Department for Energy Security & Net Zero

Scope 3 Emissions in the UK Reporting Landscape

Call for Evidence

Closing date: 14 December 2023

October 2023

Any enquiries regarding this publication should be sent to us at: reporting@energysecurity.gov.uk

Introduction

The Department for Energy Security and Net Zero (DESNZ) is launching a Call for Evidence to gather feedback on the benefits, costs, and practicalities of Scope 3 greenhouse gas (GHG) emissions reporting in the UK, including links to the government's Streamlined Energy and Carbon Reporting (SECR) framework.

The GHG Protocol classifies a company's emissions into three scopes: Scope 1 (direct emissions from owned or controlled sources), Scope 2 (indirect emissions from the generation of purchased energy) and Scope 3 (all indirect emissions, not included in Scope 2, that occur in the value chain of the reporting company).[1] Calculating Scope 3 emissions can be difficult and complex; they are both the most significant and most challenging source of emissions for businesses to identify, quantify and address. Businesses often use the GHG Protocol as the methodology underpinning their assessment of their GHG emissions, and the GHG Protocol provides technical guidance that offers a number of calculation options which give a range of data outputs of varying specificity and quality.[2] The standard in the guidance advises businesses to select calculation methods for each Scope 3 category based on an initial screening exercise to determine the relative size of the emissions as well as elements such as data quality, cost and data availability.

Scope 3 GHG emissions can account for anywhere between 80-95% of the total value chain of an organisation's footprint.[3] Most Scope 3 disclosures are currently voluntary under the government's SECR framework. Whilst some organisations disclose their Scope 3 emissions through voluntary private sector frameworks such as the Science Based Targets initiative (SBTi) and the CDP (first established as the Carbon Disclosure Project), there is a potential information gap for investors to fully assess the climate-related risks and opportunities of their investments. Measuring and reporting GHG emissions are some of the first steps an organisation can take to reduce its overall emissions and energy consumption and contribute to the government's Net Zero target. Individual businesses making this data publicly available can provide important information to investors and other stakeholders on the emissions associated with their investments. The government is committed to ensuring market participants have the information and data they need to manage risks and allocate capital where there are opportunities, and greater transparency on business energy and resource efficiency, and decarbonisation efforts in general, is important to achieving this.

Some of the largest organisations in the UK are required to disclose their Scope 1 and Scope 2 emissions in their annual reports in line with the SECR framework. Quoted companies have been required to report their annual emissions and an intensity ratio in their Director's Report since 2013. The SECR framework was later introduced in 2019 adding additional disclosure requirements for quoted companies, as well as introducing new requirements for large unquoted companies and large Limited Liability Partnerships (LLPs). SECR aims to increase awareness of energy costs and emissions within organisations by providing them with data to inform the adoption of energy efficiency measures and help them to reduce their impact on climate change. The framework also seeks to provide greater transparency and consistency of disclosures for investors and stakeholders to enable them to hold businesses to account.

[1] The GHG Protocol provides standards and tools that help countries and cities track progress toward climate goals. Further information on the definition of Scope 3 emissions can be found here: https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf.
[2] https://ghgprotocol.org/scope-3-calculation-guidance-2
[3] https://newclimate.org/resources/publications/corporate-climate-responsibility-monitor-2022

On 3 November 2021, the International Financial Reporting Standards (IFRS®) Foundation announced the formation of the International Sustainability Standards Board (ISSB).[4] This announcement followed strong demand from the investment community for the creation of standards that will lead to the disclosure of high-quality and globally comparable sustainability-related information, which users of general-purpose financial reports can use to make decisions. The announcement also recognised the strong desire – from preparers and users of financial reports – to address the fragmented landscape of voluntary, sustainability-related standards that has evolved in recent years.

The UK government strongly supports the development of international standards for the disclosure of sustainability-related information and agrees that the provision of globally comparable sustainability-related information is vital for the effective functioning of capital markets. This is why the UK government announced, in the Green Finance Strategy, that it is launching an endorsement process to assess the suitability of the standards issued by the ISSB for use in the UK.[5]

The ISSB's first two standards – IFRS S1 and IFRS S2 – include requirements for entities to report their Scope 1, Scope 2 and Scope 3 GHG emissions[6], reflecting that Scope 3 GHG emissions disclosure is receiving greater attention internationally. A number of businesses are voluntarily disclosing their Scope 3 emissions in their annual reports or are signed up to voluntary reporting schemes such as SBTi and the CDP. In the EU, the European Commission has adopted the European Sustainability Reporting Standards (ESRS)[7], and Scope 3 GHG emission disclosures are also being considered in the context of the Carbon Border Adjustment Mechanism. The UK government published an exploratory consultation in March 2023 considering a range of potential policy measures to mitigate carbon leakage risk in the future and ensure UK industry has the optimal policy environment to decarbonise.[8] Whilst government assesses the suitability of the ISSB's standards for use in the UK, the time is right to build our evidence base on reporting Scope 3 emissions to inform UK emissions reporting requirements.

The government is separately working with the Financial Reporting Council (FRC), the UK regulator for corporate governance, reporting and audit, to conduct a review of the non-financial reporting requirements UK companies need to comply with to produce their annual report and to meet broader requirements that sit outside the Companies Act. On 24 May 2023, the government launched a Call for Evidence as part of the first stage of this review process, which ran to 16 August 2023.[9] SECR falls within the scope of the non-financial reporting review, and any findings from this Call for Evidence will be considered in the context of government's review of the wider reporting regime.

The purpose of this Call for Evidence is to seek stakeholder views on the costs, benefits and practicalities of Scope 3 GHG emissions reporting. As such, the responses gathered may be shared across government, and with the independent UK Technical Advisory Committee (TAC), to help inform the government's decision on whether to endorse IFRS S2, the ISSB's climate-related standard. IFRS S2 will be considered by the TAC that is being established to support the government's assessment of the ISSB standards. Given the complexity of Scope 3

[4] https://www.ifrs.org/groups/international-sustainability-standards-board/
[5] https://www.gov.uk/government/publications/green-finance-strategy
[6] https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/
[7] https://finance.ec.europa.eu/news/commission-adopts-european-sustainability-reporting-standards-2023-07-31_en
[8] https://www.gov.uk/government/consultations/addressing-carbon-leakage-risk-to-support-decarbonisation
[9] https://www.gov.uk/government/consultations/smarter-regulation-non-financial-reporting-review-call-for-evidence/smarter-regulation-non-financial-reporting-review-call-for-evidence

emissions, this Call for Evidence will support and complement the TAC's considerations by focusing on Scope 3 reporting in more detail than is likely to be possible within TAC meetings. The Call for Evidence also provides an opportunity to gather evidence to inform a Post-Implementation Review of the current SECR disclosure requirements.

When responding to this consultation, we encourage stakeholders to consider the government's endorsement process for IFRS S2 if possible – further information will be published when available. In particular, stakeholders are encouraged to note that the endorsement process aims to result in the production of a UK-endorsed version of IFRS S2 that businesses will be able to use on a voluntary basis. The government will consider the appropriateness of future reporting requirements against UK-endorsed ISSB standards for UK-registered businesses once the endorsement process is complete. This will include requirements to report any Scope 3 disclosures included within the UK-endorsed version of IFRS S2. The Financial Conduct Authority will also consult on amending rules for listed companies to refer to UK-endorsed standards in early 2024, with a view to bringing in new obligations for listed companies for accounting periods from 1 January 2025.

Though the questions in this Call for Evidence are structured based on the type of organisation the respondent works for, we also encourage members of the general public with an interest in Scope 3 emissions reporting to respond.

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General information

Why we are seeking evidence

We are seeking evidence to gain further information about the costs, benefits and practicalities of Scope 3 GHG emissions reporting. Scope 3 emissions account for approximately 80-95% of total emissions for a large number of organisations and reducing Scope 3 emissions from the UK can contribute to reaching the UK's Net Zero target by 2050. Scope 3 disclosures are becoming increasingly important for investors and stakeholders who are considering the transition readiness of organisations to adapt to a low-carbon economy.

This reporting is increasing in importance and relevance both domestically and internationally, and government is consulting at this time to inform the endorsement and implementation process that it has committed to undertake in relation to the ISSB's recently published sustainability disclosure standards – IFRS S1 and S2. These standards include requirements for entities to produce Scope 3 reporting and government is seeking evidence to inform a decision to endorse the use of the standards by UK businesses. The Call for Evidence also seeks to understand any wider impacts of endorsement in so far as it relates to the approach to Scope 3 emissions put forward by the IFRS Foundation, and how these might complement existing reporting requirements under the SECR framework and developments in areas such as a potential Carbon Border Adjustment Mechanism and low carbon product standards.

The Government, through its smarter regulation programme, has placed an increased emphasis on robust evaluation of regulation to ensure it is achieving its aims and is as cost-effective as possible. A Post-Implementation Review of SECR is due in 2024. This Call for Evidence will help inform that review and ensure that SECR is achieving its aims and inform any future changes that could help reduce compliance costs or increase the benefits of the regulation.

Call for Evidence details

Issued: 19 October 2023

Respond by: 14 December 2023

Enquiries to:

Business Energy Transformation
Department for Energy Security and Net Zero
3rd Floor
3-8 Whitehall Place
London
SW1A 2EG

Tel: +447745736308
Email: reporting@energysecurity.gov.uk

Call for evidence reference: Scope 3 Emissions in the UK Reporting Landscape

Audiences: UK organisations, investors and stakeholders, as well as existing SECR participants

Territorial extent: We are seeking views from across the United Kingdom

How to respond

Respond online at: beisgovuk.citizenspace.com/climate-change/scope-3-emissions-in-the-uk-reporting-landscape

or

Email to: reporting@energysecurity.gov.uk

Write to:

Business Energy Transformation
Department for Energy Security and Net Zero
3rd Floor
3-8 Whitehall Place
London
SW1A 2EG

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Confidentiality and data protection

Information you provide in response to this Call for Evidence, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our privacy policy.

Responses to this Call for Evidence may be shared across government, and with the independent UK Technical Advisory Committee (TAC), to help inform the government's decision on whether to endorse IFRS S2.

We will summarise all responses and publish this summary on GOV.UK. The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This Call for Evidence has been carried out in accordance with the government's consultation principles.

If you have any complaints about the way this Call for Evidence has been conducted, please email: bru@energysecurity.gov.uk.

Chapter One: Streamlined Energy and Carbon Reporting (SECR)

This chapter summarises existing SECR requirements within the UK and provides additional context on related policies. Guidance to help businesses comply with the SECR regulations can be found in the Environmental Reporting Guidelines.[10]

What is SECR?

Businesses are required to disclose emissions data under a variety of legal obligations. The Companies Act 2006 (Strategic Report and Director's Report) Regulations 2013[11] introduced changes to require quoted companies to report their annual emissions and an intensity ratio in their Directors' Report. Additional disclosure requirements for quoted companies were introduced in 2018[12], as well as new requirements for large unquoted companies[13] and limited liability partnerships (LLPs)[14], implementing the government's policy on Streamlined Energy and Carbon Reporting (SECR).

SECR aims to improve incentives for businesses to reduce their energy consumption and emissions and enable investors and other stakeholders to hold businesses to account for their energy efficiency and emissions. SECR was also introduced as part of a package to reduce administrative costs for businesses, building on existing requirements for quoted companies in place since 2013 while at the same time removing reporting (and the need to buy allowances for energy emissions) obligations under the CRC Energy Efficiency Scheme.

Under SECR, quoted companies of all sizes are required to report specified global GHG emissions and an intensity ratio in their Directors' Report, as well as their total global energy use and information relating to energy efficiency action alongside the methodology used. Unquoted companies and LLPs that meet 'large' thresholds are also subject to disclosure requirements under SECR (see section below 'Companies in scope of SECR' for more information on eligibility criteria). Large unquoted companies and LLPs must report their UK energy use and associated GHG emissions relating to gas, electricity, and transport fuel, as well as an intensity ratio and information relating to energy efficiency action. Unquoted companies in scope of the legislation are also required to disclose this information through

[10] https://www.gov.uk/government/publications/environmental-reporting-guidelines-including-mandatory-greenhouse-gas-emissions-reporting-guidance

[11] Amongst other things, the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 amended the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, including adding Part 7 of Schedule 7 dealing with GHG emissions by quoted companies.

[12] The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 amend the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, in particular, amending Part 7 of Schedule 7.

[13] The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 amend the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, in particular adding a Part 7A to Schedule 7 dealing with energy and carbon disclosures by large unquoted companies.

[14] The 2018 Regulations also amend the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, which apply certain provisions of the Companies Act 2006 to Limited Liability Partnerships, to provide for large LLPs to prepare an equivalent report to the Directors' Report to disclose energy and carbon information. See Part 3 of the 2018 Regulations which added a new Part 5A to the 2008 Regulations, requiring LLPs to provide an Energy and Carbon Report.

their Directors' Report, whilst LLPs are required to prepare and file energy and carbon information in their Energy and Carbon Report.

The annual reports for UK businesses are submitted to Companies House. SECR aims to provide a consistent approach for all quoted and large unquoted companies, and LLPs, to measure energy and emissions and disclose the information to a wide range of stakeholders.

Scope 1, Scope 2, and Scope 3

The GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'.[15] Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream, and are further defined into 15 different categories as outlined in Chapter Two.[16]

Existing emission reporting requirements under SECR primarily focus on Scope 1 and Scope 2 emissions, with most Scope 3 emissions disclosures currently being voluntary. Some Scope 3 emissions disclosures are included under existing SECR requirements, as large unquoted companies and LLPs are required to report on a subset of Scope 3 emissions and energy use, though this is limited.

Elsewhere, any organisations bidding for a government contract over £5 million are already required to report on a wider subset of Scope 3 emissions than those reported under SECR in line with Procurement Policy Note 06/21 (PPN 06/21), though this is not required to be disclosed in annual reports.

Procurement Policy Note 06/21 (PPN 06/21)

Under PPN 06/21 businesses must produce a Carbon Reduction Plan, which requires them to disclose their Scope 1, Scope 2, and a subset of five categories of Scope 3 emissions:

- Category 4: Upstream Transportation and Distribution
- Category 5: Waste Generated in Operations
- Category 6: Business Travel
- Category 7: Employee Commuting
- Category 9: Downstream Transportation and Distribution[17]

These 5 categories were chosen as they were the ones for which organisations were most likely to have accessible and/or accurate data. The full list of Scope 3 categories can be found in Chapter Two.

15 https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf.
16 https://ghgprotocol.org/corporate-value-chain-scope-3-standard
17 https://www.gov.uk/government/publications/procurement-policy-note-0621-taking-account-of-carbon-reduction-plans-in-the-procurement-of-major-government-contracts

Organisations in scope of SECR

As outlined above, the SECR legislation applies to quoted companies of any size and 'large' unquoted companies and LLPs. An unquoted company or LLP must report under SECR in a year in which it satisfies two or more of the following requirements:

- Turnover of more than £36 million[18]
- Balance sheet total of more than £18 million
- More than 250 employees

These requirements for SECR are based on section 465 and 466 of the Companies Act 2006. Government is currently reviewing the thresholds that apply across non-financial reporting obligations as part of its non-financial reporting review.

Under the current SECR framework, there are different reporting requirements based on whether a business is quoted, unquoted or an LLP. Questions in this Call for Evidence will ask whether requirements should be consistent for all businesses in scope regardless of whether they are quoted, unquoted or LLPs, to inform government's Post-Implementation Review of the existing SECR framework.

The Environmental Reporting Guidelines

The Environmental Reporting Guidelines (ERG) were first published on 12 June 2013 and were later updated on 29 March 2019 to help businesses across the UK comply with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.[19] The ERG also provides guidance on voluntary reporting on a range of environmental matters, including voluntary energy and GHG emissions reporting, and key performance indicators. To highlight best practice guidance for gathering and reporting environmental data, the government committed in the recent Green Finance Strategy to testing updates to the ERG with stakeholders.[20]

The UK currently provides limited guidance in the ERG on reporting Scope 3 emissions. If any mandatory requirements for Scope 3 emissions disclosure are introduced, government would expand the range of guidance provided to support UK organisations. Internationally, various voluntary reporting schemes and standards also provide guidance and support for any reporting entity who wishes to report their own Scope 3 emissions. Some of the questions in this Call for Evidence will explore if there is a wider role for the government to play in providing voluntary Scope 3 reporting guidance, and any further support UK organisations may require.

[18]In the case of charitable companies, the reference to turnover shall be taken as a reference to the charitable company's gross income, as defined for its jurisdiction of registration, or operation.
[19] https://www.gov.uk/government/publications/environmental-reporting-guidelines-including-mandatory-greenhouse-gas-emissions-reporting-guidance
[20]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1149690/mobilising-green-investment-2023-green-finance-strategy.pdf

Other related areas of policy

Some UK businesses that fall within scope of SECR will have wider reporting requirements that they may need to adhere to. This section recognises the broader policy landscape, and how Scope 3 emissions reporting is being introduced elsewhere.

In the EU, all large companies and all companies listed on regulated markets (except listed micro-enterprises) are required to consider their climate-related risks and opportunities, and can choose to report their Scope 3 emissions, under the Corporate Sustainability Reporting Directive (CSRD)[21], which builds on the Non-Financial Reporting Directive (NFRD)[22]. If companies choose to report on only a subset of their Scope 3 emissions under CSRD, they should explain why they have excluded some categories of Scope 3 emissions and ensure that they have not excluded any activity that would compromise the relevance of the Scope 3 emissions they have reported.

The EU expanded on these requirements in early 2022 when they adopted a proposal for a Directive for Corporate Sustainability Due Diligence in global supply chains.[23] The scope of this draft Directive expands upon CSRD and also extends to certain non-EU companies, and therefore could apply to some UK businesses that fall within scope of SECR. Entities will be required to identify actual or potential adverse human rights and environmental impacts in their global supply chain. It will require them to, amongst other things, prevent or mitigate potential impacts, bring an end to or minimise actual impacts, monitor effectiveness of due diligence, and publicly communicate on their due diligence.

On 31 July 2023, the European Commission adopted the European Sustainability Reporting Standards (ESRS) for use by all companies subject to the CSRD.[24] The common standards aim to help companies communicate and manage their sustainability performance more efficiently, and therefore to have better access to sustainable finance.[25] The standards cover the full range of environmental, social, and governance issues, including climate change and biodiversity, and take account of discussions with the ISSB.

On the 1 October 2023 the EU Carbon Border Adjustment Mechanism (CBAM) began its initial transitional phase, which requires EU importers to provide product-level reporting on relevant goods to the EU Commission. This includes the emissions associated with some input materials, which has an overlap with the scope 3 emissions as set out in this Call for Evidence. Full implementation of the EU CBAM will begin in January 2026 when the CBAM charge enters into force.

On 30 March 2023, the UK government launched a consultation (‘Addressing carbon leakage risk to support decarbonisation’) to explore domestic measures to mitigate the risk of carbon leakage.[26] Government sought views to help develop proposals for policy measures to mitigate the carbon leakage risk in future, and to ensure our climate policies lead to a reduction in emissions both globally and in the UK, as well as the growth of low carbon industries. Potential measures included a Carbon Border Adjustment Mechanism for the UK, mandatory product standards, and policies which would help grow the market for low emission industrial products.

[21] https://ec.europa.eu/info/publications/210421-sustainable-finance-communication_en#csrd
[22] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095
[23] https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1145
[24] https://finance.ec.europa.eu/news/commission-adopts-european-sustainability-reporting-standards-2023-07-31_en
[25] https://ec.europa.eu/commission/presscorner/detail/en/qanda_23_4043
[26] https://www.gov.uk/government/consultations/addressing-carbon-leakage-risk-to-support-decarbonisation

The consultation also covered any emissions reporting requirements which might be needed to underpin new policies, including the potential for product-level Scope 3 emissions reporting.

This consultation closed on 22 June 2023. The government will now consider the responses to the range of complex policy issues within the consultation and issue its response as soon as possible. Government will ensure that any new reporting requirements necessary for these policies are introduced in as streamlined a way as possible, minimising the cost on industry.

Questions

We would benefit from understanding more about your organisation in order to effectively analyse the results of this Call for Evidence.

General Questions

1. What is your company number? If you work for an LLP, please state so here.
2. Where applicable, what percentage of your supply chain is within the UK, within the EU, outside of the UK and the EU?
3. What is your role in relation to company reporting? For example, are you a reporting entity, a company within the supply chain of a reporting entity, an investor and/or a user of accounts, contracted to report on behalf of a reporting entity, part of a consultancy firm, or part of a voluntary reporting scheme?
4. What role does Scope 3 emissions reporting currently play in your organisation? If your organisation does report its Scope 3 emissions, which Scope 3 emissions categories are you currently reporting on and why? Is this on a voluntary or mandatory basis? Please state whether you have done so in the past and, if you no longer report Scope 3 data, why.

Chapter Two: Scope 3 GHG reporting

This chapter seeks evidence regarding the potential benefits, costs and implications of Scope 3 GHG reporting for UK businesses, investors and other stakeholders. The information gained from this exercise will inform the UK Government's assessment of IFRS S2, which contains requirements for entities to disclose Scope 3 information. The evidence gained through this exercise will also inform any future decision the government may take to require Scope 3 disclosures, either through the implementation of IFRS S2 or any another means.

Government is aware that there is a significant, and growing, body of literature regarding the costs, benefits, and practicalities of Scope 3 reporting. Issues surrounding data availability and the impact of Scope 3 reporting on smaller businesses within a supply chain have been the subject of discussion in various international fora and by international regulators, standard setters and civil society organisations. We do not rehearse those discussions here, as the Government's immediate focus is to consider Scope 3 in light of its Post-Implementation Review of SECR and in light of the ISSB's recent standards. However, we encourage readers to consider this body of literature when responding to this Call for Evidence. We are also interested in stakeholders' views on the wider implications of the approach the ISSB has taken in regard to Scope 3 reporting, including how the ISSB's measurement approach may interact with broader initiatives, such as the EU's Carbon Border Adjustment Mechanism (CBAM) and potential future UK carbon leakage mitigation measures.

Scope 3 Reporting within IFRS S2

In June 2023, the ISSB issued its first two standards – IFRS S1 and IFRS S2. IFRS S1 is a general requirements standard which sets out a framework to support reporting and provides a set of corporate disclosure requirements to be applied to sustainability-related risks and opportunities where no topic specific standard exists. By contrast, IFRS S2 is the first topic specific standard issued by the ISSB and sets out specific climate-related disclosures including the reporting of Scope 3 GHG emissions. IFRS S2 is designed to be used alongside IFRS S1.

The objective of IFRS S2 is to require an entity to disclose information about its climate-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions. This standard applies to climate-related risks to which the entity is exposed (climate-related physical risks and climate-related transition risks) and climate-related opportunities available to the entity. Climate-related risks and opportunities that could not reasonably be expected to affect an entity's prospects are outside the scope of the standard.

Under IFRS S2, entities are required to disclose absolute gross GHG emissions generated during the reporting period, classified as Scope 1 emissions, Scope 2 emissions and Scope 3 emissions. This requirement is subject to a materiality test that applies across IFRS S1 and S2. Specifically, an entity is required to disclose 'material information' about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects.[27] In the context of sustainability-related financial disclosures, information is considered 'material' if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general-purpose financial reports make on the basis of those reports. We are interested in stakeholders' views on this approach to

[27] https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs1/

materiality within the context of Scope 3 reporting and we encourage stakeholders to consider the benefits of this approach as well as any challenges it may pose. We also encourage stakeholders to consider this approach alongside approaches taken by other jurisdictions and other reporting initiatives.[28]

ISSB's Rationale for Requiring Scope 3 Disclosures

As explained in the ISSB's staff paper of October 2022, the respondents to the ISSB's exposure draft of IFRS S2 broadly agreed with the proposal to require the disclosure of absolute gross Scope 3 GHG emissions. The main reason for this is that an entity's exposure to GHG emissions will have a relationship to the overall risk that the company is not prepared, or may need to prepare, for transition to a lower carbon society. For instance, the ISSB staff paper noted that an entity could be exposed to the risk of higher costs, decreased availability of supplies or lower demand – due to the risk of increased carbon prices, the introduction of more stringent regulation on GHG emissions and changing customer preferences. In addition, the staff paper noted that respondents said that:

- Limiting disclosures to an entity's Scope 1 and Scope 2 GHG emissions would result in users having an incomplete picture of an entity's transition risk exposure.
- the comparability of entities' GHG emissions across business models, such as comparing the GHG emissions of an entity that relies on outsourcing to those of an entity that is vertically integrated, is enhanced by requiring the disclosure of Scope 1, Scope 2 and Scope 3 GHG emissions.
- disclosure of Scope 1, Scope 2 and Scope 3 GHG emissions provides users with more information about an entity's GHG emissions performance over time, including whether an entity reduces its Scope 1 and Scope 2 GHG emissions by outsourcing emissions (thereby increasing its Scope 3 GHG emissions) or by emissions reductions within the entity's control.[29]

In the questions at the end of this chapter, we seek views on the ISSB's rationale for including Scope 3 disclosures within IFRS S2. As part of this, we would be grateful for investors' views on the size and types of company where Scope 3 data is particularly valuable for investor decision making. We would also be interested in whether stakeholders believe there are wider benefits to Scope 3 disclosures that are not covered by the advantages described above. While the ISSB initiative is primarily focused on providing decision-useful information to the investment community, we are particularly interested to hear the potential benefits of Scope 3 disclosures to stakeholders beyond that community.

Greenhouse Gas Protocol and Emissions Categories

In IFRS S2, the requirement for an entity to produce Scope 3 information is built on the requirement that an entity measures its GHG emissions in accordance with the Greenhouse Gas (GHG) Protocol. However, Appendix B of IFRS S2 provides an exemption that allows an entity to use another measurement method if the entity is required by a jurisdictional authority or an exchange on which it is listed to use a different measurement method. This flexibility

[28] For instance, the voluntary reporting scheme Science Based Targets Initiative (SBTi) use a quantitative threshold to determine the scope of businesses required to report. SBTi requires any reporting organisation to disclose their Scope 3 emissions if they account for 40% or more of their overall emissions. This is not the same as a materiality threshold but can limit the reporting burden.

[29] https://www.ifrs.org/content/dam/ifrs/meetings/2022/october/issb/ap4b-climate-related-disclosures-scope-3-greenhouse-gas-emissions.pdf

provides individual jurisdictions the ability to require measurement according to a different method if that is deemed desirable.

We are keen to hear stakeholders' views on the ISSB's approach to the GHG Protocol in IFRS S2, as well as views on the practicalities, benefits and challenges of reporting Scope 3 emissions in accordance with the Protocol. The GHG Protocol itself outlines 15 categories of Scope 3 emissions, and we are keen to hear stakeholder views on the categories they find easiest and most difficult to report against.

Scope 3 emission categories as outlined by the GHG Protocol:

Upstream Emissions

Purchased good and services

Capital goods

Fuel and energy related activities

Upstream transportation and distribution

Waste generation in operations

Business travel

Employee commuting

Upstream leased assets

Downstream Emissions

Downstream transport and distribution

Processing of sold products

Use of sold products

End-of-life treatment of sold products

Downstream leased assets

Franchises

Investments[30]

Additional information on other features of the ISSB Scope 3 Measurement Framework can be found in paragraphs 32-57 of Annex B.[31] We encourage stakeholders to consult this material when responding to this Call for Evidence, as it sets out:

[30] https://ghgprotocol.org/scope-3-calculation-guidance-2
[31] https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/

- The ISSB's guidance on the extent to which entities should rely on direct measurement of emissions and the extent to which it can rely on estimates, with a priority on the former.
- The ISSB's expectation that entities shall prioritise the use of primary data for Scope 3 GHG emissions – such as data from meter readings, utility bills or other methods that represent specific activities in the entity's value chain – over secondary data gained from third-party data providers, literature studies or approximations.
- The ISSB's expectation that an entity shall prioritise Scope 3 greenhouse gas emissions data that is verified internally or by an external provider.
- The ISSB's requirement for an entity to disclose information about the measurement approach, inputs and assumptions that it has used to measure Scope 3 emissions.

Please note that an account is required for anyone to look at the standards. This is free and will provide you access to the documents linked above.

Questions

General questions

5. Do you agree or disagree with the ISSB's assessment of the value of Scope 3 information?
6. In general, what is your view on the approach to Scope 3 reporting contained within IFRS S2? Please consider the ISSB's approach to materiality in your answer.
7. What is your view on the use of the GHG Protocol for the purposes of Scope 3 reporting within IFRS S2? Will this lead to comparable and consistent reporting that is useful for investors and users of accounts?
8. Would using the ISSB's approach to Scope 3 reporting have knock-on consequences for your organisation that the Government should be aware of? For instance, you may wish to consider the interaction between IFRS S2 and any EU regulations, or other energy/emissions reporting requirements that your organisation may be impacted by.
9. Is there any additional emissions or energy-consumption related data that is not required within IFRS S2 that you believe is valuable for investors, users of accounts and other stakeholders?

Questions for reporting entities

10. What further guidance and support might be needed for your organisation, and organisations in your value chain, to report Scope 3 information in accordance with IFRS S2?
11. If your organisation does not already prepare Scope 3 information, how long would you need to build the capacity and capability to do so?

Questions for investors and other users of accounts

12. How, if at all, do you expect to use the Scope 3 information that could be disclosed by businesses in accordance with IFRS S2? If you are an investor, how will this information influence your decision-making?

13. If you are a user of annual reports, which of the Scope 3 GHG emissions categories do you most value information on and why?

14. When making investment decisions, does the usefulness of Scope 3 data vary depending on the sector and the size of the reporting organisation?

Chapter Three: costs and benefits of Scope 3 reporting

Stakeholder responses to the Green Finance Strategy Call for Evidence (which ran from 11 May 2022 to 22 June 2022) were mixed, and while there was significant support for action on Scope 3 emissions, there was still uncertainty around the specific costs and benefits of introducing mandatory Scope 3 reporting. In the 2021 consultation on mandatory Climate-related Financial Disclosures, the majority of respondents preferred to continue with voluntary reporting at the time, but there was also strong support for a roadmap to be developed that sets out the timescale for mandatory Scope 3 disclosures. This chapter will expand on the responses collected during the Green Finance Strategy Call for Evidence and Climate-related Financial Disclosures consultation and gather further evidence on the costs and benefits of Scope 3 emissions disclosure from UK organisations and stakeholders to help inform future policy development.

Balancing benefits of additional reporting against administrative costs to business

Measuring, calculating, and disclosing Scope 3 emissions can place additional administrative costs on reporting entities. As outlined earlier, Scope 3 emissions can be anywhere between 80-95% (on average) of an organisation's total emissions. For those organisations who are only reporting their Scope 1 and Scope 2 emissions, the reporting of Scope 3 emissions would involve a large increase in the emissions they would need to measure, calculate, and report. These emissions are also considered more complex to calculate. There is likely to be a large reporting cost for organisations that do not routinely collect Scope 3 information, and this needs to be considered against the benefits Scope 3 emissions reporting may provide.

The reporting cost will be greater for organisations who have long and complex supply chains, especially if these cross jurisdictions and countries, and it could be especially difficult for reporting entities with organisations in their supply chain who are from countries with little mandatory environmental reporting requirements. These organisations may not be able to provide much information to the UK Scope 3 emissions reporting entity, requiring them to acquire and use other data which could increase their administrative cost. If measures such as Carbon Border Adjustment Mechanisms or Mandatory Product Standards are introduced in the UK, additional monitoring and reporting of embedded emissions may be required. And if various policies require Scope 3 emissions reporting without proper alignment, this is likely to further increase both the costs for businesses and the perceived inconsistency and unfairness across various reporting mechanisms.

Calculating emissions can also cause administrative challenges when suppliers can only provide secondary data such as spend and/or production information. This data needs to be calculated with emission factors, and collecting this data and understanding the calculations which need to take place can take time and tie up organisational resources. This can be especially true for organisations who have a limited knowledge base and may require time and resource to train staff to have the required knowledge. The more complex the supply chain, the more time this may take.

Although the required knowledge for reporting Scope 3 emissions may seem a challenge at first, the more an organisation calculates and reports their emissions, the more proficient and knowledgeable they will become. The Carbon Trust have noted that in the short-term, there are a lot of hurdles to overcome but the accuracy of reporting will increase over time.[32] This is also the same for costs, as businesses will need to outlay in the short-term for new tools and processes, but these should become more efficient over time.

Scope 3 reporting requires businesses to fully understand their supply chain and customer chain. As businesses gain experience reporting Scope 3 emissions, their understanding of the ecosystem in which they operate will increase. Businesses may also need to put in place systems at the start of reporting, resulting in higher costs in initial reporting periods. The costs involved will need to be assessed against the benefits of Scope 3 emissions reporting, and we will be requesting evidence of both costs and benefits in the questions at the end of this chapter.

Some organisations may already be measuring and disclosing their Scope 3 emissions in their annual reports or through voluntary reporting schemes such as SBTi and the CDP and so for these organisations, the additional costs resulting from mandatory requirements may be reduced.

There also needs be consideration of the administrative cost to organisations in the reporting entity's value chain, especially UK Small-Medium Enterprises (SMEs). To enable Scope 3 emissions reporting, reporting entities require SMEs to provide their Scope 1, Scope 2 and, even in some circumstances, their Scope 3 emissions to them.

Data availability, estimations, and transparency

The data available to report Scope 3 emissions could be another challenge to reporting entities. The Climate Disclosure Standards Board (CDSB) noted that indirect emissions can be trickier to estimate as they are beyond the control of the reporting company.[33] As outlined earlier, organisations reporting Scope 3 emissions rely on their suppliers in the value chain for any primary data, which may be required at both the product and company level. If product level data is not available, reporting entities can use secondary data including industry-average data, published emission factors, spend-based data, and proxy data, amongst others. While secondary data is more available than product level data, the data itself is an estimation, so any reductions that reporting entities make will have a dependency on the accuracy of the secondary data.

The Carbon Trust outlines that over time the accuracy of reporting should increase, especially as reporting entities focus efforts on improving primary data quality and availability, and as emission factors also become more accurate. However, in the short-term, varying degrees of data quality between any potential organisations disclosing their Scope 3 emissions could be difficult to compare. This is especially true if there is limited transparency in the data collection and calculation methodologies provided by organisations, unless reporting organisations are clear on the uncertainty of the Scope 3 disclosures.

Estimations could also potentially lead to reputational risks if estimates are widely different between reporting entities. Though two comparable organisations' Scope 3 emissions may not

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[32] https://www.carbontrust.com/news-and-events/insights/make-business-sense-of-scope-3
[33] https://www.cdsb.net/blog/corporate-reporting/1005/scope-4-do-we-need-new-category-emissions-better-address-corporate

be too far apart, the use of estimates and different calculation methodologies may lead to two similar organisations having very different figures.

As certain organisations can have global suppliers across their value chain, there is also the potential issue of a lack of data being available in countries and territories with less stringent emission regulations and support. Not all countries provide conversion factors or good quality data, so organisations may find it difficult to acquire both primary and secondary data. Primary data may be difficult to obtain from countries or territories with little to no mandatory emissions reporting, and where there has been little uptake of voluntary reporting.

Organisations may need to use other data sources to fill in gaps in their data availability. For example, emissions factors from other countries may be a suitable alternative that businesses can use instead, as may be providing default values. Although not completely accurate, it could allow organisations to begin reporting and focus on helping third party suppliers increase their data availability and quality in the long-term. This challenge for Scope 3 reporting organisations may complicate the initial data calculation and reporting, but as entities become more confident in their knowledge and understanding, data availability will likely increase.

In recognition of these methodological challenges, SBTi is in the process of developing resources to guide the adoption, implementation, assessment and tracking of Scope 3 targets in a robust and consistent way[34]. The review of SBTi's Scope 3 guidance began in 2022 and will be ongoing throughout 2023. To inform this review, SBTi launched a global and cross-sector survey in September 2022 to better understand the barriers and limitations businesses face when baselining, setting and delivering Scope 3 science-based targets. Findings show that data is a barrier for baselining and demonstrating progress; without measured primary data, businesses often use average emissions factors, but this secondary data can limit comparability of footprints and create challenges for tracking the impact of actions required to delivery progress.

Below is an example of activity occurring at a sector level to address some of the issues discussed in this section.

The Food Data Transparency Partnership (FDTP)

The FDTP is a long-term partnership between the Department of Health and Social Care, the Food Standards Agency, the Department for Environment, Food and Rural Affairs (Defra), the food and drink industry and experts that aims to drive positive change in the food system through better and more transparent food data. Defra's initial focus is on supporting the food and drink sector to reduce greenhouse gas emissions, by standardising the approach to measurement and communication of Scope 3 greenhouse gas emissions. This recognises that delivering on Net Zero commitments is a key priority for Government, and that industry is demanding support and standardisation in this space.

Alongside a consistent approach to measurement and reporting, the FDTP is kick starting a roadmap of coordinated activities led by government and industry to improve data availability, accessibility, and quality, which are issues for businesses looking to quantify the emissions in their supply chain. This will provide the sector with oversight and an

[34] https://sciencebasedtargets.org/blog/scope-3-stepping-up-science-based-action

understanding of the direction of travel, to provide the certainty required for business planning and investment.

Ability to influence third-party actors and cooperation along the value chain

An overarching theme of Scope 3 emissions reporting is the need for reporting entities to engage organisations within their value chain to provide the necessary data. This can prove problematic if reporting entities are unable to influence their suppliers. Without the necessary primary data, activity data or spend-based data, reporting entities will be forced to use low quality, secondary data. This problem could be magnified up the supply chain, as the data available to the reporting entity decreases.

Alternatively, for many organisations Scope 3 emissions reporting provides an opportunity to improve relationships with their suppliers. As both the reporting entities and suppliers will need to work together, future cooperation can be improved. This can lead to more efficient processes being created, lowering energy use and emissions as well as potentially lowering costs for reporting entities and their suppliers. Increasing cooperation can be utilised for effective insetting, which benefits both the reporting entity and the suppliers involved. However, the need of reporting entities for information from their suppliers could also introduce additional tension or complexity into their relationship and have a negative effect.

Insetting refers to a company offsetting its emissions through a carbon offset project within its own value chain. In contrast to a typical carbon offset project, emissions are avoided, reduced or sequestered upstream or downstream within a company's own value chain.[35]

Although there is a benefit for reporting entities to work with suppliers and organisations within their value chain, not all organisations will be in a position to work together to reap this benefit.

Questions

You may have answered similar questions if you responded to the June 2023 consultation 'Addressing carbon leakage risk to support decarbonisation'. Please note that the questions in this Call for Evidence are asking for your broader views on Scope 3 emissions reporting.

General questions

15. What are your views on the overall costs and benefits of Scope 3 reporting? Please be as specific as possible.
16. What benefits could Scope 3 reporting bring to your organisation? Please be as precise as possible when explaining the basis of any benefits you provide. If you currently produce Scope 3 data voluntarily under SECR, please explain the benefits you have received and how they have changed over time.

[35] https://www.myclimate.org/information/faq/faq-detail/what-is-carbon-insetting/#:~:text=Insetting%20refers%20to%20a%20company,the%20company's%20own%20value%20chain.

17. What costs could Scope 3 reporting bring to your organisation? Where possible, please give a breakdown of each element of cost. Please be as precise as possible when explaining the basis of any costings you provide. If you do currently produce Scope 3 data voluntarily under SECR, please explain the costs you have incurred and how they have changed over time.

Questions for reporting entities

18. How are you approaching the issues around data availability in relation to Scope 3 reporting? Are you aware of any useful data sources, reporting tools, or resources (such as emissions factors) to help UK organisations report their Scope 3 emissions, and how are you tackling them?

19. What are, or do you anticipate being, the greatest barriers to producing consistent Scope 3 data?

20. If you currently voluntarily report your Scope 3 emissions, including through non-Governmental frameworks such as CDP and SBTi, what effect has this had on your relationships with businesses in your supply chain?

Questions for smaller businesses in the supply chains

21. What impact could an increase in Scope 3 reporting by a larger reporting entity have on your organisation? What are the costs and benefits of Scope 3 reporting on smaller organisations within their supply chain? Please provide any evidence you have of these.

22. If you currently supply data to a reporting entity to enable it to voluntarily report its Scope 3 emissions, has the cost to you of doing so reduced, stayed the same or increased over time? What effect has this had on your relationship with the reporting entity?

23. What could the Government do to reduce the costs or increase the benefits of reporting for smaller businesses in the supply chains of entities that report on Scope 3?

24. If you supply data to a larger entity, what effect (including financial impacts) has this had on your organisation? We are particularly keen here to receive views from SMEs.

Questions for investors and other users of accounts

25. What benefits does robust Scope 3 reporting provide to stakeholders outside of the investment community?

Chapter Four: Post-Implementation Review

A Post-Implementation Review is a process to assess the effectiveness of a regulation after it has been implemented and operational for a period of time. The government will conduct a review of the effectiveness of the SECR regulations with the aim to publish findings by April 2024.This chapter asks for stakeholder feedback on their effectiveness and impacts of SECR requirements in the UK. Stakeholders have raised concerns around the duplication of reporting with other schemes; we are seeking views on streamlining the current requirements and would benefit from examples of where requirements overlap.

Questions

General questions

26. Overall, do you think the SECR regulations are achieving their original objectives? If you do not think they are achieving the original objectives, or are partially achieving the objectives, please explain why.

27. Have there been any unintended effects of the SECR regulations that you think Government should consider? Please include whether there are any equality impacts to be taken into consideration.

28. Are the current SECR requirements targeted at the correct population of businesses (including LLPs)? If not, which types of businesses and of which size do you think the requirements should apply to? If you think that different requirements should apply to different populations of businesses, please specify.

29. SECR reporting is currently required within a company's annual report. Would it be more appropriate to report on SECR in another document or format?

30. How can the government streamline current energy and emissions reporting requirements for organisations in scope of SECR while still meeting the SECR objectives?

31. Under the existing SECR framework, there are different reporting requirements for quoted companies and unquoted companies/LLPs. Are these differing requirements appropriate? If not, what reforms would you suggest?

32. What resources do you currently use to comply with SECR (e.g., ERG guidance, conversion factors, the GHG Protocol, etc) and do you feel these are sufficient? If these aren't sufficient, what do you think is missing?

Questions for reporting entities

33. What benefits has compliance with the current SECR regulations had for your organisation?

34. What are the costs (monetised costs and FTE equivalent) of reporting under the current SECR framework for your organisation? Please provide quantitative costs or estimates if possible.

35. If your organisation reports under SECR, has the information that you have collected and reported led you to, or helped you to, reduce your energy consumption and/or carbon emissions? If so, how? Please provide energy and emissions reductions data where that is possible.

36. Are you aware of the option to use SECR taxonomy for your reports? If so, please provide information on whether you have used the taxonomy or plan to.

37. Have you experienced any overlap between the SECR regulations and other Government-led reporting requirements? Please include details of any additional voluntary or regulatory schemes you are in scope of, and the extent in which you consider the data and evidence being reported to be a duplication.

Questions for investors and other users of accounts

38. If you are an investor, has the information businesses report or will report under SECR affected your investment decisions? If so, how?

39. Have you used the information businesses report under SECR to hold those businesses to account for their emissions or energy consumption? If so, how?

Call for Evidence questions

This list collates all the questions that have been asked throughout the body of this Call for Evidence. There are no new questions in this list that have not been asked already in this document.

Chapter One

General Questions

1. What is your company number? If you work for an LLP, please state so here.
2. Where applicable, what percentage of your supply chain is within the UK, within the EU, outside of the UK and the EU?
3. What is your role in relation to company reporting? For example, are you a reporting entity, a company within the supply chain of a reporting entity, an investor and/or a user of accounts, contracted to report on behalf of a reporting entity, part of a consultancy firm, or part of a voluntary reporting scheme?
4. What role does Scope 3 emissions reporting currently play in your organisation? If your organisation does report its Scope 3 emissions, which Scope 3 emissions categories are you currently reporting on and why? Is this on a voluntary or mandatory basis? Please state whether you have done so in the past and, if you no longer report Scope 3 data, why.

Chapter Two

General questions

5. Do you agree or disagree with the ISSB's assessment of the value of Scope 3 information?
6. In general, what is your view on the approach to Scope 3 reporting contained within IFRS S2? Please consider the ISSB's approach to materiality in your answer.
7. What is your view on the use of the GHG Protocol for the purposes of Scope 3 reporting within IFRS S2? Will this lead to comparable and consistent reporting that is useful for investors and users of accounts?
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39. Have you used the information businesses report under SECR to hold those businesses to account for their emissions or energy consumption? If so, how?

Next steps

Responses to this Call for Evidence will be used to inform a Post-Implementation Review of the existing SECR reporting requirements, inform the endorsement of the ISSB standards, and feed into an assessment on if and how the Environmental Reporting Guidelines are updated. We aim to publish the government response to this Call for Evidence within 12 weeks of the closing date.

Responses will be shared across government and with the independent UK Technical Advisory Committee (TAC) that is supporting the government's assessment of IFRS S1 and S2. Once the government has received the TAC's advice, it will publish a draft version of the UK-endorsed standards for consultation, before finalising the standards.

Following the endorsement process for the ISSB standards, the government will consider whether reporting requirements might be introduced that would oblige businesses to report against UK-endorsed IFRS S1 and S2, including the timeframes for implementing these requirements. Should the government wish to pursue requirements, the government would consult on any future obligations, including the scope of entities caught by those requirements. In doing so, it would consider UK-endorsed S1 and S2 within the wider context of the UK's non-financial reporting review, which is taking a holistic look at the UK's corporate reporting regime as a whole.

This Call for evidence is available from: www.gov.uk/government/calls-for-evidence/uk-greenhouse-gas-emissions-reporting-scope-3-emissions

If you need a version of this document in a more accessible format, please email alt.formats@energysecurity.gov.uk. Please tell us what format you need. It will help us if you say what assistive technology you use.