



HM Treasury

Sustainability Reporting and TCFD- alignment

Update and discussion

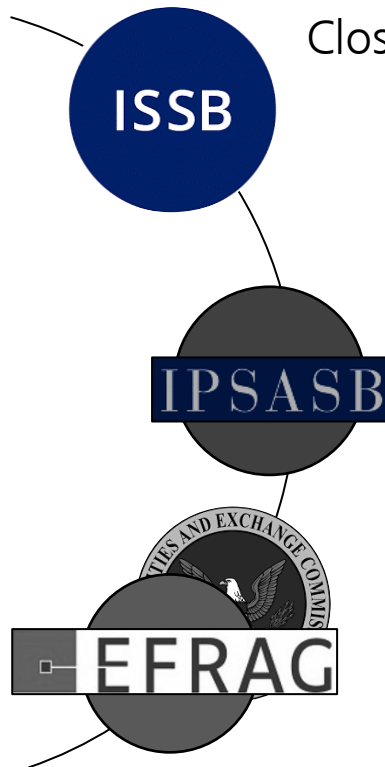
Sustainability Reporting – Standard Setter and International Developments



Sustainability Reporting – Standard Setter and International Developments

Consultation on IFRS-S1 and IFRS-S2

Closed on 29 July 2022



1. Defined sustainability

...the ability for a company to sustainably maintain resources and relationships with and manage its dependencies and impacts within its whole business ecosystem over the short, medium and long term. Sustainability is a condition for a company to access over time the resources and relationships needed (such as financial, human, and natural), ensuring their proper preservation, development and regeneration, to achieve its goals.

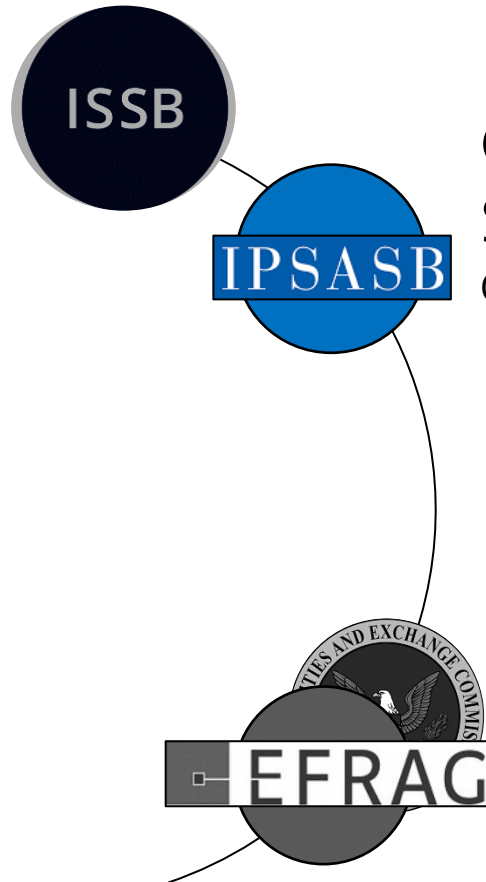
2. Expanded guidance on the connectivity and re-affirmed commitment to Scope 3

3. Announced potential future research projects:

- biodiversity, ecosystems and ecosystem services;
- human capital, with an initial focus on diversity, equity and inclusion; and
- human rights, with an initial focus on labour rights and communities' rights in the value chain; and
- a joint project with the IASB on the connectivity of reporting to build on the integrated reporting framework.



Sustainability Reporting – Standard Setter and International Developments



Consultation on Advancing Public Sector Sustainability Reporting

Closed on 9 September 2022

- Strong support overall
- Connectivity with ISSB, GRI and UN Sustainability Development Goals
- Concerns over resourcing and capacity
- Caution over interpreting and adapting private sector / profit focussed frameworks
- Aligns with TCFD framework



Sustainability Reporting – Standard Setter and International Developments



Securities and Exchange Commission (SEC), US
Planning to introduce rule The Enhancement and Standardization
of Climate-Related Disclosures

- Investor focus
- Detailed requirements to report on climate only



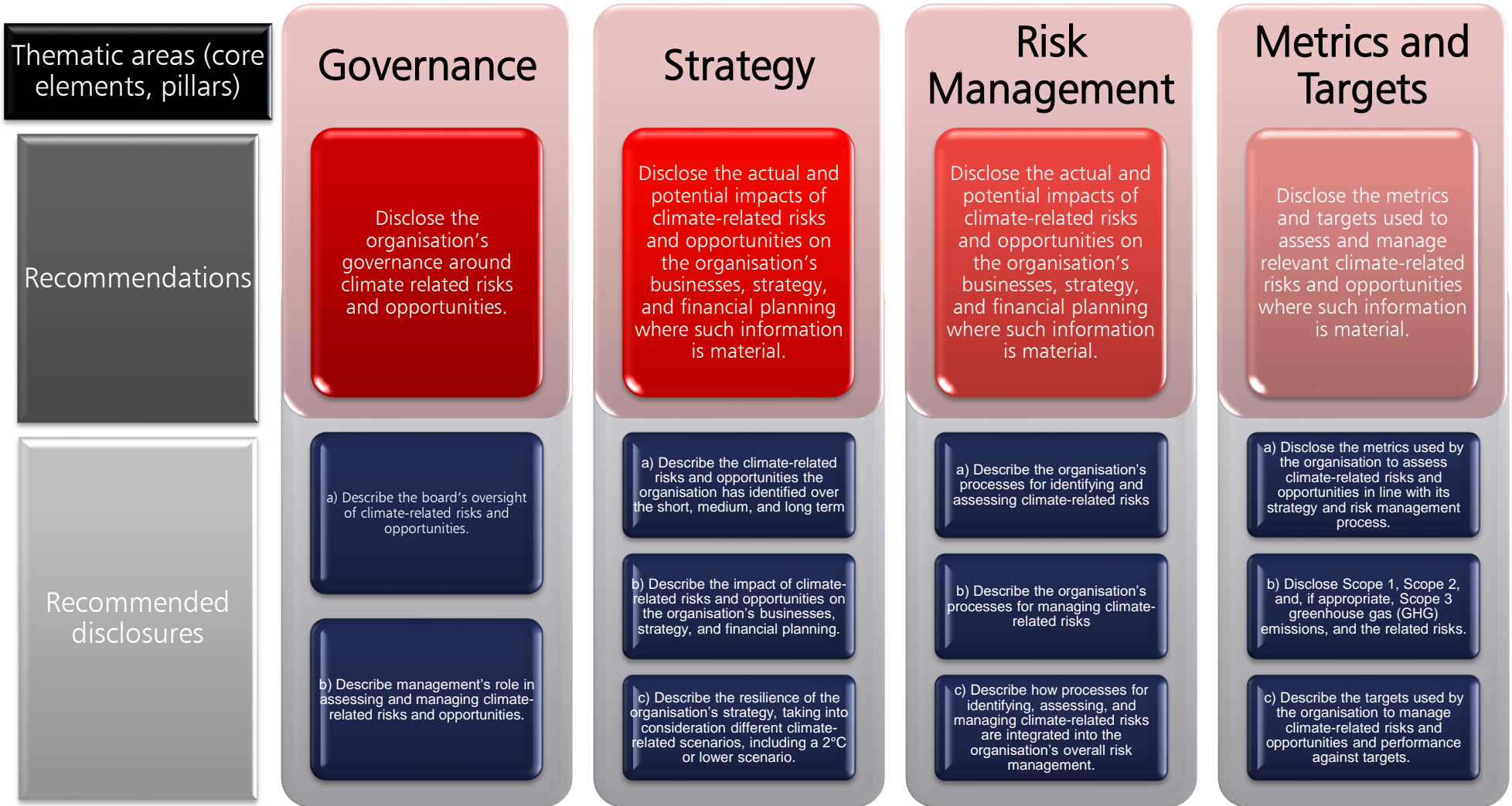
European Financial Reporting Advisory Group
European Sustainability Reporting Standards
(ESRSs)

- First standards to include climate change reporting
- Greater scope and scale
- Wider multi-stakeholder focus
- Core principles for disclosure
- Granular requirements on sustainability impacts

Align with TCFD framework



TCFD – Overview



TCFD – Benefits for central government (and wider public sector) adoption

The TCFD framework was designed predominantly for the private sector to provide sustainability-related information to investors and asset managers for financial decision making.

The PS similarly requires climate-related information for **decision making** and **accountability** to the users of financial reporting. The benefits of TCFD disclosure are centered around reporting quality and management information. There are, however, limitations to PS adoption concerning relevance and suitability.

Quality	<ul style="list-style-type: none"> • Upholding 'best practice' and maintaining pace • Aligns with developments by standard setters • Comparability to the private sector and internationally • Consistency across the public sector (i.e. PCs, voluntary adopters) • Provides clarity and direction to preparers
Management Information	<ul style="list-style-type: none"> • Decision useful information for departments • Prompts better stewardship and governance • Potential consolidation of emissions data into WGA • Improved processes for managing climate-related risks • Improved asset management
Wider benefits	<ul style="list-style-type: none"> • Potential benefit for UK sovereign bond markets • Signals support for the TCFD framework • Public perception signalling to the public the government is managing PS climate-related risks • Addresses certain recommendations from the NAO and PAC

We put finance at the heart of decision-making. Delivering value for money, strengthening public trust

Adoption of TCFD aligns with FLG's strategy for the GFF:

- Providing insights to **improve decision-making** in support delivery of the government's Net Zero priority.
- Adoption of best practice in governance and risk management to **deliver greater value for money**.
- Improving accountability and focus on long-term outcomes to **strengthen public trust**.

Scope – Size and nature

Size thresholds

- 500 employees
- £500m turnover

Types of organisations

- Pension funds
- Asset managers
- Banks

Industries and Groups	Governance		Strategy			Risk Management			Metrics and Targets		
	a)	b)	a)	b)	c)	a)	b)	c)	a)	b)	c)
Financial	Banks			■		■			■	■	
	Insurance Companies			■	■		■	■		■	■
	Asset Owners			■	■		■	■		■	■
	Asset Managers			■			■	■		■	■
Non-Financial	Energy			■	■						■
	Transportation			■	■						■
	Materials and Buildings			■	■						■
	Ag, Food, and Forest Products			■	■						■

www.fsb-tcfd.org

Chart 1.N: Breakdown of infrastructure assets

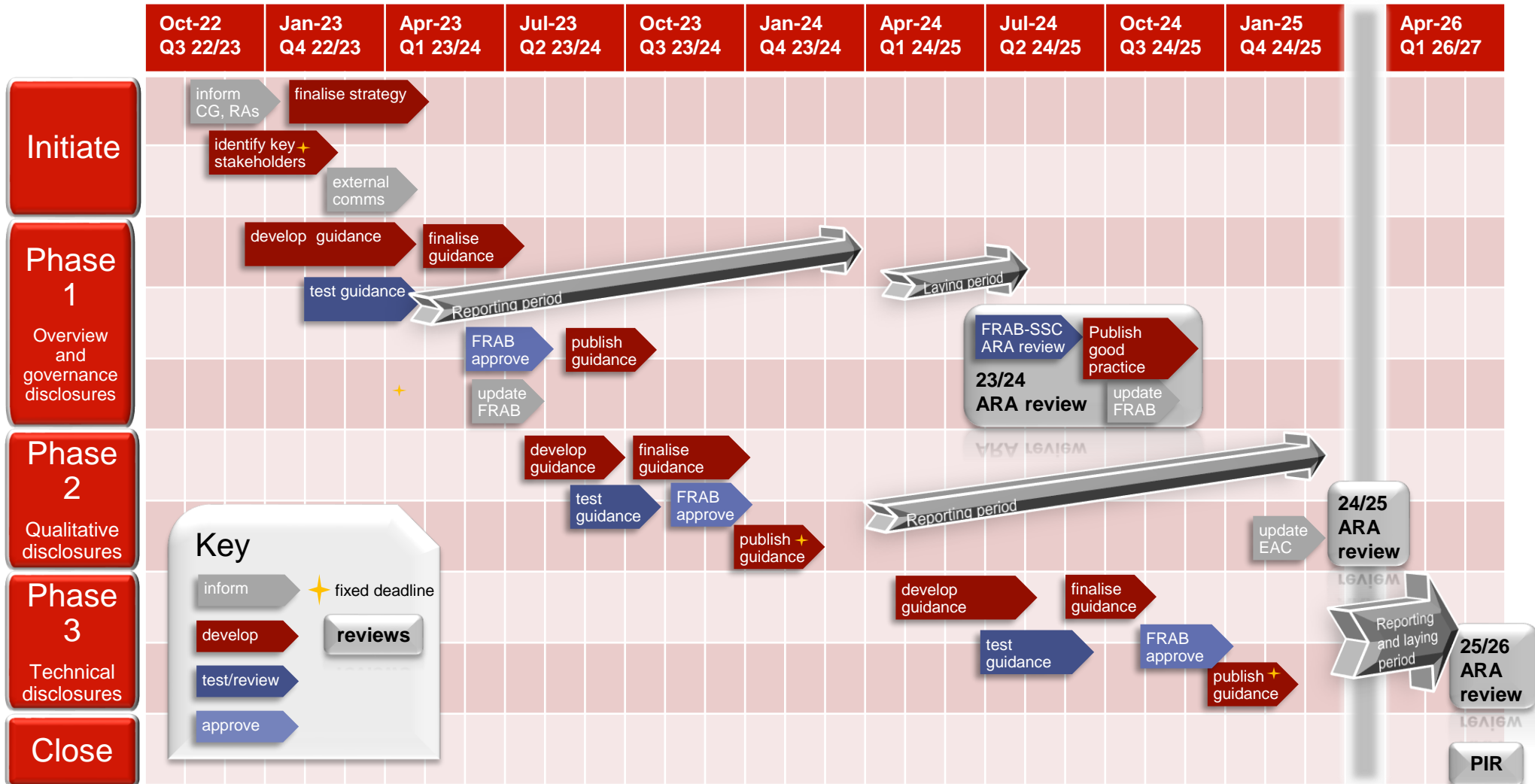
Held by	2019-20 £bn	2018-19 £bn
Network Rail	332.3	328.8
Highways England / Department for Transport	128.5	121.2
Scottish Water	63.1	61.2
Northern Ireland Department for Infrastructure	28.5	28.0
Scottish Government Strategic Road Network	20.8	20.5
Welsh Government	19.6	16.8
Other	8.0	8.0
Total central government and public corporations	600.8	584.5
Transport for London	19.0	19.1
Highways Infrastructure and other local government assets	56.1	53.1
Total local government	75.1	72.2
Total Infrastructure assets	675.9	656.7

www.gov.uk/government/publications/whole-of-government-accounts-2019-20

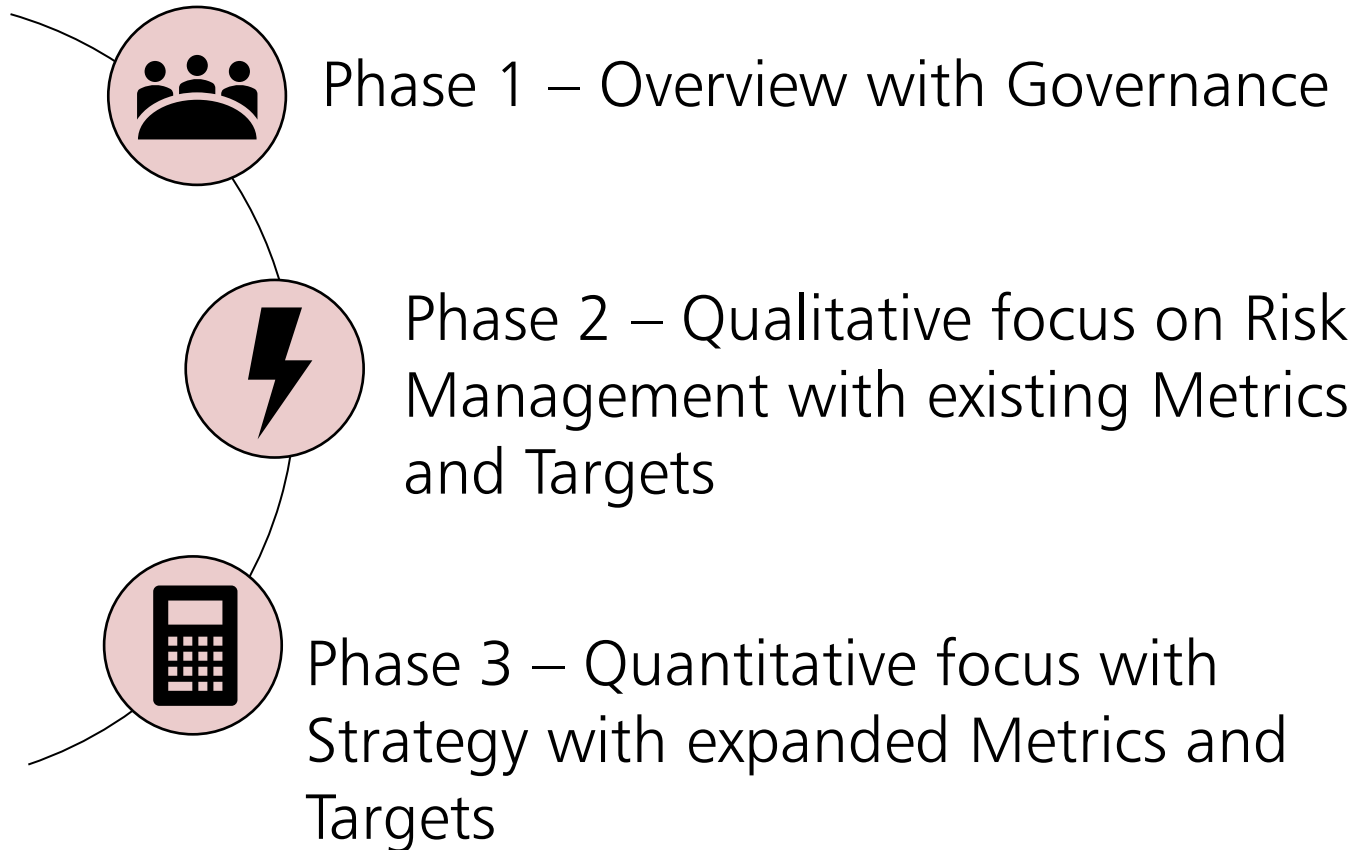
Impacted or at risk

- Balance sheet (e.g., infrastructure assets)
- Income statement
- Policy objectives (e.g., aviation, highways)

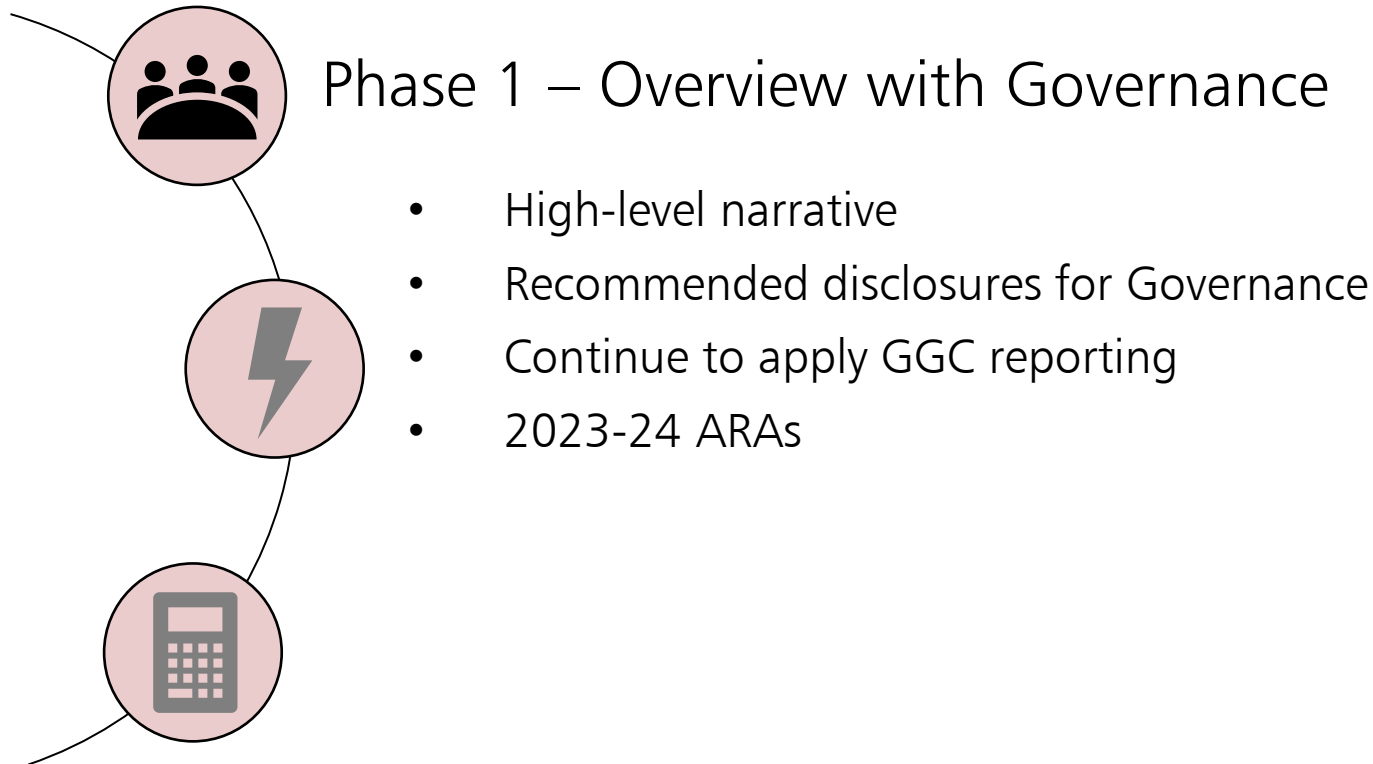
Timetable – Planned implementation



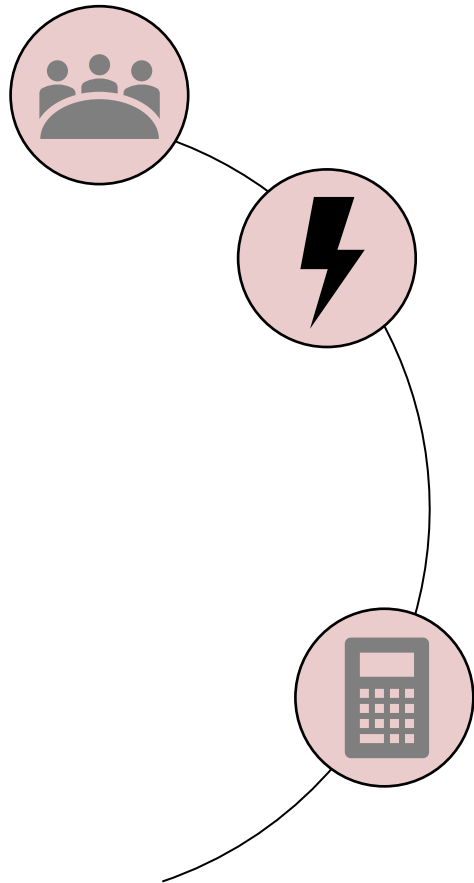
Implementation – Phases



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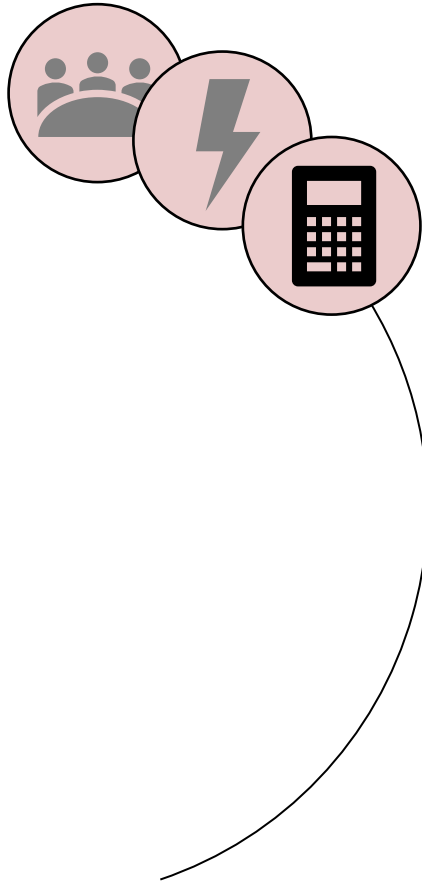
Implementation – Phases



Phase 2 – Qualitative focus on Risk Management with existing Metrics and Targets

- Recommended disclosures for Risk Management with qualitative focus
- Metrics and Targets recommended disclosures with TCFD element
- Aligns with current GGC reporting
- 2024-25 ARAs

Implementation – Phases

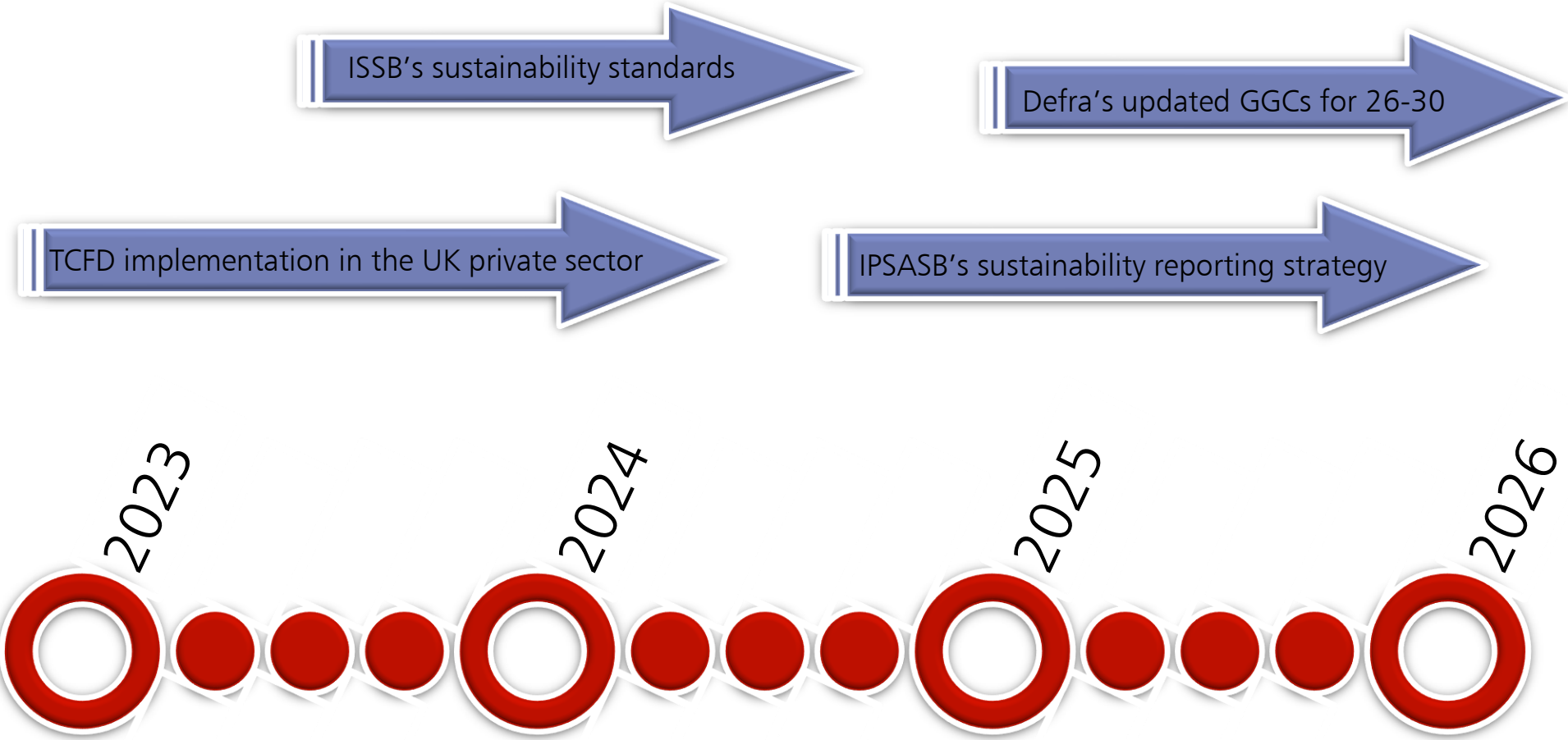


Phase 3 – Quantitative focus with Strategy with expanded Metrics and Targets

- Recommended disclosures for Strategy with quantitative focus
- Scenario analysis
- Metrics and Targets recommended disclosures with TCFD element
- Next round of GGCs 25-30 (alignment where possible)
- 2025-26 ARAs



Timetable – Interactions



Wider Public Sector - FRAB Sustainability Subcommittee (FRAB-SSC)

Purpose

FRAB-SSC considers how public sector annual reports can best reflect financial reporting matters concerning climate change and provide advice/guidance to FRAB on climate-related and sustainability reporting matters in the public sector.

Timing

Count: 3 times per year plus updates to FRAB
Length: 1-2 hours
Frequency: At each key stage of guidance development and before FRAB meetings

Objectives

Advise: advise on sustainability reporting strategy, evaluate proposals and review guidance
Monitor: developments by standard setters, in the private sector and internationally



Size

Small group (~8)

Agenda

Updates on sustainability reporting (government focus, private sector, standard setters)
Update on progress on sustainability reporting strategy
Other papers
Review of draft publications
Evaluate implementation progress

Composition

Formed of FRAB representative groups as volunteers
Michael Sunderland (HMT), relevant authority (RA)
Karen Sanderson (CIPFA), RA
Iain Murray (CIPFA), RA
Conrad Hall (Newham Council), preparer and RA
James Osbourne (NAO) audit
Lynn Pamment (Jersey Audit Office Chair), independent/FRAB Chair
Ian Webber (MoD), preparer
Max Greenwood (HMT) as secretariat



Logistics

Virtual sessions

Products

Sustainability Reporting Update paper for FRAB
Tested guidance for each implementation phase
Best practice assessments



HM Treasury

Questions