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Business Energy Transformation
Department for Energy Security and Net Zero
3rd Floor
3-8 Whitehall Place
London
SW1A 2EG
Submitted electronically to: reporting@energysecurity.gov.uk

RE: Scope 3 Emissions in the UK Reporting Landscape: Call for Evidence

Dear Sir or Madam:

ICI Global[1] appreciates the opportunity to provide input on the Call for Evidence on the benefits, costs, and practicalities of Scope 3 greenhouse gas (GHG) emissions reporting in the UK ("Call for Evidence").[2]

As the trade association representing regulated funds globally, ICI Global has a significant interest in how sustainability reporting standards for corporate issuers evolve. Asset managers analyse material information on companies' exposures on sustainability-related risks and opportunities, and how these are managed, to support investment decisions and enterprise valuations. In addition, they use the information to pursue a range of investment strategies on behalf of millions of retail investors around the world saving for retirement, education, and to achieve other important financial goals.

ICI Global welcomes the UK Government's effort to assess the suitability of the sustainability disclosure standards developed by the International Sustainability Standards Board (ISSB) for adoption within the UK context. We believe each jurisdiction should be empowered to incorporate into their own regulatory regimes aspects of the ISSB standards that would be likely to benefit investors in those markets. The ISSB has designed its standards to be a 'global baseline' that allows jurisdictions to leverage and build upon the standards while maintaining interoperability across local and international reporting practices. Widespread use of the ISSB standards could facilitate global interoperability, mitigate reporting burdens on entities, and

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[1] ICI Global carries out the international work of the Investment Company Institute, the leading association representing regulated investment funds. With total assets of £30.4 trillion, ICI's membership includes mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and UCITS and similar funds offered to investors in Europe, Asia, and other jurisdictions. ICI's mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor.

[2] Scope 3 Emissions in the UK Reporting Landscape: Call for Evidence, 19 October 2023, available at https://www.gov.uk/government/calls-for-evidence/uk-greenhouse-gas-emissions-reporting-scope-3-emissions.

ultimately providing global investors with greater comparability and confidence in the reported information.

We appreciate the UK Government's recognition of the complexity and challenges of reporting Scope 3 greenhouse gas (GHG) emissions and the launch of a separate, targeted call for evidence on the benefits, cost, and practicalities of Scope 3 reporting in order to inform its decision on endorsement for ISSB climate standard.

To ensure the consistency, comparability, and reliability of disclosure following the potential endorsement and adoption of the ISSB standards within the UK context, we provide three specific recommendations for the UK Government's consideration: [3]

- The UK Government should incorporate financial materiality into UK sustainability reporting requirements to enable consistent and comparable disclosure for investors.

- The UK Government should not require Scope 3 GHG emissions disclosure at this time, except for entities that have publicly announced a target or goal to reduce their Scope 3 emissions.

- The UK Government should carefully calibrate the reporting standards for asset managers as corporate reporting entities. To facilitate understanding of enterprise-level risks and opportunities of the asset manager as a reporting entity, any GHG emissions reporting (Scopes 1, 2, and 3) should exclude assets managed on behalf of clients.

I. Incorporate Financial Materiality Consistently Across Sustainability Reporting Requirements

The UK Government should incorporate financial materiality into UK sustainability reporting requirements to enable consistent and comparable disclosure for global investors.

ICI Global strongly supports the ISSB's application of materiality assessments to its sustainability standards, under which a reporting entity will only be required to report information that is financially material. We recommend the UK Government incorporate a financial materiality lens across all requirements under its Sustainability Reporting Standards, instead of selectively on certain disclosure requirements, in order to provide investors with consistent and comparable sustainability information that is material for enterprise value creation. Irrelevant and unnecessarily detailed information impedes the ability of investors to make informed decisions. Keeping the UK's sustainability reporting standard compatible with the ISSB standards in determining materiality will help promote a consistent assessment of financial materiality across reporting entities and ensure that investors are provided with the right information.

[3] Consistent with our responses to the ISSB's July 2022 consultation, we do not support mandatory Scope 3 GHG emissions disclosure and the specific requirements for asset managers to report GHG emissions (Scopes 1, 2, and 3) of the assets they manage on behalf of clients. *See* ICI Global comment letter responding to the ISSB Exposure Drafts for IFRS S1 "General Requirement for Disclosure of Sustainability-related Financial Information," and IFRS S2 "Climate-related Disclosures," dated 29 July 2022, available at https://www.ici.org/system/files/2022-07/22-icig-cl-issb.pdf.

II. Do Not Require Scope 3 GHG Emissions Disclosure at This Stage

The UK Government should not require Scope 3 GHG emissions disclosure at this time, given the significant data gaps and the absence of agreed-upon measurement methodologies, except for companies who have publicly announced a target or goal to reduce Scope 3 emissions.

ICI Global recommends against the UK adopting mandatory Scope 3 emissions disclosure at this time,[4] except in certain limited circumstances. Even within the context of the ISSB's approach to materiality, we note that when it comes to reporting Scope 3 emissions, significant data gaps and the absence of agreed-upon measurement methodologies present unique challenges that cannot be easily resolved at this time.

Whereas the measurement and reporting of Scope 1 and Scope 2 GHG emissions are now sufficiently developed to provide investors, including asset managers, with reliable, consistent, and comparable information, the same is not yet true for Scope 3 emissions. As noted in the Call for Evidence, the disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability across the globe, use of estimates, and calculation methodologies. The lack of widely accepted methodologies and frameworks, as well as control of and transparency into companies' value chains, can make Scope 3 emissions disclosure challenging to produce and verify today. These deficiencies seriously undermine the ability of most companies to report consistent, complete, and reliable data.

As more companies make their Scope 1 and Scope 2 emissions data publicly available, these data can serve as the input for other companies' Scope 3 calculations. Although some of the Scope 3 data challenges will resolve over time, regulators and policymakers must recognize that the challenges of significant data gaps and the absence of agreed-upon measurement methodologies would not be easily resolved over any short transition relief period.[5]

We therefore recommend that, rather than requiring companies to report Scope 3 emissions at this time, the UK Government promote the development of reporting practices, including assumptions, models, and methodologies. Mandating Scope 3 emissions only after companies and investors gain experience with Scopes 1 and 2 reporting will lead to more accurate reporting for the benefit of investors.

The limited circumstance in which we would support Scope 3 emissions reporting at this time is in the case of a large company that has publicly disclosed a GHG emission reduction target or goal that includes its Scope 3 emissions. In that case, the company should be required to disclose its Scope 3 emissions. This information could assist investors in tracking the company's progress toward reaching its particular target or goal, and, at the same time, encourage companies to carefully calibrate any such target or goals.

Looking ahead, the UK Government should also continue to explore ways to address the above-mentioned challenges over time, including whether Scope 3 emissions disclosure should focus

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[4] There is a minority view among ICI members that larger public companies should be required to disclose Scope 3 emissions if the emissions are material. These members would prefer to have the opportunity to evaluate any such information as part of their respective investment processes, despite the data gaps and absence of agreed-upon methodologies.

[5] We recognize that the ISSB has provided a transitional relief period of one year for Scope 3 GHG emissions reporting, and other jurisdictions are also considering providing similar transition relief periods. However, the unique challenges on Scope 3 GHG emissions reporting will not be resolved over a short transition relief period.

on categories of emissions that are material to the company, rather than across all 15 categories under the Greenhouse Gas Protocol (GHG Protocol).

III. Exclude Managed Assets from any GHG Emissions Disclosure

With respect to the case in which an asset manager is a reporting entity, any GHG emissions disclosure requirements in the UK – whether Scopes 1, 2, and/or 3 – should exclude assets managed on behalf of clients.

The UK Government should not incorporate the ISSB Asset Management and Custody Activities industry-based disclosures standard, which requires asset managers to report Scope 1, 2, and 3 GHG emissions attributable to their managed assets.[6] Any GHG emissions reporting (Scopes 1, 2, and 3) by an asset manager should exclude emissions attributable to assets managed on behalf of clients, such as regulated funds. As it relates to Scope 3, in particular, this approach would also be consistent with the GHG Protocol's approach to value chain reporting. Under the GHG Protocol, asset owners investing their own capital are required to report emissions from equity investments, but asset managers, who are investing clients' capital, "may optionally report on emissions from equity investments managed on behalf of clients."[7]

The Task Force on Climate-Related Financial Disclosures (TCFD) has observed that asset managers have two distinct audiences for their climate-related financial disclosures – (i) their shareholders, who need to understand enterprise-level risks and opportunities and how these are managed; and (ii) their clients, for whom product-, investment strategy-, or client-specific disclosure are more relevant.[8] Where an asset manager is a corporate reporting entity, it will be reporting to its shareholders to facilitate the understanding of enterprise-level risks and opportunities of the asset manager. Disclosure standards should be calibrated to accurately focus on this purpose.

Excluding managed assets from any GHG emissions disclosure requirements of an asset manager as a reporting entity would appropriately reflect the parameters of an asset manager's exposures and limits of its control. A fund, for example, is a separate legal entity, the assets of which are separate and distinct from its asset manager. An asset manager itself does not take on the risks inherent in the securities or other assets it manages for funds or other clients, and the clients are the ultimate owners of these assets, not the asset manager. Moreover, an asset manager does not control the GHG emissions of portfolio companies held by funds or other clients.

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[6] IFRS S2 Climate-related Disclosures Appendix B Industry-based disclosure requirements, Volume B15 – Asset Management & Custody Activities, Transition Risk Exposure, FN-AC-2 at 141, available at: https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/industry/issb-exposure-draft-2022-2-b15-assetmanagement-and-custody-activities.pdf.

[7] GHG Protocol, Technical Guidance for Calculating Scope 3 Emissions (version 1.0); Supplement to the Corporate Value Chain (Scope 3) Accounting & Reporting Standard, at 141, Box 15.1, available at https://ghgprotocol.org/sites/default/files/standards/Scope3_Calculation_Guidance_0.pdf.

[8] TCFD, Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (Oct. 2021), at 44, available at https://www.fsb.org/wp-content/uploads/P141021-4.pdf. The TCFD states that its guidance addresses considerations for asset managers when reporting to their clients.

Thank you again for the opportunity to provide input on the Call for Evidence. We welcome continuing this dialogue with you. If you have any questions, please contact me at Victor.vanHoorn@ici.org, or Elizabeth Lance, Assistant Chief Counsel, ICI Global, at Elizabeth.Lance@ici.org.

Sincerely,
/s/ Victor van Hoorn

Victor van Hoorn
Managing Director, Head of Brussels Office
ICI Global