HM Treasury

Financial Reporting Advisory Board Sustainability Subcommittee Update (FRAB-SSC 03)

Issue:	An update from the FRAB Sustainability Subcommittee (FRAB-SSC) based on the Subcommittee meeting held on 16 June 2022, and sustainability reporting developments since the last FRAB meeting. This includes discussions on Adopting TCFD-aligned (Taskforce for Climate-related Financial Disclosure) reporting in the public sector, and an Overview of the International Sustainability Standards Board's (ISSB's) exposure drafts.
Impact on guidance:	No impacts on guidance are proposed in the paper. HM Treasury and FRAB-SSC are considering the impact of developments on climate- and sustainability-related reporting for public sector annual reports and accounts (ARAs).
IAS/IFRS adaptation?	No adaptations or interpretations are proposed in the paper; however, the Subcommittee may bring insights around interpretations of the IFRS framework to FRAB in the future.
Impact on WGA?	No immediate impact on WGA in the paper. Future advice on climate- and sustainability- related reporting may impact WGA's performance section.
IPSAS compliant?	IPSAS has not yet issued comprehensive guidance on climate- or sustainability-related reporting. The paper notes IPSASB's consultation for developing a public sector sustainability reporting framework.
Interpretation for the public sector context?	Some interpretations and adaptations may be necessary to effectively implement sustainability- and climate-related reporting in the public sector.
Impact on budgetary and Estimates regimes?	N/A
Alignment with National Accounts	N/A - However, ESA10 guidance on non-financial reporting incorporates satellite accounts enlarging the scope of the accounting framework by adding nonmonetary information, e.g., on pollution and environmental assets.
Recommendation:	The FRAB members are invited to comment on the paper and approve the Subcommittee's recommendation for the public sector to TCFD-aligned reporting across the public sector, while remaining alert to other frameworks (e.g., ISSB and IPSASB) as they develop.
Timing:	The Board should approve the subcommittees recommendations at the meeting.

Background

1. At FRAB 146 on 8 March 2022, the Board approved FRAB Sustainability Subcommittee (FRAB-SSC) proposal to develop climate-related financial reporting guidance for the public sector.
2. In the latest subcommittee meeting (FRAB-SSC 02) on 16 June 2022, the subcommittee discussed the International Sustainability Standards Board's (ISSB's) first two exposure drafts, as well as adopting Taskforce for Climate-related Financial Reporting (TCFD)-aligned reporting in the public sector. PWC presented their analysis of TCFD reports from private sector listed companies and answered questions. The subcommittee also discussed updates in sustainability reporting. The papers and agenda were circulated in advance of the meeting.
3. At FRAB 146, Ian Webber volunteered to join the subcommittee as a permanent Subcommittee member. Richard Lloyd-Bithell, CIPFA has agreed to represent CIPFA at future FRAB-SSC meetings.

Summary

4. This paper sets out the Recommendations from the FRAB-SSC meeting requiring the Board's review and approval; and provides the Board with a view on Adopting TCFD-aligned reporting in the public sector, and an overview of the ISSB exposure drafts. The Board is asked to approve the subcommittee's recommendations.
5. The associated papers for the FRAB-SSC 03 meeting have been included as annexes for the Board's reference:

Annex	Associated paper FRAB-SSC (03)	Details
Annex 1	01 - Agenda and summary minutes	The proposed meeting agenda and details.
Annex 2	02 – Adopting TCFD-aligned reporting in the public sector	The paper evaluates the applicability of the TCFD framework to the public sector, and sets the main considerations for adoption, including the advantages and limitations; the associated risks; as well as considerations for implementation. This is in response to the Chancellor's announcement on the framework, as well as private sector developments for on TCFD-aligned disclosures.
Annex 3	03 - Impact of climate-related matters on public sector financial statements	This paper provides an overview of the ISSB's published exposure drafts, 'S1 General Requirements for Disclosure of Sustainability-related Financial Information' and 'S2 Climate-related Disclosures', including initial views and considerations for public sector sustainability reporting.

Recommendations

6. The subcommittee agreed with HM Treasury's proposal that the public sector should adopt TCFD-aligned reporting, minimising interpretations and adaptations to the framework while making use of pilot schemes and lessons learnt from the private

sector and public sector early adopters (e.g., segmented implementation and proportional disclosure). The subcommittee agreed that identifying appropriate public sector bodies for implementation was important, as well as ensuring that sections of the public sector aren't left behind, moving on a path to closer alignment in sustainability reporting.

7. The subcommittee agreed that moving towards implementing TCFD-aligned reporting, before considering further developments by ISSB and IPSASB was an appropriate strategy, based on the direction of the private sector and the TCFD structures is likely to be incorporated into potential future frameworks.

Does the Board agree with the subcommittee's recommendation for the Treasury to implement TCFD-aligned reporting in the central government and look to develop TCFD-aligned reporting across the public sector?

Does the Board agree to focus and progress with the implementation of TCFD-aligned reporting across the public sector, while other sustainability reporting frameworks (e.g., ISSB, IPSASB) develop?

HM Treasury

FRAB-Sustainability Subcommittee (FRAB-SSC)

Annex 1 - Agenda and minutes

Time: 3.30pm to 5.00pm on Thursday 16 June 2022
Location: Virtual via MS Teams

Agenda

Attendees

Name	Initials	Position	FRAB Role
Karen Sanderson (Chair)	KS	CIPFA	Relevant authority
Michael Sunderland	MS	HM Treasury (HMT)	Relevant authority
Andrea Pryde	AP	PwC	Independent member
Conrad Hall	CH	Newham Council	CIPFA/LASAAC Chair
Lynn Pamment - joined from 4pm	LP	Jersey Audit Office	FRAB Chair
James Osbourne	JO	National Audit Office	Auditor representative
Ian Webber	IW	MoD	Preparer representative
Max Greenwood (Secretariat)	MG	HMT	-
Ollie Law	OL	PricewaterhouseCoopers	Presenter – joined until
Laura Kelly	LK	(PWC)	3.55pm

Timetable

	Time	Item	Details
1	3.30-3.35pm	Introduction	Welcome and intros from new members.
2	3.35-3.55pm	TCFD in the private sector	Laura Kelly/Ollie Law (both PWC) to present update on progress towards TCFD implementation and common reporting issues experienced in the private sector.
3	3.55-4.15pm	TCFD-aligned reporting in PS	Group to discuss paper and future public sector strategy for TCFD-aligned reporting based on recent developments. Refer to FRAB-SSC (03) 02.
4	4.15-4.45pm	ISSB exposure drafts	Group to discuss ISSB's exposure drafts and impact on future PS strategy; in preparation for the ISSB representative's presentation at FRAB on Wed 29 June 2022. Refer to FRAB-SSC (03) 03.
5	4.45-4.55pm	Updates (not previously covered)	HMT to provide other updates to the group on the private sector, government policy and external standard setters. Invite updates from other members. Suggested topics: NAO decarbonisation study, IPSASB consultations on natural capital and sustainability.
6	4.55-5.00pm	AOB, close	Any other business, confirm next chair and close

Related papers

Paper No.	Paper title
FRAB-SSC (03) 02	Adopting TCFD-aligned reporting in the public sector
FRAB-SSC (03) 03	Overview of the International Sustainability Standards Board's exposure drafts
FRAB 146 (09)	Sustainability Subcommittee Update (most recent FRAB paper)

Acronyms

PS	Public Sector	ISSB	International Sustainability Standards Board	PWC	Price Waterhouse Coopers
NAO	National Audit Office	TCFD	Taskforce for Climate-related Financial Disclosure		

Matters arising

Item	Details
Decision – TCFD aligned reporting in the public sector	The subcommittee agreed with HM Treasury's proposal that the public sector should adopt TCFD-aligned reporting, minimising interpretations and adaptations to the framework while making use of pilot schemes and lessons learnt from the private sector and public sector early adopters (e.g., segmented implementation and proportional disclosure). The subcommittee agreed that identifying appropriate public sector bodies for implementation was important, as well as ensuring that sections of the public sector aren't left behind moving on a path to closer alignment in sustainability reporting.
Decision – to focus first on TCFD framework implementation and remain alerts to developments at the ISSB and IPSASB	The subcommittee agreed that moving towards implementing TCFD-aligned reporting, before considering further developments by ISSB and IPSASB was an appropriate strategy, based on the direction of the private sector and the TCFD structure's likely incorporation into potential future framework.

Minutes

Publication procedures and details

1. Based on time constraints, the summary minutes for the FRAB-SSC meeting have not been circulated to the subcommittee in advance of the FRAB meeting[1].
2. These minutes should be read in conjunction with the agenda (previous page) and papers (FRAB-SSC (03) 02 and FRAB-SSC (03) 03).

Summary minutes

1. The Secretariat confirmed Karen Sanderson's role as rotating Chair for the session. The Chair welcomed members and PWC representatives. The Chair confirmed Ian Webber's official membership to the subcommittee going forward, having initially joined FRAB-SSC 02 to discuss the Climate-related Financial Reporting paper.

[1] The detailed minutes were provided to the Board for their review at FRAB 146; however, these minutes have been summarised for publication on Gov.uk.

An analysis of TCFD reports from private sector listed companies by PWC

2. The PWC representatives introduced themselves and their background, with experience in private sector audit, consulting and governance on Environmental Social and Governance (ESG) reporting matters, including on the TCFD disclosures.

Introduction and key points

3. PWC presented 'The green shoots of TCFD reporting - An analysis of the first 50 companies to report under the Listing Rules'[2] report. The report provides a high-level view of TCFD implementation in the private sector; identify best practice, lessons learn and insights. The key themes in the report are:

    - Risks and responses – *What risks and opportunities are the entity likely to encounter?* PWC explained that companies have struggled to a strike balance.
    - Risks and opportunities – *How's the entity responding?* PWC explained that companies have been struggling to identifying the key risks and opportunities for the business.
    - Reporting the "F" in TCFD – *How's the entity monitoring progress through metrics and targets?* Few companies appropriately quantified the impact of climate change in disclosures, including around actual and potential consequences. Furthermore, PWC noted that the ISSB exposure drafts emphasise quantification of risks and opportunities - either at a point or in a range.
    - Listing Rules – Companies had to report whether their reporting was consistent with the TCFD framework. Where a company was inconsistent, they had to explain where, why and the future steps they were taking towards consistency.

4. PWC noted that the adoption of the TCFD framework increased the length of the strategic report (2020-21 pages: 69; 2021-22: 80 pages) and the ESG component of the strategic report (2020-21: 20% of the strategic report; 2021-22: 30%).

Lack of proportionality in disclosure

5. Companies often focus on the wrong areas. While 86% list climate changes as either a principal risk or embedded into existing principal risks, only 4% clearly stated whether climate change was material in their financial statements. As a principal risk, the company would consider climate change as a material risk (or expect it to become material in the future). Subsequently, companies were having to provide significant disclosure to conclude that climate-related risk was immaterial to them.

6. Companies often focussed solely on carbon metrics; rather than including other metrics which were more appropriate for tracking identified climate-related risks (e.g., water resources, internal carbon prices where they expected incoming legislation). Furthermore, companies often failed to link TCFD risks and opportunities. Currently,

[2] The summary and report are available at www.pwc.co.uk/services/audit/insights/green-shoots-of-tcfd-reporting.html

there's little consistency across the private sector, although the FRC's thematic review, due in Autumn 2022, is expected to clarify investor expectations.

7. Only *32% of companies provided a detailed disclosure of the risk assessment they carried out*. While the ESG and governance boards were well described in reports, they often lack sufficient detail on the risk assessment process for the auditors to assess effectiveness.

Reporting focus

8. PWC was asked whether disclosures on risk mitigation were focused on reducing a company's carbon footprints ('outward focus'); or on how climate change more generally would alter the operations and metrics of the company ('in-ward focus').

9. PWC explained that companies tend to focus on the areas which they have control over (e.g., upgrading office buildings/fleet). Where companies had a broader definition (e.g., Scope 3, value chain), their risk mitigation was less clear. Two-thirds of companies only gave high-level responses which lacked detail. The initial reports tended to focus on governance, risk management and existing metrics (e.g., Streamlined Energy and Carbon Reporting), instead of the quantitative/scenario analyses, which are in their infancy. Furthermore, there was a focus on general risks, rather than specific risks to the organisation. PWC said that they expect to see improvements in the next iteration of reporting.

10. PWC explained that for certain companies with global operations, there were differences in the types of risk and when they materialise. For example, in the UK transitional risks tend to crystalise before physical risks (e.g., regulation, legislation), whereas in Australia physical risks are occurring first (e.g., forest fires). Often companies are struggling to understand their risk/opportunity profiles and set out a response. To be effective, public sector bodies should start by identifying risks and opportunities, rather than performing detailed scenario analysis.

11. *78% mention climate in their financial statements* (up from 23% for 2020-21 annual reports); however, the related disclosures lack detail. They tend to be concentrated within 'the basis for preparation' section, or briefly in impairment reviews (e.g., 'we've considered climate change in our impairment review'). *Only 8% were able to quantify physical and transitional risks in their strategic report*.

Proportionate TCFD disclosures

12. A member of the subcommittee explained that companies often failed to make proportionate disclosures, with the right level of balance for their specific circumstances. The public sector has similar variations to the private sector and some public sector bodies would have a significant impact, while the majority would still be impacted but on a much smaller scale. PWC were asked if they had any insights into how the private sector is grappling with this.

13. PWC agreed proportionality and materiality are the main considerations whenever new regulations or disclosures are brought in (e.g., ISSB). For 2021-22, companies have been cautious about having too little disclosed. When the FRC thematic review is published in August/September 2022, preparers will have a better grasp of the

disclosure needs of investors. With this clarification, PWC expects that less impacted sectors will likely reduce the level of disclosure. Furthermore, there's likely to be a drive from process-driven disclosures to outcomes-driven disclosures.

Assurance arrangements over TCFD reporting

14. Another member asked PWC what assurance arrangements were in place around the TCFD disclosures, and whether the lack of financial disclosure was driven by an inability to calculate, or a resistance based on the expected investor perception.

15. PWC explained that the TCFD-related information hasn't been subject to the level of assurance or rigour of audit in previous years. Subsequently, boards have been seeking limited or even reasonable assurance for their annual reports. The lack of data across different sectors further complicates this further.

16. Assurance is more common over quantitative disclosures (e.g., metrics and targets) than qualitative disclosures (e.g., risk and governance assessments). Most private sector companies have limited assurance for their metrics and targets – although more companies are moving to reasonable assurance. If metrics and targets are published these should be assured.

17. For scenario analysis, professional service firms are starting to provide assurance over models, including the inputs, the outputs or the models themselves. While some customers are approaching PWC to assure their full TCFD annual report; as certain disclosures are forward-looking and judgemental, PWC are having to select the segments they are able to provide assurance for.

Key success factors

18. The subcommittee asked which key factors are enabling preparers to make a success of TCFD-aligned reporting. PWC explained the success factors are having an effective governance structure and tonne from the top. When designing an appropriate adoption strategy, an entity needs to decide whether they want to be 'leaders', 'laggers' or 'middle of the pack'. Furthermore, the company needs to clearly understand where data comes from, who's the responsible owner, and where there are gaps. PWC were thanker for their time and they dropped off the call.

Adopting TCFD-aligned reporting in the public sector

Principle of adopting TCFD-aligned reporting in the public sector

19. The Secretary introduced the paper Adopting TCFD-aligned reporting in the public sector. The paper leads on from the Chancellor's announcement 'to adopt TCFD-aligned reporting across the UK economy by 2025', which has led to new regulatory and legislative requirements mandating TCFD reporting in the private sector. The Secretary provided the group with background on the TCFD recommendations (e.g., four pillars, disclosures, etc.) and the developments from other standards setters (e.g., the ISSB and IPSASB consultations). Based on PWC's report findings (e.g., length of annual reports) and the points raised in the paper…

Does the subcommittee support the Treasury's proposal to adopt a level of TCFD-aligned reporting in central government, and agree to encourage alignment by other relevant authorities across the public sector?

20. A subcommittee member explained that as the framework is principals based, it can be applied flexibly across the public sector, and allow for 'a journey to adoption'.

21. Another member noted that the framework is a good place to start the journey, considering what may come next (e.g., ISSB, etc.). Moreover, based on the development in the private sector, the TCFD framework should represent a minimum requirement for the public sector. TCFD recommendations offer a useful framework and tool for comparison - noting the advantages (e.g., comparability, transparency) and disadvantages (e.g., requires tailoring and appropriate targeting) described in the paper. The TCFD framework can have strong relevance to the public sector if tailored in terms of approach.

22. A subcommittee clarified the question being on identifying whether there's anything fundamentally problematic with adopting the TCFD framework in the public sector. Considering the applicability, the developments by other standard setters and the direction of travel for the private sector, fundamentally does the subcommittee agree with the approach?

Interpretations and adaptions

23. Another member explained they didn't disagree, however, the other paper, 'Overview of ISSB's exposure drafts', anticipates the standards would require a significant number of interpretations and adaptations before being adopted. While FRAB makes interpretations and adaptations to other financial reporting standards for public sector adoption, these are limited and on an exceptional basis. The subcommittee should approach FRAB to confirm that they are content taking on increased numbers of requests for adaptation and interpretation; as this would change the relationship and intended operations of the Board to HMT. To add, creating a sustainability reporting framework from scratch wouldn't be appropriate and there aren't currently other frameworks to use (so moving in the direction of TCFD would be appropriate).

24. Responding to the previous comment on adaptions and interpretations, another members wasn't sure how significant the interpretations or adaptions would necessarily be in comparison to the IFRS Framework. There are decisions for specific high-level principles in terms of applying the TCFD framework to the public sector; however, certain TCFD-related reporting channels already exist (e.g., reporting strategy on government bodies and linking through to the financial statements). The bottom-line profit motive already exists for annual reports. Choice around who and how this is applied will be significant for cost-benefit. The member explained the focus should be on ensuring TCFD-aligned reporting can be delivered at a reasonable cost in terms of investment and deciding whether that's 'the end game'.

25. Another member agreed that there's existing reporting around strategy in the public sector which aligns with TCFD disclosures. The public sector needs to at least be compliant with the TCFD framework - even if eventually an alternative framework is chosen. The member was in favour of using TCFD as a starting point, rather than

'reinventing the wheel'. The Chair agreed that there's a cost-benefit but as a starting point, moving towards TCFD is sensible.

26. Another member explained that the more FRAB can accept the TCFD framework without adaptation and interpretation, the better. Sustainability reporting is an area with significant movement so remaining aligned where possible is important.

Experience in adoption

27. Another member explained that they support the TCFD paper and agreed that the UK public sector should move towards the TCFD framework, aligning with the consensus of the group. To understand the requirements in advance of recommending the framework to clients, the Jersey Audit Office included TCFD disclosures in their annual report for 2020-21. While the office is obviously much smaller than the UK public sector, their experience has been that the framework is relatively easy to adopt and usable. The framework is well recognised, with IPSASB and other standards setters likely to move towards TCFD in the future, in part, due to a lack of alternatives. It would be strange if the UK public sector did something different or wanted to adapt or interpret the framework too much.

Mitigating the risk

28. The Secretary introduced the question of whether the risks of adoption can be mitigated. From the subcommittee's comments so far, the view seems to be that if the framework is targeted at the right entities, then this seems appropriate. Furthermore, if there are any significant risks not covered, please raise them in this section.

Does the subcommittee agree that the risks of adopting TCFD-aligned reporting can be appropriately managed? Have these risks been appropriately identified and addressed in this paper?

29. The subcommittee didn't raise any further comments.

Detailed considerations for applying the framework

30. The Secretary introduced the next decision which covers the detailed considerations for applying the framework. With this, it's necessary to consider the size of the body (e.g., small ALBs are likely to have less of an impact). Government functions already carry out certain analyses that are required by the TCFD framework (e.g., Met Office's models on temperature variations). There is also existing expertise in government from implementing TCFD in the private sector (e.g., TCFD Joint Regulator and Government Taskforce, BEIS). The paper also covers the existing sustainability metrics frameworks (e.g., Central Government, Devolved Administrations, NHS, UK Government's Climate Change Risk Assessment process) which can be adopted and interpreted for the TCFD framework.

Does the subcommittee agree with the initial proposals for interpreting and adapting the TCFD framework for central government, with a view to encourage a similar approach across the public sector?

31. A subcommittee member commented that PWC presentation had made clear that it's important for government to consider what level the framework should be applied to, as well as the extent to which HMT should be setting out centrally how to apply the framework. For example, on scenario analysis or when setting out broad climate-related risks and opportunities. In addition, there's should be a linkage to other government strategic planning and reporting mechanisms (e.g., Outcome Delivery Plans) for consideration when applying the TCFD framework.

32. The Chair agreed. Also, there are considerations on whether reporting is material by nature or material by impact. For example, the Met Office is very small; however, its operations and risk profile suggest that there are considerable climate-related risks for the organisation. Another similarly small public sector body may not face the same challenges. Government should consider the cost-benefit analysis and where they're likely to attain the greatest value in application.

Implementation purpose and wider benefits

33. Another member asked what the aim of adopting the framework is. Parliament wants public sector bodies to make appropriate disclosures; however, in addition, there may be a benefit for entities performing the information gathering exercises to make the climate-related disclosures. A challenge to the cost-benefit consideration is that for those entities that haven't appropriately considered climate change to date; adopting TCFD would mean that they would have to make the appropriate disclosures. The member added that they were nervous about where government strike the boundary and whether this is because there's a realisation that organisations haven't done enough. This links to the question about the implementation timescale. Often, having organisations pilot the programme is useful. Initially setting the boundary wide, would help to ensure that organisations start considering climate-related risks and the framework may be helpful. If the implementation date is a long way off, other organisations could learn from the first movers. The Chair agreed that a pilot scheme with different types and sizes or organisations would be useful to assess the benefit.

Timing and segmented implementation

34. The Secretary introduced the next decision on timing. The Chancellor's announcement set a deadline of 2025; however, from PWCs presentation, preparers in the private sector had treated this as a journey, with not all preparers meeting all requirements in the first year. Would a segmented adoption approach be appropriate, considering governance disclosures, then quantitative disclosure, before qualitative information?

Does the subcommittee agree with HM Treasury's goal of adopting an adapted version of the TCFD framework by 2025? If not, what stage of implementation does the subcommittee consider is reasonable for central government (and the wider public sector) by 2025?

35. The Chair agreed that, from the PWC presentation, a staged approach seemed to be occurring naturally. The public sector would benefit from a staged approach to ease implementation, learning from the private sector.

36. Another member explained that similar to the views of other colleagues, preparers need sufficient time to reach the ambition of the TCFD framework, and what it is

intended to deliver. The sooner the public sector starts implementation, the faster government starts benefiting from the adoption. Several public sector organisations have already started adopting the TCFD framework. Government must consider the extent they want to encourage compliance in the short term, especially for those organisations that are significant or want to align with the private sector framework. At what point does government want to start drawing in other reporters; and to what extent?

37. The Secretariat confirmed that the subcommittees provided enough information to draft a plan, without going down into the specific disclosures. The Secretariat introduced the final decision.

Overall decision and summary

Does the subcommittee agree:

- *That for central government, HM Treasury should initially focus on identifying the appropriate level (entity, department, Whole of Government, etc.) to apply TCFD-aligned reporting (after a general public sector view of each TCFD disclosure requirement has been considered)?*
- *The Treasury's preliminary plans for implementation (segmental approach, exploring the development of guidance, signalling and communicating with stakeholders)?*
- *That the Treasury should establish suitable working-level groups to take forward the implementation work?*

38. The Secretariat explained the discussion has highlighted the key options for the planned implementation. Either centralised, setting a central timetable and guidance; or more organic, setting broad considerations and using piloting to learn from first movers.

39. A subcommittee member confirmed the need for a clear direction of travel while encouraging, not mandating, a diverse range of first movers (e.g., size, sector, location) to learn from. Also, there's a need for a position statement from government, to either encourage or hold-off adoption. IW explained that without a set date for adoption, preparers are unlikely to adopt the framework early.

40. Another member added that recent NAO reports had identified low levels of sustainability reporting compliance, as has HMT. If preparers are encouraged to adopt the TCFD framework, government needs to consider how this impacts existing reporting frameworks. The worst outcome would be if preparers are adopting TCFD-aligned reporting, while also having to meet existing sustainability reporting requirements. The NAO report identified quite a fragmented reporting landscape in the public sector. Subsequently, shifting sooner could encourage coherence.

41. The Chair expanded on the focus on central government, explaining that local authorities have significant challenges to their reporting ahead. While local authorities are keen to work on this topic, the differences in capacity in the sector may be a challenge. The group needs to consider how to move forward with the TCFD framework.

42. Another member agreed that local government isn't currently in great shape. From all sorts of perspectives, stakeholders would agree that the public sector ought to be implementing TCFD. However, the understandable response from the local government sector is there's a tremendous amount of additional work on the statements when there are other pressing matters - although this view is debatable. The Chair added that it’s important that certain parts of the public sector aren't left behind as the TCFD-aligned reporting is considered.

43. Another member explained that while she understands the concerns around TCFD implementation; there may be an opportunity to communicate the need, where the need is coming from and what the benefits of the framework are. If HMT goes out apologetically saying this is an awful lot of work, then this won't be well received. Government needs to communicate the benefits of transparency, accountability and leading from the front. Messaging is what the government should be thinking of as it develops materials. The Chair agreed that this is important.

44. Another subcommittee member added that almost every relevant authority in the country has declared a climate emergency and set climate goals. On one level there’s wide support; however, no amount of well-drafted communications that appeal to the policy commitments locally, are going to take away from the fact that certain stakeholders may not feel this is the most important piece of work for local government accounts.

45. The Chair agreed that other parts of the public sector may see some value in taking this forward more quickly than others. There's always a conversation to be had.

46. Another member added to a previous comment on local government, that if every local authority has declared a climate emergency, they probably have more to say in this space than others that may not have dealt with this in the same way (i.e., a small NDPB). FRAB needs to consider what they want entities to do; linking back to the earlier point of instilling the benefits of the framework, by explaining the benefits for implementation (i.e., accountability, transparency).

Overview of the International Sustainability Standard’s Board exposure drafts

47. The Chair moved the subcommittee onto the next paper, Overview of the International Sustainability Standards Board’s exposure drafts. The Secretariat introduced the paper noting the main outcome of the paper should be deciding what questions to ask the ISSB representatives who are presenting at FRAB on Wednesday 29 June 2022.

Does the subcommittee agree that the board should focus on adopting TCFD-aligned reporting in the public sector, before addressing the upcoming ISDSs?

48. The Chair commented that at CIPFA/LASAC’s recent meeting, the relationship between the Boards with ISSB and IPSASB and subsequently they don’t consider the public sector too much. If IPSASB decides to take forward their consultation on sustainability reporting, then this is an area that could be mirrored behaviourally with the IASB. Has HMT considered the potential development of an IPSASB reporting framework and whether they plan to influence the development?

49. The Secretariat explained that while there are parallels with accounting standards the order and timing are different. When the public sector moved to IFRS, IPSASB wasn't mature enough to adopt. The ISSB is moving quite quickly; however, the IPSASB timetable is less clear. There is a fundamental decision of whether the UK public sector continues to follow the private sector with interpreted and adapted IFRS, or FRAB pause to decide whether at a conceptual level the pure public sector international orientated approach is likely to deliver a better outcome. Alternatively, as proposed in the paper, FRAB could adopt TCFD-aligned reporting while remaining alert to both standard setters. From the subcommittees discussions, TCFD is widely supported for adoption. However, the next stage (e.g., ISSB or IPSASB) is far less clear. KS agreed that there's an element of maturity in deciding which framework to adopt.

Sustainability reporting updates

Consultations

50. The Chair moved the discussions on to updates. The Secretariat explained that in the past, FRAB hasn't responded to consultations, but would be interested in the group's view on IPSASB. The Chair explained that it's highly likely that CIPFA will respond. Another member explained that the NAO hasn't yet decided whether to reply to the IPSASB consultation; however, they may respond indirectly through other channels (e.g., ICAEW, CIPFA engagement). The Chair confirmed the closing date for IPSASB is the end of September and the closing date for the ISSB is the end of July.

The NAO decarbonisation study into measuring and reporting public sector GHG emissions

51. The audit representative introduced the recent NAO public sector decarbonisation study[3] where NAO colleagues reviewed progress on GHG emissions measurement and reporting. While there has been notable progress in terms of reduction of emissions; there were recommendations around:

- fragmentation of responsibilities and coordination for guidance
- the emissions tracking progress
- a lack of clarity over the whole public sector perspective
- rationalisation of guidance.

52. The member confirmed that the study also raised questions over reporting Scope 3 GHG emissions and that the subcommittee may wish to consider this further. The Chair highlighted the fragmentation point as being incredibly important to the discussion. Local authorities often find it difficult to understand the emissions reporting requirements and whom they should be engaging with. Moving forward with TCFD-aligned reporting may be an opportunity to rationalise and simplify guidance. Adding another layer of reporting wouldn't be helpful.

[3] On 10 June 2022, the NAO published a public sector decarbonisation study into Measuring and reporting public sector greenhouse gas emissions

53. The Secretary explained that sustainability reporting is a devolved matter, and the NHS has their own sustainability reporting requirements. Scope 3 emissions may be quite contentious. The emissions reporting focus will vary significantly depending on the operations of the organisation. For example, the NHS identifies significant emissions risks to measure (e.g., inhalers), however, other emissions areas are reported by estimations. The drivers in central government will be different. Attempting to find a common scope across the whole of the public would be difficult. Most relevant authorities have progressed down a path for developing sustainability reporting metrics and targets. This may make consolidation for the whole of government quite difficult.

54. The Chair agreed with the point, clarifying the need to ensure differences are identified and exposed to ensure everyone's on a similar path. Unless the subcommittee can get relevant authorities to come together at some point in the future it's likely that the public sector will continue to diverge.

55. The Secretary added that there will be a Public Accounts Committee (PAC) hearing on 4 July 2022 to discuss the NAO; which in turn will drive change in policy.

Assurance arrangements, specifically over sustainability and emissions reporting

56. The auditor representative added to the earlier point on assurance, currently, there isn't an update; however, assurance procedures need to be considered as these proposals are taken forward. The Chair added that during CIPFA's international public sector sustainability reporting review they had reviewed studies by #Intersi which considered sustainability reporting assurance procedures. The auditor representative added that PWC which has a significant investment in the area were noting that they were having to be quite selective on which areas they could provide assurance over. There is likely to be considerable development on this over time.

Any other business

57. The Secretary agreed that the minutes and proposed questions could be shared with the ISSB representatives in advance of them presenting at FRAB.

Rotating chair position

58. The Chair asked if there was a volunteer for the rotating chair position for the next meeting. AP commented that she would check whether it was appropriate that she remains part of the group, based on her new position within the IFRS Foundation and relationship with ISSB[4]. CH volunteered to chair the next meeting, expected in November 2022; and JO at the meeting expected in March 2022; leaving LP and IW to chair the meetings that follow.

Closing

59. The Secretary thanked the Chair for running the meeting.

[4] After the meeting, AP confirmed that she would resign as a member of the subcommittee to avoid any future conflicts between the ISSB's work and the subcommittee discussions.

HM Treasury

FRAB-Sustainability Subcommittee (FRAB-SSC)

Annex 2 - Adopting TCFD-aligned reporting in the public sector

Contents

FRAB-Sustainability Subcommittee (FRAB-SSC)

Introduction

1. At FRAB-SSC (01) and FRAB 145 (16), HM Treasury (HMT) updated the subcommittee on the Chancellor's intention to make the Task Force for Climate-related Financial Disclosure (TCFD) aligned disclosures mandatory across the UK economy by 2025. This paper evaluates the applicability of the TCFD framework to the public sector, and sets the main considerations for adoption, including the advantages and limitations; the associated risks; as well as considerations for implementation.

Background

Purpose of climate-related reporting in the public sector

2. The TCFD recommendations were designed predominantly for the private sector; with the aim of providing markets with clear, comprehensive, high-quality sustainability-related information for financial decision making. The public sector similarly requires climate-related information for decision making and accountability to the users of financial reporting, including for:

    - Accountability to track progress and assess performance – both through quantitative (metrics and targets) data, as well as qualitative climate-information (e.g., information on climate change adaption and mitigation) for users to use to understand progress and assess future strategy.
    - Decision-making (entity level) – strengthens governance structures by providing management with appropriate data to inform future strategy and risk management supporting the organisation to meet its objectives. While internal data collection also drives management information; the year-end review, approval and verification processes for annual reports often drives a more accurate and complete data set.
    - Decision-making (insights across government) – Climate-related reporting also drives the collection and measurement of related information and data at an entity or group level. Noting that there may be more appropriate reporting channels to provide a complete and accurate view.

The Taskforce for Climate-related Financial Disclosure (TCFD)

Formation and introduction

3. In December 2015, the Financial Stability Board established the TCFD to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks. Carbon-related assets are considered to refer to assets or organisations with relatively high direct or indirect greenhouse gas (GHG) emissions.

4. In June 2017, the taskforce published recommendations[5] on climate-related financial disclosures designed to solicit decision-useful, forward-looking information that could be included in mainstream financial filings. In October 2021, TCFD published an updated version which supersedes the 2017 publication and provides both general and sector-specific guidance. This went some way in expanding the framework's applicability.

5. Figure 1 in Appendix A lays out the TCFD recommendations and associated disclosure. The TCFD proposed:

   - four widely adoptable recommendations around thematic areas (governance, strategy, risk management, and metrics and targets);
   - eleven recommended disclosures structured around the thematic areas, representing the core elements of the organisation's operations. The thematic areas are intended to interlink and inform each other;
   - seven key principles for effective disclosure (relevance; timelines, specific and complete; clear, balanced and understandable, consistent over time, comparable across the sector; reliable, verifiable and objective);
   - general and sector-specific guidance for applying the framework.

TCFD-aligned reporting policy, regulation and legislation

6. The UK Government formally endorsed the TCFD recommendations in September 2017. In July 2019, the Government's 'Green Finance Strategy'[6] set out expectations for large asset owners and listed companies to report in line with the framework by 2022. An officials-led UK joint taskforce of regulators and government departments[7] was established to consider how this expectation could be met. The UK joint taskforce is chaired by HMT and attended by the:

   - Department for Business, Energy and Industrial Strategy (BEIS)
   - Bank of England (BoE) through the Prudential Regulation Authority (PRA)
   - Local Government Pension Schemes
   - Department for Work and Pensions
   - Financial Conduct Authority (FCA)
   - Financial Reporting Council (FRC)
   - The Pensions Regulator (TPR)

7. In October 2021, the Government announced[8] plans for the UK to become the first G20 country to mandate TCFD-aligned reporting for large businesses. After consultation with stakeholders, the Government departments and regulators have been driving implementation with:

[5] www.fsb-tcfd.org/recommendations/
[6] www.gov.uk/government/publications/green-finance-strategy
[7] In November 2020, UK joint regulator and government TCFD Taskforce: Interim Report and Roadmap
[8] In October 2021, HMT issued a Press Release UK to enshrine mandatory climate disclosures for largest companies in law

- In December 2020, the FCA mandated TCFD-aligned disclosure for UK premium-listed companies for reporting periods from 1 January 2021 and standard-listed issuers from 1 January 2022.
- In January 2022, BEIS legislated disclosure by certain companies and limited liability partnerships (LLPs) under the Companies (Strategic Report) and LLPs (Climate-related Financial Disclosure) Regulation 2022, driven by positive feedback from an earlier consultation[9]. In March 2022, BEIS issued guidance for in-scope entities to meet the mandatory requirements.
- In July 2021, the DWP legislated for pension schemes to make TCFD disclosures from 1 October 2021.
- In April 2019, the PRA became the first prudential regulator to publish a comprehensive set of supervisory expectations for how banks and insurers should enhance their approaches to managing the financial risks from climate change. In July 2020, the BoE sent a Dear CEO Letter providing additional guidance for firms on meeting expectations, providing industry feedback on progress to date, and setting a deadline for firms to embed fully their expectations by the end of 2021. In June 2021, the BoE published an updated TCFD report[10].

Assessment of existing TCFD-aligned reporting and adoption

8. A detailed analysis of the organisations that publish TCFD-aligned reports has been included in Appendix D and Appendix E, along with a summary of key observations. Overall, the TCFD framework has increased in popularity since its inception, with a focus on financial service firms; but an increasing and broader users base both geographical and across sectors. Public sector organisations both nationally and internationally have started to implement the TCFD recommendations in their reporting.

International public sector TCFD-aligned reporting

9. Governments internationally have started to consider whether to adopt the TCFD framework for the public sector. Overall, while certain countries have the intention to implement an adapted TCFD framework for the public sector, none have been identified that mandate the framework for public sector entities, nor have made significant progress on the possible interpretations and adaptations.
10. Internationally, Asia (37.5%) and Europe (31.3%) have the most government organisations with TCFD supporters[11]. The majority are supervisors and regulators (43.8%); however, there is also representation from national government (15.6%), central banks (12.5%), local government (4.7%) and others government bodies (12.5%). Japan leads on the number of government bodies adopting (8 bodies),

[9] In October 2021, Mandatory climate-related financial disclosure requirements for certain publicly quoted companies, large private companies and LLPs
[10] www.bankofengland.co.uk/prudential-regulation/publication/2021/june/climate-related-financial-disclosure-2020-21
[11] The TCFD publishes a list of organisations that have publicly supported the framework online (www.fsb-tcfd.org/supporters/). While this is not a direct comparison to reporting organisations, this provides a good indication of the level and breadth of support.

followed by Canada and France (both with 5), then the UK (with 4). There has been a steady increase in adoption by government bodies. Further analysis of adoption has been included in Appendix D.

UK public sector TCFD-aligned reporting

11. In the UK, some public sector bodies have already started to align their reporting with the TCFD recommendations[12]. Their motives for adoption have been driven by:

- upcoming regulatory requirements;
- demonstrating industry leadership, and;
- voluntary good practice.

12. Most bodies are large asset holders, investment managers or finance institutions, aligning with the intended user group for the TCFD recommendations. Superannuation accounts and pension schemes for public sector bodies are also TCFD-aligned, as mandated by the PRA. However, there are also central government bodies, public broadcasters, and other reporters that have adopted TCFD voluntarily. Please refer to Appendix C for further information.

Developments in other sustainability reporting frameworks

13. In June 2021, FRAB were provided a summary of the key sustainability reporting frameworks. In subsequent papers, the subcommittee has been updated on the developments from existing standard setters (IFRS's International Sustainability Standards Board), as well as the drive to consolidate and align the main sustainability reporting frameworks (Table 3 of FRAB 144 (10)).

The ISSB exposure drafts and consultation

14. The ISSB published the exposure drafts to their first two standards on 31 March 2022 with their public consultation closing on 29 July 2022. At the earliest, the ISSB's first two standards will be issued in late 2022.

15. Both exposure drafts, '*S1 General Requirements for Disclosure of Sustainability-related Financial Information*' and '*S2 Climate-related Disclosures*', adopted TCFD principles and concepts having drawn from ISSB's Technical Readiness Working Group's (TRWG's) '*Climate-related Disclosure Prototype*'[13]. The TRWG includes representatives from the TCFD.

The International Public Sector Accounting Standards Board (IPSASB) consultation

16. There's growing demand, by stakeholders, for public sector sustainability information. The World Bank's report on '*Sovereign Climate and Natural Reporting*'[14] outlined the case for developing a climate and nature reporting framework. As the only

[12] The TCFD website lists organisations who have implemented their recommendations: www.fsb-tcfd.org/supporters/
[13] In November 2021, TRWG published the prototype www.ifrs.org/chvtontent/dam/ifrs/groups/trwg/trwg-climate-related-disclosures-prototype.pdf
[14] blogs.worldbank.org/psd/aligning-financial-flows-sustainability-goals-case-sovereign-climate-and-nature-reporting

international standards setting board focused on the public sector's reporting, IPSASB plans to take this forward.

17. In March 2022, the IPSASB added the project '*Reporting Sustainability Program Information'* to their workplan. On 9 May 2022, IPSASB launched the consultation '*Advancing Public Sector Sustainability Reporting'*[15] to gage stakeholder demand for them to take on the role of global public sector standard setter sustainability reporting standards. This consultation closes on 9 September 2022.

18. IPSASB's consultation proposed that the framework *would be consistent with the TCFD recommendation by enabling the reporting entity to disclose the governance, strategy and risk management arrangements it adopts to manage and monitor delivery of its defined targets and outcomes.* IPSASB plans to draw from outputs from ISSB, as well as use its experience in the wider public sector, to develop a suitable framework.

TCFD-alignment within the consultations and responses

19. In line with usual practice, HMT don't expect FRAB (or FRAB-SSC) to respond directly to the ISSB's or IPSASB's consultation. HM Treasury plan to contribute to BEIS's response to the ISSB's exposure draft. Furthermore, HMT participated and provided a public sector view for ICAEW's working group responding to the ISSB consolidation.

20. Based on the consultation, both the future ISSB and the IPSASB frameworks are expected to be TCFD-aligned. Adoption of one framework is likely to complement and ease the adoption of the other.

Existing public sector climate-related reporting

21. Growing interest from stakeholders in reporting on sustainability performance, including in the public sector, has driven increased transparency.

22. Various sub-sections of the public sector are under the scope of different sustainability reporting frameworks. In addition, certain public sector bodies have chosen to adopt voluntary frameworks. The complex group structures, authorities and breadth of reporting, can make the reporting landscape difficult to summarise.

23. While the TCFD recommendations were aimed primarily at the private sector, these could be interpreted and adapted for the public sector in a similar way to IFRS Standards. An assessment of the existing climate and sustainability-related reporting frameworks will provide a better understanding of the existing landscape and where there are gaps or overlapping areas.

24. This section provides an overview of the main public sector sustainability reporting frameworks, with a focus on GHG emissions, reporting on climate change risks mandated for public sector annual reports or via annual separate reports. We have not addressed frameworks designed primarily for the private sector, which certain public sector bodies have fallen into the scope of (e.g., PoolRe through the PRA). This is not meant to represent an exhaustive list - rather a summary of the key areas.

[15] www.ipsasb.org/publications/consultation-paper-advancing-public-sector-sustainability-reporting

Reporting on climate change

National Climate Change Risk Assessment and Adaption Programme (UK economy level)

25. The UK Climate Change Act 2008 (CCA2008) established the Climate Change Committee (CCC)[16], an independent statutory body, to advise the UK and Devolved Administrations (DAs) on emissions targets and report to Parliament on progress made in reducing GHG emissions, as well as preparing for and adapting to the effects of climate change. In its role, the CCC:
    - Provides independent advice on setting and meeting carbon budgets and preparing for climate change;
    - Monitors progress in reducing emissions and achieving carbon budgets and targets;
    - Conducts independent analysis into climate change science, economics and policy;
    - Engages with a wide range of organisations and individuals to share evidence and analysis;
26. Each administration is required to develop adaptation plans to respond to the risks and opportunities posed by climate change as identified in the most recent UK Climate Change Risk Assessment (UKCCRA). In accordance with the Act, the Adaptation Programme must be laid in each region as soon as is practicable. The UKCCRA is reviewed every five years[17]. The UKCCRA identifies priority risk areas for the UK government to address (including freshwater, soil health, carbon stores, supply chains, etc).
27. Defra publish the National Adaption Programme (NAP), which primarily focused on England. The NAP responds to each of the UKCCRA the natural environment, infrastructure, people and the built environment, business and industry, local government and adaption reporting. Annually, the CCC independently assess progress toward reducing emissions. On a 2 to 3-year basis, the CCC assess progress on Climate Change Plans and Adaption Plans for each of the DAs.
28. Climate adaptation policy is a devolved matter: Scotland, Wales and Northern Ireland have each established their own adaptation programmes. The DAs have their own legislation with respect to climate change:
    - Scotland's first statutory '*Climate Change Adaptation Programme: Climate Ready Scotland*' was launched by Scottish Ministers in May 2014 under the Climate Change (Scotland) Act 2009[18]. The Act requires all public bodies, excluding cross-border public authorities, to contribute to the associated targets and delivery of programmes concerning climate change mitigation and adaption.

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[16] www.theccc.org.uk/
[17] In January 2022, the government published the most recent UK Climate Change Risk Assessment 2022
[18] Climate Change (Scotland) Act 2009,

- Wales has strengthened its legislative requirements to build resilience to the impacts of climate change through the Wellbeing of Future Generations (Wales) Act 2015 and the Environment (Wales) Act 2016 Wales. The Acts place a duty on Welsh Ministers to report consumption emissions on an annual basis. These are consolidated into a single report.
- The Northern Ireland Assembly, in March 2022, passed climate change legislation committing the region to net-zero carbon emissions by 2050. Similarly, the Northern Ireland Climate Change Adaption Programme responds to the risks and opportunities identified in the Northern Ireland.

29. The Met Office models the UK's future climate, producing the UK Climate Projections[19]. These models are used by the government for better-informed planning regarding climate change; as well as the CCC in their assessments and analysis.

Net-zero strategy (UK economy level)

30. In October 2021, the UK published its Net-Zero Strategy which sets out the policies and proposals for decarbonising all sectors of the UK economy to meet the UK government's net-zero target by 2050. The DAs and the NHS have developed their own net-zero strategies[20].

Performance reporting (entity level)

31. Central government bodies applying the FReM must report performance towards their strategic objectives and goals in their Annual Reports and Accounts (ARAs). This includes a summary of the principal risks faced, their impact on priority outcomes and/or strategic objectives, and the mitigation strategy, as well as any emerging risks that may affect the entity in the future. Where climate change is material to the entity, they should already be including an assessment in their annual report. The NAO's Good Practice Guide on climate change risk[21] provides further context. The DAs and public sector bodies both have similar performance reporting requirements.

Existing TCFD-alignment for reporting on climate change

32. While there is a level of alignment between the focus of these existing reporting frameworks and the TCFD-aligned disclosures around strategy and risk management; the scope, aggregation, and intended users are often significantly different.

Reporting on greenhouse gas emissions

Nationally Determined Contributions (UK economy level)

33. GHG accounting is governed by the United Nations Framework Convention on Climate Change (UNFCC) and its associated protocols/agreements (e.g., Kyoto Protocol, Paris Agreement). National governments are required to ratify and report on these targets.

[19] The Met Office published UKCP summaries and headline findings
[20] UK: Net Zero Strategy: Build Back Greener; Scotland: Reducing Greenhouse Gas Emissions; Wales: Working together to reach net zero; NHS: Northern Ireland: Energy Strategy for NI; Delivering a 'Net Zero' National Health Service,
[21] In August 2021, the NAO published Climate change risk: A good practice guide for Audit and Risk Assurance Committees. HMT contributed to the development and review of the guide.

The Intergovernmental Panel on Climate change (IPC) was formed to assess climate change scientific evidence and to develop a set of standards for GHG accounting and reporting, to ensure consistency across jurisdictions. Governments are only required to report emissions occurring within their borders.

34. The purpose of GHG accounting at an organisational is less about compliance with the UNFCC requirements, but rather to provide a complete picture of the emissions for which that entity is responsible. For instance, from the perspective of a single organisation, the emissions associated with electricity generation won't directly affect their operation, but their activities affect electricity consumption and emissions. Subnational GHG accounting is now conducted using this consumption-based method.

35. GHG emissions data is collated by BEIS and reported to the UNFCCC. This data tends to be collected and estimated towards the top of the supply chain, being a more cost-effective and accurate method. Emissions reporting at an organisation level is aimed at management information, and for users to evaluate sustainability performance. Annually, the DAs report their outcomes for their national annual emissions targets.

36. For activity-driven data (e.g., GHG emissions), a bottom-up approach, with organisation reporting on usage (e.g., via meter readings, energy bills), is resource heavy and unlikely to deliver an accurate or complete picture. Instead, targeted reporting on the primary sources tends to be more effective (e.g., at power stations, water reservoirs) for aggregating data. Furthermore, the UK lacks a sufficiently advanced reporting system to effectively consolidate such a large and diverse data set. However, organisation-level data can be used to better estimate the apportionment of the aggregate figure and provide insights across the whole system.

Emissions reporting (entity level)

37. While there is consensus to achieve net-zero by 2050, in line with the UK's overall target; the level of detail and reporting methodologies applied varies widely.

38. For central government, the FReM mandates compliance with the Sustainability Reporting Guidance (SRG)[22]. The SRG sets out the qualitative and quantitative estate information central government bodies, within the scope of the Greening Government Commitments (GGCs), must include in their ARAs. Figure 2 in Appendix A summarises the requirements.

39. The GGC are specific sustainability targets and objectives, set by Defra, for all central government department groups. They combine key metrics (e.g., emissions, water, waste, travel, etc.) with policy targets (e.g., progress to an ultra-low/zero-emissions car fleet), as well as required explanations on progress towards commitments (e.g., climate change adaption).

40. While Defra manages the GGC process, other government departments feed into the process in their respective policy areas (e.g., BEIS for GHG emissions, Department for Transport for business travel, etc.). Defra uses quarterly returns and an annual

[22] In November 2021, HMT published the Guidance Public sector annual reports: sustainability reporting guidance 2021 to 2022

questionnaire to consolidate central government performance into the GGC annual report.

41. The DAs have their own environmental reporting metrics and targets which are managed in their respective jurisdictions. While changes in focus exist across the UK, key metrics included for reporting are included in table 1 of Appendix A.

42. For the NHS, annual sustainability reporting is mandated for Clinical Commissioning Groups (CCGs) and trusts by the NHS Standard Contract[23]. Annually, NHS Digital uses Estates Return Information Collection (ERICs) to track progress against sustainability metrics, which are then published online. The NHS collect further data for management information purposes via the Greener NHS portal (internal only). However, the NHS uses a targeted approach to identify significant areas for emissions (e.g., the use of inhalers) and applies modelling to make estimates for other areas.

43. Other central government departments are also developing reporting frameworks and processes through policy and legislation for wider public sector bodies not covered by existing frameworks (e.g., local government, schools, etc.).

44. Furthermore, emissions scoping determined which types of emissions are counted:

- Scope 1 – direct emissions from owned or controlled sources (e.g., fuel combustion, company vehicles, on-site generator)
- Scope 2 – indirect emissions from outside the entity but used directly by the entity (e.g., purchased electricity, heat and steam)
- Scope 3 – includes all other indirect emissions that occur in the entities value chain (e.g., purchase of goods and services, business travel, employee commuting, waste disposal, leased assets)

For GHG emissions scoping, there's considerable variation across the public sector. While there may be valid and appropriate reasons for applying different scopes – attempting to develop a single framework for the whole sector may be difficult. As sustainability reporting is a devolved matter, their respective frameworks have developed (to a certain extent) independently. Differences in available resource and expertise, as well as the specific drivers for emissions in different parts of the public sector, will have impacted individual scoping choices.

Existing TCFD-alignment for reporting on GHG emissions

45. The TCFD recommended disclosures around metrics and targets require an entity to describe the targets and metrics used by an organisation to assess and manage climate-related risks and opportunities, as well as their alignment with the entity's strategy. Furthermore, the framework requires entities to *disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks*.

[23] This information is required by NHS Digital under section 259(1)(a) of the Health and Social Care Act 2012.

46. For those sections of the public sector (central, DAs) which have a reporting framework in place, set targets and measure progress; there's likely to be relatively good alignment with the metrics and targets recommended disclosures.

Reporting on other sustainability metrics and information

47. Further to the climate change and emission reporting, the authorities across the public sector have identified their own key environmental metrics to track sustainable performance. Refer to Appendix C for an overview of the main environmental metrics in use across the sector.

Evaluating the advantages and limitations of public sector TCFD-aligned reporting

48. Despite differences in private and public sector reporting, incorporating the TCFD recommendations offers certain advantages to adoption.

Advantages to adoption

Usability and presentation for primary users (strong advantage)

49. For central government, the Government Financial Reporting Review emphasised the importance of focusing on the needs of primary users, particularly for performance reporting. Parliament, as the primary user of central government ARAs, would benefit from:

- Comparability with the private sector, as the TCFD-aligned reporting is being implemented across the economy. There are merits in having a regime that is consistent with best practice in the private sector. This general point was made in HMT's '*Alignment Project*'[24] which was focused on the presentation of financial information. Furthermore, public sector adoption would demonstrate support for the framework.
- Consistency of annual reports across the public sector – including those entities with legislative and regulatory requirements for adopting the TCFD recommendations (e.g., state-owned companies, regulated entities, companies with listed debt, public corporations).
- Uniform adoption and application – particularly relevant in areas where the frameworks require public sector adaption and interpretation. Early voluntary adopters may adapt and interpret the TCFD recommendations in different ways.

Investors in sovereign bonds (limited advantage)

50. The TCFD recommendations are used by external stakeholders to make effective financial decisions based on climate-related information. There is a wide range of external stakeholders, including sovereign bondholders and overseas investors, that make investment decisions based on sustainability performance.

[24] In March 2009, HMT published the results to the project Clear Line of Sight

51. The market for environment, social, or governance (ESG) investments has increased dramatically in recent years, with France, Germany, the US and other governments branching into this new market. In November 2021, the UK Government issued its first Sovereign Green Bonds[25]. Green bonds can be issued at a premium due to the low supply of government issuance and the high demand from asset managers and pension funds. However, applying the TCFD framework may not add significant value beyond the existing commitments for reporting green bonds.

52. Furthermore, central government financing is usually at a sectoral level rather than an entity level, with central government bodies predominantly financed through the Exchequer. For an investor, TCFD-aligned information would be more relevant and useful at an exchequer level, with a significant level of aggregation; not at an entity-specific level. Central government group performance is arguably more important for investors.

Stewardship and governance (limited advantage)

53. The TCFD framework would aid Accounting Officers, management teams and Parliament in their stewardship and governance responsibilities by:

- Provides a clear and consistent framework to report on climate-related strategy and risks, as well as climate change-related metrics and targets.
- Sustainable management practises - The Code of Good Practice[26] requires government departments to act sustainably. The disclosure requirements would likely improve and help embed climate-related considerations in governance and reporting structures.
- Asset management - Certain central government and public sector bodies directly hold significant carbon-related assets (land, estates, resources, operations), as well as indirectly, through their investment in subsidiaries. The TCFD recommendations provides management with a framework to consider climate-related risks and opportunities – although arguably this could be done outside of the annual reporting process.

Alignment with other frameworks (advantage)

54. Currently, the government and wider public sector reporting aligns with the IFRS Standards, as adapted and interpreted for the public sector as set out in the FReM (or other relevant authority guidance equivalent). The benefits of adopting the TCFD-aligned reporting and remaining aligned with other standard setters is likely to deliver similar advantages around transparency and comparability to the initial adoption of IFRS.

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[25] On 21 October 2021, HMT published a News Story on 'Second UK Green Gilt raises further £6 billion for green projects'

[26] In April 2017, HM Treasury and the Cabinet Office published Guidance on Corporate Governance in central government departments: code of good practice

Limitations to adoption

55. There are certain limitations and risks to adopting the TCFD framework for the public sector. Predominantly, as both frameworks were developed for the private sector, they may not be suitable for public sector reporting.

Relevance and suitability (limitation)

56. The provision of public goods and services is not driven by profit; subsequently, the objectives of the TCFD framework are not directly aligned with one of the government's main objectives – the provision of public goods and services. Public goods and services exist to solve economic, social and environmental issues. Based on these differences, applying the TCFD framework without significant consideration for the interpretation and required adaptation would be problematic.

57. A wide array of non-financial climate risks cannot be robustly measured in monetary units. Applying financial risk analysis, in many cases, lacks relevance to the broader array of stakeholders to whom the government is accountable. Simply addressing the reporting from a private sector perspective, could leave significant gaps in reported information, as a result of differences in focus and coverage. The IPSASB's consultation, covered earlier, addresses this in more detail.

58. Furthermore, in the public sector the structures in which decisions are made and responsibility is held, typically do not align with the private sector. The structures of governance and risk management, as well as strategic decisions, are in some ways very different from the private sector.

Overall evaluation of TCFD-aligned reporting in the public sector

59. On balance, the advantages of the public sector adopting TCFD-aligned reporting - aligning with private sector best practice and developments with other standards setters - outweigh the limitations around relevance. Though in part the conclusion is shaped by the absence of an established proven public sector specific alternative. The TCFD framework takes a principles-based approach, as opposed to prescriptive, allowing its recommendations to be applied to a wide range of organisations across different sectors.

Does the subcommittee support the Treasury's proposal to adopt a level of TCFD-aligned reporting in central government, and agree to encourage alignment by other relevant authorities across the public sector?

Addressing the risks of adopting TCFD-aligned reporting in the public sector

60. There are significant risks for the public sector adopting any new framework, particularly the TCFD recommendations which will likely require significant interpretation and adaption. There's a risk that the reporting burden, could outweigh the possible benefits of adopting the TCFD disclosure framework. However, these risks can be managed with an effective implementation strategy. This section summarises the associated risks of adoption and explores the necessary risk mitigation strategies for successful implementation.

Reduced reporting effectiveness (high risk which can be avoided)

61. Applying the TCFD framework to the existing sustainability reporting frameworks across the public sector could lead to annual reports suffering from:

- Duplication of reported information - Reporting on similar structures and environments across different groups may lead to duplication of preparation work or information in the report.
- Inaccurate or irrelevant information
- Reduced effectiveness and utility – the key principle that annual reports should be 'simple and streamlined to meet the needs of users';

62. This can be avoided by ensuring appropriate care is taken when interpreting and adapting the framework, ensuring TCFD disclosure requirements are only included where they are relevant and add value to the user. Ensuring alignment of underlying methodologies (where possible), and analysing existing reporting procedures to identify any overlapping requirements, would address this risk.

Risk of misalignment and increased non-compliance (high risk which can be limited)

63. An expanded array of reporting requirements, driven by different policy objectives, could reduce the clarity, or worse, lead to inconsistencies. In June 2022, the NAO identified a lack of clarity and inconsistencies with existing emissions reporting requirements across the public sector[27].

64. By adopting a new framework, there is a risk of misalignment. Significant work would be required to understand, adapt and align the various methodologies and reporting frameworks.

65. Whilst HMT doesn't have authority over performance reporting across the whole public sector (without legislative or regulatory changes); through the FRAB, the Relevant Authorities Working Group (RAWG), and similar channels; HMT could work with relevant authorities to agree to a minimum baseline for climate-related reporting.

Lack of skill, experience or capacity for implementation (high risk which can be managed)

66. Currently, HMT's sustainability reporting requirements for central government align with the GGCs. While HMT is responsible for the related SRG, this is mostly driven by policy decisions and guidance from other departments with specialist teams.

67. Few government bodies will have the skills and expertise in-house to address all technical aspects of the TCFD framework. Ineffective implementation would lead to substandard reporting, which in turn causes reputational damage to the government, the relevant authorities and FRAB. Ensuring sufficient capacity and resources to design, implement and report TCFD-aligned disclosures is essential.

68. There are TCFD experts across government and the public sector (e.g., the TCFD Joint Regulatory and Government Taskforce), that are currently supporting the private sector implementation. Furthermore, specialist government bodies, as well as those

[27] NAO study into [Measuring and reporting public sector greenhouse gas emissions]

involved in existing climate-risk reporting frameworks, will have existing expertise to fulfil certain requirements of the TCFD framework, including:

- The Government Actuary Department (GAD) has supported UK Export Finance on the voluntary adoption of the TCFD recommendations in their annual reports. This, along with their existing modelling expertise, makes GAD a good knowledge and skills base for analytical sections of the TCFD recommendations.
- The Met Office already performs climate scenario analysis and offers training on climate data, reporting and decision making[28].
- Contributors to the UKCCRA process (e.g., Defra, DAs) will have developed a good understanding of climate-related risks, climate change adaption and relevant reporting. The CCC advises the UK, devolved governments and Parliaments on how best to tackle and prepare for climate change.

Poor value for money of adopting the framework (existing risk which can be limited)

69. Where public sector bodies don't have the required skills, experience and resource in-house, they may procure services from external consultants. Where parallel organisations are separately commissioning similar pieces of work across the public sector this represents a poor use of government resources.

70. TCFD adoption in the public sector is a novel area requiring significant judgement, there's a risk that consultants provide significantly different deliverables for similar organisations. This inconsistency would reflect poorly on public sector reporting. Commissioning or undertaking work centrally in areas of likely overlap, could reduce the overall cost burden on the public sector, and drive a level of consistency for reporting.

Lack of assurance procedures (medium risk which can be limited)

71. There's a lack of review and assurance procedures on the information contained in the performance report. A suitable assurance process and procedures would have to be designed and implemented across the public sector, to ensure compliance.

Accepting the risks with appropriate mitigation strategies

72. Multiple public sector bodies are already adopting TCFD-aligned reporting (refer to Appendix C). Subsequently, some of the risks identified are already present and being experienced by these organisations. These risks will become more prevalent as more public sector bodies fall into the scope of new regulation and legislation.

73. There is a clear direction of travel towards TCFD-aligned reporting in the private sector and by standard setters (ISSB, IPSASB). The TCFD structure is likely to become more prevalent. Ensuring early development and alignment would enable a centralised approach for the public sector as a whole, reducing the risk of misalignment.

[28] www.metoffice.gov.uk/services/research-consulting/weather-climate-consultancy/climate-change-data-training

74. Overall, appropriate risk mitigation strategies for implementation can mitigate, limit and reduce the risks associated with adoption to an acceptable level. Certain groups of public sector entities should adopt an adapted TCFD framework, to improve transparency for users, maintain a level of comparability with the private sector, encourage consistency across the public sector, and ensure that public sector annual reports continue to strive to deliver best practice.

Does the subcommittee agree that the risks of adopting TCFD-aligned reporting can be appropriately managed? Have these risks been appropriately identified and addressed in this paper?

Considerations for adoption, interpretation and adaption

75. This paper has already addressed wider considerations around the relevance and suitability of the TCFD framework. This section considers the adoption considerations and practicalities of implementation.

Views from experts and academic studies

76. In July 2020, a group of Australian academics published an article in Nature on '*Climate-related financial disclosures in the public sector*' (Nature Vol 10, July 2020, 586-598), which concluded that *an understanding of the TCFD's strengths, limitations and dependencies in the context of public sector traits and challenges will ensure that any implementation, balanced as part of a broader portfolio or otherwise, maximizes its contribution*.

77. A joint paper between Griffith University and Ernst & Young[29] concluded that when analysing the relevance and applicability of the TCFD framework to the public sector, governments must:

- ensure there's a good understanding of the strengths and limitations of the TCFD framework
- effectively integrate and align with existing government policy
- consider administrative functions – particularly the extent roles, responsibilities and interests align across government
- provide adequate resource for implementation requirements - whether individual reporters have the will and expertise to adopt the framework effectively

Principles-based

78. The principles of the TCFD recommendations stem from good governance and risk management structures with a sustainability viewpoint. As the TCFD framework is principles-based, an adapted framework meeting the key principles should be used for implementation; rather than adopting the recommendations and disclosures in their entirety (e.g., as a checklist).

[29] www.griffith.edu.au/griffith-business-school/new-thinking-for-the-new-economy/blog/climate-related-financial-disclosures-in-the-public-sector

Interpretation and adaption of the TCFD framework

79. While differences in terminology can be addressed, mapping respective public sector equivalents to the TCFD framework may be difficult across each relevant authority and administration. Offering a level of flexibility in reporting against the framework, will likely result in more effective implementation.

Interpretation and adaption of the TCFD recommendations and principles

80. The TCFD recommendations around the four thematic (refer to Figure 1 in Appendix A) areas are high level. Subsequently, they're easier for organisations to effectively apply; compared to more detailed requirements which were designed for the private sector.

Governance

81. Public sector bodies have different governance functions and structures from the private sector, driven by differences in management responsibilities, decision-making processes, accountability, group structures, administrations, legislation, etc,.

82. Generally, the TCFD recommended disclosures focus on the organisation's board and management oversight procedures for climate-related risks and opportunities. Management roles and responsibilities in the public sector, may not align with private sector counterparts.

Strategies

83. On a fundamental level, the strategies of private companies are usually to fulfil the objective of maximising shareholder profit, either directly or indirectly. Public sector entities act as stewards of public money, with strategies aligning with the delivery of public goods and services, not profit. The opportunity to maximise profits from climate-related decisions is not available to most public sector bodies.

84. Strategies, as well as metrics and targets, may be set at different levels within the organisational group, hindering preparers' ability to disclose appropriate and useful information to users or leading to duplication. For example, the responsible owners for making certain strategic decisions around climate change may be outside of the organisation's direct control; thus, are less relevant to the users of the reports.

85. However, lead entities within group structures across the public sector with more flexibility on strategy (e.g., devolved powers), may choose to provide additional disclosure, going further than the minimum requirements set on them by their relevant authority.

Risk management

86. Government should consider both the direct and indirect risks posed by, not only extreme weather events, but also the longer-term gradual impact of increased temperatures on their operations, and, how these risks (and associated opportunities) interact. Understanding the extent of social risks for organisations will be a key part of strategic planning.

87. Relevant authorities and administrations may have different risk frameworks, published centrally, to identify and manage risks, including climate-related risks. As preparers comply with central guidance, there's likely to be significant alignment across relevant authorities and public sector groups.

88. Public sector risk reporting in annual reports is often more detailed; than equivalent risk reporting in the private sector; based on the public sector's stewardship responsibilities. This requires disclosure of a wider array of risks than just financial risks.

Metrics and targets

89. To avoid duplication and inconsistencies, existing centralised metrics and targets should be used by preparers (where available); with a longer-term strategy to align methodologies and policies across the UK (where possible).

Interpretation and adaption of the TCFD disclosures and sector-specific guidance

Recommended disclosures

90. Most relevant authorities across the public sector already have climate-related disclosures. To avoid duplication of existing disclosures, the same reporting channels should be used by preparers (where possible). Where comparisons and linkages to existing frameworks are made, relevant authorities may consider the development and ownership of those frameworks in the future to ensure they are relevant and effective.

Sector-specific

91. The TCFD published updated sector-specific guidance for certain recommended disclosures for Strategy, as well as Metrics and Targets for:

- Financial: Banks, Insurance Companies, Asset Owners, Asset Managers
- Non-financial: Energy, Transportation, Materials and Buildings, Ag, Food, Forest Products.

However, there is no public sector-specific guidance, nor does HM Treasury expect TCFD to publish related guidance in the future.

Other considerations for adopting TCFD-aligned reporting

Governments wider responsibilities

92. The government's unique position to create policy, regulation and legislation, as well as its stewardship responsibilities and role as insurer of last resort; means it may benefit from a broader reporting remit compared to entities in the private sector. For example, a department's legislative power allows them to exert significant influence over external parties, outside of its operations, group structure and supply chain. Specifically, for GHG emissions, this extends much further than the scope 3 emissions categories identified in the GHG Protocol.

93. The TCFD principles are focused on the financial risks of climate change, and do not address the nuances of the government's wider stewardship responsibilities; broader

influence and control across the public sector and whole economy; as well as the broader more complex governance structure. HMT doesn't propose addressing these in the implementation of the TCFD-aligned reporting at this stage, given this would likely significantly delay implementation of a TCFD aligned framework – although there may be the opportunity to consider these at a later point.

Targeted reporting and disclosure

94. Sub-sections of the public sector will have similar governance structures, risk management procedures and metrics/targets frameworks. Where these similarities exist, disclosure and reporting should be standardised (as far as possible) or reported by a single preparer to reduce the pressure on preparers and ensure consistency. With consideration for existing government skills and expertise (covered in the previous section), a centralised design and reporting structure for TCFD disclosures should be used where appropriate.

Authority

95. Through the GRAA2000, HMT has the authority to direct central government bodies to adopt the reporting and disclosure frameworks in their resource accounts as required. Other relevant authorities across administrations have the authority to adopt, interpret and adapt financial reporting standards and principles, with the advice of FRAB.

Does the subcommittee agree with the initial proposals for interpreting and adapting the TCFD framework for central government, with a view to encourage a similar approach across the public sector?

Implementation approach

Timeline

96. The Chancellor has set out a timetable to mandate TCFD-aligned reporting across the UK economy by 2025. However, the exact implications and timetable for the public sector have not been set out. The overall timetable is ambitious. The Treasury recognises the value of adequate review and testing of guidance, and preparation time for account preparers.

Does the subcommittee agree with HM Treasury's goal of adopting an adapted version of the TCFD framework by 2025? If not, what stage of implementation does the subcommittee consider is reasonable for central government (and the wider public sector) by 2025?

Initial focus, preliminary plans and next steps

Reporting structures

97. It is important to recognise the limitations of the framework, designed for the private sector rather than the specific reporting, responsibility and decision structures in government.

98. An organisation's position in the public sector, operations, as well as the level of autonomy, are all likely to impact the relevance of the TCFD framework to their

reporting. A small arms-length body with a close connection to its parent department and little climate-related impact is unlikely to benefit from fully aligning to TCFD reporting. Instead, the parent department, which has a wider control of spending, with its strategies and risk management structures, may be in a better position to provide disclosure on climate change for the group overall.

99. Identifying the appropriate reporting entity for applying TCFD-aligned reporting is essential, noting that the different roles and types of public sector organisations and structures. Relevant authorities and public sector bodies must be given an appropriate level of flexibility, both in terms of scope and level of disclosure, to minimise the challenges in preparation for implementation, and maximise the reporting benefits.

Segmental and staggered implementation

100. TCFD recommendations support segmental and staggered implementation, focusing on high-level qualitative aspects to develop internal capabilities, prior to implementing detailed (e.g., scenario analysis) requirements. Setting up committees to consider disclosure early would reduce future pressures.

Guidance development

101. In developing the guidance, HMT should leverage from and utilise expertise across government (covered previously). While developing application guidance, HMT should leverage from and make reference to existing material published by the NAO and the Government Internal Audit Agency (GIAA) (e.g., reviews, lessons learnt and good practice guides) on sustainability and climate-related governance, risk management and reporting.

Stakeholder engagement and management

102. Canvasing views and testing the proposal with reporting stakeholders will be key in developing the framework and maintaining support from account preparers. Furthermore, relevant authorities need adequate time to consider new guidance, while preparers need time to plan implementation.

Ministerial advice

103. Recognising that the adoption of the TCFD framework in the public sector is a policy decision, it will require appropriate consultation and implementation will be a decision for Ministers. The subcommittee's decisions will be used to advise the Chief Secretary to the Treasury on future public sector climate-related reporting strategies

Does the subcommittee agree:

- *That for central government, HM Treasury should initially focus on identifying the appropriate level (entity, department, Whole of Government, etc.) to apply TCFD-aligned reporting (after a general public sector view of each TCFD disclosure requirement has been considered)?*
- *The Treasury's preliminary plans for implementation (segmental approach, exploring the development of guidance, signalling and communicating with stakeholders)?*
- *That the Treasury should establish suitable working level groups to take forward the implementation work?*

Appendices - for Annex 2

Appendix A – Summary of the TCFD framework and sustainability reporting across the public sector

Figure 1 - The TCFD Framework

Thematic areas (core elements, pillars)	Governance	Strategy	Risk Management	Metrics and Targets
Recommendations	Disclose the organization's governance around climaterelated risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended disclosures	a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term	a) Describe the organization's processes for identifying and assessing climate-related risks	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
	b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
		c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Figure 2 – Sustainability reporting within the central government ARA

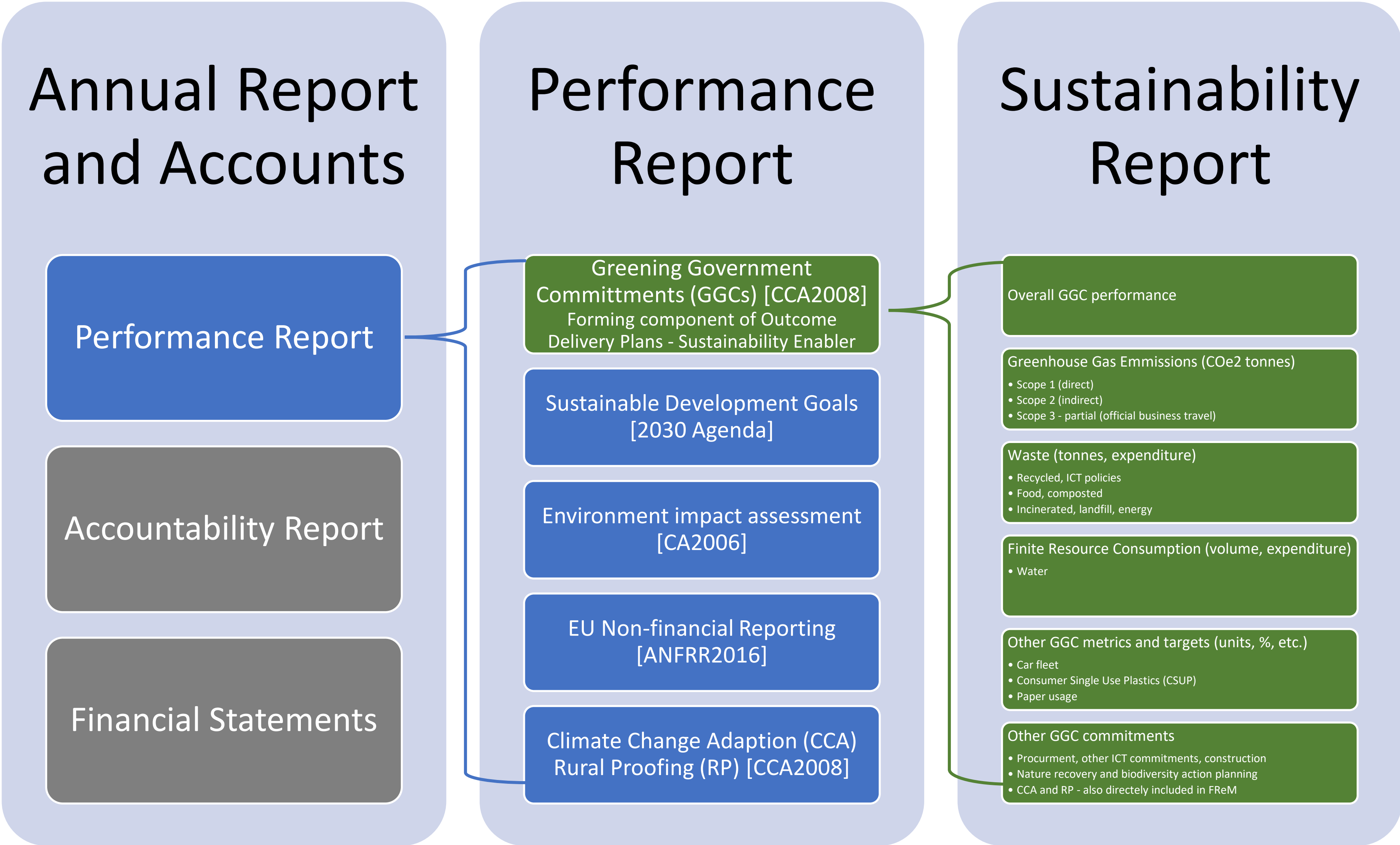


Table 1. Summary of the key environmental indicators required across the relevant authorities:

Devolved Administration	Emissions	Energy Use	Water	Waste	Land Use	Mobility & Transport
Scottish Government	✓	✓	✓	✓	✓	✓
Welsh Government	✓	✓	✓	✓	✓	✓
Northern Ireland Assembly	✓	✓	-	✓	✓	✓
The National Health Service (NHS)	✓	✓	✓	✓	-	-

Land use, Mobility and Transport are not key sustainability reporting metrics for the NHS.
Water is not a key sustainability reporting metric for the Northern Ireland Assembly.

Appendix B – Central government sustainability reporting requirements

Table summarising the national central government sustainability reporting frameworks:

Framework	Description	Scope	Reporting	Targets
UN Sustainability Development Goals (SDGs) Legislation: Reporting: DfID	Reporting performance that contributes towards the 17 agreed SDGs, including relevant sustainability metrics. UK signatory on 2030 Agenda at the UN Sustainable Development Summit in 2015. The government is committed to the delivery of the SDGs., ensuing SDGs are fully embedded in each department's planning activity.	All central government bodies. FReM, para. 5.4.13 (since 2017-18)	Annually in ARAs, in the year-end accounts process. UK government level reporting managed by DfID in Voluntary National Review presented to UN High Level Political Forum.	The SDG targets include: 6 - water use; 11 - sustainable cities and communities; 12 – resource consumption and protection; 13 – climate action; 14 - oceans; 15 - forests and deforestations, biodiversity loss
EU non-financial reporting Legislation: BEIS	Reporting on environmental protection, social responsibility, respect for human rights, anti-corruption and anti-bribery matters and diversity.	All public sector bodies. Through reporting manuals including FReM para. 5.4.4.c (since 2017-18) or legislation (the Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016)	Annually in ARAs, in the year-end accounts process.	Qualitative reporting on non-financial ESG information (corruption reported separately). In FReM, para. 5.4.4.d since 2017-18.c

The Climate Change Risk Assessment (CCRA) Climate Change Committee (CCC) Legislation: Climate Change Act (CCA2008)	The CCRA provides an overview of the impacts of climate change on the whole UK. To fulfil the UK government's statutory requirements. CCC commissioned to deliver a risk assessment. Defra then respond with the National Adaption Programme (reviewed every two years).	UK economy-wide with specific coverage from each DA.	Every 5 years through the UK Climate Change Risk Assessment (CCRA 2022). The independent report summarises the risks and opportunities of climate change including a technical view, advise, and breakdown of the risk for each administration and sector.	
UK Nationally Determined Contributions BEIS	Standardised requirements developed by the UN Conference of the Parties for reporting national inventories covering emissions and removals of direct GHGs. Submission communicates the UK's Nationally Determined Contribution (NDC) to the United Nations Framework Convention on Climate Change (UNFCCC) in line with Article 4 of the Paris Agreement.	UK economy-wide, including information from DAs	UK government reports annually. Every two years, BEIS report to UNFCCC on climate change progress.	

25 Year Environmental Plan Managed by: Defra Policy only	The 25 Year Environment Plan sets out the government's goals for improving the environment.	England only	25 Year Plan Summary Report	Dashboard: oifdata.defra.gov.uk/ Air, water, seas and estuaries, wildlife, natural resources, resilience, resource use and waste

Appendix C – UK public sector bodies adopting TCFD-aligned reporting

The table provides an overview of UK public bodies with TCFD-aligned reporting, as well as detailing their progress towards adoption. Not all of these public sector bodies have reported their progress and adoption on the TCFD website, used in Appendix E.

Entity	Background and expected reason for adoption	Progress in implementation
UK Export Finance (UKEF 2020-21 ARA) – ministerial department in central government	UKEF's statutory purpose is to support export and overseas investment. UKEF holds a wide range of overseas investments. UKEF announced a commitment to align their reporting with the TCFD framework.	In 2020-21, UKEF made their first disclosure which focussed on the qualitative aspects of climate-related risks and opportunities with varying progress on the four pillars. The second disclosure in their 2021-22 ARA is expected to deliver quantitative analysis building on previous disclosure, as well as focussing on scenario analysis.
The Crown Estate (2020-21 ARA) – independent commercial business	The Crown Estate holds significant assets in a diverse portfolio of UK buildings, shoreline, seabed, forestry, agriculture and common land.	In 2020-21, The Crown Estate details that they've applied the TCFD framework to inform their strategy, drive the testing of climate scenarios, and as a basis for climate-related project implementation and disclosure. However, there's limited integration in the ARA. They plan to disclose progress on physical and transitional risks, as well as opportunities in the 2021-22. Climate change has been identified as a risk to the business.
BBC (2020-21 ARA) – public corporation	The BBC chose to voluntarily adopt TCFD. BBC Group is a signatory to TCFD, and all the corporations public service and commercial entities have also signed up.	The BBC Group plans to adopt the TCFD framework; however, the 2021-22 ARA doesn't include significant detail on the disclosure nor does the corporation layout a timetable for adoption.

The Bank of England (BoE 2020-21 Annual report, BoE 2020-21 Climate-related Financial Disclosure)	The BOE prudentially regulates and supervises financial services firms through the PRA. The PRA have mandated TCFD-aligned disclosure for large insurance companies.	In June 2020, the BoE, made their first climate-related financial disclosure report. The BoE has significant experience modelling climate-related stress tests and analysing risks. The climate-related reports published comply with the TCFD disclosures. The BoE is an official supporter of TCFD.
Pension Protection Fund (PPF 2020-21 ARA, Climate Change Report 2020-21)	PPF is a UK statutory fund, created under the Pension Act 2004, to protect members of defined benefits pension funds where the funds become insolvent. The PPF Board is a statutory corporation responsible for managing the fund and making payments to members.	PPF published a separate TCFD-aligned report for 2020-21. The report focuses on Responsible Investment with reference to appropriate disclosure across the four pillars.
National Employment Savings Trust Corporation (NEST 2020-21 ARA, 2020-21 TCFD Report)	NEST is a UK defined contribution workplace pension scheme set up to facilitate automatic enrolment under the Pensions Act 2008. With a public service obligation, any UK employer can use Nest to meet its new workplace duties.	NEST published a separate TCFD-aligned report for 2020-21. The report included substantial level of disclosure across the four pillars with a suitable track on progress. TCFD was not mentioned in their ARA.
Financial Conduct Authority (FCA 2020-21 ARA, Climate Change Adaption Report)	The FCA is an UK financial regulatory body independent from government. The FCA regulates financial firms providing services to consumers and maintains the integrity of the financial markets.	In 2021, the FCA announced plans to publish its first TCFD-aligned report alongside their 2021-2 ARA. The FCA have published a Climate Change Adaption Report which assesses the financial services industry and listed companies progress towards adapting to climate change.

Financial Reporting Council (FRC, 2020-21 ARA)	The FRC is an independent regulator in the UK and Ireland, responsible for regulating auditors, accountants and actuaries, and setting the UK's Corporate Governance and Stewardship Codes.	In their 2020-21 ARA, the FRC notes that TCFD is considered by boards and executives in their risk considerations; however, there is limited other alignment with the framework. The FRC plan to publish their first climate adaption report in 2021.
Ordnance Survey (OS, 2020-21 ARA)	Ordnance Survey (OS) is the national mapping agency for Great Britain.	OS plans to adapt TCFD-aligned reporting into their annual report from 2021-22.

HM Treasury

FRAB-Sustainability Subcommittee (FRAB-SSC)

Appendix D - Analysis of TCFD-aligned reporting and legislation

Analysis of TCFD-aligned reporting based on the TCFD's list of supporters

This analysis is based on the list of supporters TCFD's publish: www.fsb-tcfd.org/supporters/. We are not responsible for the accuracy of the underlying data. For our analysis, TCFD-aligned supporters have been used to assess support and adoption for the TCFD framework overall.

International

Our analysis of information from the supporter information on the TCFD's website as at 31 December 2021 identified that:

- Since the Financial Stability Board published the TCFD recommendations in June 2017, the adoption of TCFD year-on-year has been on an upward trend (increases in supporters: 2018-19: +65%, 2019-20: +77%, 2020-21: +72%).
- Japan leads on TCFD-aligned supporters both in aggregate and in the government sector (878 and 8 organisations respectively). This has been driven by the Japan TCFD Consortium[30] established in May 2019.
- Following Japan, Canada and France each have 5 government bodies that have adopted TCFD, followed by the UK with 4 government bodies (based on registered supporters).
- The entities supporting TCFD-aligned reporting are within the finance sector (43%) with government bodies making up a much smaller proportion (2%) of the total. For the UK, the financial sector makes up a larger portion (58%), and government bodies an even smaller portion (1%) – although HM Treasury note that certain government pension schemes and government bodies have categorised themselves under a non-government sector.
- TCFD-aligned reporting by government bodies is highest in Europe (37%), then Asia (31%). The government bodies that have adopted the TCFD framework classify themselves as supervisors and regulators (44%), national governments (16%), central banks (12%), government ministries (11%) and other government categories (17%). Canada is the sole country to have local government bodies reporting against the TCFD recommendations (3 in total).

Nationally

- The UK follows Japan in the total number of entities that have supported the TCFD-aligned reporting (446 entities). After the finance sector (58%), the main sectors to have adopted TCFD recommendations are Industrial (7%), Energy and Utility (5%), Real Estate (7%), Information Technology (4%).

[30] formed of institutional investors, financial institutions and business corporations in Japan to promote constructive dialogues around climate-related financial disclosures with backing from Japan's Ministry for Economy, Trade and Industry (METI), the Ministry of the Environment and the Financial Services Agency of Japan: https://www.lse.ac.uk/granthaminstitute/news/why-japan-is-leading-the-tcfd-wave/

- The four government bodies that support TCFD-aligned reporting and reported their adoption on the TCFD website are: UK Export Finance, Bank of England, Financial Conduct Authority.

TCFD-related legislation

Foreign governments have introduced legislation on climate-related reporting requirements for large financial entities (refer to FRAB 144 (10)). To update the group:

New Zealand

- New Zealand (NZ) introduced legislation to require all organisations, including public services and local authorities, to provide climate-related disclosures consistent with the core elements of the TCFD, for financial years commencing in 2025.
- The Reserve Bank of New Zealand responded to the CCC draft advise, supporting exploration of climate disclosure for public sector entities, and noting *further study would be required to identify any limits to the suitability of this approach for the public sector (e.g., governance)*[31]
- Under NZ's Carbon Neutral Government Programme (CNGP), every public agency will be required to measure and publicly report on their emissions and offset any emissions they cannot cut by 2025.
- CNGP requirements for government agency reporting relate directly (but not exclusively) to the TCFD framework recommended disclosures for the Metrics and Targets: part b) disclose GHG emissions, and part c) targets used to manage climate related performance.
- CNGP requirements involve emissions reporting (or accounting) aligned with the GHG Protocol and/or ISO14064-1, and then disclosing certain information in their annual reports (i.e., their emissions profile, total emissions, reduction targets and progress against those targets). CNGP organisations have to have their emissions verified/assured in accordance with the Assurance Engagements on Greenhouse Gas Statements (ISAE (NZ) 3410) standard or the ISO 14064-3:2019 standard.
- Local authorities are not mandated to follow the CNGP requirements, but many are already measuring their emissions and NZ encourage any public sector organisation to join in with the Programme.

Canada

- Sustainable Finance Action Council The council's early emphasis will be on enhancing climate-related financial disclosures in Canada's private and public sector, aligned with the recommendations of the Task Force on Climate-related Financial Disclosures. A public sector coordinating group will play a role in observing council meetings and advising the chair.

Europe

[31] www.rbnz.govt.nz/-/media/ReserveBank/Files/Financial%20stability/climate-change/Climate-Change-Commissions-Draft-Advice-March-2021.pdf

- France has extended existing climate-related reporting requirement to credit institutions, investment firms and investment advisory firms. French rules had served as a model for the EU regulation on sustainable finance disclosure.
- The EU has drafted the Corporate Sustainability Reporting Directive to be introduced via the European Financial Reporting Advisory Group in October 2022.
- Switzerland's Federal Department of Finance is preparing a consultation draft for mandatory climate reporting based on TCFD by summer 2022.

Other regions

- Japan revised its Corporate Governance Code in June 2021 to include 'comply or explain' sustainability and climate-related disclosure for listed companies. In May 2022, Japan has the highest level TCFD supporters by a significant margin.
- Brazil's central bank announced mandatory TCFD-aligned disclosure, first focussing on the qualitative aspects of governance, strategy and climate-related risk management, then incorporating quantitative aspects.
- Singapore's Exchange Regulation proposed a series of mandatory TCFD-aligned disclosure measures commencing in 2022.

HM Treasury

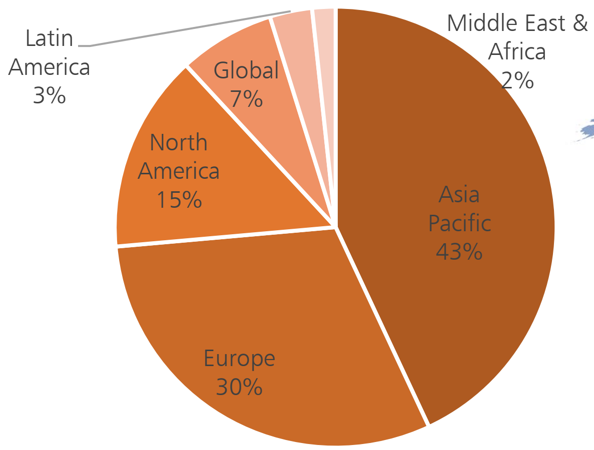
FRAB-Sustainability Subcommittee (FRAB-SSC)

Appendix E - Analysis of TCFD-aligned supporters

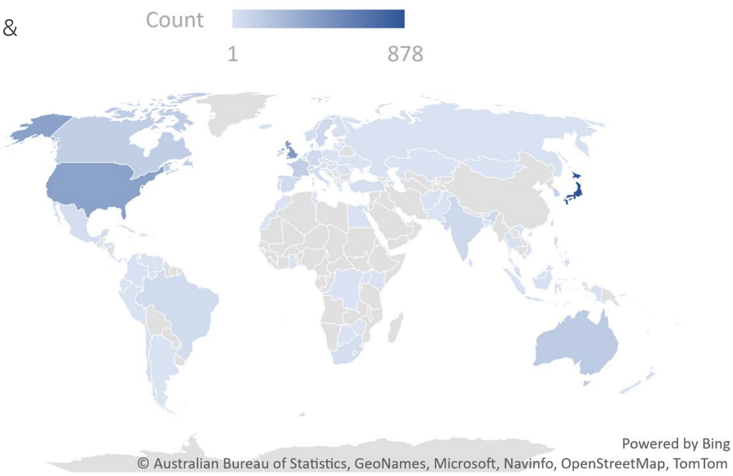
The data analysis in this section is based on the list of supporters TCFD's publish: www.fsb-tcfd.org/supporters/. We are not responsible for the accuracy of the underlying data. For our analysis, TCFD-aligned supporters have been used to assess support and adoption for the TCFD framework overall.

Total count		**3,395**	
of which:			
Region	Europe	1,035	30.5%
Location:	United Kingdom	446	13.1%
Sector	Government	64	1.9%
Industry	Government Ministry	7	0.2%

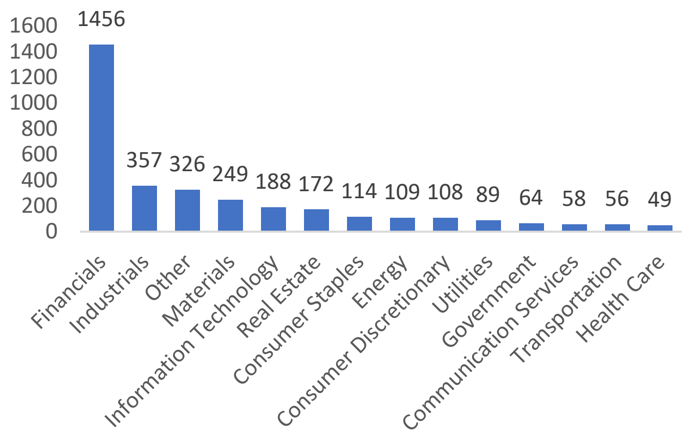
Regional analysis

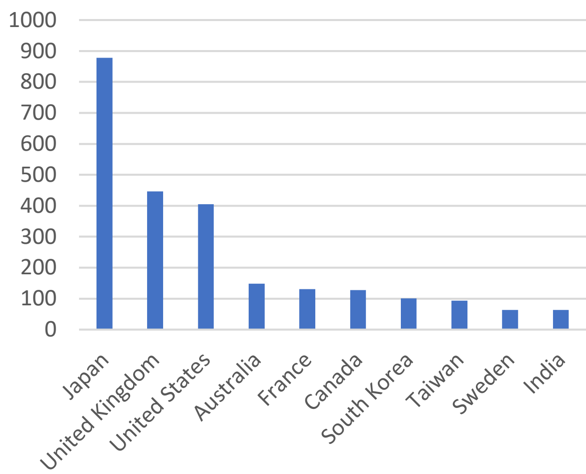


Location Analysis

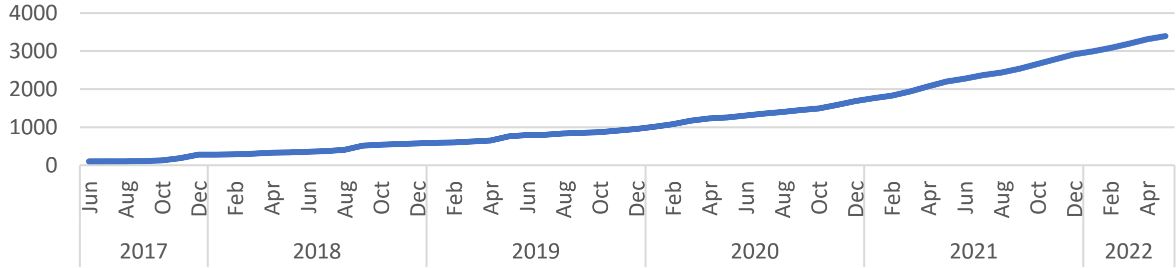


Sector analysis





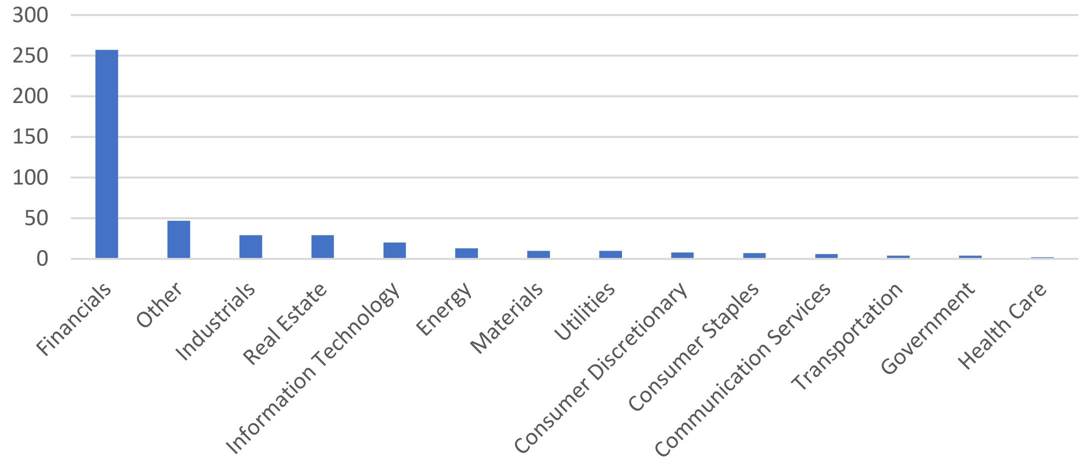
Time analysis



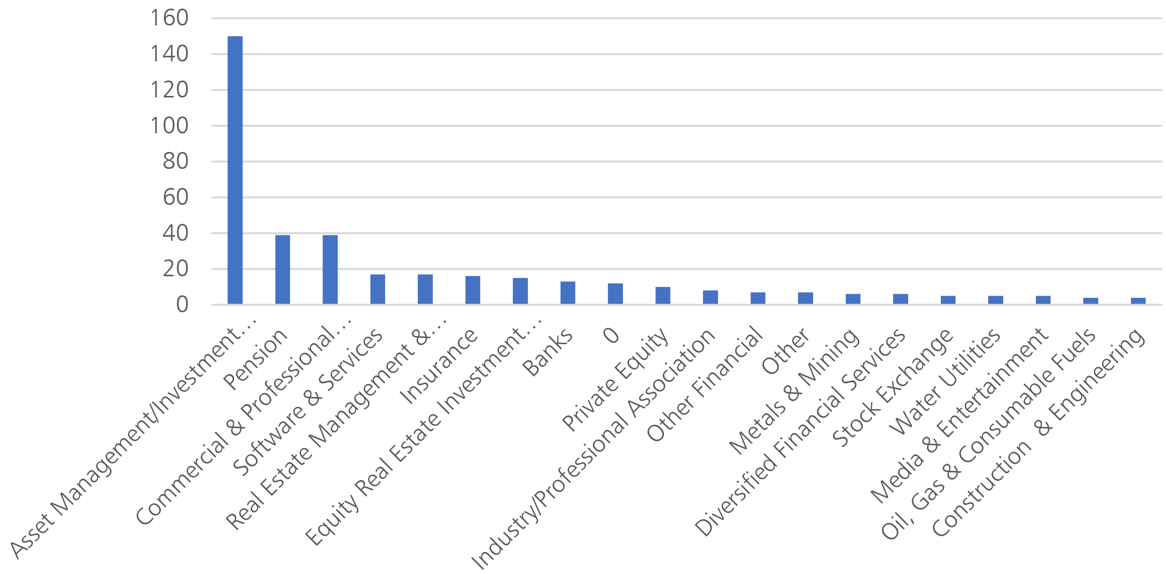
Analysis of TCFD-aligned supporters for the United Kingdom only

Total count		446	
of which:			
Sector:	Government	4	0.9%
Industry	Government Ministry	1	0.2%

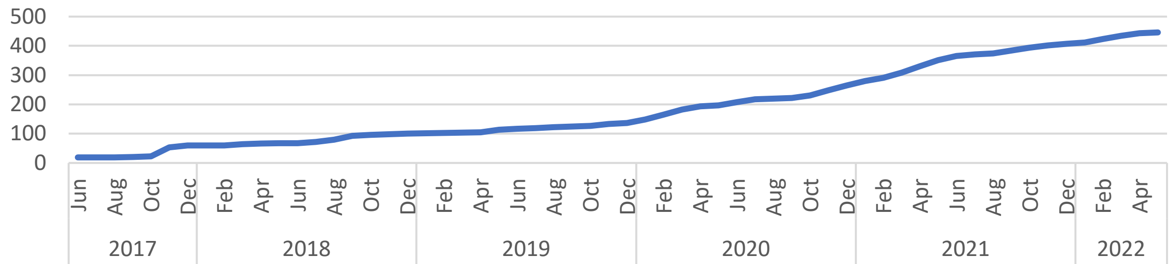
Sector analysis (UK only)



Industry analysis (UK only)

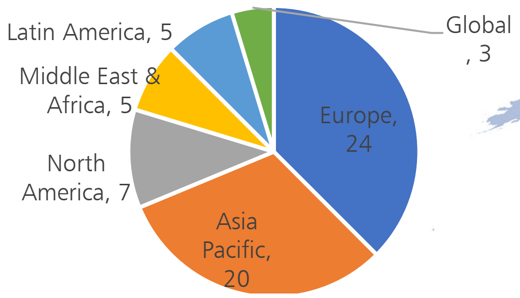


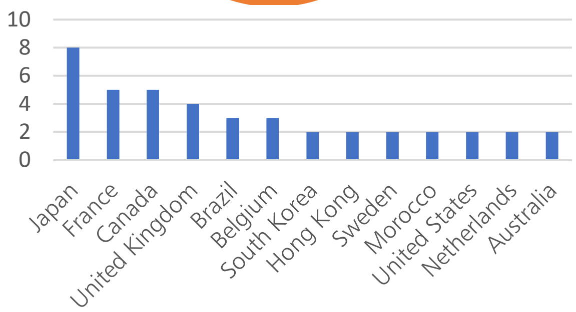
Time analysis (UK supporters)



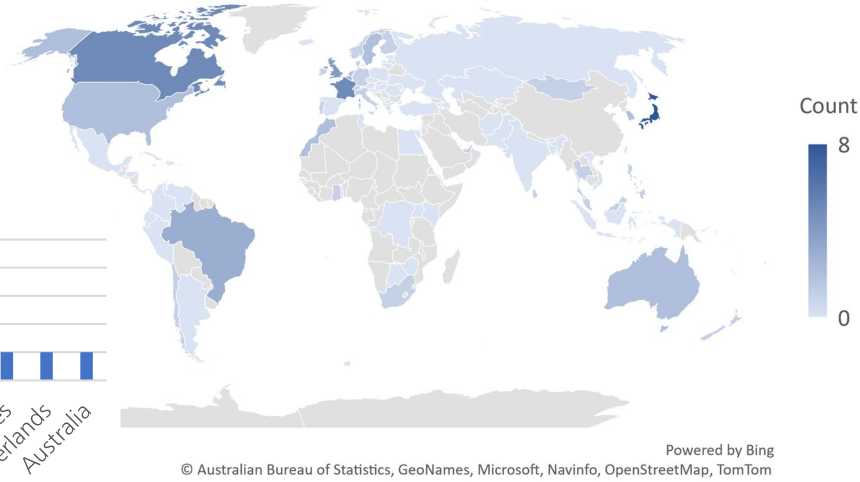
Analysis of TCFD-aligned supporters in Government bodies (internationally)

Regional analysis

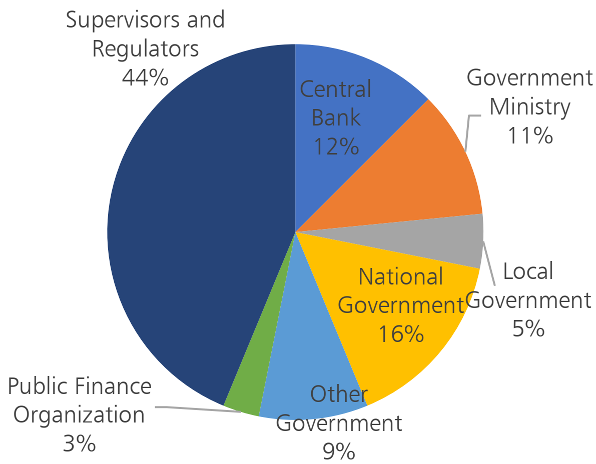




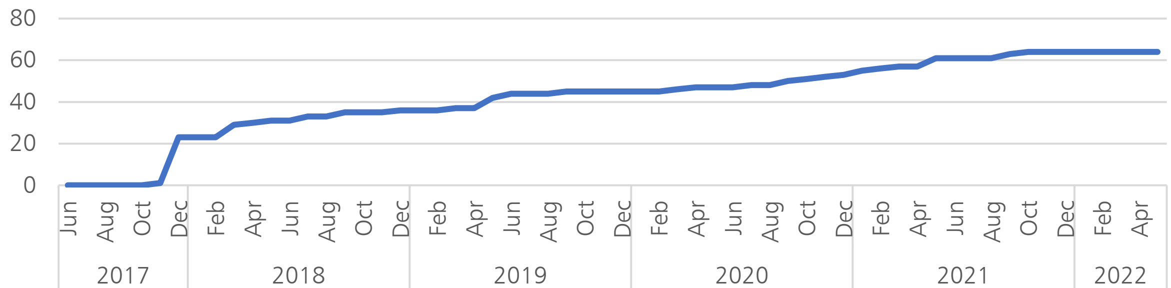
Location analysis



Industry analysis (Government body supporters)



Time analysis (Government body supporters)



HM Treasury

FRAB-Sustainability Subcommittee (FRAB-SSC)

Annex 3 - Overview of the International Sustainability Standards Board's exposure drafts

FRAB-Sustainability Subcommittee (FRAB-SSC)

Introduction

1. At FRAB-SSC (01) and FRAB 145 (16), HM Treasury (HMT) updated the subcommittee on the Chancellor's intention to support the development of standards from the International Sustainability Standards Board (ISSB). FRAB were updated on the ISSB's progress at the last meeting – refer to FRAB 146 (09).
2. On 31 March 2022, the ISSB published their first two exposure drafts, 'S1 General Requirements for Disclosure of Sustainability-related Financial Information' and 'S2 Climate-related Disclosures'. This paper provides an overview of the exposure drafts, initial views and considerations for public sector sustainability reporting.

Background

The International Sustainability Standards Board (ISSB)

3. The IFRS Sustainability Disclosure Standards (ISDSs) are designed predominantly for the private sector; with the aim of providing markets with clear, comprehensive, high-quality sustainability-related information for financial decision-making.
4. In September 2020, the IFRS Foundation Trustees launched a consultation32 on sustainability reporting; receiving 577 responses from a diverse range of stakeholders; illustrating widespread support for the IFRS Foundation to play a role in global sustainability reporting. Based on the consultation the Trustees reached the following views on the strategic direction of the ISSB:
    - Investor focus on enterprise value
    - Sustainability scope, prioritising climate
    - Build on existing frameworks
    - Building blocks approach – working with key standard setters across jurisdictions to provide a globally consistent and comparable baseline.
5. The Trustees created the Technical Readiness Working Group (TRWG) which is comprised of leading organisations with expertise in sustainability, integrated reporting and standard setting, focused on meeting investors' needs.
6. On 3 November 2021 (at COP26), the IFRS Foundation established the ISSB and announced plans to consolidate existing voluntary sustainability frameworks into the new board, including the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF).
7. Furthermore, the TRWG published[33] a programme of work, as well as a climate prototype and supplement on climate-related disclosure requirements. The prototype

[32] IFRS Foundation's: Consultation paper on sustainability reporting and Feedback statement at www.ifrs.org/news-and-events/news/2021/04/ifrs-trustees-publish-institutional-arrangements-for-proposed-new-sustainability-standards-board/
[33] www.ifrs.org/groups/technical-readiness-working-group/#resources

is built on the paper '*Reporting Enterprise Value*'[34] published jointly by component organisations.

UK government legislation

8. The government announced plans to mandate the use of the ISSB's ISDSs by UK companies in HMT's '*Greening Finance: A Roadmap to Sustainable Investing*'[35] which should be in place in 2023. The ISDS will form part of the Sustainability Disclosure Requirements (SDR) framework which will be introduced with a proposed timeline of coming into force in 2024. Regulatory changes[36] will ensure that the UK reporting under the ISDSs is consistent with both existing and forthcoming disclosure requirements.

Recent ISSB developments and publications

The ISSB's exposure drafts and consultation

9. The ISSB published the exposure drafts to their first two standards[37] on 31 March 2022, '*S1* General *Requirements for Disclosure of Sustainability-related Financial Information*' and '*S2 Climate-related Disclosures*', with the public consultation closing on 29 July 2022. The ISSB expects the ISDSs to be released in late 2022, at the earliest. An overview of the ISSB's exposure draft's IFRS-S1 and IFRS-2 is included in Annex 1.

10. In line with usual practice, HMT don't expect FRAB (or FRAB-SSC) to respond directly to the ISSB's consultation. HMT plan to contribute to BEIS's response to the ISSB's exposure draft. Furthermore, HMT participated and provided a public sector view for ICAEW's working group for the ISSB consolidation.

Building on the Sustainable Accounting Standards Board (SASB) industry-based Standards

11. The ISSB plans to build upon the SASB Standards and has embedded the SASB's industry-based standards into the ISSB's development process. The ISSB plans for the SASB Standards to be the starting point for their industry-based standards and the SASB Standards feature in both exposure drafts. The ISSB plans for continued integration with SASB and SASB's projects are being transitioned to IFRS. ISSB plans to actively encourage the use of SASB's standards.

12. IFRS-S1 exposure draft requires an entity to consider the SASB Standards in the absence of a specific IFRS Sustainability Disclosure Standard for a particular sustainability-related topic. This places an expectation for an entity to consider SASB Standards.

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[34] impactmanagementproject.com/structured-network/global-sustainability-and-integrated-reporting-organisations-launch-prototype-climate-related-financial-disclosure-standard/
[35] www.gov.uk/government/publications/greening-finance-a-roadmap-to-sustainable-investing
[36] Through HMT's Sustainable Finance Bill, BEIS is seeking powers for the Secretary of State to be able to adopt ISDSs in the UK. committees.parliament.uk/publications/8433/documents/85531/default/
[37] www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/

Development of the IFRS Sustainability Disclosure Taxonomy

13. On 25 May 2022, the IFRS staff requested early feedback on developing an IFRS Sustainability Disclosure Taxonomy[38] to enable structured electronic tagging of an entity's sustainability disclosures. The publication lays out the skeleton for the Taxonomy, the proposed interaction with the first two exposure drafts and the IFRS Accounting Taxonomy. The requested feedback, to be submitted via survey, is due by 30 September. Arguably the Taxonomy is less relevant to the UK public sector, at this stage, given the likely complexities in adaption, interpretation and implementation – the UK public sector has not, for example, adopted the IFRS Financial Reporting Taxonomy.

Further alignment and consolidation with other sustainability standard setters

14. On 24 March 2022, the Global Reporting Initiative (GRI) and ISSB announced a collaboration agreement to coordinate their work programmes and standard setting activities recognising the considerable public interest to harmonise the sustainability reporting landscape at an international level. The IFRS Foundation and GRI plan to provide two 'pillars' of international sustainability reporting:
    - first pillar - representing investor-focused capital market standards of IFRS Sustainability Disclosure Standards developed by the ISSB, and
    - second pillar - GRI sustainability reporting requirements set by the GRI's board, compatible with the first, designed to meet multi-stakeholder needs.

Overview of the ISSB's exposure drafts

15. An overview of the ISSB's exposure draft's IFRS-S1 and IFRS-S2 is included in Appendix F. This section covers the main observations on the standards.

Connectivity with the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations

16. Both exposure drafts adopted TCFD structure having drawn from ISSB-TRWG's '*Climate-related Disclosure Prototype*'[39]. The TRWG includes representatives from the TCFD. The ISSB's exposure drafts are consistent with the TCFD recommendations extending the sustainability-related risks and opportunities beyond climate.

17. IFRS-S2 is consistent with the four recommendations and eleven recommended disclosures of TCFD; however, the exposure draft differs from the TCFD guidance. This is summarised in '*Comparison IFRS S2 Climate-related Disclosures with the TCFD Recommendations*'[40] with a summary included in Appendix G.

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[38] www.ifrs.org/news-and-events/news/2022/05/staff-request-for-feedback-to-inform-future-development-of-ifrs-sustainability-disclosure-taxonomy-for-digital-reporting/

[39] In November 2021, TRWG published the prototype www.ifrs.org/chvtontent/dam/ifrs/groups/trwg/trwg-climate-related-disclosures-prototype.pdf

[40] www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/comparison-draft-ifrs-s2-climate-related-disclosures-with-the-tcfd-recommendations.pdf

Initial views on the exposure drafts

18. Observations on each of the exposure drafts were provided to FRAB for the meeting. The Annex draws from the discussions from ICAEW's working group for the ISSB consultation, which HMT was invited to attend to provide a public sector viewpoint on the exposure drafts. The observations raised give an illustrative view of feedback from ICAEW and the other contributors to the working group. The balance of views will become clearer once the comment window has closed. ICAEW will be submitting feedback to the ISSB in response to the consultation. The annex was removed prior to publication so as not to pre-empt ICAEW's feedback.

Considerations for future public sector adoption

19. This section provides an overview of the potential issues with public sector adoption of the ISDSs, based on the ISSB's exposure drafts.

Alignment with IFRS

20. The public sector is not driven by profit but adapted and interpreted IFRS Standards are applied to the public sector to ensure high-quality reporting and support accountability and transparency.

21. Currently, the government and wider public sector reporting aligns with the IFRS Standards, as adapted and interpreted for the public sector as set out in the FReM or another public sector equivalent. The benefits of adopting the ISSB's sustainability standards, and remaining aligned with IFRS, in principle may deliver similar advantages around transparency and comparability to the initial adoption of IFRS.

22. The ISSB is a board of the IFRS Foundation, and future sustainability standards are expected to form a component of corporate reporting. One option would be for the public sector to adopt the standards in a similar way with adaptions and interpretations made where necessary. The IFRS Foundation's ambition is for the sustainability standards to be adopted internationally across jurisdictions.

Potential limitations and difficulties of public sector adoption

23. Simply addressing the reporting from a private sector perspective, would leave significant gaps in reported information, as a result of differences in focus and coverage. S1 explains the public sector (and not-for-profit entities) applying the standard may have to *amend the descriptions used for some disclosure items* (IFRS-S1, para. 10). There are issues with certain fundamental principles in the exposure drafts.

Enterprise value and 'inward-looking' focus

24. The definition of enterprise value as an entity's market capitalisation plus debt (IFRS-S1, Appendix A) can't be applied in a public sector context (and is difficult to apply to unlisted companies).

25. The definition of enterprise value as the net present value of future cash flows (IFRS-S1, para. 5) has slightly more relevance and it may be possible to interpret the standard for a public sector context. However, this interpretation would have to

address the fact that users of public sector accounts aren't assessing an entity in the same way as an investor would be for the private sector. Future cash flows are far less relevant, as the public sector is more focused on achieving policy goals and delivering public services.

26. In general, the exposure drafts have an inward-looking focus on the entity. The disclosures which focus on the effect of climate risks on the entity itself are likely to be of less interest to users of public sector statements. Instead, presumably, the sustainability-related risk is to the continued delivery of public goods and services.

Investors focus for identifying significant sustainability-related risks

27. Similarly, as the standard is aimed at investors, the requirement for an entity to disclose information on significant sustainability-related risks from an investor viewpoint, may overlook certain significant sustainability-related risks the government faces (which don't directly impact enterprise value).

28. Applying the standard alone, wouldn't address the other risks government faces on sustainability. Furthermore, applying financial risk analysis, in many cases, lacks relevance to the broader array of stakeholders to which government is accountable.

Pre-empting policy

29. The exposure drafts require an entity to provide information to understand the connectivity between various sustainability-related risks (IFRS-S1, para. 42-44). However, for the regulatory functions of certain government bodies, this could be problematic. Where an entity is required to identify connectivity between various sustainability-related risks and opportunities, this may appear as the entity pre-empting policy – this is likely to be problematic.

Referencing to other sources of guidance

30. The exposure drafts direct an entity to consider other sources of guidance when considering sustainability-related risks, specifically *recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users* (IFRS-S1, para. 51(c)).

31. The accompanying paper on adopting TCFD-aligned reporting in the public sector (refer to FRAB-SSC (03) 02), IPSASB's consultation on '*Advancing Public Sector Sustainability Reporting*'[41] is addressed in further detail. S1 would allow for IPSASB guidance to be consulted to identify disclosure topics.

Further considerations for adoption, including the order, focus and timetable

TCFD framework

32. Whilst the IFRS Foundation is expected to publish the first ISDSs in late 2022, the UK private sector adoption timetable is currently planned to run behind the adoption of TCFD-aligned reporting.

[41] www.ipsasb.org/publications/consultation-paper-advancing-public-sector-sustainability-reporting

33. The ISSB has adopted the TCFD recommendations and recommended disclosures in full in IFRS-S2 with the exposure draft including minor modifications to the TCFD guidance. The ISSB has used the familiar TCFD pillars and similar recommended disclosures for IFRS-S1 and is expected to continue to use the TCFD structure for future ISDSs.

34. Considering and developing the interpretations and adaptions of TCFD-aligned reporting for public sector, will likely drive development towards alignment with future ISDSs.

IPSASB Sustainability Standards

35. IPSASB has recognised the opportunities and challenges of the ISSB's framework and plans to draw from their outputs, as well as use its experience in the wider public sector, to develop a suitable framework. The consultation paper has suggested that with an accelerated approach the Board may be able to release initial guidance by the end of 2023.

Order, focus and timetable

36. FRAB-SSC should consider the adoption and the implementation of TCFD-aligned reporting for the public sector, before addressing the upcoming ISDSs.

Does the subcommittee agree that the board should focus on adopting TCFD-aligned reporting in the public sector, before addressing the upcoming ISDSs?

Appendices – for Annex 3

Appendix F – Overview of the ISSB's exposure drafts

S1 General Requirements for Disclosure of Sustainability-related Financial Information

A1. The exposure draft would require a company to disclose material information about all significant sustainability-related risks and opportunities to which it is exposed. Materiality judgements are made in the context of the sustainability-related financial information necessary for users of general-purpose financial reporting (investors) to assess enterprise value. The standard defines enterprise value as the total value of an entity's equity and net debt and reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value attributed to those cash flows (reflecting the cost of capital).

A2. The information relevant to the assessment of enterprise value is broader than information reported in the financial statements (e.g., the company's impacts and dependencies on people, the planet and the economy). The sustainability disclosures are required to be made at the same time as the general-purpose financial reporting.

A3. S1 proposes requiring the disclosure of information about significant sustainability-related risks and opportunities and sets out general features/requirements related to:

- frequency of reporting;
- use of financial data and assumptions;

- location of information;
- statement of compliance.
- specifying the reporting entity and the related financial statements;
- comparative information;
- errors;
- sources of estimation and outcome uncertainty;

A4. The General Requirements Exposure Draft is designed to be the sustainability equivalent of the IFRS Accounting Standards IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Fair presentation

A5. A company would be required to identify and report significant sustainability-related risks and opportunities to meet the informational needs of investors, applying ISDSs, and in their absence SASB Standards and non-mandatory frameworks/ pronouncements (e.g., CDSB). Preparers are required to consider the disclosure of similar companies (geographical location, industry).

Value chain information

A6. The IFRS-S1 exposure draft would require disclosure of material information across a company's value chain defined as a 'full range of activities, resources and relationships related to a company's business model and the external environment in which it operates' (e.g., supply/distribution channels, human resources, marketing, etc.). Subsequently, the related sustainability information is dependent on many factors, including the company's activities, industry, geographical operations and the resilience of employees and supply chains.

Connected information

A7. The standard requires disclosure of information for investors to assess the relationship between different sustainability-related risks and opportunities, as well as how they link to the information in the financial statements.

S2 Climate-related Disclosures

A8. The exposure draft would require a company to disclose (material) information that would enable an investor to assess the effect of climate-related risks and opportunities on its enterprise value.

A9. S2 uses the same approach as S1, requiring a company to centre disclosures around governance, strategy and risk management, and the metrics and targets used to measure, monitor and manage significant climate-related risks and opportunities. This includes information on climate-related physical and transition risks and opportunities.

Governance

A10. S2 requires disclosure of information about governance processes, controls and procedures that the company uses to monitor and manage climate-related risks and opportunities (including a description of governance bodies with related oversight, their terms of reference, management's role in assessing and managing climate-related risks and opportunities, description of how the company ensures they have the related skills and competencies available). The company must provide information to connect climate-related risks to other sustainability risks. When oversight of climate-related risk is integrated, the disclosure on governance should also be integrated (i.e., not separating out each sustainability-related risk).

Strategy

A11. The exposure draft requires a company to disclose information on how climate change could reasonably be expected to affect their business model, strategy and cash flows over the short, medium or long term, access to finance, and their cost of capital.

A12. The company would be required to identify:

- physical risks, separated as either:
    - acute (e.g., increased severity of extreme weather events affecting company assets) or,
    - chronic (e.g., rising sea level affecting the location of operations); and
- transition risks – separated as policy, legal, market, technology or reputational (e.g., reduced demand for high-carbon-based products).

A13. For transition risks (and opportunities), a company would have to disclose how it:

- plans to achieve climate-related targets (resourced, progress monitoring),
- expects to adapt or mitigate climate-related risks
- expects to adapt or mitigate indirect climate-related risks in its value chain
- expects to adapt or mitigate indirect climate-related risks in its value chain

A14. Furthermore, a company would be required to disclose whether carbon offsetting is part of its plan, providing specific information for investors to assess the offset schemes. Where a company uses internalised carbon prices, they would disclose the price per metric tonne of GHG emissions.

A15. Disclose how climate-related risks and opportunities have affected its most recently reported financial position, financial performance and cash flows, as well as how it expects its financial position to change over time based on its strategy to address significant climate-related risks and opportunities.

A16. To enable investors to understand resilience, the company would be required to disclose information on whether it can continue to use its assets and investments in the same way, whether it has sufficient finance available to withstand the climate-related risk and to take advantage of climate-related opportunities.

A17. Where possible, a company would be required to use climate-related scenario analysis to assess its risks and opportunities. Alternatively, the standard addresses other quantitative methods. The exposure draft proposes aligning climate-related analysis with the latest international agreement on climate change (e.g., the Paris Agreement’s 2°C target)

Risk management

A18. S2 requires a company to disclose their processes to identify, assess and manage climate-related risks and opportunities, as well as how they are integrated into the overall risk management process – including details on prioritisation.

Metrics and targets

A19. The exposure draft requires a company to disclose the metrics and targets used to manage climate-related risk. Companies would be required to disclose absolute gross Scope 1, Scope 2 and Scope 3 GHG emissions (in metric CO2 equivalents), as well as their intensity. Calculations would follow the Greenhouse Gas Protocol. Emissions from associates and joint ventures in a consolidated group are required to be disclosed separately.

A20. S2 proposes industry-based disclosure requirements based on the company's business model and associated activities. The industry-based disclosures are split into disclosures topics (e.g., specific climate risks and opportunities) and industry-based metrics. The industry-based standards are derived from the SASB Standards, with the information identified as relevant to an assessment of the enterprise value of companies in the industry.

Comparing the exposure drafts to the TCFD framework

A1. IFRS published the '*Comparison IFRS S2 Climate-related Disclosures with the TCFD Recommendations*'[42] which have been summarised in this annex. S2 requires additional more granular information for the recommended disclosures for:

- governance (e.g., how board mandates/terms of reference reflect a body's climate-related risks opportunities, on dedicated related controls/procedures).
- strategy (e.g., on resource requirements, expected changes in financial position/performance over time, response to risk) and specifically on resilience (e.g., significant areas of uncertainty for strategy resilience).
- risk management (e.g., disclosure on the process for identifying and prioritising opportunities, input parameters used to identify risks, process changes from the prior period).
- metrics and targets (e.g., disclosure of industry-based metrics, disclosure of Scope 1 and Scope 2 GHG emissions for the consolidated group; and for associates, joint ventures and unconsolidated entities/affiliates these would be included in the disclosure of Scope 3 emissions).

A2. In contrast to TCFD metrics and targets recommended disclosure, the ISSB's exposure draft relies on industry-based SASB Standards, rather than explicitly mentioning the Weighted Average Carbon Intensity (WACI) or the Partnership for Carbon Accounting Financials Standards (PACAF). Furthermore, the exposure draft differs from TCFD guidance by requiring disclosure on how company targets compare to the latest international agreement, whether their plans have been validated, and whether the target was derived from using a sectoral decarbonisation approach.

[42] www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/comparison-draft-ifrs-s2-climate-related-disclosures-with-the-tcfd-recommendations.pdf