THE
INVESTMENT
ASSOCIATION

Response to consultation

SCOPE 3 EMISSIONS IN THE UK REPORTING LANDSCAPE: CALL FOR EVIDENCE

About the Investment Association

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £8.8 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 48% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

Executive summary

Our members support the International Sustainability Standards Board (ISSB) and the Greenhouse Gas (GHG) Protocol for Scope 3 reporting. Their endorsement by the UK would mark a significant step in establishing the country as a leader in climate-related financial disclosure, promoting consistent global standards. Comprehensive reporting on Scope 3 emissions is vital for investment managers to gauge climate-related risks and opportunities throughout the value chains of investee companies and making informed investment decisions in support of the transition to a more sustainable global economy. This in turn will lead to better transparency being provided to end-savers (our clients) regarding how investment managers are managing risks and opportunities to achieve their intended objectives.

We here summarise the most important points in our response about the value of scope 3 emissions disclosures for investors:

Key Messages

- IA members support the International Sustainability Standards Board (ISSB) and the Greenhouse Gas (GHG) Protocol for scope 3 emissions reporting. We encourage the UK Government to adopt these standards as they are currently written, acknowledging their widespread acceptance and utility in emissions accounting and reporting globally.
- Harmonisation of emissions reporting standards is essential for investors to consistently assess the emissions of investee companies globally. This approach enables investors to effectively understand and manage climate risks and opportunities. Without comprehensive data on emissions, particularly scope 3, investors lack essential information that guides decision-making and stewardship activities aimed at supporting the transition to net zero.
- Scope 3 emissions are the largest source of emissions for a company in most sectors and often account for several times more than scope 1 and 2 emissions. Scope 3 emissions represent 97% of total

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greenhouse gas emissions for capital goods, for example. They are therefore indispensable for investors to perform their role effectively.

- For UK companies operating internationally, harmonised reporting standards simplifies the development and delivery of consistent and efficient emissions reporting across their global operations. This streamlined approach aids in reducing the reporting burden and enhances comparability.
- The Securities and Exchange Commission (SEC) in the United States researched existing standards and has recognised the GHG Protocol as the most widely used framework for emissions accounting and reporting worldwide. This further validates the Protocol's global acceptance and suitability as a standard for emissions reporting.
- The ISSB has incorporated appropriate proportionality and transitional reliefs in its scope 3 reporting requirements. These provisions support companies on their journey towards more comprehensive and effective emissions reporting, facilitating a phased and realistic approach to full disclosure.

We have answered the following questions which are appropriate to our role as a trade association for the UK investment management industry.

3. What is your role in relation to company reporting? For example, are you a reporting entity, a company within the supply chain of a reporting entity, an investor and/or a user of accounts, contracted to report on behalf of a reporting entity, part of a consultancy firm, or part of a voluntary reporting scheme?

The investment management industry plays an important role in the economy, helping millions of individuals and families to achieve their life goals by helping them grow and receive an income from their investments. The investment industry's purpose is to generate sustainable value and to meet its clients' investment objectives. To achieve these objectives, investment managers help to allocate capital across the economy, putting it to work where it can be most productive and produce most value. To create long-term value for clients, investment managers oversee and manage the assets they invest in to encourage, develop, and support behaviour that will lead to sustainable returns.

The UK's net zero target is established in law with a basis in the Climate Change Act 2008, as amended in 2019. Although there is disagreement, particularly on the pace and nature of transition, net zero enjoys broad political support. As investors, IA members see it as part of their fiduciary responsibility and in the interest of their clients, to help achieve an orderly transition to a net zero economy. The investment management industry is naturally inclined towards providing the long-term, patient capital that is necessary for transition. Our focus is on understanding the risks and opportunities that face investments across the range of asset classes in which we invest. Investment managers make investment decisions and act as stewards of the assets they invest in with the long-term goal of creating sustainable value on behalf of clients.

Our members will also be subject to the reporting requirements as businesses in their own right and already are required to report against TCFD.

5. Do you agree or disagree with the ISSB's assessment of the value of Scope 3 information?

Comprehensive reporting, including on scope 3 emissions, is essential for a deeper understanding of the risks and opportunities facing the entities in which investment managers invest. Scope 3 reporting is necessary to help investors gauge the exposure of reporting entities to transition risks throughout their value chain relationships.

These relationships are fundamental to the process of value creation. By obtaining a comprehensive view of scope 3 emissions, investors can make more informed decisions regarding the potential risks and returns of their investments. This insight is particularly crucial in the context of the global transition to a lower-carbon economy, where understanding the full spectrum of emissions will be required. We therefore support the requirement of inclusion of scope 3 information in IFRS S2.

Academic research has found that companies which transparently disclose scope 3 emissions are often rewarded with a lower cost of capital.[1] This market reaction likely reflects the perception that these companies are more proactive in managing their environmental impact compared to peers that do not disclose such information. As scope 3 reporting gains traction and becomes more standardised through the IFRS sustainability standards, we anticipate a market shift. This shift will likely favour companies demonstrating lower scope 3 emissions relative to their peers. Such a trend mirrors what we have observed

[1] Ahyan Panjwani, Lionel Melin, and Benoit Mercereau, 'Do Scope 3 Carbon Emissions Impact Firms' Cost of Debt?', August 2022, https://ssrn.com/abstract=4205875.

with the more widely disclosed scope 1 and 2 emissions, where market mechanisms have progressively begun to reward more sustainable practices.

At the macro level, aggregated scope 3 emissions by preparers will help policymakers and investors understand the impact on climate change more broadly, and thus exposure of assets to physical risks, as a result of increasing frequency of extreme weather events such as floods, drought and resulting impact to commodity prices.

6. In general, what is your view on the approach to Scope 3 reporting contained within IFRS S2? Please consider the ISSB's approach to materiality in your answer.

A foundational standard like IFRS S2 must primarily focus on enterprise value. This approach is crucial in ensuring that the financial reporting serves the informational needs of investors, who are the primary users of such data. By centring on enterprise value, the standard aids in providing a comprehensive view of a company's financial health and prospects, enabling informed investment decisions, including capital allocation and stewardship that drives sustainable value creation over the long term.

The Greenhouse Gas (GHG) Protocol provides a framework for facilitating emissions reporting, though it does not itself mandate a materiality approach or threshold. The GHG Protocol effectively defers this question to the standard setters deploying the framework. In IFRS S2 this is appropriately addressed by the ISSB's financial materiality approach, covering the whole standard including its scope 3 requirements, which allows for a more tailored and relevant assessment of emissions data based on its significance to enterprise value and financial performance.

We support the ISSB's provision for a transitional relief period allowing reporting entities to defer their scope 3 emissions reporting in the first year of IFRS S2 implementation. This policy acknowledges the dependency of preparers on scope 1 and 2 emissions data from other companies within their value chain. Such a phased approach is pragmatically designed to enable more accurate and less estimation-dependent scope 3 reporting in the second year, as entities can then incorporate emissions data disclosed by their value chain partners in the previous year.

Additionally, the IA recognises the limitations in data availability, particularly for scope 3 emissions. There are concerns about the availability of entity-level data on GHG emissions, especially when such data is not publicly available or where there are inconsistencies in systems and processes. To address these challenges, some IA members have had to rely on sector-level data to estimate their portfolio's emissions, which can limit the ability to make entity-specific decisions on financed emissions. It is noted that PCAF (Partnership for Carbon Accounting Financials) has phased this reporting by sector, with scope 3 emissions for all sectors required from 2026. Members hope to benefit from further guidance from the IFRS on the approach to take towards different asset classes. Overall the adoption of the IFRS sustainability standards in the UK and in other jurisdictions will aid investment managers in meeting their own reporting obligations.

7. What is your view on the use of the GHG Protocol for the purposes of Scope 3 reporting within IFRS S2? Will this lead to comparable and consistent reporting that is useful for investors and users of accounts?

The integration of the GHG Protocol within the TCFD recommendations and IFRS sustainability standards is the result of a deliberate process of consolidation and alignment in climate-related disclosures, supported by financial leaders and governments in leading economies.

The TCFD was established following the direction of G20 Finance Ministers and the UK Government has previously stated it was among the first countries to formally endorse the TCFD recommendations.[2] At the time of the UK's endorsement, the TCFD recommendations stated that the GHG Protocol was the "most widely recognized and used international standard for calculating GHG emissions" and that emissions should be calculated in line with its methodology "to allow for aggregation and comparability across organizations and jurisdictions".[3]

This acknowledgment underpins the Protocol's importance in ensuring that emissions are calculated in a manner that allows for aggregation and comparability across organisations and jurisdictions. Such alignment is crucial for providing clarity and consistency in climate-related reporting, making it an invaluable tool for investors seeking to assess and compare the climate impact of different companies.

In its Progress Report on Climate-Related Disclosures, the Financial Stability Board (FSB) summarised responses to a survey of member jurisdictions' approaches to climate-related disclosure and the IFRS sustainability standards. The Progress Report highlighted the necessity of aligning the requirements of IFRS S2 with the GHG Protocol. This alignment was underscored by several jurisdictions in the FSB survey, emphasising the significance of ensuring comparability and interoperability between the IFRS sustainability standards and individual jurisdictions' disclosure rules.[4]

In proposed rules published in 2022, the SEC stated that the GHG Protocol (and TCFD) had "developed concepts and a vocabulary that are commonly used by companies when providing climate-related disclosures," and that these proposed rules consequently incorporated these concepts and vocabulary because they were "familiar to many registrants and investors". For example, investors leverage common understanding of the framework's 11 categories of scope 3 emissions for granular assessments of investee transition plans. The SEC notes that the GHG Protocol is "a leading accounting and reporting standard for greenhouse gas emissions".[5]

The GHG Protocol itself reports widespread usage of its Corporate Accounting and Reporting Standard globally. For instance, as of 2016, 92% of Fortune 500 companies responding to the CDP employed the GHG Protocol directly or indirectly, highlighting its pervasive influence in corporate reporting.[6]

The convergence of these global financial entities and standards around the GHG Protocol underscores its pivotal role in climate-related disclosures. It provides a consistent, comparable, and comprehensive framework that is crucial for informed decision-making by investors and stakeholders. This widespread adoption and endorsement enhance transparency and accountability in corporate climate reporting, ultimately aiding in the collective effort to address climate-related risks and opportunities.

8. Would using the ISSB's approach to Scope 3 reporting have knock-on consequences for your organisation that the Government should be aware of? Please be as specific as possible.

Full endorsement of IFRS S2 – including its approach to scope 3 reporting – within UK SDS would be an important moment for emissions reporting by UK companies. It would be a consequential decision which

[2] https://assets.publishing.service.gov.uk/media/5d38238f40f0b604e42729fd/190716_BEIS_Green_Finance_Strategy_Accessible_Final.pdf
[3] https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf
[4] https://www.fsb.org/wp-content/uploads/P121023-1.pdf
[5] https://www.federalregister.gov/d/2022-06342/p-256
[6] https://ghgprotocol.org/about-us

would establish the UK as a financial centre aligned with the emerging standard in climate-related financial disclosure and likely influence other jurisdictions to follow.

Scope 3 reporting is complex, encompassing a broad range of indirect emissions linked to a firm's value chain. For UK-based firms with international operations, including investment management businesses, all regulatory compliance and corporate reporting is inherently complex and costly. Diverging from the IFRS sustainability standards could impede investors' ability to access critical information about the long-term risks associated with a company, as well as the strategies required to manage and mitigate these risks. Uniform adoption of the IFRS sustainability standards would contribute to investors having a more consistent and comprehensive set of data across jurisdictions, aiding in better risk assessment and decision-making processes.

The UK, as an early adopter of these standards, is positioned to set an example for other jurisdictions. By endorsing the IFRS sustainability standards without divergence, the UK can maximise their global consistency and practical utility. This approach would not only simplify reporting for UK-based firms but also encourage harmonisation of reporting standards internationally, providing a clear framework for other countries to follow.

9. Is there any additional emissions or energy-consumption related data that is not required within IFRS S2 that you believe is valuable for investors, users of accounts and other stakeholders?

As is true of company disclosures in general, investors will depend on companies for the identification and proper disclosure of material emissions related data, but the requirements of IFRS S2 are generally sufficient and applicable.

The application of the requirements by companies and the quality of disclosures that result will naturally vary, perhaps significantly at the outset. Members anticipate they will pay particular attention to the requirement under IFRS S2 for preparers to disclose the measurement approach, inputs, assumptions, the reasons for these and whether they have changed. This will be important to investors' ability to assess the reliability and comparability (including over time) of disclosures made under IFRS S2.

The advantage of a broad mandate to produce these disclosures is that companies can learn from one another and the wider reporting ecosystem to drive up standards over time. We expect this effect, a progressively improving reporting ecosystem, will be strongest for the standards and frameworks that are most widely adopted internationally. Currently for scope 3 reporting, this will be IFRS S2 and the GHG protocol.

12. How, if at all, do you expect to use the Scope 3 information that could be disclosed by businesses in accordance with IFRS S2? If you are an investor, how will this information influence your decision-making?

Scope 3 emissions data is integral to comprehensive assessments of climate-related risks. This data allows investment managers to understand the full spectrum of a company's emissions, including indirect emissions from its value chain. By incorporating this data into their risk analysis, investment managers can better gauge the potential impact of climate change on a company's operations and financial performance.

Investment managers rely on detailed and accurate emissions data to make informed investment decisions. Scope 3 information will be pivotal in evaluating a company's commitment to sustainability and its progress towards reducing its overall environmental impact. Companies with a clear strategy for managing and reducing their scope 3 emissions may be viewed as more resilient and forward-thinking, potentially making them more attractive investment opportunities.

Access to scope 3 emissions data will enable more effective engagement with companies on their climate strategies. This information provides a basis for dialogue with company management about their plans to mitigate climate risks throughout their supply chains and operations. It also helps in advocating for better climate practices and policies within the industries in which they invest.

Scope 3 data will be used to benchmark companies against their peers, potentially fostering a competitive environment where firms strive for better environmental performance. This benchmarking is essential in sectors with significant indirect emissions, where scope 3 data can highlight which companies are leading or behind in preparing for the net zero transition. Comprehensive scope 3 emissions reporting is necessary to align investment portfolios with global climate goals, such as those set out in the Paris Agreement. This alignment is increasingly a priority for stakeholders, including institutional and retail investors.

Understanding the full extent of emissions associated with investments allow for meaningful targets to be set for reducing the carbon intensity of portfolios and reporting progress to our clients and stakeholders.

13. If you are a user of annual reports, which of the Scope 3 GHG emissions categories do you most value information on and why?

14. When making investment decisions, does the usefulness of Scope 3 data vary depending on the sector and the size of the reporting organisation?

As users of annual reports, investment managers value information on the scope 3 GHG emissions categories according to their relevance to the company's business model and strategy.

The categories of greatest interest to investors will naturally vary according to the business and sector they operate in. For example, in the energy sector, investors may place a higher value on emissions from the use of sold products (Category 11), given the direct impact of these emissions on the company’s carbon footprint. In contrast, for companies in the retail sector, emissions from upstream transportation and distribution (Category 4) might be more relevant due to the significant role of logistics in their operations.

Moreover, investment managers are increasingly recognising the importance of emissions from purchased goods and services (Category 1), as these can represent a substantial portion of a company’s total emissions, particularly for companies in industries such as fashion or electronics. Disaggregation thereby informs more targeted stewardship engagement to address companies’ value chain exposures.

Ultimately, the value of information on different scope 3 categories lies in its ability to provide insights into a company’s exposure to climate-related risks and opportunities, and its strategy for managing these. This information can be crucial in informing investment decisions and engaging with companies on their climate strategies. Therefore, comprehensive and transparent reporting across all relevant scope 3 categories is highly valued.

15.What are your views on the overall costs and benefits of Scope 3 reporting? Please be as specific as possible

16. What benefits could Scope 3 reporting bring to your organisation? Please be as precise as possible when explaining the basis of any benefits you provide. If you currently produce Scope 3 data voluntarily under SECR, please explain the benefits you have received and how they have changed over time.

The UK-based investment management industry will rely on disclosure of GHG emissions data from the companies and other assets in which they invest in order to assess the climate-related risks and opportunities associated with these investments.

In some cases, financially material risks to a company may exist in its value chain, perhaps within supply chains or with the use of products by clients. Reporting of scope 3 emissions in a consistent and comprehensive manner should enable investment managers to better identify these risks and to make appropriate decisions on engagement with investees (and other stakeholders) and relating to future investments.

Investment managers are also increasingly subject to regulatory expectations that they should consider or report scope 3 emissions. For example, the FCA's ESG Sourcebook requires investment management firms to provide TCFD product reports including scope 3 GHG emissions. Accurate and reliable scope 3 emissions data are therefore important for investors to ensure they are properly appraising their clients of climate-related risks. The FCA has previously acknowledged that data and methodologies for assessing scope 3 emissions are "less developed" and any work by Government which seeks to accelerate and support work to provide this data to investors will help to underpin this regulatory requirement.

17. What costs could Scope 3 reporting bring to your organisation? Where possible, please give a breakdown of each element of cost. Please be as precise as possible when explaining the basis of any costings you provide. If you do currently produce Scope 3 data voluntarily under SECR, please explain the costs you have incurred and how they have changed over time.

In anticipation of the introduction of proposed rules on enhancement and standardisation of climate-related disclosures for investors by the US Securities and Exchange Commission (SEC), which would introduce scope 3 reporting, a survey was conducted with corporate issuers and institutional investors in the US to understand current spending on measuring and managing climate-related disclosure.[7] This survey found that investors reported spending:

- an average of $487,000 per year on external ESG ratings, data providers, and consultants
- an average of $257,000 per year on collecting climate data related to assets
- an average of $357,000 per year on internal climate-related investment analysis, including all costs associated with managing and analysing data collected from assets

Investors also reported spending on third-party proxy advisors ($154,000), in-house and external legal advice ($405,000), and preparing public disclosures ($149,000). The survey notes particularly that those

[7] The SustainAbility Institute by ERM, 'Costs and Benefits of ClimateRelated Disclosure Activities by Corporate Issuers and Institutional Investors'

costs relating to collecting and analysing data and ratings were linked to a need to ensure accuracy. Such costs could potentially be reduced by deeper and more consistent reporting across the value chain.

Consideration of the costs associated with scope 3 reporting must acknowledge that such reporting requirements are being introduced in other jurisdictions, including major economies, regardless of decisions taken in the UK. We await next steps from the SEC on its own proposals but most recently, California passed the Climate Corporate Data Accountability Act, which will require the disclosure of scope 3 emissions. In the EU, the Corporate Sustainability Reporting Directive (CSRD) requires scope 3 reporting. As such, any decision on cost must have regard to the likelihood that significant variations between the approaches taken in different jurisdictions will create complexity, duplication, and cost for firms operating across jurisdictions.

18. How are you approaching the issues around data availability in relation to Scope 3 reporting? Are you aware of any useful data sources, reporting tools, or resources (such as emissions factors) to help UK organisations report their Scope 3 emissions, and how are you tackling them?

19. What are, or do you anticipate being, the greatest barriers to producing consistent Scope 3 data?

The call for evidence makes reference to CDP and SBTi as useful data sources and DESNZ is likely already aware of Climate Action 100+ which also exists to help or encourage companies to gather and disclose information including scope 3 emissions. These initiatives, which have been central to the development of higher standards and greater availability of emissions data, have been industry- and NGO-led.

Such initiatives will continue to be important in driving up standards, applying pressure, and building knowledge to support greater and better reporting of emissions data. Nonetheless, their work would be bolstered by efforts which can only be led by governments and regulators to ensure consistent and compulsory disclosure across sectors and jurisdictions. ISSB (and IFRS S2) is a clear example of such an approach. In essence, the greatest barrier to producing consistent scope 3 data is the current lack of consistent and credible scope 1 and 2 data.

A rapid extension of expectations and requirements for companies to report their GHG emissions, is likely to place strain on the organisations and individuals who are properly equipped and trained to analyse emissions. It may be necessary for the Government to take a role in accelerating the development of a workforce with the appropriate skills. Doing so presents an opportunity for the UK to establish its credentials as a leading market for climate-related knowledge and as a net zero-aligned financial centre.

26. Overall, do you think the SECR regulations are achieving their original objectives? If you do not think they are achieving the original objectives, or are partially achieving the objectives, please explain why.

The overarching objective of the SECR, when introduced, was to improve energy efficiency in businesses. The consultation introducing SECR noted the complicated landscape of reporting requirements for businesses (which it hoped to simplify) and focused on potential financial benefits to business of improving

energy efficiency, alongside being a cost-effective way to reduce carbon emissions.[8] A narrow assessment of the effectiveness of the SECR regulations in achieving their objectives would focus on whether UK businesses had invested sufficiently in energy efficiency and reduced costs as a result.

Nevertheless, the consultation also cited benefits to be felt by investors through greater disclosure of energy and climate risks and opportunities, which could be factored into investment decisions. It did so in the context of the then recently published TCFD recommendations and argued that providing more standardised energy and emissions information to market actors would help to address the issue of incomplete information.

While the SECR framework came into force in April 2019, the Government published its TCFD Roadmap in November 2020. In contrast to the SECR framework, which offered incidental benefits to investors, the introduction of climate-related disclosures in the UK following the recommendations of the TCFD was designed to provide decision-useful disclosures for investors. At the time of the Government's 2021 consultation on mandatory climate-related financial disclosures, the IA argued that SECR requirements should be amended so that material scope 3 GHG emissions were required for quoted and large unquoted companies, and large LLPs.[9] In its response to the consultation, BEIS stated that it would consider how best to achieve better alignment between SECR and TCFD requirements.[10] Investors' preference would be for IFRS S1 and S2 to encompass companies subject today to SECR and, should SECR be maintained, removal of duplicative and redundant requirements.

The landscape for climate-related financial disclosure has developed rapidly and extensively in the last five years. The UK has been a champion of the TCFD and, more recently, the IFRS sustainability standards. As we undertake the endorsement of the IFRS sustainability standards in the UK, it is important that these initiatives which are specifically designed to give decision-useful climate-related information to investors are not hindered by a rigid adherence to SECR.

29. SECR reporting is currently required within a company's annual report. Would it be more appropriate to report on SECR in another document or format?

Investors require general purpose financial reports to give them a comprehensive, coherent and cohesive understanding of the company and its prospects. Within annual reports, the strategic report is an opportunity for companies to discuss their performance, governance and future prospects in a way that is 'fair balanced and understandable'. The decision-usefulness of information can depend on an investee company's business model, including the sector it operates in. The IA recently responded to the Department for Business and Trade's non-financial reporting review in which we argued that a main consideration for the review should be that companies prioritise reporting on issues which materially impact their operating model and strategy.

A materiality assessment can serve as a useful tool in helping investors to identify the specific sustainability-related factors that are most likely to impact the financial performance of the company, as well as understand the rationale for those risks that have not been prioritised. Investors also place value on sector- or industry-specific information, particularly for peer-to-peer comparison. SASB's materiality map, for example, can help investors to identify the sustainability-related factors that are most likely to impact a

[8] https://assets.publishing.service.gov.uk/media/5a81cf9740f0b62305b90efe/SECR_Consultation_-_Final_with_IA_v2.pdf

[9] https://www.theia.org/sites/default/files/2021-05/Final%20IA%20Response%20to%20BEIS%20Consultation%20on%20Mandatory%20TCFD%20Disclosures.pdf

[10] https://assets.publishing.service.gov.uk/media/617a77d2e90e07197b571d51/tcfd-consultation-government-response.pdf

company's financial performance in a specific industry. We support the prominent role that these standards play in IFRS S2.

Within the creation of standards designed particularly for the needs of investors, the Government should now consider whether it is necessary for SECR reporting to be included in a company's annual report. The objective of providing information for use by management and policymakers may be better met through an alternative format, except perhaps were some companies to remain covered by SECR but not IFRS S2 or TCFD.

38. If you are an investor, has the information businesses report or will report under SECR affected your investment decisions? If so, how?

39. Have you used the information businesses report under SECR to hold those businesses to account for their emissions or energy consumption? If so, how?

The investment management industry's purpose is to meet its clients' investment objectives while delivering long-term financial returns. Investment objectives are typically financial and require the consideration of financially material risks in the investment process. Climate change is one of the greatest systemic risks that we are now facing and information which addresses climate-related financial risk is therefore an important factor in investment decisions and engagement with companies.

To the extent that SECR exists to require companies to report their annual emissions this information has been of increasing importance to investment managers. A measure of the potential interest might be taken from the current level of commitment to net zero initiatives. For example, the Net-Zero Asset Owner Alliance (NZAOA) reports that its 86 members – all institutional investors – are responsible for $11trn in assets under management. To date, investment managers with more than £7.5trn of assets under management in the UK have made the Net Zero Asset Managers initiative (NZAM) commitment. Approaches such as these seek in part to address GHG emissions through stewardship of existing investments. Investment managers who are not part of such formal initiatives have also made individual commitments to help clients navigate the risks that climate change can pose to their long-term returns.

A subset of companies are captured by SECR but are not captured by TCFD, for instance some with less than 500 employees or £500m turnover, but above the thresholds of SECR. We do not object in principle to differing thresholds for these reporting requirements. Investors would be more concerned by rules that imposed a disproportionately higher burden on listed companies over large private peers, for instance, given the possible disincentive for companies to list.

Furthermore, as we said in our response to the Department for Business and Trade's call for evidence on non-financial reporting, now is the opportunity to review and remove duplicative reporting, with investors' expressed preference being for the investor-focused disclosures in the IFRS sustainability standards and TCFD over their SECR counterparts. We consider it appropriate for the department to decide if non-duplicative SECR disclosures should be maintained to meet the informational needs of the government or other stakeholders.

Investment managers typically produce annual investment stewardship reports detailing how they have engaged with companies, and it is a requirement for UK Stewardship Code signatories to do so. These reports will often provide case studies of investors having engaged with companies on their emissions. Nonetheless, it is likely that this engagement is based on data which has been disclosed through a range of international requirements (or voluntarily) and it is difficult to attribute relevant disclosure solely to the UK's SECR.