



## Financial Reporting Advisory Board

### Sustainability Reporting Update (FRAB-SSC 06)

<b>Issue:</b>	The paper sets out the Subcommittee's <a href="#">recommendations</a> from the November 2023 FRAB-SSC meeting, asking for the Board's approval to publish the Task Force on Climate-related Financial Disclosure (TCFD)-aligned disclosure Exposure Draft (ED) for comment.
<b>Impact on guidance:</b>	The ED will impact the 2024-25 FReM with relevant changes included in the current update and the relevant extract included in this paper for reference. We plan to publish the ED on GOV.UK in December before parliamentary recess.
<b>IAS/IFRS adaptation?</b>	No IAS/IFRS adaptations are proposed in this paper.
<b>Impact on WGA?</b>	No immediate impact on WGA in the paper. Future advice on climate- and sustainability-related reporting may impact WGA's performance reporting section.
<b>IPSAS compliant?</b>	IPSAS is in the process of developing a climate standard. The TCFD recommendations align with ISSB's IFRS-S2, which IPSASB plans to use as the basis for developing their climate standard.
<b>Interpretation for the public sector context?</b>	No IAS/IFRS interpretations are proposed in this paper.
<b>Impact on budgetary and Estimates regimes?</b>	N/A
<b>Alignment with National Accounts</b>	N/A
<b>Recommendation:</b>	The Board are invited to comment on the paper, and are asked to approve the publication of the ED.
<b>Timing:</b>	HM Treasury is asking that the Board approve the ED in this meeting, as it is relevant for 2024-25 annual reports and accounts. Prompt publication on GOV.UK will allow sufficient time for preparers to comment, and HMT to consider the responses in developing the final application guidance, which will be brought to the Board in March 2024 (after FRAB-SSC's review).

## Summary

1. This paper sets out recent sustainability reporting developments and seeks the Board's approval of the TCFD-aligned disclosure Exposure Draft for Phase 2 ('ED') – please refer to Appendix 1.
2. The associated papers for the FRAB-SSC 06 meeting have been included in this paper (in [Annex 1](#)); along with the agenda and [Summary minutes](#) for the Board's reference and a summary of discussions from the TCFD Technical Working Group (TWG) - in [Annex 2](#) and Annex 3.

## Background

3. At FRAB-SSC 06 on 8 November 2023, the subcommittee discussed the developments in the UK, internationally and by standard setters. The Subcommittee discussed the ED, proposed changes - which have now been incorporated into the draft – and agreed to recommend the ED be sent on to FRAB for approval. In addition, the subcommittee has proposed setting out and issuing a position statement updating stakeholders across the wider sector on the approach that the UK public sector is taking to sustainability reporting, in the light of recent developments in international standard-setting.
4. This paper follows on from the last FRAB meeting and accompanying paper, [FRAB 149 \(13\)](#) in June 2023, where the Board approved the TCFD-aligned disclosure Application Guidance for Phase 1, which was published on 20 July 2023.

## Recommendations

### TCFD Position Statement

5. At FRAB-SSC 06, the subcommittee proposed issuing a position statement, from FRAB, on the overall approach to sustainability reporting in the UK public sector, to consider recent developments in international standard-setting. The position statement would:
  - provide a progress update on implementing TCFD-aligned disclosures;
  - affirm the view that adopting TCFD-aligned disclosures remains a 'no regrets' action - based on recent developments by standard setters (e.g., remains aligned with IFRS-S2 from ISSB, and Climate first approach from IPSASB which in turn aligns with IFRS-S2);
  - explain that FRAB and the subcommittee continue to monitor wider developments; however, given the uncertainty on the wider environment, it's too early to make a commitment on adopting sustainability standards.
6. With the Board's permission, HMT plans to draft the position statement for the subcommittee to review and approve, prior to publication.

***Does FRAB support the development of a position statement to summarise progress, affirm and explain the adoption of TCFD-aligned disclosure with respect to recent developments by standard setters? Does FRAB grant permission for the subcommittee to agree on the position statement (as laid out above).***

## TCFD-aligned disclosure Exposure Draft for Phase 2

7. HM Treasury has drafted the TCFD-aligned disclosure ED, for application from 2024-25, which addresses the Phase 2 climate-related disclosures for the Risk Management and Metrics and Targets pillars. This in line with agreed timetable for implementing the TCFD recommendation (Annex 2 of [FRAB 149 \(13\)](#)).
8. The ED adds to the Phase 1 application guidance, which is being applied in central government from 2023-24. The application guidance for Phase 1 introduced the TCFD framework, set out scope and application thresholds and the basis for disclosure (including requirements for a TCFD Compliance Statement), addressed the Governance pillar requirements, and covered interlinkage with existing emissions reporting and the Metrics and Targets recommended disclosure (b).
9. Compared to the Phase 1 application guidance, in the Phase 2 ED *Chapter 1 Introduction* has been updated to provide further clarification on materiality, assurance, and broader considerations. The guidance has been streamlined with minor text updates and visual enhancements. Following FRAB-SSC comments, a flowchart on materiality has been added, and the guidance on materiality has been further clarified.
10. *Chapter 4 Risk Management* is a new chapter for Phase 2 and introduces the Risk pillar, including an overview of risk management and climate-related risks, drawing from the Orange Book and aligning with existing risk reporting across the UK public sector. It clarifies the need for entities to report principal climate-related risks and their impact on service delivery, and addresses when climate risks are not identified as principal risks. No adaptations or interpretations were proposed to the TCFD's supporting guidance. The subcommittee asked for simplified reporting where climate risks has not been identified as a principal risks which has been updated in the ED.
11. *Chapter 5: Metrics and Targets* has been expanded as compared to Phase 1 to add recommended disclosures (a) and (c), and provide further details on (b) emissions reporting. It underscores the mandatory nature of Scope 1 and 2 GHG emissions reporting, with voluntary Scope 3 reporting, and provides guidance on alignment with current reporting frameworks and methodologies. Minor adaptations were made to recommended disclosures (a) and (c) where the Supporting Guidance from TCFD has been updated to remove reference to 'revenue goals' and added consideration for 'service delivery'. The subcommittee asked for further guidance on reporting metrics and targets which are broader than operational impacts, as well as on cross industry metrics, which have been incorporated in the ED.
12. *Annex A: Further Guidance* compiles essential tables and data from TCFD guidance for UK public sector use. It includes examples of climate-related risks and opportunities, financial impacts, and sector-specific metrics, with additional context on public sector risks related to policy leadership, value for money, and accountability.
13. The questions in the ED are intended for respondent to the consultation and not for FRAB to discuss at this meeting. However, HM Treasury would welcome views on the ED and on the consultation questions where members wish to provide them.

***Does the Board support the subcommittee's recommendation to approve the TCFD-aligned disclosure ED for Phase 2 (Appendix 1) for publication?***

## Annex 1 – *for reference only*

### Meeting paper (FRAB-SSC 06)

*Where sections of the subcommittee paper have been incorporated into the covering paper – they have not been duplicated here. Where paragraphs from this section (the FRAB-SSC paper) have been moved to covering FRAB paper – cross-referenced has been added accordingly.*

## Summary and updates

### Background

1. This paper is for the FRAB Sustainability Subcommittee (FRAB–SSC) meeting on 8 November 2023. This paper follows on from the last FRAB meeting and accompanying paper, [FRAB 150 \(11\)](#), in June 2023, where the Board approved the TCFD-aligned disclosure Application Guidance for Phase 1. The Phase 1 application guidance set out the scope and intended audience, the Governance pillar disclosure requirements, the Metrics and Targets recommended disclosure b), as well as mandating a TCFD Compliance Statement.
2. This paper updates members on the sustainability reporting landscape and lays out the decisions for the Subcommittee concerning TCFD-aligned disclosure Exposure Draft for Phase 2, which is due for approval by the Board on 23 November 2023.

## Updates

### Central government

#### HM Treasury guidance and publications

3. In July 2023, HM Treasury published the [Sustainability Reporting Guidance \(SRG\) for 2023-24](#). The [TCFD-aligned Disclosure Application Guidance for Phase 1](#) was published on 20 July 2023 and is addressed further in the next section.

### Private Sector Developments

#### Scope 3 Greenhouse Gas Emissions Call for Evidence

4. In October 2023, the Department for Energy Security and Net Zero (DESNZ) launched a [call for evidence on Scope 3 greenhouse gas emissions \('Scope 3'\) reporting](#) for the private sector (closing 14 December 2023). Scope 3 includes all indirect emissions that occur along the organisation's value chain but that are not included in Scope 2<sup>1</sup>. DESNZ is seeking views on:
  - the costs, benefits, and practicalities of Scope 3 reporting to help inform the government's decision on whether to endorse the International Sustainability Standards Board (ISSB) sustainability standards in the UK

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<sup>1</sup> the indirect emissions from the generation of purchased electricity

- the current Streamlined Energy and Carbon Reporting (SECR) framework, which will inform a Post-Implementation Review of the policy. Central government emissions reporting aligns with the SECR framework.

### Launch of Transition Plans Taskforce Disclosure Framework

5. In October 2023, the [Transition Plans Taskforce \(TPT\)](#) formally launched the 'gold standard' disclosure framework for companies and financial institutions, which established a foundation to present credible and comprehensive climate transition plans within annual business strategy reporting. The framework aims to foster uniformity and comparability in corporate reports, simultaneously simplifying the process for businesses when reporting climate-related data.
6. HM Treasury launched TPT in April 2022 and is considering how best introduce TPT disclosures into UK regulatory regimes (e.g., FCA reporting requirements, large public and private companies).
7. The TPT framework may prove less relevant to government and public sector bodies, where sector-wide coordination on centralised policies and decisions drives better outcomes compared to decentralised entity-level transition plans. DESNZ is responsible for public sector decarbonisation policy.
8. If in the future individual entity-level transition plans are mandated in the UK public sector, then there may be a need for future disclosure requirements in annual reports. However, as entity-level transition plans are meant to exist externally to annual reports, our initial view is that guidance on their treatment would fall outside of our team's remit.
9. We will update the subcommittee on TPT developments in the UK private sector and, as well as UK public sector policy on transition plans in future papers.

### Task Force on Nature-related Financial Disclosure

10. On 18 September, the [Taskforce on Nature-related Financial Disclosures \(TNFD\) Recommendations](#) were published. TNFD complements TCFD and aligns with the global sustainability standards set by the ISSB. However, they match the 'impact materiality' approach of the GRI and the new European Sustainability Reporting Standards.
11. The TNFD recommendations place nature risk on the same level as financial, operational, and climate risks, promoting investments that benefit nature. The release of 14 recommended disclosures, along with additional guidance, follows a two-year period of consultation and pilot testing with companies and financial institutions.
12. The framework is structured around six general requirements, in addition to IFRS-S, and structures around the four pillars of Governance, Strategy, Risk and Impact Management, and Metrics and Targets:
  - The application of materiality.
  - The scope of disclosures.
  - The location of nature-related issues.
  - Integration with other sustainability-related disclosures.
  - The time horizons considered.

- The engagement of Indigenous Peoples, Local Communities and affected stakeholders in the identification and assessment of the organisation's nature-related issues.
13. TNFD's metrics include core global metrics that apply to all sectors; core sector metrics for each sector - disclosed on a comply or explain basis; and a more extensive set of additional optional disclosure and assessment metrics, which preparers may use for their assessment (and, where relevant and helpful, disclosure).
14. In April 2023, Green Finance Strategy's Mobilising Green Investments<sup>2</sup> commitment to explore how best the final TNFD framework should be incorporated into UK policy and legislative architecture. The Environmental Audit Committee plans to explore TNFD further in their upcoming inquiry on 'The role of natural capital in the green economy'.

## International Standard Setters and Regulation

### International Sustainability Standards Board

15. On 26 June 2023, the ISSB released its [first global sustainability disclosure standards](#), IFRS S1 and IFRS S2. The development of IFRS S1 and IFRS S2 sets a comprehensive unified global baseline for sustainability-related disclosures.
16. The ISSB plans to assist in the standards' adoption by forming a Transition Implementation Group, initiating capacity-building programs, and continuing collaborations with various jurisdictions and reporting frameworks like the Global Reporting Initiative (GRI) for enhanced reporting efficiency and effectiveness.
17. Both standards are effective from 1 January 2024 – although UK endorsement is expected in mid-2024 after consultations have concluded.
18. **IFRS-S1 General Requirements for Disclosure of Sustainability-related Financial Information** outlines how reporting entities should prepare and present their sustainability-related financial disclosures, including communicating sustainability-related risks and opportunities across different time frames. This includes ensuring the content and presentation of these disclosures are decision-useful for the users of the reports. IFRS-S1 requires:
- Governance processes, controls, and procedures for monitoring, managing, and overseeing sustainability-related risks and opportunities.
  - The entity's strategy for managing these risks and opportunities.
  - The methods used to identify, assess, prioritize, and monitor these risks and opportunities.
  - Performance concerning sustainability-related risks and opportunities, including progress against set targets or legal/regulatory requirements.
19. **IFRS-S2 Climate-related Disclosures** provides detailed guidance on climate-related disclosures, integrating the TCFD recommendations. The standard mandates entities to disclose information about climate-related risks and opportunities, aimed at

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<sup>2</sup> [Mobilising Green Investment: Green Finance Strategy 2023](#)

informing users of general-purpose financial reports for resource allocation decisions. The standard requires entities to report on how climate-related issues could impact the organisation's cash flows, finance access, or capital cost over short, medium, or long terms, thus affecting the entity's prospects. The standard focuses on:

- Climate-related physical risks.
- Climate-related transition risks.
- Climate-related opportunities.

20. The standard requires disclosures enabling users to understand:

- Governance processes, controls, and procedures for managing climate-related risks and opportunities.
- The entity's strategy for managing these risks and opportunities.
- Processes for identifying, assessing, prioritizing, and monitoring these risks and opportunities, including their integration into overall risk management.
- The entity's performance regarding climate-related risks and opportunities, including progress towards set targets or compliance with legal/regulatory requirements.

21. **Endorsement of the ISSB's sustainability standards in the UK private sector** - The UK Government plans to evaluate and approve the ISSB's Sustainability Disclosure Standards for the UK private sector. The decision will be made by the Secretary of State for the Department for Business and Trade (DBT) based on assessments by DBT officials and recommendations from the UK Sustainability Disclosure Technical Advisory Committee (TAC). Via the Financial Reporting Council (FRC), TAC launched a [call for evidence on the UK endorsement of IFRS-S1 and S2](#) (closed 11 October 2023) to gather opinions covering the following aspects:

- Understandability, relevance, reliability, and comparability of disclosures.
- Technical feasibility and timeliness of preparation.
- Expected benefits versus costs.

22. **TCFD monitoring responsibilities** - After the release of ISSB Standards IFRS S1 and IFRS S2, the Financial Stability Board (FSB) requested the [IFRS Foundation oversee the monitoring of companies' climate-related disclosures](#), a role previously held by the TCFD. As the ISSB Standards come into effect globally from 2024, the IFRS Foundation will assume the responsibility of tracking the adoption and quality of climate-related disclosures across companies.

### **International Public Sector Accounting Standards Board (IPSASB)**

23. In June 2023, IPSASB decided to move forward with a [Climate-related disclosure project](#). To support this initiative, the IPSASB has formed a Climate-related Topic Working Group for expert advice on climate issues and a Sustainability Reference Group to guide the development of its overall sustainability reporting standards. Broadly IPSASB's Climate-related disclosure project will use IFRS-S2 as the base starting point, drawing from the Global Reporting Initiative (GRI) guidance where multistakeholder needs need to be specifically addressed. IPSASB also plans to



consider UN Sustainable Development Goals and Nationally Determined Contributions as part of the project.

24. The Board hopes to be able to initiate other sustainability research projects on IFRS-S1, however this is subject to funding and resource availability. Max Greenwood is representing HM Treasury on ISSB's Climate Topical Working Group.

### **European Sustainability Reporting Standards**

25. On 31 July 2023, the European Commission officially adopted the European Sustainability Reporting Standards (ESRS), applicable to all companies subject to the Corporate Sustainability Reporting Directive (CSRD). The comprehensive standards span a wide array of environmental, social, and governance (ESG) themes, including climate change, biodiversity, and human rights.
26. Designed to furnish investors with critical insights into the sustainability impacts of their investments, the standards are crafted in consultation with the ISSB and the GRI. This collaborative approach aims to achieve a high level of interoperability, simplifying the reporting process for companies and avoiding the need for duplicate reporting efforts.

## **Task Force on Climate-related Financial Disclosure (TCFD) implementation**

### **TCFD-aligned Disclosure Application Guidance – Phase 1**

27. In June 2023, FRAB approved the TCFD-aligned Disclosure Application Guidance for Phase 1, which addressed scoping considerations, the disclosure basis, the Governance pillar, and the overlap of Metrics and Targets recommended disclosure b) and existing central government emission reporting. The related application guidance was published in July 2023.
28. HM Treasury has used various dissemination channels to announce the requirements (e.g., presentations, news articles, conferences). In addition, relevant reporting information is proposed in the Financial Reporting Manual (FRoM) for 2023-24 – scheduled for FRAB's review in November 2023. Relevant updates will also be included in the PES paper on ARA preparation which will be published over the coming months.

### **TCFD-aligned Disclosure Exposure Draft – Phase 2**

#### **TCFD Technical Working Group**

29. HM Treasury has chaired the first two TCFD technical working group (TWG) meetings on 23 August and 25 October 2023. The group consists of preparers from across the UK public sector and sustainability experts. In the first session, the group discussed overarching concepts around TCFD implementation, including disclosure remit, interlinkage with existing performance reporting requirements, and interoperability with other reporting frameworks. In the second session, TCFD-TWG reviewed the Exposure Draft for Phase 2. A summary of the discussions at TCFD-TWG 01 and 02 has been included in Annex 2. The feedback and comments received from the working



group have been incorporated into the most recent draft of the Exposure Draft – attached as an appendix.

## Exposure Draft

30. As agreed by FRAB previously, the TCFD application guidance will be additive with future phases incorporated into the existing guidance and published in updated versions. The following changes have been made to the Phase 2 Exposure Draft as compared to the Phase 1 Application Guidance:

31. **Chapter 1 Introduction** – Some of the materiality guidance was moved from *Chapter 2 Governance* into this chapter as this could be applied more broadly to all TCFD pillars. Feedback from TCFD-TWG 01 indicated a need for additional information on the concepts and principles section, including on the primary users of annual reports and accounts, materiality assessments, the remit for risk reporting and on assurance responsibilities. In addition, the introductory information on the framework and guidance was condensed, and there were minor wording changes and updates to figures and tables.

*[Questions from the FRAB-SSC meeting – not FRAB. Refer to Annex 3 for the summary minutes to the discussion]*

*Question 1. Additional detail has been added to the Concepts and Principles section based on feedback from preparers. Is the guidance on Primary users and materiality sufficiently clear? Does the guidance on materiality and broader considerations adequately set out the boundary considerations for disclosure?*

*Question 2. Does Chapter 1 provide sufficient detail on TCFD-aligned disclosure for UK public sector bodies? Does this adequately set out the scope, principles, and concepts for making disclosure? Is further detail required in this chapter?*

32. **Chapter 4 Risk Management** – This chapter on the Risk pillar was introduced with an overview of risk management and climate-related risk; and the Risk pillar's recommendation and recommended disclosures (a) to (c). The introduction draws from the Orange Book<sup>3</sup> risk guidance; existing performance reporting requirements from across the public sector; and the FRC's guidance on Strategic Reports, which informs UK public sector performance reporting.

33. The Task Force necessitates disclosures related to the Risk Management pillar without being subject to a further materiality assessment. The ED also adopts this approach for TCFD-aligned disclosure in the UK public sector.

34. The chapter addresses the overlap with existing performance reporting requirements across the public sector on principal, new and emerging risks, requiring reporting entities to describe the principal risks and uncertainties facing the organisation related to climate change, and any significant impacts on service delivery. There is also a requirement for reporting entities to explain where climate change is not considered a principal or emerging risk, where users would reasonably expect it to be.

*[Questions from the FRAB-SSC meeting – not FRAB. Refer to Annex 3 for the summary minutes to the discussion]*

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<sup>3</sup> Government risk management concepts: [www.gov.uk/government/publications/orange-book](https://www.gov.uk/government/publications/orange-book)

***Question 3. Guidance has been included on how TCFD-aligned disclosures interact with existing UK public sector risk reporting requirements in the 'Principal, new and emerging risks' section. Is the guidance sufficiently clear on this interaction?***

35. No interpretations or adaptations have been made to the 'Supporting guidance from TCFD' for Risk Management recommended disclosures (a) to (c). Updated references were made to recommended disclosure (b), which draws in examples of Climate-related Risks/Opportunities in Annex A. The 'Public sector considerations and further guidance' section provides additional clarity to annual report preparers (e.g., on prioritisation, interactions with other strategic risks). The ED incorporates feedback from TCFD-TWG 02.

*[Questions from the FRAB-SSC meeting – not FRAB. Refer to Annex 3 for the summary minutes to the discussion]*

***Questions 4, 5, and 6. No interpretations and adaptations have been made for Risk Management recommended disclosures (a), (b) and (c). Do you support this assessment? Is the information in 'Public sector considerations and further guidance' sufficient for preparers?***

***Question 7. Do you have any further comments on this chapter?***

36. **Chapter 5 Metrics and Targets** - This chapter on the Metrics and Targets pillar was introduced in Phase 1 to address the interlinkage with existing emission reporting in central government and across the wider public sector, with Metrics and Targets recommended disclosure (b). Phase 2 introduces Metrics and Targets recommended disclosures (a) and (c) and adds further detail for emissions reporting.
37. The Task Force guidance requires Metrics and Targets recommended disclosure (b) to be reported without being subject to a materiality assessment (Scope 1 and 2 GHG emissions only). The ED also adopts this requirement for TCFD-aligned disclosure.
38. While the Task Force encourages organisations to disclose Scope 3 GHG emissions, this goes beyond existing emissions reporting policy in the UK private and public sector<sup>4</sup>. DESNZ is responsible for emissions reporting policy and has launched a call for evidence on Scope 3 emissions reporting (refer to para. 4). While the ED does not require Scope 3 reporting, reporting entities may wish to report on further Scope 3 categories voluntarily. This is addressed in the *Public Sector Considerations and Further Guidance* section. Further guidance on Scope 3 reporting considerations is included in *Chapter 6 Further Voluntary Reporting* of the SRG.
39. General guidance on Metrics and Targets addresses prior period reporting, baselining, and alignment with existing reporting frameworks. No interpretations or adaptations were proposed for Metrics and Targets recommended disclosures (a) and (b) and the Supporting guidance from TCFD. The Public Sector Considerations and Further Guidance subsection was used to provide context for alignment with existing reporting frameworks and methodologies, industry and cross-sector comparatives, as well as specific topics on intensity metrics, remuneration policy and carbon pricing.

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<sup>4</sup> Certain sections of the UK public sector have started to address Scope 3 category (mainly with respect to business travel); however, there isn't a consistent view at this stage.

40. The 'Supporting guidance from TCFD' on Metrics and Targets recommended disclosure (c) was adapted to introduce reference to 'service delivery' into product lifecycle emissions considerations and remove reference to 'revenue goals from for products and services designed for a low carbon economy'. The Public Sector Considerations and Further Guidance subsection was used to provide additional detail and context.

*[Questions from the FRAB-SSC meeting – not FRAB. Refer to Annex 3 for the summary minutes to the discussion]*

*Question 8 and 9. Minor interpretations and adaptations have been made to Metrics and Targets (a) and (b). The reference to 'Examples of Climate-Related Risks/Opportunities and Potential Financial Impacts' and 'Cross-Industry, Climate-Related Metric Categories' has been included in Annex A for reference. Do you support this assessment and directly drawing from TCFD's guidance? Is the guidance in 'Public sector considerations and further guidance' sufficient for preparers?*

*Question 10. Metrics and Targets (c) has been adapted to add a reference to 'service delivery' in product lifecycle emissions considerations, and remove reference to 'revenue goals from for products and services designed for a low carbon economy'. Do you support this adaptation? Is the information in 'Public sector considerations and further guidance' sufficient for preparers?*

*Question 11. Do you have any further comments on this chapter?*

41. **Annex A Further Guidance** – this annex was added to incorporate key tables and information from the Task Force's own guidance, alongside other useful information for the UK public sector. The annex incorporates TCFD examples of climate-related risks and opportunities, and their financial impacts, in addition to cross-industry and climate-related metrics categories. These are referenced to in Supporting Guidance from TCFD for Risk Management recommended disclosure (b) and Metrics and Targets recommended disclosure (a) and (c). The further guidance also includes details on climate-related risks specific to the public sector on policy leadership, value for money, accountability and coordination and delivery. Finally, the annex references and provides information on existing relevant risk reporting across the UK public sector.

*[Questions from the FRAB-SSC meeting – not FRAB. Refer to Annex 3 for the summary minutes to the discussion]*

*Does the Subcommittee support the TCFD-aligned Disclosure Exposure Draft for Phase 2 being presented to FRAB for approval at their next meeting on 23 November 2023?*

## **Annex 2 – *for reference only***

### **TCFD-TWG 01**

10.30am-12pm on 23 August 2023

#### **1. Phase 1 Feedback Application Guidance:**

Revisions for the next guidance version include:

- Defining 'carbon-related assets' (para. 1.7).
- Clarifying reporting requirements for public corporations and Arms-Length Bodies (paras. 1.24 and 1.25).
- Detailing the Accounting Officer's role in ensuring accuracy of performance-related information (Assurance sub-section).
- Clarifying reporting requirements on Metrics and Targets (paras. 5.8 to 5.15)

#### **2. Phase 2 Risk Management:**

The group supported:

- Broadening the risk assessment remit to include impacts on the UK economy, environment, and the public, beyond just Outcome Delivery Plans.
- Targeting disclosures primarily at annual report users, with advice to cross-reference other reports for non-material TCFD-related information.
- Requiring organisations to declare whether climate change is a principal, new, or emerging risk, or explain its absence as such.

#### **3. Phase 2 Metrics and Targets:**

The group generally supported:

- Staying in line with GGC reporting requirements for emissions reporting methodology, but with clearer guidance on permissible deviations.

## Annex 3

# Agenda and minutes for FRAB-SSC 06

Time: 3pm to 5pm on Wednesday 8 November 2023

Location: Virtual via MS Teams

## Agenda

### Attendees

Name	Initials	Position	FRAB Role
Sarah Geisman (Chair)	SG	HM Treasury (HMT)	Relevant authority
James Osbourne	JO	National Audit Office	Auditor representative
Karen Sanderson	KS	CIPFA	Relevant authority
Iain Murray	IM	CIPFA	Relevant authority
Lynn Pamment	LP	Jersey Audit Office	FRAB Chair
Ian Webber	IW	DESNZ	Preparer representative
Max Greenwood (Secretariat)	MG	HMT	-

### Apologies

Mike Sunderland	MS	DfE	Preparer representative
Conrad Hall	CH	Newham Council	CIPFA/LASAAC Chair

## Agenda

3.00-3.05pm - Welcome and introductions

3.05-3.35pm - Sustainability reporting updates

3.35-3.40pm - Update on TCFD-aligned disclosure AG Phase 1 progress

3.40-4.55pm - Discuss TCFD-aligned disclosure ED Phase 2

4.55-5.00pm - AOB

## Actions

	Item	Details	Progress
	<b>FRAB-SSC 04 on 1 March 2023</b>		
1	Sustainability Reporting Expert	HMT to identify potential candidates with sustainability reporting expertise and consider updates to update the FRAB-SSC Terms of Reference.	Open – ongoing work to identify potential candidates (e.g., UKEF early adopters, TCFD Technical Working Group) with proposed updates to Terms of Reference to be brought to next meeting.
	<b>FRAB-SSC 05 on 20 June 2023</b>		
2	TCFD-aligned disclosure application guidance	HMT to update draft application guidance: <ul style="list-style-type: none"> <li>setting the national reporting boundary as the requirement, and international boundary as best practice</li> <li>addressing the minor correction to Annex B, specifically the Metrics and Targets pillar.</li> </ul>	Closed – published in July 2023. Note guidance on national and international reporting boundaries not included in the guidance as treatment across the sector varies.

3	Financial reporting implications for climate change	HMT to update draft financial reporting guidance: <ul style="list-style-type: none"> <li>• adding further detail on the general statement on IAS 37</li> <li>• adding linkage to government financial reporting manuals.</li> </ul>	Closed – The paper was updated with the updated IFRS Educational Material link, and published on GFF's Digital Platform, OneFinance.
<b>FRAB-SSC 06 on 8 November 2023</b>			
4	Position Statement	HMT to draft, agree and publish a Position Statement on implementing TCFD-aligned disclosure and sustainability reporting developments.	Open
5	TCFD-aligned disclosure Exposure Draft Phase 2	HMT to update the ED with the subcommittee comments, and take to FRAB for review and approval prior to publication	Open

## Publication procedures and details

1. Based on time constraints, the summary minutes for the FRAB-SSC meeting have not been circulated to the Subcommittee for comment in advance of the FRAB meeting.
2. These minutes should be read in conjunction with the supporting paper for FRAB-SSC 06 – refer to [Annex 1](#).

## Summary minutes

### Introduction

3. Sarah Geisman adopted the role of Chair for the session (rotating basis). The Chair welcomed members and introduced the session.

### Sustainability Reporting Updates

4. HMT provided a brief overview of the sustainability reporting updates covered in the paper. In addition, HMT updated the subcommittee on IPSAS's recent Climate Topical Working, where their planned timetable was set out - ED by Q3 2024 and a full standard by H2 2025. In addition, IPSASB confirmed that Climate Standard's structure and base disclosures would be based on IFRS-S2, utilising in IPSAS's Conceptual Framework and incorporating impact materiality from the Global Reporting Initiative (GRI). IPSASB is developing a Climate Standard first and, if resources and funding are available, will create a General Requirements Standard and a Biodiversity Standard. HMT also explained that ISSA 5000 Sustainable Assurance was open to consultation.
5. A member asked whether FRAB should issue a position statement on the overall approach to sustainability reporting in the UK public sector, to consider recent developments in international standard setting. The subcommittee discussed and supported the development of a position statement to:
  - provide a progress update on implementing TCFD-aligned disclosures;
  - affirm the view that adopting TCFD-aligned disclosures remains a 'no regrets' action - based on recent developments by standard setters (e.g., remains aligned with IFRS-S2 from ISSB, and Climate first approach from IPSASB which in turn aligns with IFRS-S2);

- explain that FRAB and the subcommittee continue to monitor wider developments; however, given the uncertainty on the wider environment, it's too early to make a commitment on adopting sustainability standards.
6. The group discussed the fast-paced developments in sustainability standards. The three-year phased implementation for TCFD-aligned disclosures has provided clear direction for preparers while allowing time for FRAB, government and relevant authorities to consider options for developing sustainability reporting policy as the broader standard setting landscape settles.
  7. A member raised that while the ISSB has developed standards fast and consolidated existing frameworks, there is a risk of proliferation with developments from the EU and elsewhere. HMT noted that the European Sustainability Reporting Standards (ESRS) allow for interoperability with IFRS Sustainability Standards while also requiring information on impacts - which incorporates a broader stakeholder base, aligning closely with GRI's impact materiality assessment.
  8. Another member articulated views from others that, historically the UK had led on government financial reporting (e.g., adoption of IFRS); however, more recently has fallen behind its peers. There's a broader question on where the UK wants to be – ahead, at pace, or following - on sustainability reporting, and the member thought that any of these positions were justifiable—there just needs to be a conscious decision taken here. HMT confirmed that they were working with international counterparts in the US, Canada, Australia, and NZ.
  9. The group then discussed potential future options considering developments from IPSASB on impact materiality and the feasibility of adopting IFRS-Ss. HMT explained that ISSB's sustainability standards may be challenging to interpret and adapt, failing to address the wider stakeholder base on public sector bodies for sustainability reporting. IPSASB is addressing these centrally; however, there is a risk that available funding and resource limits IPSASB standards development in this area.
  10. The group discussed FRAB's authority in this area. While the decision to adopt TCFD-aligned disclosure is in the Board remit - with a clear focus on financial materiality - future decisions on which other sustainability standards to adopt, if any, would likely need agreement from government, with consultation and coordination across the devolved administrations and relevant authorities. HMT confirmed that the FRAB effectiveness review and Terms of Reference update, planned for March 2024, may offer a good opportunity to consider this further. The current political aspects of such a decision were discussed by the group.

#### **TCFD-aligned disclosure application guidance for Phase 1 update**

11. HMT updated the group that the application guidance for Phase 1 was published on GOV.UK in July 2023. Since then, there have been announcements online (e.g., OneFinance News Articles), presentations to various groups across government and the wider public sector (e.g., Healthcare Financial Management Association), and plans to publish in the FReM and in the PES paper to departments on annual reporting.
12. A member asked about the challenges in ensuring the correct teams had been notified. HMT explained there are difficulties in identifying the correct individual



owners, as this varies depending on how an organisation manages sustainability reporting (e.g., within finance, a sustainability lead outside finance, estates). HM Treasury noted that finance teams (and accounting officers) are ultimately responsible for the information included in the annual report and accounts (ARAs).

13. Another member acknowledged that recent Machinery of Government (MoG) changes highlighted that departments often followed different approaches to internal monitoring and governance on climate and sustainability.
14. Another member asked whether HMT had considered using standard templates (e.g., Department Yellow) for TCFD-aligned disclosures. HMT confirmed that while standard templates had been used for sustainability reporting in the past, these had been withdrawn to remove the 'boilerplate' disclosures.
15. A member asked about the monitoring mechanisms for TCFD-aligned disclosure. HMT noted that while there is no formal process for monitoring prior to publication, preparers are involved in various cross government groups (e.g., Sustainable Finance Network, TCFD-TWG). While HMT would not usually check compliance with implementing performance reporting, the planned TCFD Good Practice Guide for Phase 1 would require a detailed reviews of ARAs. TCFD-TWG will help with this work (and will also help give preparers examples of TCFD implementation to help address the 'Department Yellow' point above). This will help to identify any non-compliance for Phase 1, which can be addressed informally at an early stage before more technical requirements are introduced for Phase 2 and Phase 3.

#### **Chapter 1 Introduction of ED**

16. HMT provided a brief overview of the updates - summarised in the accompanying paper.
17. A member explained that they found the 'material by value or by nature' explanation confusing and were unsure how this fitted in with the comply or explain basis for disclosure. Another member agreed, noting that the way TCFD's requirements has been incorporated was confusing.
18. HMT explained that the Task Force's guidance requires a materiality assessment on Strategy and certain Metrics and Targets disclosures, while the Governance and Risk Management disclosures should not be subject to a materiality assessment as they are fundamental to understanding how an organisation manages climate-related risks. HMT agreed to incorporate a flow chart or diagram to clarify the requirements and remove reference to material by value or by nature.
19. The subcommittee agreed they were content with Chapter 1.

#### **Chapter 4 Risk Management of ED**

20. HMT provided a brief overview of the new chapter on Risk Management - summarised in the accompanying paper. This chapter addresses reporting on integral risk management processes, with existing external risk reporting (for accountability and transparency) - in the performance and narrative report.
21. A member asked why there was not an explicit requirement for reporting entities to articulate their rationale where climate was not considered a principal risk and instead,

para. 4.14 included *'where users would reasonably expect climate to be a principal (or emerging) risk, but the organisation does not consider...'*. Another member agreed the *'users would reasonably expect'* was unhelpful from a preparer perspective.

22. HMT explained that requiring preparers to disclose when climate was not considered a principal risk may lead to unwanted pressure (or an indication of preference) that climate should be considered a principal risk when this may not be the case for many preparers. However, HMT noted that this risk could be managed via other messaging and training during implementation. HMT agreed to update the disclosure requirement on principle risks to *'Where climate is not designated a principal risk or part of a principal risk, reporting entities to must articulate their rationale'*.
23. The subcommittee agreed they were content with Chapter 4.

### **Chapter 5 Metrics and Targets of ED**

24. HMT provided a brief overview of the expanded chapter on Metrics and Targets - summarised in the accompanying paper.
25. The members supported alignment with existing cross-government metrics where possible. A member noted that the Metrics and Targets should not be purely prescriptive. HMT agreed and explained that the ED has tried to strike a balance between the entity-level nature of the TCFD framework and existing cross-government reporting frameworks. Organisations often use a combination of internal sustainability metrics, and those set by external authorities, to measure performance. The ED looks to drive comparability; while allowing for flexibility in incorporating the entity-level component.
26. A member asked about cross-industry and cross-sector comparatives – noting that the public sector is a sector in its own right, responsible for delivering policy. The disclosures should focus on providing a fair and balanced view on outcomes, and asked whether this could be brought out in the ED. Members also voiced concerns over greenwashing and the inclusion of irrelevant information. HMT explained this is an existing risk in Performance Reports which are not subject to external assurance.
27. Members expressed a variety of views on incorporating metrics and targets for wider policy objectives outside of an individual entity's direct performance. A member noted the benefits of the wider remit, particularly with respect to Risk Management, where a coordinated response to climate change is often needed. Another said the priority need to be on operational impacts. While the subcommittee considered including a related question in the ED for preparers to answer, there was a risk that responses would be driven by simplicity of preparation rather than utility to users.
28. Overall, the subcommittee agreed on the benefit of incorporating information on wider impacts into the disclosure; however, asked for further guidance to ensure any broader disclosures are clearly separate from an entity's own operational impacts, and that that the threshold for including such information in the annual report (or signposted elsewhere) is clearly set out.
29. The subcommittee agreed that they were content with the chapter and, once their comments had been addressed, to recommend the ED was taken to FRAB for approval. HMT explained the timetable for the ED, with a view of getting comments

from the consultation to the subcommittee at their next meeting, to enable the application guidance to be published in April 2024 (after approval at FRAB 152).