BlackRock.

17 September 2021

Louisa Chender, Financial Conduct Authority
12 Endeavour Square London E20 1JN

Submitted via email to: cp21-17@fca.org.uk

RE: Enhancing climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers / CP21/17

Dear Louisa,

BlackRock[1] is pleased to have the opportunity to respond to CP21/17issued by the Financial Conduct Authority (FCA).

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We welcome the opportunity to comment on the issues raised by this consultation paper and will continue to contribute to the thinking of the FCA on any issues that may assist in the final outcome.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

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[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

BlackRock

Executive summary

As advocates for greater disclosure of climate related risks, BlackRock supports the FCA in its ambition to introduce a climate-related finance disclosures regime. We appreciate and commend the considerable effort and thought undertaken to develop this ambitious framework and to produce this comprehensive consultation paper. With that in mind we have kept our responses in line with the spirit of the intention to aid investors to clearly understand the climate related risks across assets under management.

Overall, we believe the proposals are appropriate and importantly will help the investor community to further accelerate its understanding of the climate challenge and the risks inherent in the transition to a less carbon-intensive economy. We highlight two key areas where we believe more guidance or flexibility will be additive to achieving the intentions of the FCA and in supporting our clients:

1) Entity level reporting - we appreciate the flexibility to cross refer to a group report, but believe that more guidance is required to ensure that managers are clear where they can or should cross refer to avoid any unexpected breaches of the regulation (or the spirit of it).

2) Product level data – we believe that considering a phased approach, or review of specific metrics or analysis for asset classes where data is currently scarce, will be important to ensure that the industry can coalesce on methodologies and approaches, in a way that will be beneficial to investors and avoid confusion in the short term.

We note that the ability of firms and investors to report will depend in large part on companies (and governments) improving their climate-related disclosures. BlackRock is actively engaging in various initiatives to advance reporting practices to further the availability and quality of data in respect of climate related and broader ESG disclosures.

Responses to questions

1. ***Do you agree with our proposed scope of firms, including the £5 billion threshold for asset managers and asset owners? If not, please explain any practical concerns you may have and what scope and threshold would you prefer.***

We agree with the proposed scope of firms. We would appreciate confirmation that third country branches regulated by the FCA are deemed out of scope.

In the short term we do not see any particular issues with the proposed £5bn threshold for asset managers and asset owners. We welcome the clarity provided in Par. 3.28 in relation to the AUM threshold to be adopted for determining which asset managers are in scope of the FCA's proposals, with reference to SYSC 23 Annex 1. However, this refers only to the threshold to be adopted – we believe it is important to have explicit guidance on the below matters to safeguard compliance with the FCA's proposals from the outset and to support consistent application of the requirements by firms across the sector

a) The **AUM valuation methodology** to be adopted. Whilst the reference to SYSC 23 Annex 1 implicitly suggests that AUM should be calculated in line with the approach used for the *FSA038 Volumes and Type of Business* data item, explicit confirmation of this would be helpful. In particular, we note that there are inconsistencies in approach between the calculation approach required by the FSA038 data item and the requirements outlined in Par. 4.8 and Par. 4.40 of CP

21/17, particularly in relation to the inclusion / exclusion (in the threshold calculation) of assets managed under a delegation agreement. The requirement outlined in Par. 4.40 in relation to the treatment of assets which have been delegated to a third-party portfolio manager is not consistent with the approach required by the FSA038 data item. Confirmation that this is the FCA's intended position would be welcomed.

b) The **calculation methodology** to be adopted when determining the value of assets under management or administration for the purpose of the asset owner threshold. Currently, CP 21/17 does not provide clarity on the FCA's preferred calculation methodology for asset owners.

In the longer term we believe that such a threshold for asset managers based on AUM is not congruent with:

a) the stated objective of the regulation, to drive greater transparency for consumers and to ensure that the financial services contribute to a Net Zero economy by 2050
b) the DWP requirements for pension schemes to disclose through a TCFD report, captures schemes with greater than £1bn AUM by 2022.

We acknowledge that for smaller asset managers it may take time and investment to be able to accurately disclose some of the requirements, and that the projected threshold captures 98% of AUM, however disclosure should be about best practice, particularly if the FCA believes climate related risks to be material to asset managers. Smaller asset managers are still able to manage assets for clients seeking greater transparency. We welcome therefore the review of the threshold on a three-year basis, as appropriate.

2. Do you agree with our proposed scope of products? If not, what types of products should, or should not, be in scope and why

As an asset manager we are not opposed to the scope of products as they relate to funds and services. However, we recommend that the FCA consider a more granular approach to understanding the challenges of reporting in respect to different asset classes. We are fully supportive of greater transparency and disclosure across the spectrum of investments, however only when there is robust data and methodology so that we can provide clarity and consistency to investors.

We believe the proposed scope is reasonable when considering listed equity or fixed income products, where data coverage is strong, particularly in developed markets. However, even within these asset classes, consideration should be given to the treatment of currency or short-term instruments and derivatives where look through of data and associated "climate risk" attached to them require more analysis. Additionally, there is limited consensus on how to treat short positions, we would recommend the FCA provide guidance on a preferred methodology.

Across other asset classes, such as government bonds, private markets and alternative investments (i.e. private equity, private credit and real assets), we see there being significant challenges through a current lack of data. Disclosing data on these asset classes, due to significant coverage issues, we believe will not be reliable or consistent enough to provide the appropriate level of clarity or comparability to investors and therefore could be misleading. We suggest, in the short term, to exclude asset classes where there are persistent data issues, and review periodically, or per the three-year review basis proposed for the Entity level threshold. This review period, coupled with industry engagement on the topic, should see a marked improvement in the data over time.

3. Do you agree with our phased implementation and timings? If not, what approach and timings would you suggest and why?

We believe that the phased approach seems appropriate.

On timing we wish to highlight the DWP's requirements on occupational pensions schemes to disclose via TCFD. This regulation comes into force in Oct 2021. As pensions trustees will be heavily reliant on their managers (as acknowledged by the DWP) to deliver portfolio level metrics, it effectively requires asset managers to be able to do so in that timeline.

As it appears that it would now be difficult to align the timing of these regulations, it makes the suggested timeline a reasonable one.

4. Would there be significant challenges in using proxy data or assumptions to address data gaps? If so, please describe the key challenges and implications as well as any preferred alternative approach.

Generally, we do not support using proxy data or assumptions to address data gaps. Such requirements would lead to inconsistency and lack of clarity which is at odds with the intention of disclosures via a framework designed to aid consistency of disclosure.

By nature, proxies and assumptions are subjective and therefore how one manager might "fill" data gaps will be different to another and will hinder the extent to which disclosures by different asset managers or asset owners can be compared.

As highlighted in Q2 there will be asset classes where data coverage is high (listed equity), where the requirement for such proxies would be limited. Third party data providers do, to some extent provide "estimated" data for metrics such as GHG emissions. In such circumstances proxy data will not too largely skew the disclosure. However, in other asset classes that will not be the case.

We do acknowledge that for something like Scope 3 emissions, proxy data may not be ideal but in the absence of consistent data, may be necessary to promote greater disclosure. To the extent that proxy data or assumptions are permitted we consider it appropriate to provide a clear explanation or disclosure of what the methodologies, assumptions and limitations behind such approaches are.

Generally, we believe that whilst efforts should be made to encourage disclosure and increase coverage of data across asset classes, that effort would be better spent in industry wide collaboration to set standards for such data issues.

5. Do you agree with our proposals for the provision of a TCFD entity report, including the flexibility to cross-refer to other reports? If not, what alternative approach would you prefer and why?

We strongly agree with providing firms with the flexibility to cross refer to other entity-level reports from within a corporate group. We also agree that this would limit duplication of cost and efforts where possible and relevant.

In such scenarios much of a firm's scale is through platform operations, and there may be globally consistent policies, procedures and governance that means cross referring to a firmwide TCFD report that covers all subsidiary entities is appropriate. We note that a client of a global firm such as BlackRock, regardless of the entity they contract through, may expect clarity and visibility on the breadth and scope of our platform and the transparency provided by the TCFD disclosure at a firmwide level is therefore appropriate and in line with the intention of the regulation.

However, we agree that providing flexibility to refer to group level reports is appropriate, as different firms have different entity structures, internal arrangements and client profiles and this allows individual firms to consider at what level is it most sensible for them to provide these disclosures.

6. ***Do you agree with our proposed approach to governance, strategy and risk management, including scenario analysis? If not, what alternative approach would you prefer and why?***

We agree that aligning with the requirements of the TCFD with regards to governance, strategy and risk management is appropriate for entity level reporting.

As highlighted in our response to Question 5, we would like more clarity on the ability to cross-refer, particularly with scenario analysis in mind. We believe that the scenario analysis most useful to our clients and consumers would be at the BLK group level, rather than at a UK entity level and as such we consider that it is appropriate to provide firms with the flexibility to refer to group level reports and analysis where relevant.

Whilst we believe that scenario analysis is still in development (as acknowledged by the FCA) and for managers this may require additional expense, such analysis is one of the key requirements of the TCFD disclosure and the FCA's proposed phasing should alleviate those challenges.

7. ***Do you agree that firms not yet setting climate-related targets must explain why not? If not, what alternative approach would you prefer and why?***

We agree that having a "comply or explain" basis to climate-related targets is appropriate. We foresee that for some managers depending on their asset mix or client base that such targets maybe problematic in the short term.

8. ***Do you agree with our proposals for AFMs that delegate investment management services to third-party portfolio managers? If not, what alternative approach would you prefer and why?***

We agree with the proposal that AFMs who delegate to a third-party manager remain responsible for the TCFD entity report. We also agree that an AFM in this position should be able to hyperlink/refer to the third-party manager's own TCFD entity report, where appropriate.

9. ***Do you agree with our proposals for asset owners to cross-refer to group-level, third-party or delegate reports, where relevant? If not, what alternative approach would you prefer and why?***

We agree with the proposal for asset owners.

10. ***Do you agree with our proposed requirements for product or portfolio-level disclosures, including the provision of data on underlying holdings and climate-related data to clients on demand? If not, what alternative approach would you prefer and why?***

We understand and support the FCA's intention of providing greater transparency however feel strongly that more attention is taken to the point on providing portfolio line item data to clients. In many third-party data license agreements, there may be restrictions on the extent to which third party data can be shared externally (including to clients). Currently, reporting portfolio level data at that granularity, using third party data, could necessitate the client also having an agreement in place with the data provider, or allowing for certain data point to be shared with clients, which may lead to additional costs, either for the client or the firm.

We therefore request that the FCA consider the possible unintended consequences of this proposal:

1) Requiring asset managers to renegotiate legal contracts to allow for rights to share data/indicators which could lead to significant increase in costs
2) Potentially requiring asset owners, investors to enter into direct agreements with third party data providers themselves, increasing their costs, or facing additional costs from their delegates in relation to third party data.

We note that in addition to the above consequences there are relatively limited numbers of data providers in this space which minimises the extent to which firms or clients may be able to switch providers if commercial terms are disadvantageous.

We are supportive of the flexibility introduced with the proposals regarding reporting for discretionary portfolio management clients. We believe this allows clients and firms flexibility to report to clients once a year based on client need, rather than make it mandatory. We note that many asset managers will have to meet this requirement for portfolio disclosure (at the portfolio level) to support pensions clients as part of the DWP requirements on an annual basis. We would suggest that for scalable and operationally efficient processes, rather than allowing for ad hoc requests, clients are provided with an opportunity to opt in or out of client reporting to be provided specific points in a year. This would allow for annual or periodic data gathering and analysis and to build processes and controls that align with other clients' needs.

We also note that clients may request specific data points to support their own disclosures or needs. Allowing for ad hoc requests through the year, as well as accommodating specific data points would give rise to operational complexity. We ask for greater consideration to be given to standardising across different industry standards to, wherever possible, minimise the extent to which a client or asset owner may request bespoke data points.

11. Do you agree with the list of core metrics, including the timeframes for disclosure? If not, what alternative metrics and timeframes would you prefer and why?

We agree with the core list of metrics, as they are in line with the DWP requirements and the TCFD's current recommendations.

In referring to Q2 however, our concerns over coverage and expectations in certain asset classes remain. We appreciate the flexibility with regards to Scope 3 emissions but ask for similar flexibility for asset classes previously mentioned.

12. Do you agree that firms should calculate metrics marked with an asterisk according to both formulas set out in columns A and B of Appendix 3? If not, please explain why, including any challenges in reporting in accordance with either or both regimes.

We encourage any efforts to harmonise and align with existing regulatory requirements, however we do not see the value in asking for disclosure to be provided on two sets of formulas. We acknowledge that SFDR reporting is very close to the TCFD requirements and is proving to be an important barometer for our clients, however we feel disclosing on specific data points with two different metrics will lead to confusion and will not be additive to the FCA's intention.

In addition, certain UK based firms may continue to have contractual relationships with EU clients in relation to discretionary portfolio management services. As a result, they are likely to be required to provide those clients disclosures under SFDR standards. We propose that in such instances, upon client request, that product or portfolio level reporting requirements could be satisfied by providing only the relevant metrics in line with SFDR methodologies rather than the UK requirements.

13. ***Do you agree that, subject to the final TCFD guidance being broadly consistent with that proposed in the current consultation, our proposed rules and guidance should refer to: a. The TCFD Final Report and TCFD Annex in their updated versions, once finalised b. The TCFD's proposed guidance on metrics, targets and transition plans and the proposed technical supplement on measuring portfolio alignment If not, what other approach would you prefer and why?***

With regards to the current TCFD consultation we highlighted directly to the TCFD that they consider the stability of its current framework at the expense of a major revamp and that greater effort was placed in to developing clear methodologies prior to asking for disclosure.

With that in mind although we agree with the principle of aligning to the TCFD's rules, any major changes to TCFD framework or guidance may have a significant knock on impact on the proposed timeline for this regulation. Should the TCFD recommendations or guidance for disclosure change significantly in the future, we ask that the FCA potentially provide flexibility on disclosures timings to consider education, data gathering and operational complexity.

14. ***Do you agree with our approach to additional metrics and targets? If not, what alternatives would you suggest and why?***

We support the intention of forward looking metrics such as Climate VAR and implied temperature rise, however, in the spirit of transparency and providing consistency and clarity to consumers we believe that these metrics are both relatively new, unfeasible in some asset classes and will require third party data providers to provide consistency. We also note that there may be limited data providers who can provider these metrics currently and therefore this may lead to concentrated industry reliance on a single or small number of providers.

This does not preclude the use of these metrics if managers want to use them, but we encourage the FCA, alongside the work of the CFRF DWG, to consider a set of additional metrics that will be broadly available, with clear methodologies, across asset classes in the short term, as these more ambitious metrics become better understood and more available. We also support the ongoing consideration of such metrics as data availability and methodologies become more consistent over time.

15. ***Do you agree with our approach to governance, strategy, and risk management, including scenario analysis at product or portfolio-level? If not, what alternative approach would you prefer and why?***

In general, we agree with the approach. We note that across all three pillars there will be significant variation between the approach to governance, strategy and risk management at an entity level and the governance, risk management and strategy adopted in relation to a product or portfolio. With that in mind we do not think it is feasible or sensible to expect full reports at a product level and some examples or guidance of what would be required in terms of detail at a product level, as well as what constitute a materially different approach to an entity level report would be additive. We recognise that the flexibility to refer to entity level reports wherever possible remains helpful.

Whilst we acknowledge the DWP requirements for trustees to undertake scenario analysis at the scheme level, whether qualitative or quantitative, we believe that this should be a future aspiration at a product level. Our reasoning for this is captured in our response to Q16.

16. ***What form(s) could quantitative scenario analysis outputs at product or portfolio-level take? What do you consider the cost and feasibility of producing such outputs might be? How useful would such outputs be for users' decision-making?***

As highlighted in Q6 the availability of scenario analysis is still limited. The most readily available tool (PACTA), whilst very credible, is not suitable for use across asset classes, and third-party tools are still "first generation" and require time to build quality and coverage (as well as consultation on methodology).

Whereas we support the intention of greater use of scenario analysis in the future at a product level, to give greater transparency to investors, we think that in the short term this would come at considerable cost in terms of time and resources, as well as potentially additional third party costs. Analysis such as Climate VAR is very subjective, driven by one data provider and therefore is unlikely to be a comparable metric should managers or asset owners choose other measures or data providers. Therefore, any use of scenario analysis would need significant disclosure detailing what it is and what it is not, to avoid misleading investors

As a result, until there is sufficient industry engagement, investor education and data quality, we do not think that at this moment this analysis would be useful for investor decision making. We also highlight the roles of active portfolio managers to balance the risk at a security/investment level across other risk and return drivers; and index funds which provide a low cost exposure where risks tend to be diversified to market risk/beta.

17. ***Do you agree with our proposed approach that would require certain firms to provide product or portfolio level information to clients on request? If not, what approach and what types of clients would you prefer and why?***

We agree that this proposed approach makes sense and is already likely in train for some asset managers with a discretionary relationship with a pension scheme, in line with the DWP requirements. We draw attention to our response under Q10 in respect to on demand reports.

18. ***Do you agree with our proposed approach for life insurers when mirroring an external asset manager's strategy? If not, what alternative approach would you prefer and why?***

We agree with the proposed approach to allow for life insurers to refer to an external asset managers strategy where appropriate.

19. ***Do you agree with our specific proposals for asset owners, including the proposed threshold to exclude the smallest default schemes? If not, what alternatives would you prefer and why?***

We would like more clarity as to the benefit of asset owners disclosing at a pre-set investment strategy level.

In the example of a pensions default – a scheme may choose to use their provider's default based on several characteristics: performance; fees, administration; member communication; but will tend to make those decisions at the overall level. Many trustees may choose to look at the asset allocation or exposure/strategy level, but the focus is on the overall fund. Therefore, much of the reporting they will consume or pass onto members will be at the default level. With this in mind, disclosing at the underlying strategy level would appear to be both superfluous and needlessly complicated.

20. Do you agree with the analysis in our CBA? If not, we welcome feedback in relation to the one-off and ongoing costs you expect to incur and the potential benefits you envisage. Contextual information about your firm's size and structure would be helpful.

We appreciate the efforts to provide a CBA analysis and acknowledge that much of the costs will be voluntarily assumed by asset managers as ESG or climate related data becomes more in demand. We agree that there are tangible benefits in providing greater disclosure and transparency to investors, and as supporters of the TCFD that we should advocate pushing the industry further along the journey.

Although it is difficult to predict the data costs given the current limitations that many third party data providers put on their clients, what is clear is that there will need to be significant investment from managers above and beyond current ESG data licenses when consideration is given to things like scenario analysis and data gaps in private markets.

The CBA considers resourcing costs from a hiring perspective but not from an operational or time perspective. We acknowledge the benefits as highlighted but believe that some of these benefits will only manifest once the data and tools are of an adequate quality and robustness from which to provide investors the appropriate insights to make better informed decisions. We therefore reiterate our point on reviewing some of the requirements within the three-year review cycle.

Conclusion

We appreciate the opportunity to address and comment on the issues raised by the CP21/17 and will continue to work with the FCA on any specific issues which may assist in enhancing climate related disclosures.