HM Treasury

FRAB 144 (10)
24 June 2021

HM Treasury

Financial Reporting Advisory Board Paper

Climate-related and Sustainability Reporting – For discussion and decision

Issue:	This paper explores the scope of climate-related and sustainability reporting in the public sector, updates FRAB on existing developments and requirements, and sets options for creating a working group.
Impact on guidance:	None at this point.
IAS/IFRS adaptation or interpretations?	No adaptations or interpretations are proposed in the paper; however, the established Working Group may bring insights around interpretations of IFRS standards to FRAB in the future.
Impact on WGA?	There is no immediate impact on WGA from this paper. However, future conclusions and advice from the Working Group on climate-related and sustainability reporting may impact WGA's non-financial reporting.
IPSAS compliant?	IPSAS has not yet issued guidance on non-financial reporting
Impact on budgetary regime?	N/A
Alignment with National Accounts (ESA10)?	ESA10 includes guidance on non-financial reporting as part of the satellite accounts *enlarging the scope of the accounting framework by adding non-monetary information, e.g. on pollution and environmental assets*.
Impact on Estimates?	Not yet known.
Recommendation:	The Board should discuss the contents of the paper and decide on the remit, status and form of the Working Group. Furthermore, the Board should discuss the appointment of a Chair and representatives to the Working Group.
Timing:	Where feasible, the Board should respond to the questions posed in the paper at the meeting (FRAB 144). The Working Group's terms of reference or representation may be approved by FRAB via out of meeting communications.

Background

1. FRAB 143 (07) set out the author's analysis and assessment of the potential implications of the Climate Change Act (CCA2008)[1] on government financial reporting. The Chair requested that the Treasury bring a proposal for setting up a working group to explore the implications of the paper and wider views on climate and sustainability-related reporting.
2. This paper will summarise key changes to the reporting landscape; updates the Board on existing UK government guidance, regulation and strategy; and proposes a suitable approach for interpreting existing climate-related financial reporting issues, as well as, developing future climate-related and sustainability reporting guidance.
3. The fast-paced and broad development of climate-related and sustainability frameworks across multiple jurisdictions, with a lack of a key central standard setter, has led to divergence on definitions and categorisation. '<u>Annex A – Key concepts</u>' provides further details on related topics, including information on other sustainability frameworks, and definitions and categorisations that will be used in the paper.
4. Based on the wide breadth of non-financial reporting and the current focus and priority, this paper will address climate-related and sustainability reporting topics only. This paper will not explore the government's economic or fiscal policy concerning climate change for the wider economy, nor other non-financial reporting which will be covered at a later date.

Summary of the climate-related and sustainability reporting landscape

5. There is clear unequivocal evidence that man-made climate change is impacting both human and natural systems[2]. CCA2008 sets legally binding targets to reduce greenhouse gas (GHG) emissions in the UK to net-zero by 2050. FRAB 143 (07) explored the author's assessment of the potential implications and introduced the developments in corporate reporting in respect of the Act.
6. On 20 April 2021, the UK government announced a more ambitious target for Nationally Determined Contributions under The Paris Agreement[3] to be enshrined in the UK's sixth carbon budget carbon.
7. There has been an increased focus on climate-related and sustainability reporting from users of public sector information, including, Parliament, the public, pressure groups and other stakeholders. Equally, there's been increased reporting on climate and sustainability-related matters in private sector annual reports; both voluntarily; and as part of listing, regulatory or legal requirements. While there is a general consensus for increased disclosure and reporting on climate change and sustainability until recently there's been a lack of clear direction.

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[1] The Climate Change Act 2008 introduced the UK's first legally binding target for 2050 to reduce greenhouse gas emissions with the associated responsibility sitting with the Secretary of State.

[2] In 2014, the Intergovernmental Panel on Climate Change (IPCC) released its Fifth Assessment Report.

[3] The Paris Agreement is a legally binding international climate change treaty, and is a sub-agreement under the United Nations Framework Convention on Climate Change (UNFCCC) 1994. The agreement was adopted by 196 UN Parties at COP 21, on 12 December 2015 and entered into force with UK ratification on 4 November 2016. The agreement sets targets for signatories to hold *the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels* using objectives known as 'Nationally Determined Contributions' (NDCs). On 20 April 2021, the Government announced a more ambitious NDC targets of 78% by 2035 compared to 1990 levels.

International standard setters and boards

8. International legislators and regulators have been adopting different sustainability frameworks as part of their reporting and listing rules, which has identified certain key players. Moreover, recent consolidation[4] and alignment[5] projects are narrowing the landscape further.

9. In April 2021, the IFRS Foundation announced it would launch the International Sustainability Standards Board (ISSB)[6] to set IFRS sustainability standards, based on positive feedback from an open consultation in late-2020. The Foundation has published exposure drafts and initiated proceedings to set up a board of trustees, with an expectation of releasing sustainability standards in the next few years.

10. There is a growing demand for decision-useful, climate-related information by a range of participants in financial markets[7]. Back in 2015, the Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures (TCFD) to develop a set of voluntary, consistent disclosure recommendations for use by companies to provide information to investors, lenders and insurance underwriters on their climate-related financial risks. On 30 March 2021, the FSB sent a letter to G20 Finance Ministers and Central Bank Governors laying out a roadmap to address climate-related financial risks[8].

Internationally

11. The European System of Accounts 2010 (ESA10, 1.41) already provides for climate and sustainability reporting with associated guidance on satellite accounts to *serve such data needs by enlarging the scope of the accounting framework by adding non-monetary information, e.g. on pollution and environmental assets*.

12. Other international governments and unions have enhanced reporting and disclosure requirements in response to the climate crisis with pledges and action by:

    - The European Union (EU) - The EU has increased focus on sustainability reporting standards including the Non-financial Reporting Directive[9] (NFRD), the Taxonomy[10] and the proposal that EFRAG should set sustainability reporting standards. In addition to these requirements, individual member states have gone further, with:
        - France – legislating listed companies and financial institutional investors to disclose climate risk, environmental, social and governance (ESG) commentary, and their alignment with French climate policy via a comply or explain disclosure. Furthermore, both associated regulation

[4] On 10 June 2021, the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) officially announced their merger to form the Value Reporting Foundation (VRF). Refer to 'Annex A – Key concepts' for further details.
[5] In September 2020, five large sustainability frameworks published a Statement of Intent to Work Together Towards Comprehensive Corporate Reporting.
[6] The IFRS announcement by the IFRS Foundation Trustees sought nominations for the role of Chair and Vice Chair of the ISSB. The exposure draft followed a consultation paper to stakeholders on sustainability reporting in September 2020, where there was general consensus for IFRS Foundation to set-up a board.
[7] In 2014, Intergovernmental Panel on Climate Change (IPCC) released its Fifth Assessment Report.
[8] The FSB's letter roadmap to addressing climate-related financial risks specifically mentioned the IFRS Foundation Trustees steps to accelerate convergence in global sustainability reporting standards, and the development of a prototype built on the TCFD recommendations.
[9] EU NFRD (2014/95/EU) which amends Directive 2013/34/EU and requires certain companies to disclose information in their management reports - NFRD Summary and Directive 2013/34/EU.
[10] In June 2020, the Taxonomy Regulation (2020/852) was and entered into force in July 2020. Further details are included in Appendix A, A4.

and 'French Corporate Governance Code for Listed Companies' includes significant overlap with TCFD recommendations[11].

- Sweden – Mandating environmental reporting for both private and public entities to the Global Reporting Initiative (GRI)[12].

- Japan – The 'Japanese Corporate Governance Code 2015' increased focus on sustainability and ESG[13], in a country that already benefitted from a high level of disclosure.
- New Zealand – The country has mandated climate-related disclosures (in line with TCFD recommendations) for certain large and regulated organisations[14], as well as the public sector, from 2023.
- North America – Both the United States and Canada have lower legal and regulatory requirements for climate-related and sustainability reporting. Most disclosures are made on a voluntary basis. However, in May 2021, the White House announced[15] an initiative to bolster the US financial system against climate-related risks.
- China – ESG disclosures were due to be mandated for all public listed companies in China from 2020[16]; however, this was delayed as a result of the pandemic.

UK private sector

13. Since 2013, the government mandated[17] GHG emissions reporting, disclosure and commentary for all listed and large unlisted UK companies. This includes wider sustainability disclosure around water, waste, resource management, the environment and biodiversity.
14. In December 2016, the UK government incorporated the EU NFRD into UK law[18] requiring certain companies to produce a non-financial information statement to consider environmental matters, including the impact of the company's business on the environment.
15. In July 2019, the government announced its Green Finance Strategy[19]. Then, in November 2020, the government built on the announcement with a Ten Point Plan[20] to 'Build Back Green' which *sets out the approach government will take to build back better, support green jobs, and accelerate [their] path to net zero.* The plan included an announcement for the UK's first Sovereign Green Bond in 2021; implementation

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[11] October 2016, Investment Form paper on Understanding the French regulation on investor climate reporting assessing French requirements
[12] 2013, European Union paper on Sweden's existing regulatory requirements.
[13] 2015, the Japanese FSA, a new cooperate governance code.
[14] September 2020, New Zealand announced that publicly listed companies and large insurers, banks, non-bank deposit takers, investment managers and public sector organisation would have mandated climate-related disclosure in line with TCFD recommendations.
[15] via an executive order on 17 May 2021, the White House instructed the Treasury secretary to work with members of the Financial Stability Oversight Council to report how they plan to reduce risks to financial stability.
[16] 2020, the Georgetown Journal of International Affairs posted on article on ESG in China and China's 2030 Agenda.
[17] The government introduced the the Large and Medium Companies and Groups Regulations Act 2008 (Schedule 7, 410) with BEIS's full environmental reporting guidelines.
[18] The government amended (CA2006, 414CA and 414CB) to incorporate the Directive 2013/34/EU requirements (refer to footnote 9).
[19] The Green Finance Strategy applied recommendations from the newly established Green Finance Institute for 'greening finance', 'financing green' and 'capturing opportunity'.
[20] The government's ten point plan was announced alongside HMT's Green Strategy for Financial Services which went into detail on the strategies.

of a 'green taxonomy' for economic activities; and the intention to introduce mandatory reporting of climate-related financial information.

UK regulators

16. Accordingly, in November 2020, the UK joint regulator and government TCFD Taskforce announced plans to mandate TCFD recommendations; first to all public listed and regulated companies; then more broadly by 2025. This aligned with BEIS's March 2021 consultation[21] which recommended the introduction of a resilience statement, including TCFD recommendations.

17. In November 2020, the Financial Reporting Council's thematic review[22] concluded that market participants needed to do more to address climate change with better integration into decision making, increased harmony across sectors and standard setters, and more focus on climate-related issues.

Other developments

18. There is an increased risk of climate change litigation on governments. In February 2020, the Court of Appeal decided that the government policy on airport expansion at Heathrow was unlawful on climate change grounds; although, the Supreme Court subsequently reversed the decision. Internationally, the European Court of Human Rights and EU governments have faced legal cases[23] for failing to act on climate change.

19. In November 2021, the UK will co-host the UN Climate Change Conference of the Parties (COP26) to *"accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change."* Therefore, there will be an increased international focus on the UK's climate-related reporting.

Existing climate-related and sustainability reporting in the public sector

Existing sustainability reporting

20. Non-financial information is already incorporated into public sector Annual Reports and Accounts (ARAs) as part of the performance report and accountability report. Past revisions to the FReM have already mandated certain climate-related and sustainability reporting, based on alignment with private sector corporate reporting requirements and best practice.

21. The FReM encourages integrated reporting of sustainability issues throughout the ARAs; however, a certain level of mandatory reporting on sustainability measures was agreed with the parliamentary Environmental Audit Committee. The FReM mandates entities to report in line with the Greening Government Commitments (GGCs), UN

[21] In March 2021, BEIS started the consultation on 'Restoring trust in audit and corporate governance' requesting views including on whether the *Resilience Statement could provide a means for companies in future to provide disclosures consistent with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD)*.
[22] The FRC's Thematic Review considered the role of stakeholders including governance, reporting and audit, and the roles of a range of market participants. The review considered a sample of companies to assess their governance structures to the UK Corporate Governance Code and annual reports to UK reporting requirements. The review also considered the auditors response to climate risks.
[23] European Court of Human Rights: In April 2021, Verein KlimaSeniorinnen Schweiz and others v. Switzerland, and in November 2020, Duarte Agostinho and others vs. Portugal and Others; Germany in March 2021, Berliner Verkehrsbetriebe (BVG) case; Netherland in Urgenda Case

sustainability development goals and the EU NFRD. Please refer to Table 1 for further details.

22. The Treasury also publishes the Sustainability Reporting Guidance (SRG), with mandated compliance by the FReM (para. 5.4.8). The timing of publication of this guidance varies as it's dependent on Defra receiving confirmation from various process stakeholders. Departments are generally compliant with the SRG[24].

Table 1 – Existing climate-related and sustainability reporting in the public sector

Requirement Scope	Background	Metrics and details	Responsible department	Guidance location
The Greening Government Commitments (GGCs) All central government departments and their arms-length bodies – except in the rare case of exceptions given based on size, safety or not classified as a public body under ONS classification.	Defra sets five-year targets for all central government departments and tracks their performance. Defra manages the GGC process with input across government (BEIS for GHG emissions, DfT for travel, etc.) before consolidating the central government performance in an annual report. The mandatory reporting requirements aligned to GGCs are as agreed with the Environmental Audit Committee.	Metrics on: GHG emissions, waste and water. Commentary on: climate change adaptation, biodiversity and the natural environment; procurement of food and catering services; sustainable construction.	Overseen by Defra. Policy support from HMT, BEIS, DfT, Cabinet Office.	FReM21-22, para. 5.4.7 to 5.4.15 which also forms linked to the Sustainability Reporting Guidance (SRG) Introduced in 2010-11 and continuously developed with guidance from Defra.
Sustainability Development Goals (SDGs) All central government departments and their Arms-length Bodies (ALBs)	In 2015, the United Nations (UN) Member States adopted 2030 Agenda for Sustainable Development which "provides a shared blueprint for peace and prosperity for people and the planet, now and into the future".	This mandatory reporting requires departments to identify where their performance counts towards one of the seventeen agreed SDGs. These include: 11 - sustainable cities and communities; 12 – resource consumption and protection; and, 13 – climate action.	Cabinet Office	FReM para. 5.4.13 Introduced in 2017-18
EU Non-financial Reporting Directive (NFRD) All of public sector entities either through the FReM, CA2006 or other legislation.	In 2014, the EU law introduced to require certain companies to disclose information to provide an understanding of the undertaking's development, performance, position and impact of its activity. Certain requirements including anti-corruption and anti-bribery matters have been addressed outside of the department's ARA.	This mandatory reporting requires departments to provide details on environmental protection, social responsibility, respect for human rights and diversity.	BEIS and HMT	FReM, para. 5.4.4.c Introduced in 2017-18.

[24] In February 2015, the NAO conducted a review of Sustainability Reporting in Central Government and concluded that *most departments' reporting has improved since we last reviewed the issue and there are some strong good practice examples.* However, the report identified the following improvement areas: Strategy and materiality, Long-term targets and benchmarking, Departments' wider influence on sustainability and Governance and assurance.

The role of FRAB in climate-related and sustainability reporting

23. Under the IFRS Conceptual Framework, the objective of financial reporting is *to provide financial information that is useful to users in making decisions relating to providing resources to the entity*.

Interpretations on existing accounting and financial reporting standards

24. IFRS apply significant disclosure requirements with respect to financial risk, for which climate risk is considered a key driver in the long term. The IFRS Foundation has offered a view and their interpretation on climate-related disclosure for financial reporting, publishing:

    - an article supporting a *principle-based approach of IFRS Standards [which] means that climate change and other emerging risks are addressed by existing requirements* in November 2019;
    - educational material *to highlight how existing requirements in IFRS Standards require companies to consider climate-related matters when their effect is material to the financial statements* in November 2020.

25. FRAB considers the application of accounting standards and principles for public sector reporting. Therefore, the Board is well placed to consider the public sector implication of the IFRS Foundation interpretations.

Authority

26. Both the Government Resource Accounts Act 2000[25] (GRAA2000, Section 24. (1)) and 2.1(b) of the FRAB terms of reference define FRAB's role as to *advise on financial reporting principles and standards* and their application.

27. While non-financial reporting, by its very definition, does not fall under the scope of financial reporting; the potential risks that may arise from climate change or from efforts to mitigate climate change, in addition to their economic and financial consequences, can be relevant to the users of financial statements (this paper, para. 10, 24).

Direction

28. The IFRS Foundation has announced the formation of the ISSB and intention to issue standards. This prospect prompts policy questions on whether and how to apply such standards in the UK public sector.

FRAB Working Group

29. The Board tentatively approved the proposal to establish a Working Group in FRAB 143 (07). This section of the paper considers the options for such a proposal. The broad intent behind establishing such a group was to explore the financial reporting implications of climate change for the public sector. There are important choices around its remit and form.

[25] In July 2000, the government legislated the establishment of an advisory board for the Treasury to consult with on financial reporting principles and standards via GRA2000.

30. The FRAB Effectiveness Review[26] recommended that if *the Board implement [Subcommittees and working groups], there needs to be adequate representation of all stakeholder groups within sub-committees to ensure that all perspectives are considered* (Effectiveness Review, para. 23).

Remit

31. The Board should decide on an appropriate remit for the Group. This includes deciding the extent to which that remit is narrow or broad, whether the Group is temporary or long standing, and choices around anchoring in financial reporting standards versus more widely in corporate reporting. For example, two stylised options could be:

Option 1: Narrow temporary remit anchored in accounting standards

Group will review climate-related issues in respect of IFRS accounting standards as applied in the public sector. The Group could undertake a review and report back to the Board.

Option 2: Broad standing remit anchored in wider corporate reporting

Monitor, review and advise FRAB on broader developments in climate and sustainability reporting, and their potential implications and applications for public sector annual reports and accounts.

32. Option 1 aligns the Group tightly with the Board's responsibilities (this paper, para. 26, 27). Option 2 enables the Group to identify areas for development not previously identified by the Board or areas which may get crowded out given the Board's available time. While this would enable more agile development, there is a risk that the Group's work moves beyond the remit of the Board. That said, while the acceptance of a new climate and sustainability reporting policy is a government decision, the development of the ISSB, for example, may be relevant to a broad base of the stakeholders the FRAB currently serves.

Question 1: Does the Board support Option 1, 2 or some other permutation?

Status and form

33. Beyond the remit, the Board should also consider the Group's status and form, including its relationship to the Board and the composition of its membership. Again, two stylised options could be:

Option 1: A formal subcommittee of the Board

Membership is drawn from a cross-section of the Board's constituent groups. The subcommittee could seek the advice of external experts to expand its pool of capability and competence.

Option 2: A broader more informal working or interest group

Less fully representative of FRAB constituents. Potentially bringing in external membership, including those with different areas of expertise.

34. Option 1 would be broadly representative of the Board's membership, drawing on the different constituent roles and stakeholder insights. As a sub-committee, there

[26] In October 2020, The NAO conducted 'a review of the effectiveness of the Financial Reporting Advisory Board' ('the FRAB Effectiveness Review')

would be a pre-existing understanding of the FRAB's remit. Furthermore, this form would facilitate better communication to the Board in general. Option 2 may allow for a wider membership and representation of wider stakeholder interests.

Question 2: Does the Board support Option 1, 2 or some other permutation?

35. FRAB has an effective administrative structure with an independent Chair and Secretariat provided by the Treasury. A formal subcommittee would likely benefit from a similar structure with Treasury providing secretariat support for the Group. An early decision on a Chair for the group would support its development and be important for shaping the Group as the Board intends. The Board should discuss the extent of the process it wishes to apply in appointing the Chair – which may flow from the Board's decisions on the Group's remit and status/form. The Board should discuss the process for nominating and appointing the representatives for the working group.

Question 3: What approach does the Board wish to take to appointing the Chair? What approach does the Board wish to take to nominate representatives?

Recommendations

36. **We would recommend** that the Board approve the Working Group:

- has a **broader remit** (**Option 2**), reporting to FRAB at least annually on developments in climate reporting and considerations around their implications and applications to public sector ARAs
- operates as a **standing sub-committee** (**Option 1**) of the Board
- has a **Chair appointed by the FRAB nominations committee**
- looks to achieve a **breadth of constituent stakeholder representation** but is smaller than the Board
- has **terms of reference agreed by the Board out of meeting** – to be developed by the Secretariat in light of the Board's decisions on its remit and form. The draft terms of reference, included in '<u>Appendix 1 – Illustrative terms of reference for the Working Group</u>', establishes a remit and form in line with our recommendations.

HM Treasury
13 July 2021

Appendix 1 – Illustrative terms of reference for the Working Group

The Working Group's terms of reference have been drafted in line with the recommended options presented earlier in the FRAB paper (this paper, Recommendations).

Our recommended composition for the Working Group is to achieve a breadth of constituent stakeholder representation but to be smaller than the Board. We've opted for there to be at least one representative nominated by each FRAB membership group, while allowing other members and stakeholders to attend and present at meetings at the discretion of the Chair.

The Terms of Reference for the FRAB Climate and Sustainability Working Group

FRAB CLIMATE AND SUSTAINABILITY WORKING GROUP

TERMS OF REFERENCE

1. Objective and Scope

1.1. The FRAB Climate and Sustainability Working Group (herein 'the Working Group') objective is to *monitor, review and advise FRAB on broader developments in climate and sustainability reporting, and their potential implications and applications for public sector annual reports and accounts.*

2. Representatives

[Note – The Board should agree an appropriate composition for the Working Group. This section is one option in line with our recommendation of the Working Group being representative but smaller than FRAB.]

2.1. The FRAB nominations committee will decide which member assumes the role of the Chair, with the Board open to agreeing on a suitable nomination, appointment and review process.

2.2. Nominations for each Working Group representative (herein 'the Representative') should be agreed by the relevant FRAB membership group for consideration by the Chair.

2.3. The Working Group, categorised into representative groupings, will comprise of:

Principal representatives

- *Working Group Chair (herein 'the Chair'), a member of FRAB who will Chair the Working Group;*
- *Minimum of one other member of FRAB with relevant accounting, climate or sustainability experience;*

Preparers/User representatives

- *Minimum of one representative from the 'preparers/users' group of FRAB members nominated by the 'preparers/users' group as their delegate;*

Auditor representatives

- *Minimum of one representative from the 'audit' group of FRAB members nominated by the 'audit' group as their delegate;*

Relevant authority representatives

- *Minimum of one representative from the 'relevant authorities' group of FRAB members nominated by the 'relevant authority' group as their delegate;*

3. Meetings and Operations

3.1. The Working Group will meet as required each year in closed session to discuss matters relating to climate-related and sustainability reporting as they arise.

3.2. Alternates/deputies/other participants are permitted to attend Working Group meetings at the Chair's discretion.

3.3. The Working Group will conduct meetings in person or virtually (as necessary), and also conduct its business by telephone, conference and e-mail.

3.4. The Working Group will decide how it reaches its conclusions.

3.5. Secretariat support for the Working Group will be provided by the Treasury.

3.6. The Working Group does not have a set duration and will continue to operate until FRAB decide otherwise.

1.1. At least once annually, the Working Group will update FRAB on its overall progress and forward look agenda. This will include a brief review and summary of the Working Group's effectiveness.

4. Reviews and Revisions

4.1. These terms of reference should be subject to regular review, at least every three years.

4.2. Modifications and changes to the terms of reference must be agreed upon by FRAB.

Annex A – Key concepts

Key concepts

A1. There's been growing traction to recognise the importance of climate-related issues on the financial statements, and to provide a more cohesive view of the entity's operations and future sustainability.

A2. This paper, differentiates the following key concepts:

(a) **Financial reporting impact of climate risk and uncertainty** – Climate change impacts financial reporting through the existing accounting framework. Assessing the risk of impact on financial reporting is under the remit of FRAB as part of their existing responsibilities (this paper, para. 24).

(b) **Non-financial reporting –** Incorporates organisational information on matters other than the accounts and associated notes. This can incorporate a wide range of topics including on the environment, employees, social matters, human rights, anti-corruption and bribery. This paper will centre around environmental sustainability reporting, with a key focus on climate.

A3. While sustainability reporting can cover a range of non-financial reporting matters, the key frameworks and topics being considered by corporate reporting are:

- Environmental Social and Governance (ESG)
- Corporate Social Responsibility (CSR)

The climate crisis has meant that Greenhouse Gas (GHG) and carbon reporting usually features in sustainability reporting frameworks.

37. While not considered in the paper, biodiversity is also a key focus for the government, and interlinks with climate-related and sustainability reporting. In February 2021, the government published the results of the Dasgupta review[27] which identified significant nature related financial risks and uncertainty related to the loss of biodiversity, with wide ranging implications on the economy and financial sector as a whole.

Definitions and taxonomies

A4. Divergence of definitions across the non-financial reporting space have arisen from their separate development and uptake across different regions and sectors.

A5. The UK government elected to retain the EU's Taxonomy Regulation (EUR 2020/852, as amended by SI 2020/1385) which set out the key principles and obligations for a UK Green Taxonomy. The Taxonomy does not oblige economic activities to be environmentally sustainable but provides a common framework to determine which economic activities are "environmentally sustainable" with the key policy objective to shift financing flows to deliver net-zero by 2050.

A6. In October 2020, the Organisation for Economic Co-operation and Development (OECD) published a report on 'Developing Sustainable Finance Definitions and Taxonomies'[28] which examined the most widely recognised existing definitions and

[27] The Dusgupta Review on the Economics of Biodiversity, with details on managing significant nature-related financial risk and uncertainty (Chapter 17) with key recommendations for financial institutions on greater nature-related disclosure and reporting.
[28] In October 2020, OECD published a report on Developing Sustainable Finance Definitions and Taxonomies.

taxonomies from the EU, Japan, China, France and the Netherlands. In the same month, BEIS published a report on 'Frameworks for standards for non-financial reporting'[29] which defines key concepts, before analysing the main the non-financial reporting frameworks.

Existing government reporting structures

A7. There are several existing, and proposed, reporting structures that can be used to track progress towards the government's climate and environmental objectives. These are detailed in Table 2.

Table 2 – Summary existing climate and environmental reporting structures

Body	Publication	Explanation	Frequency
UNFCCC	Reporting Requirements	Standardised requirements developed by the COP for reporting national inventories covering emissions and removals of direct GHGs.	Annual
BEIS	Energy and Emissions Projections	Official emissions forecasts.	Annual
CCC	Progress Report to Parliament	Progress towards our Carbon Budgets including recommendations for all departments. BEIS must respond within 3-months.	Annual
Defra	Greening Government Commitments (GGCs)	Sets out the actions UK government departments and their agencies will take to reduce their own (i.e. direct) impacts on the environment and include GHG reduction targets.	Annual
HMT	Financial Reporting Manual (FReM) and Sustainability Reporting Guidance (SRG) within ARAs	HMT utilises the FReM and SRG to mandate sustainability reporting for UK government departments and their agencies when preparing their ARAs. The guidance obligates reporting against GGCs, UN Sustainable Reporting Goals, as well as other climate/environmental strategies (procurement, construction, biodiversity action planning, climate change adaption).	Annual
Defra	Annual Report on 25YEP	Defra report annually on the government's progress in meeting the objectives of the 25 Year Environment Plan, against a suite of metrics.	Annual
All Depts. (HMT lead)	Green Taxonomy report	To report on the success of the Green Taxonomy in mobilising finance towards environmentally sustainable economic activities as defined in the Taxonomy.	Every three years to Parliament, starting in 2024

[29] In April 2020, BEIS published report on Frameworks for standards for non-financial reporting

Table 3 – Summary of sustainability reporting standard setters

Sustainability Framework	Details	Main Operating Regions
Global Reporting Initiative (GRI), 1997	An international independent standards organization that helps businesses, governments and other organizations understand and communicate their impacts on issues such as climate change, human rights and corruption.	Sweden mandates GRI reporting for certain companies. Global best practices for reporting on economic, environmental and social impacts.
UN Global Compact, 2000	The United Nations Global Compact is a non-binding United Nations pact to encourage businesses and firms worldwide to adopt sustainable and socially responsible policies, and to report on their implementation.	The pact has been adopted by UN member states.
CDP (formerly the Carbon Disclosure Project), 2002	The CDP is an international non-profit organisation based in the United Kingdom, Germany and the United States of America that helps companies and cities disclose their environmental impact. The disclosure framework focusses on climate issues of deforestation, climate change, and water security.	Primarily used in the oil and gas, electric utilities, metals and mining, coal, and agricultural commodities industries. Used over a wide range of countries.
Climate Disclosure Standards Board (CDSB), 2007	The framework for reporting environmental information, natural capital and associated business impacts adopts and relies on relevant provisions of existing standards and practices, including the TCFD recommendations and IFRS as well as reflecting regulatory and voluntary reporting and carbon trading rules. The framework references standards instead of creating a new one. The Framework also adopts relevant principles and objectives of financial reporting to complement mainstream financial reporting mode	CDSB is an international consortium of business and environmental NGOs. CDSB are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital.
Task Force on Climate-related Financial Disclosure (TCFD), 2015	A high-level disclosure framework, set up by the Financial Stability Board (FSB), aimed at investors covering governance, strategy, risk and metrics. Voluntary consistent disclosure about climate-related financial risks by companies to provide information to lenders, insurance underwriters, and investors.	Users across a variety of countries with a focus on banks, pension funds, asset managers. The disclosure framework and recommendations have been mandated by certain regulators internationally (New Zealand, France, etc.).
Integrated Reporting Framework from the Value Reporting Foundation, 2021	Aimed at the improving the information available to providers of financial capital; ensure corporate reporting includes the full range of factors that materially affect the ability of an organization to create value over time; enhance accountability and stewardship for the creation of value over the short, medium and long term. Formed from the Consolidation of Sustainability Accounting Standards Board (SASB, 2011) and International Integrated Reporting Council (IIRC, 2011).	The framework has a focus on materiality focused and has specific industry specific standards. Although a new framework, previous adopters of SASB and IIRC are likely to adopt the combined framework going forward.