HM Treasury

UPAG 6 (4) - Sustainability Reporting Update

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Sustainability reporting – UK public sector update

FRAB

- Driven by developments in the UK private sector and by international standard setters (i.e., ISSB[1], IPSASB[1]), the FRAB Sustainability Subcommittee (FRAB-SSC) is considering a future sustainability reporting strategy.
- In June 2022, FRAB advised central government and the wider public sector (PS) to **adopt TCFD[1]-aligned disclosure in annual reports**.

HM Treasury and central government

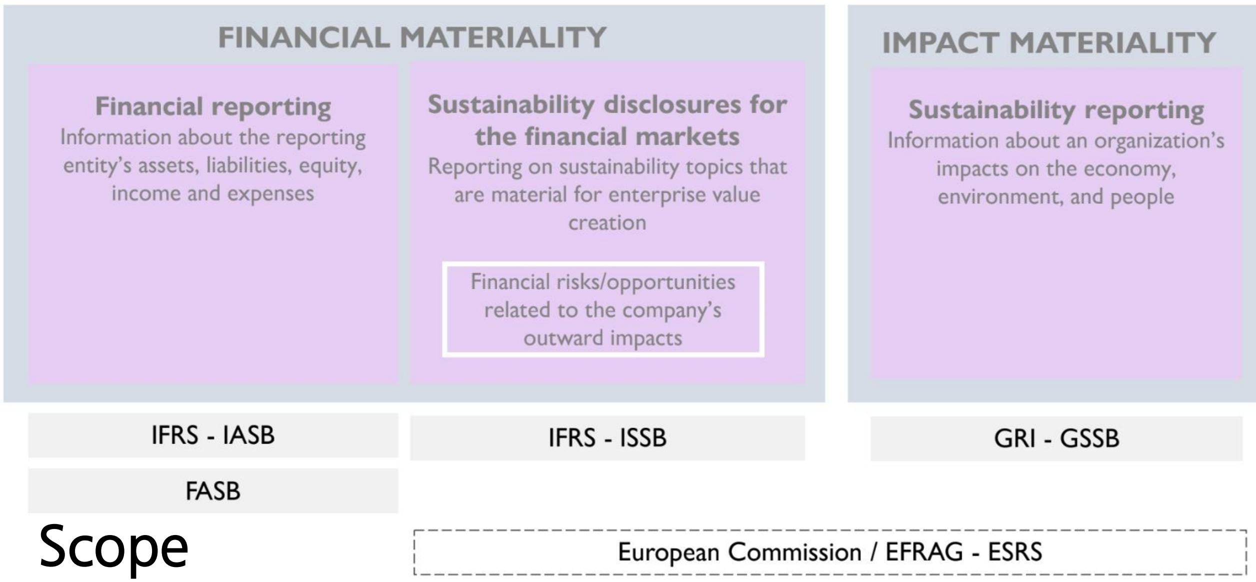
- The Chief Secretary to the Treasury agreed to adopt TCFD-aligned disclosure in central government annual reports and accounts.
- HMT is currently developing a strategy and timetable for implementation.
- Once drafted, HMT will circulate the proposed strategy to relevant authorities for comment and wider PS consideration.
- In June 2022, the NAO published a study on PS GHG emissions reporting. The study identified low compliance (43%) with the Sustainability Reporting Guidance and a lack of clarity on requirements for central government and across the wider PS.

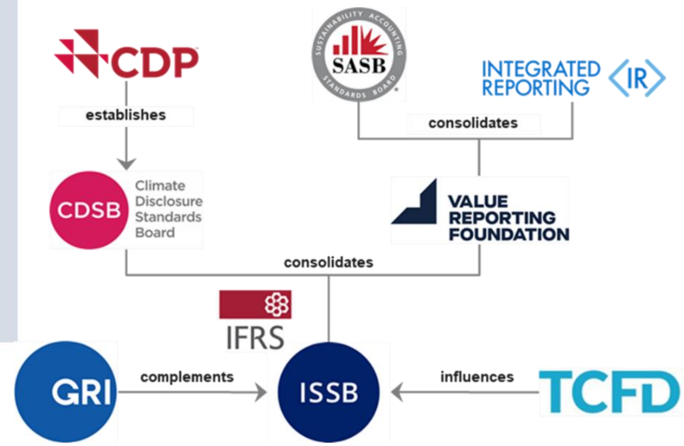
[1] ISSB - International Sustainability Standards Board; IPSASB - International Public Sector Accounting Standards Board; TCFD - Task force for Climate-related Financial Disclosure

Sustainability reporting – Background and changes to the international landscape

Concept of 'double' materiality

Materiality for private sector entities





Changes to organisational landscape for sustainability reporting

Scope

The FReM already requires central government bodies to report on environmental protection, social responsibility, respect for human rights and diversity (driven by the requirements in the directors report (CA2006[2]) and EU non-financial reporting directive).

FRAB's is focused on financial reporting; however, in the private sector sustainability info drives enterprise value, with ISSB/TCFD calling for related disclosure in corporate reports.

[2] *CA2006 – Companies Act 2006*

Both diagrams were taken from GRI's presentation at the Public Sector Standards Setter Forum in Sep-22

ISSB's exposure drafts – Summary

IFRS-S1 General requirements for disclosure of sustainability-related financial information

Requires disclosure of material information for all significant sustainability-related risks and opportunities to which an entity is exposed.

Materiality judgements - information necessary for investors to assess enterprise value.

Addresses the following topics:

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

Requires disclosure on connected sustainability information.

Similar (considered equivalent to) IAS 1, IAS 8.

IFRS-S2 Climate-related disclosure

Requires disclosure of material information that would enable an investor to assess the effect of climate-related risks and opportunities on an entity's enterprise value.

Proposes aligning with the latest international agreement on climate change (e.g., UN's 2°C target).

Absolute gross Scope 1, 2 and 3 GHG emissions.

Both exposure drafts (EDs)

More focus on 'compliance' rather than 'comply or explain' – aligning updated TCFD guidance (Oct-21).

Disclosure of info across an entity's value chain.

Draws heavily from SASB[3] industry based standards.

Disclosure around internal processes and controls.

Follows TCFD structure with central disclosures around governance, strategy, risk management, and metrics and targets.

[3] SASB– Sustainability Accounting Standards Board

ISSB's exposure drafts – Feedback and potential challenges

Early feedback (and potential challenges)

- Accessibility – a significant level of detail is required for certain disclosures. Smaller entities (and preparers in developing countries) may not have the ability/capacity to comply. A scalable approach may be more effective.
- Undefined terms – the EDs don't define key terms such as 'sustainability', 'significant' and 'materiality'.
- Compliance focus – rather than principles based. The IASB focused on principles-based standards, accompanied by application guidance.
- Linkage to SASB and other standards – the EDs direct preparers to consider specific standard setters; however, these standard setters have not been through the ISSB's review process.
- Qualitive-v-qualitative disclosures – the EDs requires significant qualitative disclosure on financial impacts in areas which may be difficult to accurately predict. Allowance for qualitative disclosures in certain areas may be more appropriate.

Public sector specific challenges

- Enterprise value focus – defined in the ED as market cap less debt. Difficult to apply in PS which focuses on service potential.
- 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.
- Priority misalignment - Market participants will drive the ISSB's work plan for selecting sustainability-related risks. The PS may have different priorities.
- Pre-empting policy – The EDs require entities to identify the connectivity between various sustainability-related risks and opportunities. This may appear as the entity pre-empting policy which may be problematic for regulatory functions.

IPSASB consultation – Proposal for public sector sustainability reporting framework

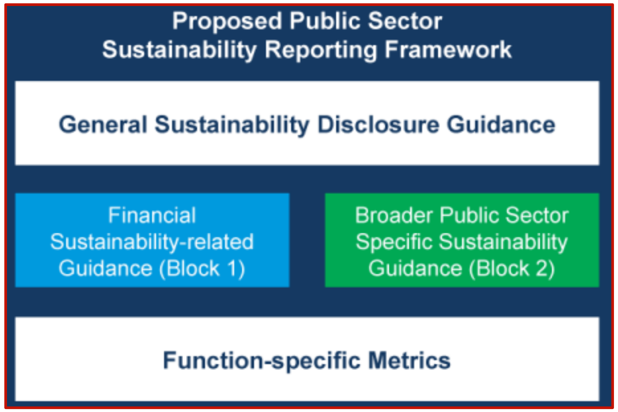
IPSASB Consultation: Advancing Public Sector Sustainability Reporting

Plans to develop a PS framework anchored in established/developing sustainability reporting frameworks (i.e., UN Sustainable Development Goals, TCFD and ISSB)

HMT's response

HMT is **broadly supportive** of the proposal, recognizing the benefits of a PS specific framework. This is based on:

- the challenges in adapting/interpreting sustainability standards aimed primarily at private sector entities (e.g., on **enterprise value** concept).
- the gaps in applying private sector frameworks alone which fail to recognize:
  - the **broader stewardship** responsibilities of government
  - government's significant **external influence** on the market (legislative, regulatory, fiscal)



- Adopting TCFD-aligned disclosures in PS annual reports is an appropriate first step for sustainability reporting – aligning with private sector developments and early publications from international standard setters.
- FRAB-SSC is monitoring/discussing developments by international standard setters and in the private sector.
- Once a clearer landscape has developed, FRAB-SSC will advise relevant authorities on future UK public sector alignment.

The diagram on this page was taken from IPSASB's Consultation: Advancing Public Sector Sustainability Reporting

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Questions