Guernsey Financial Services Commission

Feedback on the Commission's Spring Green Consultation Paper

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Background

On the 11th March 2021 the Commission published a Consultation Paper on its proposed addition to the Finance Sector Code of Corporate Governance ("the Code"), to take specific account of climate change considerations. The consultation period ran for eight weeks until 5th May 2021.

To recap, the proposal was to insert the following sentence into the Code as Principle 5.2.1 and Principle A:18 of Appendix 3:

The Board should consider the impact of climate change on the firm's business strategy and risk profile and, where appropriate in the judgement of the board, make timely climate change related disclosures.

General overall feedback and comments

Who responded?

Fourteen replies were received: mainly from licensees.

What was the general message in the feedback?

One respondent took no position on the recommendation whilst including some observations. Ten were in favour. Three against. Of the latter, one argued that climate change was already implicit within the current Code. Another thought that climate change should be the concern of the government rather than the Commission, whilst another preferred the use of ESG.

Among the fourteen respondents, several included reservations over disclosure. However, these reservations varied significantly. One respondent thought the disclosure requirement was insufficiently prescriptive; another that it was overly prescriptive. One that disclosure was already covered within the current Code. Another that the inclusion of climate change disclosure made sense but was premature

What is the Commission going to do next?

Picking up on the above, it is a fair argument that climate change is already implicitly covered by the current Code. However, in the Commission's experience, few boards currently act on this. It seems reasonable therefore to be specific.

On mandate, the emerging consensus is that climate change is a legitimate area of concern for central banks and financial regulators. Apart from the arguments around financial stability, climate change is of direct relevance to the business and risk profile of many licensees.

In terms of nomenclature, there are several definitions in wide circulation apart from climate change. Each has their advocates and the popularity of each varies according to circumstance. However, the Commission identified climate change as its preferred nomenclature some time ago and intends to stick to it. Moving the goalposts mid-game makes scoring difficult.

The Commission agrees that the inclusion of disclosure is forward-looking and that clear global guidelines have yet to emerge. However, in time such guidelines are likely to fall into place and licensees need to be ready for this. The Commission, in any case, has left the judgment call on disclosure firmly in the hands of the board. Overall, the Commission considers that the phrasing around disclosure remains appropriate.

Following the Consultation, the Commission has decided to re-issue the Code with the proposed amendments in place. A copy of the revised Code can be found on the Commission's website.

Licensees will be expected to comply with the amendment for financial years starting from 1st October 2021.

Specific Feedback

The replies also included some specific questions. These were (*with Commission responses in italics*):

1. Does the Commission expect companies to use sophisticated price adjustment tools and models for climate change?
   No; unless there is specific business argument as in the case for example of catastrophe reinsurance where models are already used for weather.

2. The Code applies to boards of GFSC authorised and registered collective investment schemes that are formed as companies. Therefore, it appears that the additional climate change clause would apply to these entities as well as licensees, is that the Commission's intention?
   Yes.

3. Must disclosures be made in the financial statements of the entity?
   Standards will evolve over time in this regard but at present the Commission considers that it is for each board to decide its approach. For example, as one respondent pointed out, in practice many relevant disclosures for the funds industry are likely to be made on the investment managers/promoters' website.