disclosures. The guidance will signpost to sources of further information for companies, including to the online resource of the TCFD. The Department consulted on the policy design for these regulations between March and May 2021; we received 137 responses from a range of companies and LLPs—financial institutions, civil society organisations, trade associations and accountancy firms. Officials also took part in three online events to engage with wider audiences. Overall, the Department's proposals received wide support. Many respondents were pleased to see Government taking action in this space, and they welcomed the clear timeline for businesses to prepare for the disclosure requirements.

The Department made two main policy changes in response to the consultation. First, it simplified reporting for companies that are also subject to the Financial Conduct Authority rules. We have amended the wording of the regulations to make it more closely aligned to the wording in the TCFD's framework. Secondly, respondents to the consultation called for companies to be required to analyse their risks against specific climate scenarios. As such, these regulations include the requirement for companies to assess their climate risks against different scenarios and to report on this on a qualitative basis. Scenario analysis is a powerful tool to help companies in their assessment of climate-related risks and opportunities. It supports better resilience against climate risks.

The Government consider that the draft regulations are in the UK's long-term interest to help to future-proof our economy against climate change. The Government want to ensure that companies and investors can make the most of the opportunities created as we transition the economy to net zero and sustainability, so we need companies to understand the risks and opportunities and report on them transparently. I commend the draft regulations to the Committee.

9.35 am

**Dr Alan Whitehead** (Southampton, Test) (Lab): It is a pleasure to serve under your chairmanship, Mr Gray. I am afraid that this morning we cannot beat the record for the briefest Committee sitting, but I hope we will get reasonably close, because the Opposition not only have no wish to divide the Committee, but positively welcome the changes proposed.

The draft regulations are particularly welcome because of the importance of what the climate change imperatives facing large companies in the UK mean for the assumptions and practices—for example about the long-term duration of assets in the ground, or fossil fuels—that were previously widespread in the industry. The required disclosures will ensure that companies are clear about the risks in their operating portfolio, particularly the risks of stranded assets. Across the world, as the impact assessment suggests, “a third of oil reserves, half of gas reserves and 80% of coal reserves should remain unused in order to meet the target of 2 degrees rise above the average global temperature of preindustrial times.”

A number of larger companies have such assets, so it is absolutely right that the risks related to continuation should be set out in their company accounts.

I could give a number of other examples, but for the sake of time I will not go into them. I think we agree that this measure to secure transparency is important for future investors' consideration of companies. Disclosures in company accounts will be important, as will the level playing field for everybody concerned as a result of the mandatory nature of the changes made. The impact assessment mentions the alternative scenario of voluntary disclosure, but considers that the regime should be mandatory for reasons of a level playing field and because companies might otherwise consider that they would get a first mover disadvantage by disclosing when others do not.

What is not immediately apparent in the draft regulations is what sanction will be in place for companies that do not comply. Because the draft regulations are effectively folded into the Companies Act 2006, I assume that there is some form of sanction under that Act to distinguish the requirement as mandatory. I am sure the Minister agrees that if there were no definitely attached sanction, an arrangement stated to be mandatory would be no different from a voluntary arrangement. I hope that the Minister can assure me that a sanction is attached to these arrangements. It would be very helpful to the Committee if he outlined what that sanction is and how it might be applied.

9.40 am

**Ms Anum Qaisar** (Airdrie and Shotts) (SNP): It is a pleasure to serve under your chairmanship, Mr Gray. I will keep my contribution relatively short; I wish simply to make a few points for the record.

It is vital that tackling climate change is at the top of everyone's agenda, as it is in Scotland, from our greener national policies in the Scottish Parliament to the fantastic work done by local community groups, charities and citizens. Since my election in May, I have been so impressed by my Airdrie and Shotts constituents' work to tackle climate change. Of course, Scotland hosted COP26, and I am sure that we were all inspired by the work done by people from across the globe.

[Ms Anum Qaisar]

COP26 in Glasgow reinforced the idea that tackling climate change is a global issue and that everyone—every single person on this planet—can make a positive change. That leads me to an important point: at the heart of tackling climate change is the need for a rapid transformation across all sectors of our economy and of society. Large corporations must be transparent about their contributions to that transformation. The more that companies are required to publish climate-related financial disclosures, the more they will be encouraged to focus on becoming greener. That is a positive thing.

9.41 am

**Greg Hands:** I thank the hon. Members speaking for the official Opposition and the Scottish National party for their contributions. Many of the points they made vindicate the approach that the Government have taken.

The hon. Member for Southampton, Test asked what the penalties for non-compliance will be. It is worth pointing out that we are amending the procedures in the Companies Act 2006, which, through the Financial Reporting Council procedures, are a well established means for companies to publish their annual reports. The regulations amend those procedures so that the existing regime remains in place. Company directors have duties under the 2006 Act to prepare a strategic report and to comply with the Act's requirements. When they knowingly approve non-compliant accounts or fail to take reasonable steps to ensure compliance, enforcement action may be taken and they may be liable to fines if convicted. I think that very unlikely for the sort of

companies that we are talking about—the 1,300 largest companies in the UK—but that sanction does exist in the 2006 Act.

The Financial Reporting Council monitors the contents of strategic reports, and has the powers to make an application to the court for a declaration that the reports do not comply with the 2006 Act. The court may then order the preparation of revised accounts, including the revision of the strategic report. As I say, we are not envisaging that the sanction will be needed. I remind the Committee that the majority of businesses that responded to the consultation were in favour of taking action in this place.

The hon. Member for Airdrie and Shotts raised the importance of COP26 in Glasgow, which vindicates the UK Government's decision to host that conference. We are delighted with the success of COP26, particularly in areas such as financial disclosure, which builds on a lot of the activities that the Chancellor of the Exchequer and the whole of Government have been leading this year, including through the G7. COP26 tied all that in very well, which vindicated our decision to host it.

The regulations for TCFD-aligned climate disclosures are designed to enable our businesses and the UK economy to embrace transparency about climate risks and opportunities as part of a greener and sustainable future. I thank hon. Members for their valuable contributions to the debate. I hope that the Committee will approve the statutory instrument.

*Question put and agreed to.*

9.44 am

*Committee rose.*