CCLA

CCLA Investment Management welcomes the opportunity to comment on the Department for Energy Security & Net Zero's Call for Evidence on 'Scope 3 Emissions in the UK Reporting Landscape'.

CCLA aims to ensure net-zero is achieved through real-world emissions reductions and to increase the pace of global decarbonisation. This means a focus on driving change not only at company level but also at a systemic level. In our consultation responses we aim to promote rigorous climate and environmental regulation.

In this response, we have provided a view on those matters which we consider relevant to our activities.

Overview of Call to Evidence and response

CCLA strongly advocates for mandatory Scope 3 emissions disclosure for UK listed companies, aligning with global trends for greater transparency on consistency on climate-related corporate information.

The latest legislative precedent for this is in California where Scope 3 emission reporting has already been made mandatory for companies over a certain revenue threshold being required to disclose all three scopes of greenhouse gas emissions.

We use Scope 3 emissions in our climate change engagement strategy to identify the largest absolute emitters in portfolios. We consider it essential for companies to make credible decarbonisation commitments based on science, and prioritise engagement based on these identified high-emitting portfolio companies.

We concur with the ISSB's assessment that overall exposure to GHG emissions is related to the risk of transitioning to a decarbonised economy. We endorse the IFRS S2 approach, advocating for absolute gross Scope 3 emissions disclosure and recognising the GHG Protocol's suitability as the most widely recognised accounting standard for greenhouse gas emissions, providing for consistency and benchmarking against industry peers.

We also highlight the value of additional emissions and energy-consumption-related data, including target setting, evidence of GHG emission reductions, and investment in innovation, research and development, and data on biodiversity impact.

Our recommendations for streamlined energy and carbon reporting include aligning with existing frameworks, such as CDP and ISO 14001, harmonising with proposed IFRS S2 requirements, and developing standardised digital reporting platforms.

Our support for mandatory Scope 3 emissions disclosure reflects our commitment to understanding, monitoring and mitigating climate risks in investment portfolios, to promote credible decarbonisation with real-world impact.

Call for Evidence questions and responses

Chapter One

General Questions

1. What is your company number? If you work for an LLP, please state so here.

CCLA is Registered in England, No. 2183088.

2. Where applicable, what percentage of your supply chain is within the UK, within the EU, outside of the UK and the EU?

Our operational supply chain is predominantly within the UK. Our investment portfolio is global.

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?

CCLA is an investment management firm.

4. What role does Scope 3 emissions reporting currently play in your organisation? If your organisation does report its Scope 3 emissions, which Scope 3 emissions categories are you currently reporting on and why? Is this on a voluntary or mandatory basis? Please state whether you have done so in the past and, if you no longer report Scope 3 data, why.

We measure and monitor our Scope 3 emissions. We also take account of Scope 3 emissions in our climate change engagement strategy, to identify the largest absolute emitters in portfolios in line with our objective of real-world impact.

Chapter Two

General questions

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

CCLA broadly agrees with the principle that overall exposure to GHG emissions is related to the overall risk of transitioning to a decarbonised economy. Notably that there is exposure to risks of higher costs, risks to supply chains, rising levels of regulation and changing consumer preferences. These risks are less evident if only Scopes 1 and 2 are considered.

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.

Materiality is an accounting principle which states that all items that are reasonably likely to impact investors' decision-making must be recorded or reported in detail in a business's financial statements using GAAP standards. The approach contained within IFRS S2 in the context of sustainability-related financial disclosures is in line with this. This can be applied as an overarching principle in line with other approaches, for example that of SBTi, which it is recognised is not a materiality threshold, but can limit the reporting burden.

We also agree with the proposal to require disclosure of absolute gross Scope 3 emissions. We concur with the use of absolute emissions as amongst other reasons, they are the primary measurement used to set targets for emission reductions, are required by organisations such as CDP and the Science-Based Target initiative in disclosure frameworks and are most used in international climate agreements and protocols. Disclosure of gross emissions should be mandatory, as in aiming for net zero, the use of offsetting (or insetting) should only be for the last residual emissions of up to 10%.

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?

As the GHG Protocol is the most widely recognised accounting standard for greenhouse gas emissions, it would seem the most appropriate standard to use in IFRS S2. It will allow investors and users of accounts to benchmark a company's performance against industry peers. This allows for meaningful comparisons and determining if emissions reduction goals are consistent with the level of decarbonisation needed to limit global temperature increases to 1.5C.

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?

There is a wide range of additional emissions or energy-consumption related data that may be valuable for shareholders and other stakeholders. This could include target setting, evidence of GHG emission reductions to date, information related to investment in innovation and research and development that contributes to lower emissions, and data on biodiversity impact.

An international investor perspective is provided by a study from the PRI in 2023 which included interviews with 16 institutional investors from across the globe about their climate data needs[1]. On Scope 3 emission disclosure, the recommendations were to require disclosure of emissions on an ownership (equity) basis, including the following metrics (and targets): Scope 1, 2 and 3 GHG emissions, broken down by type of GHG emission, the proportion of emissions that are verified, an explanation of changes in GHG emissions and climate targets, and the proposed strategy and dependencies to meet the targets.

Questions for investors and other users of accounts

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?

At CCLA, we consider it essential that companies should make credible decarbonisation commitments based in science. We aim for impactful engagement with companies to ensure they have credible decarbonisation plans, assess performance against these plans and push for continued progress.

We prioritise companies for engagement through identifying the highest thirty green-house gas emitting portfolio companies. Given that Scope 3 emissions for most companies, comprise over 80% of overall emissions, we consider it essential to include these emissions for the purposes of identifying engagement priorities. Currently to do so, we use absolute Scope 1 and 2 and

[1] Climate data and net zero: Closing the gap on investors' data needs | PRI (unpri.org).

estimated Scope 3 emissions across portfolios. We currently use estimated emissions, due to the lack of consistent disclosure from companies of their Scope 3 emissions.

More accurate and informed Scope 3 emission disclosure will greatly contribute to ensuring our engagement is directed where it can have influence over substantive corporate decarbonisation initiatives.

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?

We consider companies should assess which of the fifteen categories are the largest and most material to their business. In many cases, category 11 ‘use of sold products’ is the largest, but more useful to us is to know that management has assessed the source of emissions in all scopes and determined actions to reduce these emissions. We therefore value information on all categories, as, for example, even if business commuting may be associated with much lower overall emissions compared to other categories, actions to reduce these may have a large impact in terms of employee attention to, and engagement with, the company’s overall decarbonisation plan.

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

Due to the risks posed by regulation, legislation and changing consumer preferences, we have a rigorous process for considering companies in the sectors most exposed to climate risk.

We aim to achieve net-zero listed equity portfolios no later than 2050. To support this, we have set a maximum carbon footprint ceiling for our listed equity portfolios which decreases year on year in line with relevant climate scenarios. Currently our portfolio decarbonisation targets are set through a decreasing maximum carbon footprint based upon the MSCI World Index.

Currently we monitor performance of constituent companies of our portfolios, using normalised weighted average emissions intensity for Scopes 1 and 2. This is due to the historic lack of accurate, reported data for companies’ full Scope 3 emissions.

For most sectors, Scope 3 emissions comprise a significant majority of emissions. Scope 3 data is particularly relevant and useful, for instance, in sectors with extensive supply chains, like manufacturing, or industries with global operations, where such data can be a crucial indicator of environmental impact. In other sectors such as steel and cement, Scope 3 emissions are a smaller proportion of overall emissions. However, this ratio is just one consideration and must be taken in conjunction with a range of other elements including evidence of carbon risk management through target-setting, verification of target setting and setting out a decarbonisation strategy in the form of a climate action plan.

Chapter Three

Questions for investors and other users of accounts

25. What benefits does robust Scope 3 reporting provide to stakeholders outside of the investment community?

Management of stakeholder relations can be enhanced through robust Scope 3 reporting.

Companies will rely on supply chain partners' own reporting, to provide accurate data to the company. It will ensure companies are well placed to meet forthcoming regulatory requirements on emission reporting. Additionally, NGOs and advocacy groups will be better informed in assessing environmental impact, which facilities collaboration on initiatives to address corporate decarbonisation.

Chapter Four

General questions

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 original objectives of the SECR regulations were to enhance transparency and encourage business to improve energy efficiency and reduce emissions. This greater overall transparency has enabled benchmarking and comparisons of energy efficiency among company peer groups to incentivise improvements in performance.

28. Are the current SECR requirements targeted at the correct population of businesses (including LLPs)? If not, which types of businesses and of which size do you think the requirements should apply to? If you think that different requirements should apply to different populations of businesses, please specify.

The current criteria ensure that smaller business with limited resources and capabilities are not required to report. Additionally, listed companies are not automatically required to report, unless they meet two or more of the criteria (relating to turnover, balance sheet total and number of employees). Best practice would be for all listed companies to report, as regulations may change and expectations of investors and stakeholders are rising for boards to evidence their management of climate risk and company decarbonisation planning.

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?

We consider the annual report the most appropriate document for companies to report in, given that it is put to shareholders annually for review and approval at the company's annual general meeting. This of course would not prevent companies who wished to provide fuller disclosure signposting in the annual report to another document or format.

30. How can the government streamline current energy and emissions reporting requirements for organisations in scope of SECR while still meeting the SECR objectives?

The government can consider several strategies to enhance efficiency and reduce the administrative load. These would include aligning current requirements with existing reporting frameworks such as CDP and ISO 14001. It could include ensuring harmonisation with proposed requirements of IFRS S2. In addition, developing standardised digital reporting platforms would help automate data collection, calculation and reporting to reduce the administrative burden and improve the accuracy of data.

Provision of clear guidance and support would also help organisations understand the requirements and lead to more accurate and timely reporting. We are aware of the number of companies or asset managers ‘not scored’ by CDP as they do submit data but fail to do so within the reporting deadline.

Government may also want to provide addition support and resources for smaller companies to meet requirements for reporting. This might include simplified reporting templates and provision of educational programmes.

31. Under the existing SECR framework, there are different reporting requirements for quoted companies and unquoted companies/LLPs. Are these differing requirements appropriate? If not, what reforms would you suggest?

We consider that, although the requirements are less intensive, there is still the impetus for transparency and sustainability, which helps investors and other stakeholders better understand decarbonisation initiatives taken by the company.

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

Information reported by businesses under SECR in terms of absolute carbon emissions is integral to our investment decisions. We have a rigorous process for considering companies in sectors most exposed to climate risk. We avoid investment in companies we consider contribute the most towards causing climate change and monitor all portfolio companies’ exposure to carbon related potential market and regulatory risks. The portfolio carbon footprint, which uses a measure of tonnes CO2 emissions per US$m sales, is one essential tool we use to monitor our aggregate carbon exposure and we maintain this at a level well below the market average.

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 information businesses report is gathered by data providers we use such as CDP and MSCI. We use these sources for a variety of climate data points including identifying the largest emitting companies in our portfolios to prioritise our engagements. However, when engaging directly with company management, we will also use primary sources of information such as company report and accounts, sustainability reports and websites to ensure we have the most recent and reliable information on performance from the company perspective.

In engagement, we seek to ensure that company decarbonisation performance against company set targets is borne out by disclosure of emissions over the relevant timescale. Our experience is that most companies are reducing Scopes 1 and 2 emissions. Performance on Scope 3 emission reduction for some companies does not show a year-on-year reduction. This is sometimes due to the approach to recording and measurement of Scope 3 emissions which is improving year on year. Engagement will include ensuring the climate strategy is integrated into business decisions for risk management, strategy and financial planning; that there is a focus on process and product innovation for more sustainable and energy-efficient products; and that engagement with employees contributes to company-wide improvements in emission reductions.