



## HM Treasury

# Financial Reporting Advisory Board - Sustainability Subcommittee<sup>1</sup> Update (FRAB-SSC 01)

<b>Issue:</b>	An update from the FRAB Sustainability Subcommittee (FRAB-SSC) based on the subcommittee meeting held, and developments since the last FRAB meeting. This includes the proposed terms of reference and work plan for the Board to review and approve.
<b>Impact on guidance:</b>	No impacts on guidance are proposed in the paper. HM Treasury and FRAB-SSC are considering the impact of developments on climate-related and sustainability reporting in the private sector, on public sector annual reports and accounts (ARAs).
<b>IAS/IFRS adaptation?</b>	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.
<b>Impact on WGA?</b>	No immediate impact on WGA in the paper. Future advice from the subcommittee on climate-related and sustainability reporting may impact WGA's non-financial reporting.
<b>IPSAS compliant?</b>	IPSAS has not yet issued comprehensive guidance on non-financial reporting
<b>Interpretation for the public sector context?</b>	Some interpretations and adaptations may be necessary to fit sustainability reporting effectively to public sector conditions.
<b>Impact on budgetary and Estimates regimes?</b>	N/A
<b>Alignment with National Accounts</b>	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'.
<b>Recommendation:</b>	FRAB members are invited to comment on the paper and approve the proposed terms of reference and work plan.
<b>Timing:</b>	The Board should approve the proposed terms and reference and work plan at the meeting.

<sup>1</sup> For clarity, the 'FRAB Sustainability Working Group' has been renamed the 'FRAB Sustainability Subcommittee' with references and corresponding acronyms updated from 'working group' and 'SWG' to 'subcommittee' and 'SSC'.

## DETAIL

### Background

1. At FRAB 144 in June 2021, the Board proposed establishing a subcommittee to consider how public sector annual reports and accounts can best reflect financial reporting matters concerning climate change, as well as to provide advice and guidance to FRAB on climate-related and sustainability reporting matters in the public sector. The Board requested the subcommittee return to the Board with a proposed terms of reference and work plan for approval.
2. Since FRAB 144, five Board members volunteered to join the subcommittee (with thanks to, Conrad Hall, Lynn Pamment<sup>2</sup>, Andrea Pryde, Karen Sanderson and Mike Sunderland). The Treasury coordinated the commencement meeting on 5 October 2021, circulating an agenda and meeting note in advance.

### Summary

3. The proposed terms of reference and work plan are based on the subcommittee's decisions reached at the commencement meeting FRAB-SSC 01.
4. The proposed terms of reference are included in [Appendix 1](#).
5. The proposed work plan is included in [Appendix 2](#).
6. The associated papers for the FRAB-SSC 01 meeting have been included as annexes:

Annex	Associated paper FRAB-SSC (01)	Details
<a href="#">Annex 1</a>	<a href="#">01 - Agenda</a>	The proposed meeting agenda and details.
<a href="#">Annex 2</a>	<a href="#">02 - Minutes</a>	The complete set of minutes from the subcommittee meeting have been provided for the Board's review. A summarised set of minutes will be published on Gov.uk.
<a href="#">Annex 3</a>	<a href="#">03 - Meeting notes</a>	Circulated to prospective subcommittee members in advance of the meeting. The paper provided an update on the sustainability reporting landscape; outlined the required decisions regarding remit and membership; and set out draft terms of reference.
<a href="#">Annex 4</a>	<a href="#">04 - Proposed terms of reference and work plan</a>	The proposed terms of reference and work plan based on discussions at the meeting and adjusted in response to feedback from subcommittee members after the meeting.

7. FRAB-SSC members who attended the subcommittee meeting have reviewed the associated papers in advance of this meeting. The related comments and changes have been included in the annexed papers.

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<sup>2</sup> Lynn was unable to attend the first meeting due to scheduling constraints.



8. As secretariat, the Treasury has submitted a proposal to the Chief Secretary of the Treasury (CST) informing him of FRAB-SSC's exploratory work on climate and sustainability reporting in the context of public sector ARAs<sup>3</sup>.

## Update

9. An update on the sustainability reporting developments since FRAB 144 was provided at the subcommittee meeting, as detailed in the meeting notes ([Annex 4](#)), and as discussed in the minutes ([Annex 3](#)). This section covers the developments since FRAB-SSC 01 on 5 October 2021.
10. On 18 October 2021, HMT published plans to introduce mandatory sustainability reporting requirements. The Chancellor announced his intention to make TCFD-aligned disclosures fully mandatory across the UK economy by 2025, as well as introduce Sustainability Disclosure Requirements (SDR).
11. On 3 November 2021 (at COP26), the International Financial Reporting Standards (IFRS) Foundation established the International Sustainability Standards Board (ISSB). Moreover, the Board announced the consolidation of the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF).
12. The government expects that ISSB sustainability standards will form a core component of the SDR framework. To deliver this, the government will create a mechanism to adopt and endorse ISSB issued standards. Regulatory changes will ensure that UK reporting under the ISSB standards is consistent with both existing and forthcoming disclosure requirements.

## Recommendation

13. The Board is asked to **review and approve the proposed terms of reference and work plan** at this meeting.
14. Based on the approved terms of reference and work plan, the Board should **consider representation of the FRAB membership groupings on the subcommittee and their level of involvement in the future.**

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<sup>3</sup> At FRAB 145, the Treasury updated the Board that the CST had approved the proposal on 15 November 2021.

## Appendix 1

### Proposed terms of reference

# Terms of Reference for the FRAB Sustainability Subcommittee

## 1. Objective

- 1.1. The FRAB Sustainability Subcommittee's (herein 'FRAB-SSC' or 'the subcommittee') objective is to consider how public sector annual reports and accounts can best reflect financial reporting matters concerning climate change, as well as to provide advice and guidance to FRAB on climate-related and sustainability reporting matters in the public sector.

## 2. Remit

- 2.1. The remit of the subcommittee is:

- to address the financial reporting implications of climate-related matters on financial statements in the public sector; and
- to consider the climate-related and sustainability reporting frameworks and development of standards for annual reports and accounts in the public sector.

## 3. Responsibilities

- 3.1. The responsibilities of the subcommittee are to consider and advise FRAB on those matters that fall into the subcommittees' remit.
- 3.2. As a subcommittee of FRAB, any **key decisions** or advise will be reviewed and approved by the Board.
- 3.3. At least annually, the subcommittee will present a **proposed work plan** to FRAB for their consideration and approval. Minor changes to the work plan (e.g., timing) are permitted but must be communicated to FRAB at their next meeting.
- 3.4. Before **publishing any materials**, the subcommittee will provide a copy to FRAB, allowing sufficient time for review and comment. These materials should be presented at the next FRAB meeting or as an out of meeting paper.
- 3.5. At each FRAB meeting, the subcommittee will:
  - provide an update on any FRAB-SSC meetings held or materials published since the last FRAB meeting (circulating papers in advance as required);
  - seek FRAB's views, advise and decision on relevant matters arising; and
  - discuss the work plan.

## 4. Representatives

- 4.1. As a subcommittee of FRAB, membership is **formed of existing FRAB members**.

4.2. **FRAB members can join** the subcommittee as a:

- standing member to be invited to and attend future meetings; or,
- occasional member to be invited to and attend specific meetings on a particular issue or topic.

4.3. Where a FRAB member wishes to attend a future meeting, they should inform the secretary in a timely manner.

4.4. **Alternatives/delegates** may be sent to represent FRAB-SSC members at the subcommittee. The relevant FRAB-SSC member should inform the secretary in a timely manner.

4.5. **Experts** on specific topics and other stakeholders can be invited to and attend specific meetings on a particular issue or topic at the request of a FRAB-SSC member.

4.6. Membership and attendance are not approved by FRAB.

4.7. **The secretariat** to the subcommittee will be provided by the Treasury.

4.8. **The chair** to the subcommittee will be decided by the members for each meeting.

4.9. Subcommittee members can withdraw from the group by informing the secretariat.

## 5. Meetings and correspondence

5.1. The subcommittee will meet at least three times per year. Existing members and other attendees should be informed of meeting details by the secretary in a timely manner.

5.2. The FRAB-SSC meetings should be organised with consideration for the subcommittee's reporting responsibilities to FRAB and FRAB's timetable.

5.3. The subcommittee will conduct meetings in person or virtually (as necessary).

## 6. Review and revisions

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

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

## Appendix 2

### Proposed work plan

FRAB-SSC	01 5 Oct 2021	02 Feb 2022	03 May 2022	04 Oct 2022
Developments in current sustainability reporting frameworks (ISSB)	Short update.	Update on TRWG announcements.	Review exposure draft (if released) and consider impact on the PS. Invite ISSB expert from TRWG.	Review standard (if released) and consider impact on PS. Consider implementation and adoption across PS.
Developments by Gov. in sustainability reporting in the private sector (TCFD, SDRs)	Short update.		Review reporting frameworks being introduced by the Gov. for the private sector. Consider climate risk issues specific to the PS and the impact on ARAs. Discuss changes to the FReM, SRG and development of application guidance on TCFD.	Review draft application guidance on TCFD on PS ARAs.
Applying IFRS to climate related issues in the public sector context.		Review guidance issued on financial implications of climate change. Consider the impact on PS ARAs and areas specific to the PS not covered. Discuss application guidance on financial implications of climate change on PS ARAs. HMT to produce related application guidance.	Review and discuss draft application guidance on financial implications of climate change on PS ARAs.	
Review existing public sector sustainability reporting guidance and prospective developments	Short update on SRG and GGCs.	Review of current PS sustainability frameworks (NHS, Education, CIPFA, SRG). Invite PS FRAB or other representatives.	Review of current PS sustainability frameworks (devolved). Invite PS FRAB or other representatives	Recommend to FRAB on suitable way forward on sustainability reporting across PS (considering Gov. sustainability reporting framework developments).
Administration	Agree SCs structure/ remit, ToRs, work plan to present to FRAB.			Propose work plan. Review effectiveness of SC, ToRs.

## List of acronyms and abbreviations

ARA	Annual Reports and Accounts
FRAB	Financial Reporting Advisory Board
GGCs	Greening Government Commitments
Gov.	The UK Government
IFRS	International Financial Reporting Standards
ISSB	International Sustainability Standards Board
PS	The UK public sector
SDR	Sustainability Disclosure Requirements
SRG	Sustainability Reporting Guidance
TCFD	Task Force for Climate Related Financial Disclosure
ToRs	Terms of Reference
TRWG	Technical Readiness Working Group
SC	Subcommittee



## Annex 1

# Agenda

Time: 1430 on Tuesday 5 October 2021

Joining Instructions: virtual meeting [removed instructions]

Item	Time	Item	Details
1	1430 to 1440	Introduction	Meeting objectives: update group, formalise membership, discuss scope, develop the terms of reference, propose a work plan.
2	1440 to 1450	Update since the last meeting	HMT to update the group on the private sector, government policy and external standard setters. Invite updates from other members.
3	1450 to 1515	Formation decisions	<ul style="list-style-type: none"> <li>• Scope and remit (objective, focus, priority)</li> <li>• Status and form</li> <li>• Membership (external, representation)</li> </ul>
4	1515 to 1520	Short break	-
5	1520 to 1535	Formation decisions	<p><i>[Continue on previous agenda item if needed]</i></p> <ul style="list-style-type: none"> <li>• Chair and secretary appointment (procedure)</li> <li>• Meeting operations (frequency, papers)</li> <li>• Reporting to FRAB (frequency, reporting form)</li> </ul>
6	1505 to 1520	Work plan	<ul style="list-style-type: none"> <li>• Financial reporting implications of climate change</li> <li>• Government sustainable reporting (SRG, TCFDs, GGCs)</li> <li>• Future sustainability standards from the International Sustainability Standards Board (ISSB)</li> </ul>
7	1550 to 1555	Next steps	Plan and reporting to FRAB 145 in November 2021
8	1555 to 1600	AOB	Any other business

## Related papers

Paper No. and Minutes	Paper title
<a href="#">FRAB 143 (07)</a> , <a href="#">Minutes FRAB 144 (01) - Item 7</a>	Climate Change Act implications for Government Financial Reporting
<a href="#">FRAB 144 (10)</a> , <a href="#">FRAB 145 (01) - Item 9</a>	Climate-related and Sustainability Reporting





FRAB Sustainability Subcommittee (FRAB-SSC) 1 October 2021

## Annex 2 Minutes

Time: 1430 on Tuesday 5 October 2021

Location: Virtual via MS Teams

### Attendees

Name	Initials	Position	FRAB Role
Michael Sunderland (Chair)	MS	HM Treasury (HMT)	Relevant Authority
Andrea Pryde	AP	PwC	Independent Member
Karen Sanderson	KS	CIPFA	Relevant Authority
Conrad Hall	CH	Newham Council	CIPFA/LASAAC Chair
MG Greenwood (Secretariat)	MG	HMT	-
Lynn Pamment (with apologies)	LP	Jersey Audit Office	Chair

### Detail

1. The minutes for the first FRAB-SSC meeting were circulated, and have been adjusted in response to the feedback from the subcommittee members in advance of the FRAB meeting<sup>4</sup>.
2. These minutes should be read in conjunction with the agenda and the commencement meeting note (FRAB-SSC (01) 01 and FRAB-SSC (01) 02 respectively).

### Matters arising

Item	Details
Decision - Remit	Develop application guidance; and monitor and track the developments of sustainability standards for consideration by FRAB.
Decision - Work Plan	The workplan should consist of application guidance on the climate related financial reporting issues facing the public sector, monitoring of International Sustainability Standards Board (ISSB) and UK private sector developments, a review of existing sustainability reporting frameworks across the public sector.
Decision – Authority	As a subcommittee all decisions and advise should be reviewed and approved by FRAB.
Decision - Membership	Any FRAB members can join the subcommittee. The group can invite experts to advise on specific topics and issues.
Action – HMT	HMT to draft proposed terms of reference and work plan that can be circulated at the November 2021 FRAB.
Action – MG and group	MG to confirm directly with NAO whether they would want involvement. Otherwise, at the November 2021 FRAB, the FRC should confirm if they have an interest in FRAB-SSC.

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<sup>4</sup> The detailed minutes to the meeting were provided to the Board for their review at FRAB 145. These minutes have been summarised for publication on Gov.uk.



## Summary minutes

### Remit

1. The members concluded that the group would be a subcommittee of FRAB. However, it was reiterated that utilising FRAB members would not exclude the possibility of drawing on external specialists.
2. The group agreed their remit should align with FRAB's objectives, advising on standards and the reporting regimes. The group agreed to consider the adequacy of the public sector's interpretation of the IFRS framework with respect to climate change and to identify specific public sector issues related to climate change that hadn't already been covered by the IFRS Foundation's existing guidance.
3. The group expressed support for the remit to start with the financial statements; then move onto matters directly associated; before considering areas that could fall into FRAB's scope in the future.
4. It was agreed that if FRAB-SSC moves to consider sustainability reporting more broadly, with implications on different parts of the public sector, then a wider representation may be needed.
5. It was agreed that the financial reporting developments, by the IFRS Foundation and more broadly in the private sector, should be evaluated to consider the public sector implications and to identify specific public sector matters requiring more attention.
6. The FRAB-SSC agreed to assess whether the Financial Reporting Manual (FRoM) provides adequate direction on climate related risks (e.g., ECL disclosures) and to consider developing application guidance to address any gaps.
7. The group supported examining the current public sector sustainability regime, while considering what good sustainability reporting is for the public sector.
8. The consensus was that the group's remit should be to develop application guidance and monitor and track the developments of sustainability standards for consideration by FRAB.
9. The group also agreed that public sector sustainability reporting should be considered more broadly (e.g., TCFD recommendations in the private sector) in the event there are delays to upcoming standards.

### Membership

10. The group agreed that membership would consist of representation from FRAB, with subject matter experts invited to present on specific topics (rather than becoming standing members).
11. The group established that any output from the meetings would go to FRAB for review; with the relevant checks and balances in place to identify and resolve issues specific to unrepresented membership groups.



FRAB Sustainability Subcommittee (FRAB-SSC) 1 October 2021

12. The group supported the FRAB-SSC meetings being aligned with the FRAB timetable (three times a year), with ad-hoc meetings organised where needed. The frequency will depend on the work plan and related workload between meetings.
13. The group agreed to informal chairing and expressed support for a rolling chair.
14. The group expressed support for inviting existing contacts within the ISSB-TRWG<sup>5</sup> to discuss the developments in sustainability standards.

## Proposed work plan

15. The group agreed for the work plan to initially cover:
  - a. Application guidance, to draw from existing general non-sector specific financial reporting guidance and identify any public sector-specific issues for climate related financial risks that need to be addressed.
  - b. A review of the updated Sustainability Reporting Guidance (SRG), and input into future iterations based on the developments. In addition, the group agreed to consider other sustainability reporting regimes across the public sector.
  - c. Updating the FRAB on sustainability developments (e.g., ISSB, TCFD) with a view to identify any matters of public sector interest.
16. The group also discussed the Professional Accountancy Organisation's response to CIPFAs research on existing public sector sustainability reporting.

## Authority

17. The group established that the secretariat role would be held by HMT, and that the decisions from the FRAB-SSC would be agreed with FRAB.
18. HMT agreed that the proposed terms of reference, the proposed work plan and a supporting paper would be circulated at the FRAB meeting in November 2021.
19. The group also agreed to re-confirm with NAO and FRC-FRAB members whether they would like further involvement in the subcommittee (allowing for other representatives). FRAB will also be asked to confirm they are content with the current membership.

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<sup>5</sup> International Sustainability Standards Board - Technical Readiness Working Group



## Annex 3

# Meeting Note

## Background

1. This paper supplements the first meeting for the FRAB Sustainability Subcommittee (FRAB-SSC), updating prospective members on the reporting landscape, laying out the decisions to be made on membership, scope and the terms of reference, as well as the future focus areas for the group's work plan.
2. This paper follows the last FRAB meeting and accompanying paper ([FRAB 144 \(10\)](#)) in June 2021 where the Board agreed to establish a group to develop a terms of reference and a more definitive work plan. This was partly in response to the analysis and assessment of the potential implications of the Climate Change Act (CCA2008) on government financial reporting covered in [FRAB 143 \(07\)](#).
3. In FRAB 144, the Board:
  - expressed support for a wider remit; however, raised concerns on whether FRAB has the right skills and expertise to advise on broad climate change and reporting issues.
  - put forward the view that maintaining a focus on the financial statements, before broadening out the scope, would be sensible.
  - requested the subcommittee to establish a work plan for FRAB to then endorse.
  - confirmed that the group would be a subcommittee to the Board.
  - discussed extending membership to other government department policy leads with relevant skills and experience.

## Update since the last meeting in June 2021

4. On 30 June 2021, HM Treasury (HMT) published the [UK Government Green Finance Framework](#) which details the UK Government (HMG) plan to finance infrastructure investment through the issuance of green gilts and savings bonds. The framework sets out the basis for identification, selection, verification and reporting on green projects, aligning with the Green Bond principles published by the International Capital Markets Association. On 21 September 2021, the first Green Gilts raised £10 billion in funding for green projects<sup>6</sup>.
5. On 1 July 2021, the Chancellor of the Exchequer announced<sup>7</sup> plans for new integrated Sustainability Disclosure Requirements requiring companies, pension schemes, financial services firms to report on the impact they are having on the climate and environment - as well as the risks and opportunities facing their business. This aligns with the UK joint regulatory and government TCFD taskforce roadmap. HMG intends

<sup>6</sup> Government's [new story on the announcement on the Green Gilts](#).

<sup>7</sup> Rishi Sunak, Chancellor of the Exchequer set out plans to enable the UK to become [a world leader in Green Finance](#).



to set out the approach for legislation and delivery of their Green Finance Strategy before the start COP26 from 31 October 2021.

6. In September 2021, the International Financial Reporting Standards (IFRS) Advisory Council provided [an update on the Sustainability Standards Board \(ISSB\) activities](#), focussing on the timetable and deliverables in advance of COP26. This included expanding the scope of IFRS Foundation constitution for the ISSB, furthering the stakeholder consultation conducted earlier in 2021, as well as covering an update from the Technical Readiness Working Group.
7. Defra are expected to publish the Greening Government Commitments (GGCs) for 2021-25 and Annual Report for 2020-21. After this, HMT will publish the Sustainability Reporting Guidance (SRG) for 2021-22<sup>8</sup>.

## Formation decisions

8. FRAB 144 (10) set out certain decisions, originally for FRAB, which have been put forward to the FRAB-SSC and should be discussed and decided in the first meeting. The previous paper presented to FRAB, provides further details on paragraph [9](#) and [10](#).

### Scope and Remit

9. Should the FRAB-SSC's scope and remit comprise of:

*Option A: 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 B: 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.

### Status and Form

10. Should the FRAB-SSC's status and form represent:

*Option A: 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 B: 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.

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<sup>8</sup> Since the meeting: Defra has published the [GGCs for 2021-25](#); and HMT have published the [SRG for 2021-22](#).



## Membership

### 11. Constituent membership of the group:

- Should attendance at the FRAB-SSC be extended beyond the current participants to bring in skills and experience from other groups?
- If so, which potential participant groups can be identified and invited to future meetings to ensure the group has the required skills and experience to meet the remit and scope decision decided in para. 9.

Potential participants, outside of existing FRAB membership, could include:

- Professional bodies (ICAEW, CIPFA, ICAS)
- Departments (BEIS, Defra, other HMT teams)
- External experts (TCFD and other sustainability frameworks)
- If so, should the broader participants constitute members or observers? What role should they carry out in the group?
- If not, does the current membership have sufficient skills and experience to meet the remit and scope decision?

12. **Chair appointment** - The subcommittee may wish to assign a Chair at this point. Alternatively, depending on the membership and terms of reference, the group may wish to decide this when a fully representative meeting has been held. Should the Chair be approved by the FRAB nominations committee?

13. **Secretary appointment** – Does the FRAB-SSC support HMT accepting the role of the secretariat to the subcommittee?

### Meeting operations and logistics

14. **Frequency** – How often should the FRAB-SSC meetings be held? Should these align with the FRAB timetable (i.e. 3 meetings per year)?

### Reporting to FRAB

15. **Authority** – Should all subcommittee decisions be approved separately by FRAB? Should the subcommittee look to get delegated authority to make decisions in certain areas?

16. **Frequency** - How often should the subcommittee report to FRAB on their:

- work plan;
- related papers and decisions; and,
- progress,



## Work plan

17. Potential topic and investigative areas for the subcommittee are as follows:

- Financial reporting implications of climate change on the public sector, including:
  - Implications of the CCA2008. Refer to FRAB 143 (07); and,
  - Consider the public sector implication of the Interpretations on existing accounting and financial reporting standards. Refer to FRAB 144 (10) for further details;
- Sustainability reporting guidance in central government and the public sector including:
  - The Sustainability Reporting Guidance (SRG) for central government departments published annually by HMT;
  - Other reporting policy (BEIS, Defra, other HMT teams) including the implementation of TCFD in the public sector
- The public sector adoption of future sustainability standards which are expected from the new ISSB.



## Annex 4

# Proposed Terms of Reference and Work Plan

## Summary

1. The proposed terms of reference and work plan are based on the subcommittee's decisions reached at the commencement meeting, FRAB-SSC 01, on 5 October 2021.
2. The associated paper, FRAB-SSC (01) 03, includes the minutes as well as details on the decisions, actions, and attendees.
3. The proposed terms of reference are included in [Appendix 1](#).
4. The proposed work plan is included in [Appendix 2](#).
5. *The proposed terms of reference and work plan (linked above) have been adjusted in response to feedback from subcommittee members in advance of the FRAB meeting.*