



Financial Reporting Advisory Board

TCFD-aligned disclosure and Sustainability Reporting Update (FRAB-SSC 08 and 09)

Issue:	The paper sets out the FRAB Sustainability Subcommittee's (FRAB-SSC's) recommendations from the June 2024 meeting and asks for the Board's approval to publish the Task Force on Climate-related Financial Disclosure (TCFD) -aligned disclosure Exposure Draft (the ED) for Phase 3 ¹ .
Impact on guidance:	The ED will be published on GOV.UK and will impact the FReM. Relevant signposting will be included in FReM 2024-25 once the application guidance has been finalised.
IAS/IFRS adaptation?	No IAS/IFRS adaptations are proposed in this paper.
Impact on WGA?	There is no immediate impact on WGA in the paper. Advice on climate- and sustainability-related reporting may impact WGA's performance reporting in the future.
IPSAS compliant?	The TCFD recommendations and guidance align with the International Sustainability Standards Board's <i>IFRS-S2 Climate-related Disclosures</i> . IFRS-S2 forms the foundation of IPSASB's Climate Standard Exposure Draft.
Interpretation for the public sector context?	No IAS/IFRS interpretations/adaptations are proposed in this paper. The ED interprets and adapts the TCFD recommendations in a public sector context.
Impact on budgetary and Estimates regimes?	N/A
Alignment with National Accounts	N/A
Recommendation:	The Board are invited to comment on the paper, and are asked to approve the ED.
Timing:	Approval at this meeting – for publication on GOV.UK over summer 2024. HM Treasury is in the process of determining the best exact timing for publication, given the upcoming general election.

¹ With the agreement of FRAB, HM Treasury set out a three-year phased implementation for TCFD-aligned disclosure in central government – refer to Appendix 1 of [FRAB 149 \(13\)](#) - with:

- Phase 1 (for 2023-24) – for the Governance recommended disclosures, incorporating emissions reporting, thresholds and characteristics for reporting, and other concepts and principals.
- Phase 2 (for 2024-25) – for the Metrics and Targets and Risk Management recommended disclosures.
- Phase 3 (for 2025-26) – for the Strategy recommended disclosures.

Background

1. This paper follows the last FRAB meeting and accompanying paper, [FRAB 152 \(02\)](#) in March 2024, where the Board approved the [TCFD-aligned disclosure Application Guidance for Phase 2](#) – published on 21 March 2024.
2. At this meeting, the Government Actuary Department (GAD) presented their advice on approaches for climate scenario analysis for the TCFD-aligned disclosure Exposure Draft for Phase 3 (the ED). Considering the feedback received from FRAB, HM Treasury worked with GAD to develop options on Phase 3 application guidance for the Subcommittee to consider at FRAB-SSC 08 on 15 May 2024.
3. Based on Subcommittee feedback at FRAB-SSC 08, HMT drafted the ED, with input from GAD, as follows:

Introduction, risk reporting and Strategy a) on time horizons

- enhances guidance on principal risk assessments, incorporating the existing risk reporting guidance from Chapter 4 on Risk Management (introduced in Phase 2).
- directs preparers to set time horizons for Strategy a) based on the life of assets, noting climate risks often crystallise over longer time horizons (in line with the Task Force's guidance).

Strategy b) on impacts

- Includes interpretations for a UK public sector context on the recommended disclosure and supporting guidance from TCFD, using primary users instead of investors, organisations' operations' instead of organisations' businesses.

Strategy c) on climate scenario analysis

- Includes an adaptation to remove the revenue threshold of 1 billion USD equivalent for considering robust scenario analysis, allowing organisations flexibility on scenario analysis, and noting the different thresholds used earlier in the guidance (and in other UK private sector frameworks).
 - mandates three reference periods for climate scenario analysis, including:
 - a common reference period of mid-century (2050s) – for all reporting entities
 - a common reference period of end of the century (2080s-2100) – for those reporting entities that:
 1. own, manage, or regulate significant assets and infrastructure; or,
 2. deliver essential public goods or services which are likely to be significantly affected; or,
 3. set longer-term policy which is likely to be significantly affected.
Identified by Subcommittee and added post FRAB-SSC 09 (included here for completeness)
 - mandates global warming level pathways of 2°C and 4°C – aligning with the Climate Change Committee's (CCC's) recommendation (to plan for 2°C and prepare for 4°C).
4. The ED consultation seeks feedback on the ED and proposed approach. The Subcommittee reviewed and commented on the ED at FRAB-SSC 09 on 13 June 2024; recommending a wider scope for policy setters/regulators for mandatory end-of-the-century (2080s-2100)

reference periods, and had other relatively minor drafting changes (discussed in more detail in para. 16).

5. The associated minutes and papers for the FRAB-SSC 08 and FRAB-SSC 09 meetings have been included in this paper – refer to [Annex 1](#) and [Annex 2](#) respectively.

Recommendations

6. The Subcommittee agreed that, following the updates, the ED should be presented to Board at the June FRAB meeting for review, comment, and approval. The Subcommittee’s feedback has been incorporated into the draft ED circulated to the Board — refer to Appendix 1 and 1b.
7. GAD will join FRAB for this agenda item to discuss the ED including the climate scenario analysis application guidance and answer questions from Board members.
8. Comments and drafting points are still being received from the TCFD Technical Working Group (TWG) and other stakeholders. While some feedback was received in time for it to be incorporated in this paper, other changes (e.g., based on subsequent feedback from stakeholders) will be addressed verbally in the meeting. Following ministerial review and continued stakeholder engagement, there may be further changes prior to publication. If these are significant, HMT will communicate these to the Board.
9. Following the Board’s approval, HMT plans to publish the ED over the summer 2024 – pending ministerial clearance after the general election on 4 July 2024.

HM Treasury requests the Board discuss the updated TCFD-aligned disclosure Exposure Draft for Phase 3, including the consultation questions.

FRAB-SSC recommends that the Board approve the updated TCFD-aligned disclosure Exposure Draft for Phase 3 for consultation over the summer 2024. Do you agree? Yes / No

Summary

Implementation progress - Phase 1 annual reports and accounts for 2024-25

10. Following the general election announcement on 22 May 2024, Parliament was dissolved on 30 May 2024. Annual reports and accounts (ARAs) can only be laid while the House of Commons and House of Lords are sitting. HMT plans to analyse TCFD-aligned disclosures in 2023-24 ARAs (the first year of mandatory Phase 1 implementation), once they are laid later in the year. HMT has been responding to preparer queries in relation to TCFD-aligned disclosures, however, there are no significant points to note.

FRAB-SSC 08 - May 2024

11. On 15 May 2024, the Subcommittee agreed on granting flexibility to entities for setting time horizons for Strategy recommended disclosure a) (herein ‘Strategy a’), allowing different horizons for Strategy a) and c). Instead of having a centrally mandated timeframe, entities are given the autonomy to set their own time horizons for Strategy a), through structured guidelines.
12. For Strategy c), FRAB-SSC supported the central setting of some reference periods (previously referred to as anchor points) in the application guidance, as recommended by HMT and GAD. The specific timeframes agreed upon include nearer-term periods defined by the entity’s business and strategic cycles, and long-term periods set to 2050 and the end of the century (2080-2100). Additionally, FRAB-SSC requested that HMT explore optionality for very-long-term timeframes in the ED for further consultation.

13. In terms of climate scenario analysis, FRAB-SSC agreed with HMT and GAD's recommendation to align physical climate-driven scenarios with Defra's existing climate risk frameworks, specifically incorporating scenarios based on 2°C and 4°C warming (and potential SSP-RCP combinations).
14. For transition-driven scenarios, while the primary focus should remain on physical climate risks, FRAB-SSC asked HMT to further explore guiding principles for transition scenarios in the ED. This approach ensures that the strategies are in line with existing climate change risk frameworks while providing entities the flexibility to adapt the guidelines to their specific contexts.

FRAB-SSC 09 – June 2024

15. On 13 June 2024, the Subcommittee provided comments and views on the ED. FRAB-SSC requested that the ED be updated to:
 - Include a definition of cross-cutting risks and guidance on their implications for materiality assessment.
 - Include guidance to clarify that principal risks should be assessed for significant climate-related elements (which would trigger reporting requirements).
 - Include clarification that Strategy b) requires a description of impacts on policy setters and regulators - as part of their own strategy, in line with the broader considerations for government and public sector bodies (introduced in Chapter 1).
 - Add a test for mandatory end-of-the-century climate scenario analysis for reporting entities that set policy which is, or regulate industries/sectors that are, likely to be significantly impacted (with related ED consultation questions to gather feedback).
 - Add further clarification on principals for defining essential public goods and services to *include those which are essential for the maintenance of societal or economic activities, or that the UK public rely upon, on a daily or near daily basis.*
16. The Subcommittee recommended that the ED be provided to the Board for review, comment and approval in June – pursuant to HMT making the requested updates.

Principal, new and emerging risks

17. For Phase 2, guidance on applying existing UK public sector risk reporting to climate was included in Chapter 4. This covered principal, new, and emerging risks and drew from performance and narrative risk reporting. This section has been moved to Chapter 3 in the Phase 3 ED, given Strategy a) and b) requirements to disclosed identified climate risks and their impacts.
18. Since the publication of the TCFD-aligned disclosure application guidance for Phase 2, HMT received requests for additional guidance on applying principal risk assessments. The Phase 3 ED enhances this guidance, drawing from new and updated publications from the FRC on principal, new and emerging risk reporting in annual reports relevant to the Strategic Report for companies - as well as from the Corporate Governance Code and guidance on viability statements). This new and updated FRC guidance is likely to be relevant for wider risk reporting in the FReM. HMT will consider exploring this for future version of the FReM.

Strategy a) on time horizons

19. The ED directs reporting entities to set their own time horizons for Strategy a), considering the life of their assets and the medium to long-term crystallisation of climate-related issues - in line with Supporting guidance from TCFD. This section builds on existing risk reporting introduced in Phase 2 and offers guidance on climate-related opportunities – noting the need for preparers to apply the principles of materiality, fairness, balance, and understandability.

20. The ED does not adapt TCFD's recommended disclosures and supporting guidance. Consultation questions 2a and 2b seek feedback on the proposed approach, the additional guidance on time horizons, broader considerations, and climate-related opportunities.

Strategy b) on impacts

21. This section emphasises the connection between the climate-related issues identified in Strategy a) and their impacts in Strategy b), incorporating broader considerations relevant to government and public sector bodies - introduced in Phase 1.
22. It advocates for the quantification of impact information for Strategy b), encouraging the use of quantitative financial data, including appropriate ranges, estimates, and assumptions. Common UK public sector interpretations have been made to the TCFD recommendations, recommended disclosures and supporting guidance, to address differences in terminology and application, including investors interpreted as primary users; expanding investment in research and development to include grants; and other minor changes for terminology.
23. Consultation Question 3 seeks feedback on the guidance regarding impacts, particularly in relation to broader public sector impacts and the quantification of these impacts.

Strategy c) on climate scenario analysis – recommended disclosure and supporting guidance

24. FRAB-SSC have recommended that the time horizons for Strategy c) should be allowed to differ from those for Strategy a) – consistent with the Task Force's guidance. Drawing on the terminology from the CCC, the ED uses pathways, the ED uses 'reference periods/points' (or anchor points) instead of 'scenario analysis time horizons' and 'pathways' instead of 'physical/transition-driven scenarios'.
25. The ED also proposes adapting the supporting guidance from TCFD to remove the revenue threshold to consider robust scenario analysis. This has less direct relevance for public sector bodies (and this not being incorporated into UK private sector guidance). Instead, the ED sets out factors (e.g., assets, infrastructure and provision of essential services) for consideration and provides guidance on quantitative versus qualitative analysis. Consultation Question 4 seeks feedback on this adaptation.

Strategy c) on climate scenario analysis - reference periods

26. In line with FRAB-SSC 08 decisions, the ED proposes that reporting entities conducting climate scenario analysis use at least three different reference periods: one or two near-term periods chosen by the organisation; a mandatory common mid-century period (2050s); and an end-of-century period (2080s-2100) mandatory for significantly impacted entities.
27. The choice in reference periods align with the CCC's methodology - allowing entities to leverage from existing processes. Ranges for reference periods provide flexibility and are more appropriate when assessing physical risks that rarely crystalize at a single point in time. A longer range is applied for the end-of-century reference point due to the high uncertainty of distant future data.
28. The ED notes that transition risks that are likely to materialise close to but before 2050 should be considered within the mid-century reference period to simplify scenario analysis. The end-of-century analysis is mandated for entities with significant assets or infrastructure, or those providing essential public services (or public goods) likely to be affected by climate change - ensuring relevant long-term scenario analysis. Entities must also select their own near-term reference periods, with three reference periods in total. The ED includes questions seeking feedback on the use of three reference periods, mandating mid-century for all, and end-of-century for significantly impacted entities.

Strategy c) on climate scenario analysis – pathways

29. At FRAB-SSC 08, the Subcommittee agreed that the ED should align climate scenario pathways with global warming levels set by the CCC's existing climate change risk assessment frameworks. The ED requires climate scenario analysis for global warming levels of 2°C and 4°C by the end of the century, adapting the recommended disclosure to focus on these specific scenarios – rather than a 2°C or lower.
30. This adaptation is consistent with the CCC's recommendation for the UK government to prepare for 2°C warming and assess the risks of 4°C warming, emphasizing physical climate-related risks relevant to government and public sector bodies. Question 8 of the ED consultation seeks feedback on this approach.
31. The ED also provides guidance on alternative physical, socio-economic, and transition pathways, allowing reporting entities to use these using the existing comply or explain basis for disclosure. Entities should use the two primary global warming level pathways (2°C and 4°C), they can explore additional or alternative pathways if adequately explained. Question 9 of the ED requests feedback on the clarity of guidance regarding transition pathways and shadow pricing.
32. The final section of Chapter 3 addresses the frequency of climate scenario analysis, recommending a cycle of 3 to 5 years, or more frequently if assumptions change, in line with GAD advice. Additional guidance on quantitative versus qualitative disclosure is provided, with Questions 10 and 11 asking if the guidance on the frequency and type of disclosures is sufficient and if further detail is needed.

The subsequent pages and annexes cover previous Subcommittee meetings. They are included here as Annexes for reference and completeness only. Where sections of the subcommittee papers have been incorporated into the covering paper - they have not been duplicated in annexes. Subsequent clarifications/updates to this paper, after the Subcommittee meeting have been included in italics.

Annex 1 for FRAB-SSC 09 on 13 June 2024

Annex 1a – Agenda and minutes for FRAB-SSC 09

Time: 2.30pm to 3.30pm on Thursday 13 June 2024 (virtual via MS Teams)

Attendees

Name	Initials	Position	FRAB Role
Sarah Geisman (Chair)	SG	HM Treasury (HMT)	Relevant authority
Mike Sunderland	MS	DfE	Preparer representative
Karen Sanderson (from 3pm)	KS	CIPFA	Relevant authority
Ian Webber	IW	DESNZ	Preparer representative
Lynn Pamment	LP	Jersey Audit Office	FRAB Chair
James Osbourne	JO	National Audit Office	Auditor representative
Max Greenwood (Secretariat)	MG	HMT	-

Apologies

Iain Murray	IM	CIPFA	Relevant authority
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Agenda

Time (pm)	Item
2.30-2.35	Welcome and introductions
2.35-2.40	TCFD-aligned disclosure implementation and overview
2.40-2.45	Principal, new and emerging risks. <i>Refer to paragraph 10 to 20 of Annex 1b</i>
2.45-3.00	Impacts for Strategy b). <i>Refer to para. 21 to 23 of Annex 1b</i>
3.00-3.10	Strategy c) Climate scenario analysis on reference periods. <i>Refer to para. 28 to 36 of Annex 1b</i>
3.10-3.25	Strategy c) Climate scenario analysis on pathways. <i>Refer to para. 37 to 47 of Annex 1b</i>
3.25-3.30	AOB and close

Actions

	Item	Details	Progress
	FRAB-SSC 04 on 1 March 2023		
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, although external advice has been sought from GAD who have presented at FRAB-SSC and will present at FRAB.

FRAB-SSC 07 on 7 March 2024			
2	Support for implementation	HMT and FRAB-SSC to consider the practicalities associated with TCFD-aligned disclosure implementation	Open – HMT in discussions with GAD and external experts for training later in 2024.
FRAB-SSC 08 on 15 May 2024			
3	TCFD-aligned disclosure Exposure Draft for Phase 2	HMT to draft Exposure Draft for Phase 3 based on the recommendations in the paper.	Closed
FRAB-SSC 09 on 13 June 2024			
		<p>HMT re-draft the ED to:</p> <ul style="list-style-type: none"> • Include a definition of cross-cutting risks and guidance on their implications for materiality assessment. • Include guidance to clarify that principal risks should be assessed for significant climate-related elements (which would trigger reporting requirements). • Include clarification that Strategy b) requires a description of impacts on policy setters and regulators - as part of their own strategy, in line with the broader considerations for government and public sector bodies (introduced in Chapter 1). • Add a test for mandatory end-of-the-century climate scenario analysis for those policy setters and regulators significantly impacted (with related ED consultation questions to gather feedback). • Add further clarification on principals for defining essential public goods and services 	Closed – ED updated based on FRAB-SSC views and comments.

Publication procedures and details

1. The summary minutes for the FRAB-SSC meeting have 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 09 – refer to [Annex 1b](#). The summary minutes have been grouped by discussion category – rather than the chronological order of discussion – to improve their readability.

Summary minutes

3. Sarah Geisman as rotating Chair commenced the meeting, welcoming members and GAD colleagues - noting apologies from Iain Murrey.
4. The Chair also noted Conrad Hall's withdrawal from FRAB-SSC due to other competing responsibilities - noting his contributions to date. The Subcommittee agreed with HMT's view that this didn't significantly impact FRAB-SSC representation, with continued representation from local government and preparers.

TCFD-aligned disclosure implementation progress (for Phase 1 and Phase 2)

5. HMT explained that, due to the July 2024 general election, the laying timetable for central government annual reports and accounts (ARAs) had been delayed. HMT still plans to analyse TCFD-aligned disclosures in ARAs to identify good practice, however, this may be delayed until

autumn. The relaxing of performance reporting requirements with respect to forward looking information is unlikely to impact TCFD-aligned disclosures for Phase 1 on Governance; however, there may be minor impacts to Phase 2 disclosures for early adopters (e.g., forward looking climate risk information).

6. HMT has received queries from annual report preparers on the new climate-related disclosure requirements, however, these have not indicated issues with the guidance. The improved guidance on principal risk assessments for Phase 3 (covered below), will address similar queries in the future.

TCFD-aligned disclosure exposure draft for Phase 3

7. Principal, new and emerging risks

8. HMT provided a summary of the improved guidance on principal new and emerging risks - drawing from the FRC's updated guidance on the Strategic Report. HMT confirmed that wider implications on risk reporting in the performance report – outside of climate - would be considered for future FReM version publications.

Strategy a) on time horizons

9. HMT noted that at FRAB-SSC 08, the Subcommittee agreed that different time horizons may be used for Strategy recommended disclosure a) - herein Strategy a) – which focuses on existing risk management process and alignment with other TCFD-related disclosures, and Strategy c) – focusing on distant horizon scanning. This section introduced Strategy a) on time horizons; directing reporting entities to utilise existing business planning and risk management practices - as well as considering the life of assets and infrastructure - and noting TCFD's guidance that climate risks materialise over the longer term.
10. A member also raised the need for a clear definition of cross-cutting risks and guidance on how climate interacts with principal risks. Other members noted that climate can be a standalone principal risk or impact other principal risks, requiring nuanced assessment to determine material disclosures – and inclusion of further guidance in the ED.
11. A member emphasised the importance of clear guidance on determining if climate is a principal risk, and the impact on disclosure requirements. Using the Department for Education (DfE) as an example, with the school estate, they highlighted the need for clarity in defining principal and cross-cutting risks related to climate.
12. Other members suggested improving the guidance to make it clearer that principal risks should be assessed for significant climate-related elements, which would trigger reporting requirements.
13. HMT acknowledged the need for clearer differentiation between cross-cutting risks and principal risks and committed to redrafting the guidance to better define these terms and their implications for materiality assessment. The Chair confirmed that members had no further comments on this section.

Strategy b) on impacts

14. HMT provided an overview of the next section for reporting on the impacts of the identified climate risks on an organisation's operations, finances, and strategy - emphasising the inclusion of policy setting in strategic considerations and the benefits of quantification for financial planning. This included public sector interpretations to Strategy b) – including considering an organisation's operations instead of an organisation's businesses (more relevant for the private sector).

15. A member queried where policy-setter considerations were being addressed. HMT noted that this was in Strategy. Another member noted this could be cleared in the ED. HMT agreed to update and the Chair confirmed that there were no further comments on this section.

Strategy c) Climate scenario analysis on reference periods

16. HMT provided an overview of the climate scenario analysis section – drafted based on the Subcommittee’s direction in May 2024. The ED sets mandatory mid-century (2050s) reference periods for all entities, with end-of-century (2080s-2100) reference periods for those significantly impacted by climate change (e.g., infrastructure and essential public services). These reference periods align with the CCC’s methodology. Near-term reference periods should align with an organisation’s business planning cycle and other individual factors – although the ED notes 2030s as another CCC reference period that could be used.
17. HMT also noted the adaption the supplementary guidance from TCFD removing the revenue threshold of 1 billion USD equivalent on which organisations must consider robust scenario analysis. This allows public sector bodies flexibility in the level of detail for climate scenario analysis, supporting the comply-or-explain approach - noting the existing size thresholds set-out in Phase 1 (and aligned with the UK private sector).
18. A member questioned if the concept of ‘essential public goods and services’ was new, which HMT confirmed that it was. Another member noted that departments often claim their services are essential, raising concerns about how to apply this definition without ambiguity. A member suggested including both principles and a clear list of entities to avoid unnecessary efforts and ensure compliance. Providing guidance on which departments should be included would avoid confusion (as they are likely to argue their services are essential). Members discussed the balance between principles-based guidance and specific lists of departments that must report.
19. A member then questioned why policy-setting departments heavily impacted by climate change were not included in the very long-term reference period mandate. HMT explained these departments would likely still conduct climate scenario analysis – as they identify climate as a principal risk; however, they may not be required to use the very long-term reference periods (unless captured by assets/infrastructure or essential public goods and services).
20. The Department for Energy Security and Net Zero (DESNZ) was discussed as an example. HMT noted that the transition risk-driven pathways are likely to be more relevant for DESNZ; compared to global warming level pathways which are mandatory in the ED.
21. However, other members noted that for the same example, the department’s responsibility for the delivery of nuclear power plants, impacted by climate change, would need to be considered in the UK’s energy infrastructure - even if it's not technically public sector infrastructure. Another member said that climate change was presumably being considered by policy setters – which HMT confirmed as requirements in the Supplementary Green Book Guidance (noting application was not always made). Members voiced concerns about carving out policy-setting (and regulatory) bodies.
22. The Chair summarised members views and HMT agreed to revise the ED to address feedback, particularly on policy-making and regulatory roles, with a widened scope and questions to seek targeted feedback in the consultation.

Strategy c) Climate scenario analysis on pathways

23. HMT explained the scenario pathways in the ED aligned with the CCC's recommendation on 2°C (prepare) and 4°C (plan) end of the century global warming level scenarios. The ED also includes guidance on shadow carbon pricing and socio-economic factors but recognises the challenge of quantitative disclosures for long-term scenarios. The ED proposed a three to five-year cycle for climate scenario analysis.

24. A member asked about the possibility of using aggregated information for a whole-of-government (WGA) perspective. HMT noted that while some information may be useful for aggregation, conducting a WGA climate scenario analysis may be more effective at the top - compared to a bottom-up consolidation of risks - noting risk interactions, coverage across the sector.

AOB and close

25. The Chair asked members whether they had any other business. HMT noted that for June's FRAB meeting, Ian Carruthers (IPSASB Chair) would present on the Climate Exposure Draft that's in development. HMT also confirmed plans to invite DBT to update on other IFRS-S developments.

Annex 1b – Meeting paper Summary and updates

Background

34. This paper is for the FRAB Sustainability Subcommittee (FRAB-SSC) meeting on 20 June 2024. This paper follows on from the last Subcommittee meeting and accompanying paper on 15 May 2024 – refer to [Annex 2a to 2e](#) for the agenda, minutes, and accompanying papers. Updates from standard setters and on government consultations (including policy, regulation and legislation) have been included in [Annex 1c](#).

35. At this meeting, HMT is asking the Subcommittee to review, comment on, and approve the TCFD-aligned disclosure Exposure Draft for Phase 3 (the ED). Following FRAB-SSCs review and approval, the ED will be provided to FRAB for their final review and approval at the June 2024 meeting.

36. FRAB-SSC 08 decisions were as follows:

Flexibility for preparers to set time horizons for Strategy a): FRAB-SSC agreed with HMT's recommendation that:

- different time horizons can be used for Strategy a) and c).
- time horizons for Strategy a) are not set centrally, and instead are set by the entity

However, FRAB-SSC noted the need for structured guidelines and consideration of how these interact with 'comply or explain' (e.g., rebuttable assumptions)

Common reference periods and points (previously referred to as 'time horizons and anchor points) are set in application guidance for Strategy c): FRAB-SSC agreed with HMT's (and GAD's) recommendation that some of the reference periods for Strategy c) are set centrally in the application guidance.

FRAB-SSC chose to support option b) which was based on GAD's advice with the addition of 'very long-term'.

- Short and medium – to be defined by the entity in line with their business and strategic planning cycles
- Long – 2050
- Very-long – end of century (2080-2100)

FRAB-SSC asked HMT to include optionality in the TCFD-aligned disclosure Exposure Draft for Phase 3 (the 'ED') consultation for preparer feedback. FRAB-SSC chose to support optionality for the use of very-long-term, including specific guidance on which entities should apply this reference period.

Alignment of physical driven scenarios with existing climate risk frameworks: FRAB-SSC agreed with HMT's (and GAD's) recommendation to set physical driven scenarios in line with Defra's existing climate risk reporting frameworks, incorporating a 2°C and 4°C scenario (with possible SSP-RCP combinations), aligning with Defra's existing climate reporting frameworks.

Transition-driven scenarios: FRAB-SSC supported a focus on physical climate risk scenarios but noted the need for guiding principles for transition scenarios to be explored in the ED.

Task Force on Climate-related Financial Disclosure (TCFD) implementation across the UK public sector

TCFD-aligned Disclosure Application Guidance – Phase 1 and Phase 2

37. Following the general election announcement on 22 May 2024, Parliament was dissolved on 30 May 2024. Annual reports and accounts (ARAs) cannot be laid while the House of Commons and House of Lords are not sitting. HMT plans to analyse TCFD-aligned disclosures in 2023-24 ARAs (the first year of mandatory Phase 1 implementation), once they are laid later in the year.
38. HMT has been responding to preparer queries in relation to TCFD-aligned disclosures, however, there are no significant points to note.

TCFD-aligned Disclosure Exposure Draft – Phase 3

39. The draft ED has been included as Appendix 1a; with a tracked changes version from the Phase 2 application guidance as Appendix 1b.
40. Comments and drafting points are still being received from the TCFD Technical Working Group (TWG). Any changes, including feedback from SSC members, will be incorporated into the version and papers circulated to the Board for 20 June 2024 meeting (assuming FRAB-SSC approves the ED).
41. HMT is still exploring the clearance process and consultation timetable for the ED based on the general election on 4 July 2024 and associated purdah period and potential ministerial changes.

UK public sector interpretations

42. Common public sector interpretations have been made to the TCFD recommendations, recommended disclosures and supporting guidance. These are included in Table A.3 in Annex A of the ED (refer to appendix 1a) and can be summarised as follows:

Location	Terminology		Explanation
	TCFD framework	UK public sector interpretation	
Recommendation for Strategy Recommended disclosure for Strategy (b) - herein Strategy b) - Impacts and Supporting guidance form TCFD	organisation's businesses	organisation's operations	
Supporting guidance from TCFD for Strategy (b)	revenues, costs	income, expenditure	While equivalent, the terminology of income and expenditure is more common in the public sector
Supporting guidance from TCFD for Strategy (b)	investors	primary users	In the private sector, primary users of annual reports are generally accepted to be investors.

			For UK government and public sector annual reports, primary users vary depending on the relevant authority. For example, primary users of central government ARAs are Parliament
Supporting guidance from TCFD for Strategy (b)	investment in research and development	investment and grants in research and development	The public sector often funds R&D through grants – rather than direct investment.

Overview

43. The ED includes an introduction on the Strategy pillar, materiality considerations, as well as how the related disclosures utilise existing UK government and public sector performance and narrative reporting requirements.

Principal, new and emerging risks

44. Previously for Phase 2, guidance on principal, new and emerging risks was included in Chapter 4 on Risk Management – which otherwise focuses on risk management processes and practices rather than the risks themselves. This risk guidance was required for Phase 2 to support reporting entities with their principal risk assessment - which impacted requirements covered later in Chapter 4 and Chapter 5.

45. With the introduction of the Strategy pillar for Phase 3, the principal, new and emerging risk section has been moved to Chapter 3. This supports reporting entities with Strategy recommended disclosure a) and b) – around identified climate-related risks and their impact.

46. At FRAB-SSC 08, HMT noted that preparer requests (refer to [Annex 2e](#)) for further guidance on principal risk assessment. As a result, HMT has added additional guidance for preparers in making their principal risk assessment.

47. This guidance does not place additional requirements on reporting entities compared to Phase 2. The detail draws from updated and new guidance on principal, new and emerging risks from the Financial Reporting Committee (FRC) on the Strategic Report, on viability statements, and on the Corporate Governance Code².

48. These have not yet been considered for wider risk reporting in the FReM, but HMT plans to explore whether wider application is appropriate later in 2024. The risk reporting in the FReM has not undergone significant updates since the FRC issued its guidance on Strategic Reports in June 2014.

49. As views and requests for further guidance on principal risk assessments were requested in the Phase 2 consultation, this section asks for consultation feedback on the clarity of this guidance, and whether further guidance is needed. The full list of consultation questions is included at the start of the ED – refer to Appendix 1a.

Strategy a) Risk issues and their time horizons

50. In line with FRAB-SSC’s direction, the ED directs reporting entities to set their own time horizons for Strategy a) – considering the life of their assets and that climate-related issues materialise over the medium and long term – in line with the Supporting Guidance from TCFD.

51. The risk reporting introduced in the previous section drives disclosures for Strategy a).

² <https://www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/annual-corporate-reporting/guidance-on-the-strategic-report/>

52. This section also provides guidance on climate-related opportunities, drawing from existing performance reporting principles and characteristics (i.e., material information, fair, balanced, and understandable).
53. The ED does not adapt TCFD's recommended disclosures or supporting guidance. Questions 2a and 2b of the consultation ask for feedback on the proposed approach and the effectiveness of the additional guidance on time horizons, broader considerations/remit, and climate-related opportunities.

Does FRAB-SSC have views and comments on the guidance, specifically:

- *introducing the Strategy pillar,*
- *for principal, new and emerging risks, and*
- *on Strategy recommended disclosure a) - including the Supporting Guidance from TCFD and the public sector considerations and additional guidance on time horizons, broader considerations for issues, and climate-related opportunities.*

Does FRAB-SSC support the inclusion and drafting of Questions 1, 2a and 2b proposed in the ED consultation?

Strategy b) Impacts

54. This section notes the linkage between the climate-related issues identified - in Strategy a); to their impacts – in Strategy b). This section draws on the broader consideration of impacts relevant to government and public sector bodies and is introduced in Chapter 1 (at Phase 1).
55. In addition, this sub-section sets out the benefits of quantification of impact information for Strategy b) – encouraging quantitative financial information, where possible, with appropriate ranges, estimates and assumptions included.
56. The ED makes public sector interpretations to Strategy recommended disclosure b) and supporting guidance from TCFD – as detailed in the table in para. 10. Question 3 in the ED asks for consultation feedback on the guidance on impacts with respect to broader public sector impacts, and on quantification.

Does FRAB-SSC have views and comments on the guidance on Strategy recommended disclosure b) - including the Supporting Guidance from TCFD; the public sector considerations; and the additional guidance on impacts with respect to broader public sector impact, and on quantification?

Does FRAB-SSC support the inclusion and drafting of Question 3 proposed in the ED consultation?

Strategy c) Climate scenario analysis

57. Following the FRAB-SSC 08 decision - refer to para 2 – time horizons for Strategy c) can be different from those used for Strategy a). Based on this, and the decision to align with the Climate Change Committee's (CCC's) Climate Change Risk Assessment global warming level pathways, the ED uses terminology as follows:
- Reference periods (or points) instead of scenario analysis time horizons - aligning with CCC terminology, and to differentiate from Strategy a) terminology.
 - Pathways instead of physical/transition-driven scenarios – aligning with CCC terminology.

Revenue threshold adaptation

58. Supporting Guidance from TCFD on Strategy c) has been adapted to remove the threshold of one billion U.S dollar equivalent (USDE) in revenue for organisations to consider conducting more a robust scenario analysis. Since this revenue threshold was set by the Task Force, the

GBP-USD exchange rate has dropped considerably. Furthermore, the relevance of revenue as a size threshold for government and public sector bodies is harder to directly link.

59. The ED does not set a threshold for more robust scenario analysis, instead setting out specific factors for organisations to consider (e.g., infrastructure, assets, essential service provisions), as well as guidance on quantitative-vs-qualitative analysis. Overall size thresholds in terms of which central government bodies are required to follow the TCFD application guidance were introduced to align with the UK private sector guidance on climate-related financial disclosure for comparability.

60. Question 4 of the ED asks consultation respondents for their view on this adaptation.

Strategy c) Climate scenario analysis - Reference periods

61. In line with the FRAB-SSC 08 decisions, the ED proposes:

Reporting entities that are conducting climate scenario analysis must use at least three different reference periods, including:

- One (or two) reference periods or points for near-term analysis - mandatory for all reporting entities and selected by the organisation.
- mid-century (2050s) – mandatory for all reporting entities
- end of century (2080s-2100) – mandatory for reporting entities with:
 - significant long-life assets or infrastructure; or,
 - delivering essential public goods and services which are likely to be affected.

Ranges (rather than points) for reference periods

62. The 2050 anchor point has been adjusted to be called the ‘mid-century reference period’ – in line with the CCC CCRA methodology. Alignment with the CCRA allows preparers to leverage existing climate change risk assessments that they are undergoing.

63. In March 2024, GAD’s advice noted the need for flexibility around the end-of-the-century reference point – allowing the use of different data sets for climate scenario analysis. For these more distant time horizons, the level of uncertainty in data can often mean that time periods are used rather than exact years or time points.

64. With GAD support, a range has been used for the reference periods (2050s and 2080s-2100), – in line with the CCRA methodology. The methodology notes the reference periods are centred around 2055 and 2085 respectively. These central points will be used when selecting data to incorporate into scenario analysis – to allow alignment with existing climate change risk frameworks.

65. These ranges provide flexibility for reporting entities within a reference period, but don’t significantly impact comparability. Climate-related risks rarely crystallise at a single point in time, and ranges are much more appropriate when considering physical risks.

66. Nevertheless, many transition risks are likely to crystallise in the year 2050 – aligning with the government’s statutory net zero target. To simplify scenario analysis, reporting entities should consider 2050 transition risks as part of the 2050s mid-century reference period climate scenario analysis.

End-of-the-century

67. Both the Subcommittee and members of the TWG questioned the relevance of very long-term scenario analysis for most preparers. After considering this feedback, we would propose that the ED mandates the end-of-the-century as a reference period for significantly impacted organisations. Where a reporting entity holds significant assets or infrastructure, or provides

essential public goods and services which is likely to be significantly affected by climate change they must perform the assessment over this longer time frame. This will ensure the Task Force's intention for longer-term scenario analysis remains for those organisations where that analysis will be most relevant.

Other reference periods

68. Reporting entities are required to select their own near term reference periods (or points). In total, the reporting entity must select at least three reference periods. The ED makes use of the other reference period in the CCC's methodology – 2030s (in the proposed CCRA4 methodology).
69. Questions 5, 6 and 7 of the ED, ask preparers whether they are supportive of using a total of three reference periods – with all reporting entities using mid-century (2050s) and those that are significantly impacted (i.e., assets/infrastructure, essential goods and services) using end-of-the-century (2080s-2100).

Does FRAB-SSC have views and comments on the guidance on Strategy recommended disclosure c) – including the Supporting Guidance from TCFD; and the public sector considerations?

Does FRAB-SSC support the ED's alignment of reference periods (and terminologies) with the CCC's proposed methodology (published in May 2024)?

Does FRAB-SSC support the ED's proposal that reporting entities conduct climate scenario analysis for a minimum of three different reference periods, including:

- mid-century (2050s) – for all reporting entities
- end of century (2080s-2100) – for reporting entities with:
 - significant long-life assets or infrastructure; or,
 - delivering essential public goods and services which are likely to be affected.
- One or two other reference periods (or points) independently selected to take the total number analysed to a minimum of three.

Does FRAB-SSC support the inclusion and drafting of Questions 4 to 7 proposed in the ED consultation?

Strategy c) Climate scenario analysis – Pathways

Global Warming Levels

70. At FRAB-SSC 08, the Subcommittee agreed that the ED should primarily set out pathways for global warming levels aligning with existing climate change risk assessment frameworks set by the CCC.
71. The ED requires climate scenario analysis at global warming levels of 'a 2°C and a 4°C (end-of-the-century) scenario'. This adapts Strategy recommended disclosure c) which considers 'a 2°C or lower scenario'.
72. This is in line the CCC recommendation that the UK government prepare for 2°C of global warming and evaluate the risks associated with 4°C. The adaptation is in line with our previous recommendation (supported by the Subcommittee) to focus on physical climate-related risks - which are particularly relevant for government and public sector bodies with stewardship responsibilities and that often act as the insurers of last resort.
73. Question 8 of the ED consultation asks for feedback on this approach.

Other pathways

74. The ED provides guidance on alternative physical, socio-economic pathways and transition pathways – which may be used by reporting entities utilising the comply or explain basis for disclosure.
75. This incorporates the transition pathway principles discussed at FRAB-SSC 08 - refer to para. 97 – 122 in [Annex 2b](#), and supported by the Subcommittee.
76. Reporting entities must use the two global warming level pathways (2°C and 4°C), however, may choose to explore additional scenarios pathways; or, where deemed appropriate, use alternative pathways - as long as an appropriate explanation is provided in line with the comply or explain basis.
77. Question 9 of the ED asks consultation respondents whether the guidance on transition pathways and shadow pricing is sufficiently clear.

Other

78. The final section in Chapter 3 focuses on the frequency of climate scenario analysis, with the frequency set at 3 to 5 years (or more frequently where the assumptions used no longer apply). This aligns with GAD advice (and our previous recommendation) at FRAB-SSC 07 and was supported by the Subcommittee.
79. Additional guidance is provided on quantitative vs qualitative disclosure, in line with GAD's advice (and our previous recommendation) at FRAB-SSC 07 and 08 supported by the Subcommittee.
80. Questions 10 and 11 of the ED, explore whether the guidance on the frequency of climate scenario analysis and the quantitative vs qualitative disclosures is sufficient, and asks whether further detail is needed in the ED.

Does FRAB-SSC have views and comments on the guidance on scenario pathways?

Does FRAB-SSC support the inclusion and drafting of Questions 8 to 11 proposed in the ED consultation?

Does FRAB-SSC agree to approve the ED, for onward consideration by the Board at their June 2024 meeting?



Annex 1c

Updates

Standard Setter

IPSASB's Climate-related disclosures

81. Guidance differentiates between reporting entities reporting on operations (all), and those in policy-setting roles (relatively limited). IPSASB has used the following definitions for:

- Policies to refer broadly to any types of policy interventions, including but not limited to legislation, regulation, guidelines, standards, procedures, programs, grants, subsidies, expenditures, taxes and other fiscal measures, and/or public ownership;
- Climate-related impacts are the direct effects an entity's policy activities have or could have on the economy, environment and people as a result of climate change policies;

82. Based on GRI's guidance on impacts, IPSASB has set out relevant guidance on the entity's impact on the economy, environment and people.

83. HMT is organising for IPSASB representatives to present a short standard setter update on developments for the Climate Exposure Draft at FRAB in June 2024.

ISSB's Sustainability Standards

84. In March 2024, the ISSB decided on its strategic direction for the next two years. The key decisions included initiating new research and standard-setting projects, supporting the implementation of IFRS S1 and IFRS S2, enhancing the SASB Standards, ensuring connectivity between IFRS Sustainability Disclosure Standards and IFRS Accounting Standards, and engaging with stakeholders.

85. The ISSB prioritized support for IFRS S1 and S2, while assigning slightly less focus to enhancing SASB Standards and new projects, and maintaining flexibility with reserved resources. Connectivity, interoperability, and stakeholder engagement were considered integral to all activities.

86. In April 2024, the ISSB identified specific new research projects to add to its two-year work plan, focusing on biodiversity, ecosystems, ecosystem services, and human capital. The ISSB decided against pursuing projects on human rights, integration in reporting, and other suggested areas. The approach will build on existing materials and promote interoperability between the ISSB's disclosures and other standards. A feedback statement summarizing responses and outlining the ISSB's activities will be published by the third quarter of 2024.

87. In May 2024, the ISSB outlined its two-year work plan, starting June 2024. The ISSB decided to continue grouping entities based on shared sustainability risks using the Sustainable Industry Classification System (SICS) and to consider enhancing these groupings as part of improving the SASB Standards.

88. Additionally, the ISSB received an update from the Transition Implementation Group on the implementation of IFRS S1 and IFRS S2. A feedback statement summarizing responses and detailing the ISSB's activities and work plan will be published by the third quarter of 2024.

Government consultations, including on policy, regulation and legislation

Sustainability Disclosure Requirements

89. On 16 May 2024, the UK Government published the Sustainability Disclosure Requirements: Implementation Update 2024 detailing actions and timelines for the components of the Sustainability Disclosure Requirements (SDR). With the announcement of a General Election in July, all dates may be subject to change.
90. HMT plans to invite representatives to provide an update to FRAB on UK endorsement of the ISSB's IFRS-Ss (or ISDSs - see below).

IFRS Sustainability Disclosure Standards

91. The Government aims to make UK-endorsed ISSB standards available in Q1 2025, to be known as UK Sustainability Reporting Standards (UK SRS). From Q2 to Q4 2024, the UK Sustainability Disclosure Technical Advisory Committee will assess IFRS S1 and IFRS S2 for UK endorsement, leading to the creation of the first UK SRSs. A consultation on the draft UK SRSs will occur in Q1 2025, followed by an endorsement decision and publication. Subsequently, the FCA will update existing TCFD-aligned rules to UK SRSs for UK-listed companies, and the Government will consult on UK SRS requirements for other companies in Q2 2025.

Transition Plan Disclosures

92. In Q2 2024, the government plans to consult on transition plan disclosures for UK companies. Concurrently, the FCA will consult on enhancing transition plan disclosure expectations in line with the Transition Plan Taskforce (TPT) framework.

UK Green Taxonomy

93. The government will consult on the design of the UK Green Taxonomy in 2024. This will be followed by a testing period for voluntary disclosures for at least two reporting years before considering mandatory disclosures, which will be subject to further consultation.

FRC's Assurance of Sustainability Reporting Market Study

94. The FRC has initiated its first market study to assess the UK market for sustainability assurance services, acknowledging its rapid growth as 84% of FTSE 100 companies secured external assurance in 2022, up from 68% in 2020.
95. The FRC aims to ensure this market functions effectively, providing high-quality assurance without excessive costs to businesses, and to examine its potential impact on the UK's statutory audit market. The study will focus on choice, quality, competition, capacity, opportunities, barriers, and the regulatory framework.
96. The FRC seeks input from various stakeholders and plans to conclude the study by early 2025, potentially influencing future government policy on sustainability assurance.

Non-financial reporting review: proposals for medium-sized companies

97. In 2023, the Department for Business and Trade (DBT) and the Financial Reporting Council (FRC) issued a Call for Evidence to review non-financial reporting requirements for UK companies as part of the 'Smarter regulation to grow the economy' initiative. The review aims to simplify regulation and foster economic growth by examining company size thresholds and account preparation with Companies House.
98. In March 2024, the government announced plans to change company size thresholds effective from 1 October 2024. In May 2024, a related consultation proposed increasing the medium-sized company employee threshold from 250 to 500 and exempting medium-sized

companies from producing a Strategic Report to reduce reporting burdens. This consultation will proceed despite the upcoming general election.

99. Raising the employee threshold would reclassify about 2,000 large companies as medium-sized, aligning with the Better Regulation framework. The Strategic Report exemption, aimed at reducing burdens on medium-sized private companies, could impact 41,000 to 43,000 companies, excluding public companies and public interest entities. The DBT seeks stakeholder feedback on these proposals.



Annex 2 for FRAB-SSC 08 on 15 May 2024

Annex 2a – Agenda and minutes for FRAB-SSC 08

Time: 3pm to 4pm on Wednesday 15 May 2024 (virtual via MS Teams)

Attendees

Name	Initials	Position	FRAB Role
Mike Sunderland (Chair)	MS	DfE	Preparer representative
Karen Sanderson	KS	CIPFA	Relevant authority
Conrad Hall (3-3.30pm only)	CH	Newham Council	CIPFA/LASAAC Chair
Ian Webber	IW	DESNZ	Preparer representative
Iain Murray	IM	CIPFA	Relevant authority
Sarah Geisman	SG	HM Treasury (HMT)	Relevant authority
James Osbourne	JO	National Audit Office	Auditor representative
Max Greenwood (Secretariat)	MG	HMT	-

Apologies

Lynn Pamment	LP	Jersey Audit Office	FRAB Chair
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Agenda

Time (pm)	Item
3-3.05	Welcome and introductions
3.05-3.10	TCFD-aligned disclosure implementation and overview
3.10-3.20	Strategy a) and c) Time horizon alignment <i>para. 9 to 22</i>
3.20-3.25	Flexibility for preparers to set time horizons for Strategy a) <i>para. 23 to 34</i>
3.25-3.35	Common time horizons set in application guidance for Strategy c) <i>para. 37 to 79</i>
3.35-3.40	Alignment of physical driven scenarios with existing climate risk frameworks <i>para. 80 to 96</i>
3.40-3.55	Transition-driven scenarios not set in the guidance - instead only principles for preparers to apply <i>para. 97 to 121</i>
3.55-4.00	AOB and close

Actions

	Item	Details	Progress
	FRAB-SSC 04 on 1 March 2023		
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, although external advice has been sought from GAD who have presented at FRAB-SSC and will present at FRAB.
	FRAB-SSC 07 on 7 March 2024		

2	TCFD-aligned disclosure Application Guidance for Phase 2	HMT to take AG to FRAB for review and approval prior to publication.	Closed – AG published in March 2024.
3	Climate Scenario Analysis Options	Based on GAD’s climate scenario report and advice, and the Subcommittee’s discussion, HMT to develop options for the Subcommittee to review and decide in a future meeting.	Closed – covered in this paper.
4	Support for implementation	HMT and FRAB-SSC to consider the practicalities associated with TCFD-aligned disclosure implementation	Open
FRAB-SSC 08 on 15 May 2024			
5	TCFD-aligned disclosure Exposure Draft for Phase 2	HMT to draft Exposure Draft for Phase 3 based on the recommendations in the paper.	Open

Publication procedures and details

26. The summary minutes for the FRAB-SSC meeting have been circulated to the Subcommittee for comment in advance of the FRAB meeting.
27. These minutes should be read in conjunction with the supporting paper for FRAB-SSC 08 – refer to [Annex 2b](#). The summary minutes have been grouped by discussion category – rather than the chronological order of discussion – to improve their readability.

Summary minutes

1. Mike Sunderland as rotating Chair welcomed members and GAD colleagues and started the meeting, noting apologies.

TCFD-aligned disclosure implementation progress (for Phase 1 and Phase 2)

2. HMT provided an overview of feedback from preparers on TCFD-disclosure implementation for Phase 1 and Phase 2. Early adopters noted that the proportionality of climate-related risk information in annual reports was a concern for those charged with governance; alongside judgements on whether climate constitutes a principal risk. HMT noted the existing guidance on signposting to external reports, and consideration of other support for principal risk assessments - which would have broader applicability than climate.

TCFD-aligned disclosure Exposure Draft for Phase 3

Alignment of time horizons on Strategy recommended disclosure a) and c)

3. HMT introduced the paper and first section on time horizons – with HMT’s recommendation that time horizons for Strategy a) and (other TCFD recommended disclosures) - differ from those used for Strategy c) driven by reporting purpose and the interaction with existing risk management and other disclosures.
4. The Chair opened for the Subcommittee to discuss Question 1. A member noted the uncertainty and subsequently the utility of longer-term projections, and asked HMT whether the private sector aligned on time horizons, and whether alignment would lead

to anything being overlooked. HMT noted that some companies had used different time horizons– with graphical depictions reaching further into the future for longer-term climate scenario analysis – however, for others, these were the same. HMT noted that government’s stewardship role often necessitates a longer-term view – compared to companies in the private sector.

5. Another member noted that while they tentatively agreed with HMT’s recommendation, they did not agree that the central driver for using common longer-term time horizons for climate scenario analysis was comparability and cross-sector insights. Instead, they believed the main drivers were to simplify implementation for preparers; and reduce the associated resource and cost by using the same data sets, similar models, and common approaches to analysis. The member noted that emphasizing the purpose of the recommended disclosure in the application guidance could be used to direct preparers to use different time horizons.
6. HMT noted the necessary overlap between shorter-term and longer-term time horizons, suggesting that clarity on the emphasis of each is necessary for effective disclosure. Another member emphasised the importance of aligning risk analysis with climate scenarios, proposing clear guidance to facilitate informed decision-making.
7. The Chair acknowledged varying perspectives on setting time horizons and proposed moving on to discuss whether strategy a) should be centrally fixed.

Flexibility for preparers to set time horizons for Strategy a)

8. HMT noted the distinction between short-term business planning and longer-term climate scenario time horizons, highlighting the challenge of aligning them seamlessly.
9. The Chair opened the floor for committee members to express their views on whether entities should set their own time horizons.
10. Another member echoed support for aligning time horizons with existing risk management practices, acknowledging challenges in encouraging longer-term perspectives. They highlighted the potential for entities to prioritise shorter timeframes if given the choice, suggesting careful consideration of decision-making incentives.
11. A member noted support for aligning time horizons with general risk management, suggesting flexibility with a rebuttable presumption, with conditions for deviating from central guidelines, aiming to prevent arbitrary choices. Members agreed.
12. Another member stressed the importance of clarity and structure in time horizon expectations, suggesting a balance between standardisation and flexibility. They supported setting expectations for time horizons to facilitate alignment and provide support during implementation.
13. Another member acknowledged the potential for entities to exploit guidelines but emphasised the need for standardisation during the initial implementation phase. Another member supported a standardised approach while acknowledging the need for flexibility and learning during the implementation phase.
14. The Subcommittee were comfortable with some time horizons being centrally set - less for the purposes of achieving comparability, but for preparer ease. However, the application guidance should include appropriate guide rails to avoid significant deviation. The guidance should set out the reasons why an organisation may choose to deviate within structured guidelines, with considerations for optionality or a rebuttable presumption.
15. The Chair summarised the consensus on allowing entities to set their own time horizons within structured guidelines, with considerations for optionality and a rebuttable presumption framework.

Recommendation: FRAB-SSC agreed with HMT's recommendation that:

- *different time horizons can be used for Strategy a) and c).*
- *time horizons for Strategy a) are not set centrally, and instead are set by the entity*

However, FRAB-SSC noted the need for structured guidelines, appropriate disclosures on differences for time horizons, and consideration on how these interact with 'comply or explain' (e.g., rebuttable assumptions)

Common time horizons set in application guidance for Strategy c)

16. HMT presented the four options for setting time horizons for climate scenario analysis, emphasizing the challenge of balancing standardisation with flexibility.
17. Subcommittee members expressed concerns about the feasibility of very long-term time horizons and emphasised the need for optionality, clarity, and support during implementation; noting that organisations often struggle to fully grasp the impact of physical risks on their operations, particularly those materializing towards the end-of-the-century.
18. A member requested insights from GAD regarding their recommendation on time horizons, seeking clarification on their considerations and concerns. GAD noted that pushing organisations to look beyond 2050 helps justify adaptation actions sooner to prepare for worst-case scenarios in the long term.
19. Members noted the challenges with long-term scenarios, including difficulty in realistically modelling or quantitatively discussing events over centuries due to uncertainties and changing circumstances. Organisations will find it challenging to develop realistic scenarios for long-term planning, hence the push for HMT to provide baseline assumptions. Accounting practices like discounting make it difficult to model or discuss events over centuries. There's significant complexity in predicting phenomena, like climate change.
20. Members considered preparer considerations on whether and how optionality of very-long-term time horizons would impact compliance – resistance to non-compliance and explanation vs. simplicity to perform.
21. Members raised concerns about the ability to predict long-term scenarios accurately, considering the evolving nature of climate change and government policies. HMT noted that existing climate change frameworks (e.g., Adaptation Reporting Power, Climate Change Risk Assessment) already require some organisations to consider end-of-the-century analysis.
22. GAD representatives noted that private sector organisations vary in the timeframe they consider for climate risk assessment, with some looking over shorter periods. Pushing government and public sector organisations to look longer term, like until the end-of-the-century, can help them plan better for adaptation actions. GAD noted that quantification of the impact of these longer-term scenarios may not be possible.
23. Another member noted that over these 'very long' time horizons, there's some likelihood that the organisations would no longer exist – at least in their current form. The member questioned whether entity-level reporting is appropriate – as opposed to a cross-government and public sector analysis at the top. Optionality in the consultation on this may be useful.
24. Another member agreed noting that for organisations with significant infrastructure, considering long-term climate scenarios is more relevant, as they face greater risks. However, for departments like GAD, the value of planning a century ahead is uncertain.

Encouraging guidance should prioritise organisations with substantial physical assets while allowing flexibility and support in relevant areas as planning evolves.

25. Furthermore, GAD noted that climate data doesn't significantly diverge before 2050 regarding emissions pathways and physical impacts. Qualitative analysis becomes more relevant towards the end-of-the-century due to uncertainties in extreme events.
26. The Chair summarised subcommittee views to test optionality for longer-term time horizons in the Exposure Draft, laying out the types of organisations that should consider these longer-term time horizons.

Recommendation: *FRAB-SSC agreed with HMT's (and GAD's) recommendation that some of the time horizons for Strategy c) are set centrally in the application guidance.*

FRAB-SSC chose to support option b) which was based on GAD's advice with the addition of 'very long-term'.

- *Short and medium – to be defined by the entity in line with their business and strategic planning cycles*
- *Long – 2050*
- *Very-long – end of century*

FRAB-SSC asked HMT to include optionality in the Exposure Draft consultation for preparer feedback. FRAB-SSC chose to support optionality for the use of very-long-term, including specific guidance on which entities should apply this.

Alignment of physical driven scenarios with existing climate risk frameworks

27. The Chair introduced the next section, noting the linkage with the previous discussion on temperatures for longer-term scenarios. HMT was asked why 4C had been chosen in Defra's Climate Change Risk Assessment frameworks. HMT noted that 4C represents the higher end of the climate models in allowing departments to plan for a 'worst case'. GAD explained that the IPCC models high emission scenario for the end-of-the-century, projected significant warming by 2080 and beyond. However, for shorter-term projections like 2050, a lower warming level is appropriate, (1.5C or 2C), as reaching 4C degrees by 2050 is not feasible under any emissions pathway. for 2080 and beyond.
28. The Chair checked consensus across FRAB-SSC to support HMT's recommendation to align physical risk driven scenario with existing frameworks.

Recommendation: *FRAB-SSC agreed with HMT's (and GAD's) recommendation to set physical driven scenarios in line with Defra's existing climate risk reporting frameworks, incorporating a 2°C and 4°C scenario (with possible SSP-RCP combinations), aligning with Defra's existing climate reporting frameworks.*

Transition-driven scenarios not set in the guidance - instead only principles for preparers to apply

29. The Chair introduced HMT's proposition regarding transition-driven scenarios. It was proposed that rather than setting these scenarios centrally in guidance, supporting principles should be developed to assist preparers in developing their own transition risk scenarios. Members discussed the challenges outlined in the paper, acknowledging the difficulty faced by both the HMT and preparers in formulating these scenarios.
30. Members noted the challenges for setting transition-driven scenarios centrally - due maintaining consistency, avoiding political influence, and ensuring meaningful

information from diverse scenarios. Members also agreed with the risk of HMT being seen to be pre-empting government policy.

31. Members asked about the use of independent sources that had been mentioned in the paper. HMT confirmed that the Climate Change Committee transition plans guidance was not appropriate for application by government bodies in their own individual transition plans.
32. GAD noted that Network for Greening the Financial System (NGFS) had a suite of transition scenarios (i.e., reaching net zero, too little too late, or a disorderly transition). However, these are at a global level and while good for a reference would be difficult to apply on a UK-based level – still facing similar challenges to those discussed.
33. A member agreed this would be useful considering government's net zero plan or manifesto, to provide stability and guidance for long-term climate planning. They stressed the importance of striking a balance between resource allocation and the practicality of implementing strategies, acknowledging the complexity of the task at hand. Emphasizing the necessity for careful consideration, they suggest that the initial focus should be on physical risks, with transition scenarios evolving over time.
34. GAD mentioned that exploring simplified options like no transition versus the government's 2050 net zero target for initial consideration may be useful.
35. The Chair asked HMT to explore these options in the Exposure Draft, to gather feedback from the consultation on the feasibility and practicality of different approaches. HMT agreed, and noted the next FRAB-SSC meeting on 14 June.

Recommendation: *FRAB-SSC supported a focus on physical climate risk scenarios but noted the need for guiding principles for transition scenarios to be explored in the exposure draft.*

Annex 2b

Summary and updates

Background

1. This paper is for the FRAB Sustainability Subcommittee (FRAB-SSC) meeting on 15 May 2024. This paper follows on from the last FRAB meeting and accompanying paper, [FRAB 152 \(02\)](#), in March 2024, where the Board approved the TCFD-aligned disclosure Application Guidance – Phase 1 and 2.
100. In addition, the Government Actuary Department (GAD) presented initial advice on approaches for climate scenario analysis. Following initial views from the Subcommittee, these have been explored further in this paper, setting out options focused on time horizons and scenario definitions.
101. This paper also proposes options for the application guidance to address the Strategy recommended disclosures (a) on risk (and opportunity) profiles. Finally, the paper updates members on the sustainability reporting landscape.

Task Force on Climate-related Financial Disclosure (TCFD) implementation across the UK public sector TCFD-aligned Disclosure Application Guidance – Phase 1 and Phase 2

102. Following the updated application guidance, published on 21 March 2024, feedback so far has been positive. HMT will monitor TCFD-aligned disclosure in 2023-24 annual reports and accounts (ARAs) as they are published.

Technical Working Group and Early Adoption Pilot

103. HMT met with the Technical Working Group (TWG) and Early Adoption Pilot³ on 24 April 2024. Summary minutes from the TCFD-TWG meeting are included in [Annex 2e](#). Views have been incorporated into this paper (and the explored options), and can be summarised as follows:
 - **Separate reports and signposting** – annual report preparers have experienced challenge from management review, on the comparable length of new TCFD-related disclosures – compared to other risks. TCFD-TWG members asked about publishing separate reports with TCFD information for 2023-24 – noting those charged with governance were reluctant to include additional voluntary Phase 2 information in ARAs which may be subject to scrutiny. HMT noted the application guidance already allows for signposting to separate reports for TCFD information, however, all ARAs should include a minimum requirements (TCFD Compliance Statement, Governance disclosures) for primary users.
 - **Principal risks determination** – preparers asked for further guidance on this assessment. HMT will consider expanding this in the application guidance, however,

³ Pilot departments are adopting Phase 1 and 2 requirements in 2023-24 and Phase 3 requirements in 2024-25. These include The Ministry of Defence (MoD), Ministry of Justice (MoJ), HM Revenue and Customs (HMRC) and the Government Actuary Department (GAD).

notes the implications on wider performance reporting and that this is entity-specific and particularly judgemental.

- **Diverse range of views on Phase 3 application guidance** – whilst supportive of GAD’s advice, preparers expressed a range of views on time horizons and applying climate scenario analysis. While supportive of GAD’s advice, setting time horizons was an area where TCFD-TWG members had differing views.

TCFD-aligned Disclosure Exposure Draft – Phase 3

104. The TCFD-aligned disclosure application guidance is additive with future phases incorporated into the existing guidance and published in updated versions. Phase 3 addresses the Strategy pillar - including the recommendation, recommended disclosures a) to c), the supporting guidance from TCFD, and the necessary UK public sector interpretations, adaptations, and considerations – to be included in Chapter 3 of the application guidance.

105. Following requests from the Subcommittee in March 2024, this paper sets out options and our recommendations for application guidance on climate scenario analysis and time horizons – Strategy c). As this impacts and interlinks with the requirements in Strategy a) (disclosure of climate-related risks and opportunities over the short, medium and long term), we’ve also explored these disclosures in the same paper. Climate impacts on strategy and financial planning (Strategy b) will be addressed at the next meeting, in June 2024, where we plan to bring the full Phase 3 Exposure Draft. This paper covers the following areas:

Time horizons relevant for Strategy a) and c), specifically:

- Alignment of time horizons between Strategy a) and c) – para. 9 to 22 (Question 1)
- Flexibility for reporting entities to set time horizons for Strategy a) – para. 23 to 34 (Question 2)
- Common time horizons set in application guidance for Strategy c) – para. 37 to 79 (Questions 3, 4 and 4a.)

Climate scenario definitions relevant for Strategy c), specifically:

- Alignment of physical driven scenarios with existing climate risk frameworks – para. 80 to 96 (Question 5)
- Not attempting to set transition-driven scenarios in the guidance, and instead setting out principles for reporting entities to set their own transition-driven scenarios – para. 97 to 121 (Questions 6, 7, 8 and 8a.)

Strategy a) and c) Time horizon alignment

106. The Task Force utilises the terminology ‘time horizons’ in Strategy recommended disclosure a)⁴ on risk and opportunity profiles and c) on scenario analysis, and uses different, yet linked explanations, for each – refer to [Annex 2b](#). TCFD requires organisations:

- for strategy a) - to categorise risks and opportunities into the short-, medium-, and long-term; describe the potential material climate-relates issues on the organisation for these time horizons; and the process used to determine their relative financial impact. This disclosure interlinks with other TCFD recommended disclosures across the other three pillars and Strategy b) Impacts - refer to [Annex 2b](#) and TCFD-aligned disclosure application guidance.

⁴ For brevity, Strategy recommended disclosure a) and Strategy recommended disclosure c) will be referred to as Strategy a) and Strategy c)

- for strategy c) - to conduct climate scenario analysis, considering how strategies will develop to address the potential impact of climate-related issues, their impact on the organisation's finances, and as well as a description of the climate-related scenarios and associated time horizons considered.

Time horizon - Alignment

107. This section considers the appropriate level of alignment between time horizons used for recommended disclosures a) and c). Some private sector companies have used different time horizons for business planning and climate scenario analysis – while others use identical time horizons.

108. For Strategy a), the Supporting Guidance from TCFD notes time horizons should take *into consideration the useful life of the organisation's assets or infrastructure and the fact that climate-related issues often manifest themselves over the medium and longer terms.*

109. For Strategy c), para. 1.3.2 of TCFD's Guidance Scenario Analysis states that for time horizons

...companies should challenge their thinking about traditional planning horizons, which are often too short. Scenario time horizons are typically longer than many corporate planning horizons. Scenario time horizons that are too short may result in simple extrapolations of current thinking and trends, and therefore not reveal the information needed to assess the resilience of the company's climate-related strategy.

In setting time horizons for its scenario analysis, a company should consider:

- *time horizons that are compatible with the company's (1) capital planning and investment horizons and (2) the useful life of major company assets and*
- *time horizons that are harmonized or anchored with those of national and international climate policy communities (e.g., 2030 and 2050). Harmonizing company scenario time horizons to key years and the cycle of the climate policy community can provide an important anchor to, and context with, global climate scenarios, as well as enhance comparability.*

110. Our view is that the time horizons utilised for Strategy a) (herein 'business planning horizons') can, and at times should, be different from those used for climate scenario analysis (herein 'scenario time horizons'). GAD advised HMT and FRAB-SSC on scenario time horizons in March 2024 (which will be covered later in this section), and are comfortable with different time horizons being used for different recommended disclosures.

111. Applying the same time horizons for both recommended disclosures, would either lead to simple extrapolations of near-term climate scenarios for business planning disclosures - which fail to appropriately assess the resilience of the organisation's strategy - or drive climate risk reporting which misaligns with business planning and typical risk management practices.

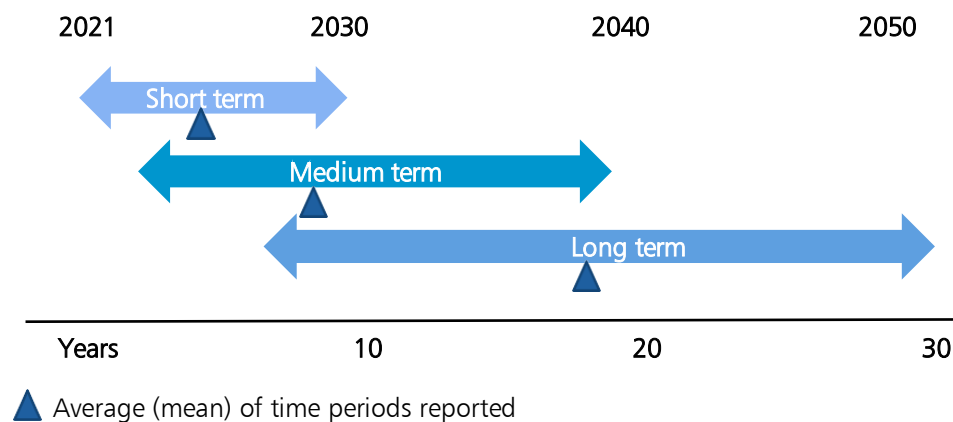
112. Companies in the private sector have used a wide range of business planning time horizons for climate-related disclosures. The FRC's Climate Thematic Review⁵ identified a range of overlapping time horizons in their review sample - as depicted in Figure 1 (below). Similarly, the University of Exeter and Institute of Actuaries (joint) Report⁶ noted that *nearly 60% of firms used shorter term (one to five year) time-horizon scenarios and 80% used medium (five to 10 year) time horizons as well as longer time horizons.*

⁵ https://media.frc.org.uk/documents/TCFD_disclosures_and_climate_in_the_financial_statements.pdf

⁶ <https://actuaries.org.uk/media/qeydewmk/the-emperor-s-new-climate-scenarios.pdf>

Figure 1. Spread for time horizons for sample of companies examined in the FRC's Climate Thematic⁷

Short, medium and long-term time periods disclosed



113. While Parliament's permanence requires longer term horizon scanning, the nature of election cycles (and Spending Reviews (SRs)) often limits detailed long-term planning. For most government bodies, business planning stretches to ten years – refer to [Annex 2e](#).
114. Moreover, longer term time horizons used for climate scenario analysis are unsuitable for wider application in annual reports; including for TCFD recommended disclosure for Strategy a) and other recommended disclosures; as well as other risk reporting requirements (i.e., risks to the delivery of priority outcomes and strategic objectives agreed at the proceeding SR which have a much narrower risk profile). Broader application would inhibit/distort an organisation's response to and communication of risks.
115. TCFD's recommended disclosures are intended to interlink and inform each other. Consequently, a level of consistency is important. For example, supporting guidance for Metrics and Targets recommended disclosure a) requires consideration of forward-looking metrics based on business and strategic planning time horizons. Strategy c) on the other hand tends to be more exploratory and abstract.
116. The TCFD framework (and UK government guidance) offers private sector companies the flexibility to choose their own time horizons based on their business (and investor needs). Risk management responsibilities are decentralised for central government and public sector bodies, however, HMT (and other relevant authorities) are able to set common time horizons for consistency. These provide comparability, which is important for the small, concentrated group of primary users (i.e., Parliament, other authorities) – compared to dispersed investors/shareholders in the private sector.
117. Not mandating consistent time horizons for business planning and scenario time horizons adds complexity to TCFD reporting. However, in HMT's view, this is preferable to mandating consistent time horizons, given that time horizons are used for very different purposes in business planning disclosures and climate scenario analysis disclosures. If preparers do decide to use different business planning and scenario analysis time horizons, they should include appropriate explanations to avoid conflation between different sections.
118. For example, for Strategy c) - primary users (i.e., Parliament, others) would benefit from comparability of scenarios for cross-government assessments; whereas those same users may also be interested in the organisation's own categorisation and management of climate-related issues within their business planning – for Strategy a). Management is likely to have

⁷ https://media.frc.org.uk/documents/TCFD_disclosures_and_climate_in_the_financial_statements.pdf

stronger and more formalised views on the definition for more immediate time horizons – compared to those further away which don't significantly interact with other business planning processes.

119. Clear terminology on the time horizon distinction would be included in the application guidance, alongside clarity on the mapping of time horizons between both disclosures.
120. If FRAB-SSC does not support this view and wants consistent time horizons to be used for both business planning and climate scenario analysis, our view would be that the priority and focus should be on business planning time horizons. This shorter-term focus would align with other financial reporting and management processes and be more certain.

Question 1 – HM Treasury recommends that different time horizons can, and should, be used for Strategy a) and c). Does FRAB-SSC agree?

Yes / No

Strategy a) Business planning time horizons

Business planning time horizon – flexibility

121. Organisations set their own risk appetite and corresponding risk management depending on internal and external factors (e.g., operating environment, operations, available budget). The Orange Book⁸ notes:

The board of each public sector organisation should actively seek to recognise risks and direct the response to these risks. It is for each accounting officer, supported by the board, to decide how. The board and accounting officer should be supported by an Audit and Risk Assurance Committee, who should provide proactive support in advising on and scrutinising the management of key risks and the operation of efficient and effective internal controls.

Attempting to define a one-size fits-all approach to managing risks, or to standardise risk management practices, would be misguided because public sector organisations are different sizes, are structured differently and have different needs.

122. Similarly, the Office of Government Property (OGP) published the Estates Adaptation Framework, which notes that assessment of future climate risks needs to take place on a timeframe that is commensurate with the lifetime of the assets or organisational processes in question, and this informs the relevance of different climate scenarios. OGP does not define time horizons centrally.
123. Setting internal risk management practices on behalf of entities, is not the intention of the application guidance, goes against the Orange Book principles, and is outside of the authority of the Government Financial Reporting team (and FRAB).
124. HMT supports the Orange Book principle that organisations are best placed to (and have responsibility for) set their own risk management. The application guidance could, however, set common time horizons specifically for the purposes of climate-related reporting – making clear that the short-, medium-, and long-term categories only apply to TCFD-related information, and do not extend to the organisation's internal risk management practices. This would allow for some level of consistency in TCFD disclosures across the public sector - although this would introduce inconsistency with internal risk management and goes against standard practice.

Strategy a) time horizons are set centrally, in the application guidance

⁸ The Orange Book has been signposted in the application guidance for Phase 1 and 2. Orange Book principles and concepts can be applied to all risks - including climate.

125. Setting these time horizons centrally would improve the comparability of risks and opportunities across annual reports for primary users. However, as government has a range of assets and infrastructure, setting time horizons ranges centrally may adversely impact a preparers' ability to convey information.
126. For business planning time horizons there's periodicity and interlinkage across the public sector. For example, on capital allocation decisions by the Exchequer during SRs, as well as parliamentary supply and appropriation across central government, and its indirect impact across the wider public sector. There is also more centralised control (i.e., policy and fiscal levers) compared to the private sector. These factors strengthen the case for some coalescing around similar or common anchor points, bolstering the potential benefit of comparable TCFD-related information to primary users. Despite these commonalities, HM Treasury (and other authorities) have remained of the view that organisations have flexibility to set these independently.
127. Setting time horizons for Strategy a) may also impact other TCFD-related disclosures. The Risk Management recommendation is to *disclose how the organisation identifies, assesses, and manages climate-related risks* – which should be set by the organisation – and not by the application guidance. This would hinder the integration of climate-related risks into the organisation's overall risk management processes – impacting Risk Management recommended disclosure c). These inconsistencies could reduce the clarity of the annual reporting information.
128. If business planning time horizons are set centrally, HM Treasury would only be able to do this for central government. Relevant authorities would need to set their own business planning time horizons as there are differences in business planning cycles for other parts of the public sector. This becomes less contentious for more distant time horizons, where business and strategic planning is less well defined.
- Strategy a) time horizons are not set centrally, instead they are set by the organisation in line with business planning (recommended)
129. Organisations utilise their existing risk management practices and definitions for setting short-, medium-, and long-term time horizons. This would enable consistency between reporting on climate-related issues and other risk reporting in the annual report. Existing guidance, in the Orange Book and elsewhere, could be applied consistently.
130. This would, however, result in less consistency and comparability, in some senses, of TCFD reporting in UK public sector annual reports. Nevertheless, with organisations defining the specific short-, medium-, and long-term time horizons used in the disclosure (in line with the supporting guidance from TCFD) high-level comparisons would be possible.
131. Flexibility in setting these time horizons would improve the integration and alignment of climate-related issues with the organisation's overall risk management practices and other risk reporting in the annual report. This would also align with the framework's intention and common practice in the private sector where business planning time horizons are set based on entity-specific factors.
132. Our recommendation is that business planning time horizons for Strategy a) are not set centrally. Instead, the application guidance should reference the Orange Book to support those charged with governance in making this assessment – only adding additional supporting guidance where necessary.

Question 2 – HM Treasury recommends that time horizons for Strategy a) are not set centrally. Does FRAB-SSC agree?

Strategy c) Scenario time horizons

133. The Task Force defines climate scenario analysis as the *process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty... Scenarios allow an organisation to explore and develop an understanding of how the physical and transition risks of climate change may impact its businesses, strategies, and financial performance over time.*
134. [FRAB 152 \(02\)](#) set out an analysis of existing guidance on scenario analysis and practises and set out advice for applying scenario analysis for the UK public sector. The Subcommittee discussed climate scenario analysis, highlighting:

Time horizons:

- the needs of users (Parliament, management information)
- the interaction with internal risk management/strategy, processes, and across disclosures in the annual report
- the comparability and appropriateness across the sector (e.g., different net zero target dates for devolved nations, NHS)

Scenario time horizons – flexibility

135. Neither the Task Force nor other UK government guidance for the private sector sets scenario time horizons (para. 11 includes TCFD's guidance). The approach for defining scenario time horizons requires compromise between competing factors - noting that a perfect solution does not exist. This must balance the utility of information for primary (and other external) users (i.e., Parliament for accountability, the public for transparency); and the applicability of management information for decision-making.
136. The UK public sector is heterogeneous with different planning, financing, and strategic time horizons; and owning and managing a diverse set of assets. Compared to the private sector, however, there are more similarities in the information needs of users (e.g., stewardship responsibilities, election cycles), and commonality across sub-sector groupings (e.g., concurrent financial periods, small groups of primary users).

Strategy c) time horizons are not set centrally and are instead defined by the organisation

137. Granting flexibility for organisations to set their own scenario time horizons may drive more targeted analysis by management on specific climate risks and entity-specific circumstances (e.g., on other risks, priority outcomes, etc.) - refer to para. 11. For example, entities with more ambitious net zero targets - or where nations have set more ambitious targets – time horizons could be set to align with delivery.
138. This would, however, reduce the comparability of scenario analysis information, impeding primary users' ability to assess cross-sector performance and embryonic responses. The comparability of cross-sector analysis is more useful for longer-term strategic planning; compared to shorter-term time horizons where granting flexibility to management; to apply their own well-defined and accepted business planning time horizons; is more important.
139. The NAO's Report on Government Resilience: Extreme Weather⁹ notes that *Government does not yet have a good understanding of the interaction between different risks, cannot*

⁹ Paragraph 10. para.22 and para. 3.12 of www.nao.org.uk/reports/government-resilience-extreme-weather/

provide an estimate of how much is spent to manage climate-related risks, and is yet to set out a coordinated approach to investment in resilience.

140. Without common scenario time horizons, there would be a diverse range of definitions for short-, medium-, and long-term. Consequently, a diverse set of input data and models would be needed to satisfy each definition, with escalating costs and resources, and limited synergies in the framework's application.

Strategy c) time horizons are set centrally in the application guidance (recommended)

141. Adapting the TCFD supporting guidance to define scenario time horizons centrally offers a unique opportunity for consistency, vastly improving the comparability of climate scenario information - and its utility to centralised authorities and external scrutiny. In turn, this would support more effective cross-cutting responses to climate change issues, and Net Zero delivery. Centrally agreed scenario time horizons simplify implementation decisions for preparers and deliver better value for money through common approaches, use of consistent data, and similar adaptable models. Nevertheless, the drawbacks of setting centralised shorter-term time horizons - which overlap with business planning - are explored further in the next section (refer to para. 52 to 54).

142. Under this approach, while coalescence around centrally provided time horizons would be encouraged via the guidance, the comply or explain basis for disclosure would allow management to deviate where they have a strong desire to do so - explaining non-compliance. Similarly, reporting entities that have already adopted TCFD-aligned disclosures - refer to [Annex 2d](#) - may continue to apply their chosen time horizons (with appropriate explanations).

143. The application guidance will require strong and clear messaging that these central time horizons are for climate scenario analysis only and are not intended for wider application. The application guidance will more generally define time horizons for scenario analysis as anchor points.

Question 3 - HM Treasury (and GAD) recommend that some of the time horizons for Strategy c) are set centrally in the application guidance. Does FRAB-SSC agree? Yes / No

144. The next section explores the options for defining all or some scenario time horizons set centrally. If FRAB-SSC is of the view that time horizons should not be set centrally (against GAD's advice and HMT's recommendation), then the application guidance should focus on high-level concepts and principles - leveraging the TCFD Guidance Scenario Analysis - for preparers to set their own anchor points.

Time horizons – anchor points

145. While setting scenario time horizons, organisations should expand their analysis beyond their traditional planning periods to capture the impacts of climate change fully. The TCFD's recommendations do not specify time frames for short-, medium-, and long-term given that the timing of climate-related impacts on the organisation will vary.

146. There is a trade-off involved when choosing the appropriate scenario time horizons. If they are too short, successive developments may not be sufficiently differentiated. Whereas if they are too long, uncertainties may overwhelm useful analysis. An equilibrium is needed such that the time horizons chosen, result in outcomes that are plausible, realistic and can translate into strategic actions for the organisation.

147. To enhance comparability, the Task Force advises on harmonizing scenario time horizons to key years (or 'anchor points') to align with national and international climate policy communities (para. 11).

148. The rest of the section explores the different options for setting time scenarios centrally in the application guidance. The time horizons explored can be summarised as follows:

- a) **In line with GAD's advice** with:
 - Short – to be defined by the entity in line with their business planning cycle
 - Medium – 2050
 - Long – end of century
- b) GAD's advice with the **addition of 'very long-term'**
 - Short and medium – to be defined by the entity in line with their business planning cycle
 - Long – 2050
 - Very long – end of century (which could incorporate optionality)
- c) **All (including short) defined centrally** with:
 - Short – next SR period
 - Medium – 2050
 - Long – end of century
- d) **Shorter term focus**
 - Short– to be defined by the entity in line with their business planning cycle
 - Medium – 2035
 - Long – 2050

a) **In line with GAD's advice**

149. GAD's advice on climate scenario analysis supported the choice for short-, medium, and long-term time horizons – refer to Appendix 2 of [FRAB 152 \(02\)](#).

Short-term anchor: set by the entity

150. Shorter time horizons are valuable for examining climate-related issues within standard business planning cycles or resource allocation processes. The associated drawbacks from a single centrally defined time horizon are more prevalent for these time horizons, where more detailed and in-depth planning is likely to have been conducted. GAD consequently rejected the option to define shorter-term time horizons centrally applying the same reasoning.

151. For these shorter-term time horizons, entity-specific factors should primarily drive the time horizon definition (e.g., existing internal planning processes, and major asset lifecycles). Nevertheless, the application guidance should include high-level considerations (in the absence of clear-cut definitions) – supporting preparers, encouraging good practice, and identifying commonalities across sub-sector groups (e.g., SR and election cycles).

152. Short-term scenario time horizons could align with the business planning time horizons used for Strategy a). The dual use of short-term to cover the majority of the business planning time horizons (short-, medium- and long-term) would need to be explained in the application guidance.

Medium-term anchor: 2050

153. In the private sector, 2050 is a common anchor point for climate-related disclosures¹⁰ - often used as the medium or long-term time horizon.

154. The Task Force recommends selecting time horizons anchored *with those of national and international climate policy communities* (refer to para. 11). The 2008 Climate Change Act (and 2050 Target Amendment Order 2019) commits the UK government, by law, to reduce

¹⁰ [FRC's Climate Thematic Reviews](#) all note 2050 as a common measurement point for companies in the private sector.

greenhouse gas (GHG) emissions to net zero by 2050. Focusing reporting on this key delivery date provides focus and enhances comparability.

155. Individual nations, sub-sector groupings, and organisations have chosen to set more ambitious targets. Yet the national level target cannot be readily apportioned between economic participants (in the public and private sectors). Setting 2050 as a common anchor year, allows the government to assess embryonic responses as they develop, in line with their key commitment years.

Long-term anchor: end of century

156. Government's long-term nature and stewardship responsibilities necessitate a much longer time horizon to be considered, compared to the private sector. Utilising longer-term time horizons drives analysis of long-tail climate issues. Longer time frames are beneficial for appraising exposures to significant structural shifts in the economy, financial systems, or society, albeit with heightened uncertainty – including government's coordinated response.

157. However, the end-of-the-century is significantly longer than common practice for time horizons used in existing private sector reporting. In the private sector, companies use a range of time horizons for scenario analysis – refer to Figure 2 (next page). While some extend past 30 years, most are focused on the nearer term. The Office for Budget Responsibility (OBR), for example, only consider debt and fiscal projections up to 50 years into the future.

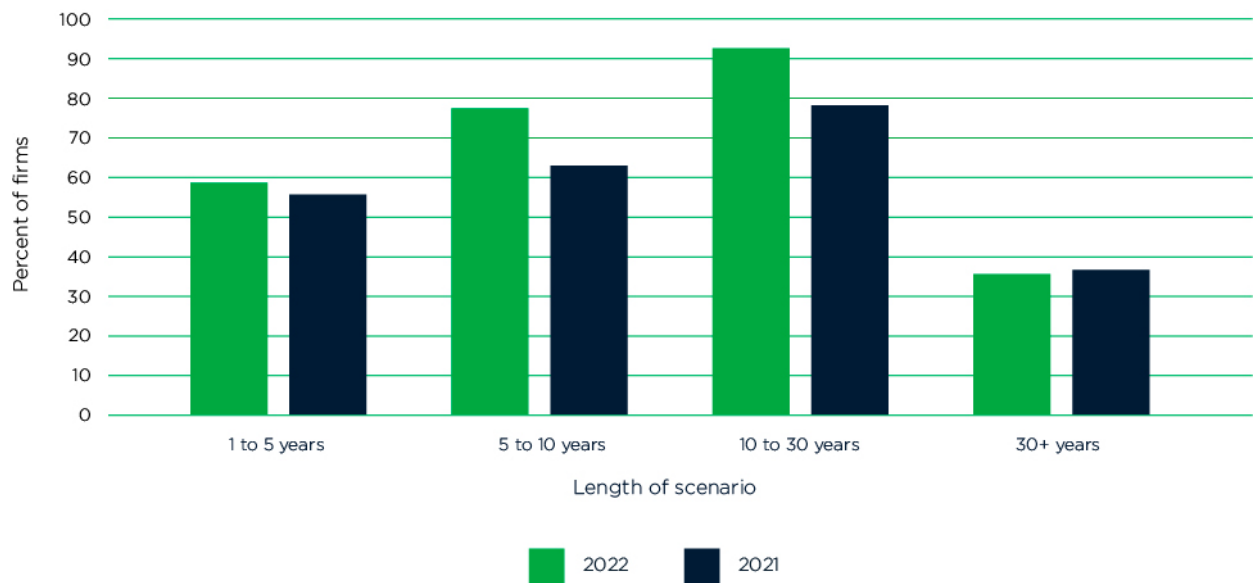
158. If these longer time horizons are adopted more broadly beyond climate scenario analysis, this could influence an organisation's reporting on other risks. The desire for consistency may lead to similar time horizon definitions being used for other risk reporting. That is not and should not be the intention of this guidance and will be clarified in the application guidance. Other risks will have very different (and likely shorter) risk profiles.

159. Even if strict guidance can prevent this wider application to other risks; inconsistent definitions of short-, medium-, and long-term across the annual reports could risk reducing their understandability.

160. GAD's proposed scenario analysis input data (from the IPCC) often provides a range of years 2081-2100. Using 'end-of-the-century' as opposed to a specific year allows for a level of flexibility, as the data is updated by the IPCC and applied in analysis by preparers. This distinction will be explained in the application guidance. This represents the upper limit on available climate data.

161. End-of-the-century is used in existing UK public sector climate-related risk frameworks (e.g., National Adaption Programme and Adaption Reporting Power under the Climate Change Act 2008, Supplementary Green Book Guidance: Accounting for the Effects of Climate Change for Policy Appraisals. This date range is also consistent with general international climate policy communities (e.g., IPCC assessment reports, UN Net Zero Coalition).

Figure 2 Financial Conduct Authority’s Climate Financial Risk Forum’s Report on Scenario Analysis in Financial Firms



- b) GAD’s advice with the **end-of-the-century as ‘very long-term’** and short and medium to be defined by the entity in line with their business planning cycle

Very-long term anchor: end-of-the-century (other anchor points move leftward)

162. Add a further category of ‘very long-term’ emphasises government’s long planning horizons and climate risk’s long tail. Short and medium-term scenario time horizons would align with the business planning time horizons used for Strategy a). This would need to be explained in the application guidance, as described in option a).
163. In line with common practice (financial reporting and elsewhere), the Task Force uses the categories of short-, medium- and long-term as the time horizons for scenario analysis. While the exact terminology and anchor points change between related frameworks and existing practice, using these three categories for the analysis is commonplace. Introducing a very long-term anchor point may complicate disclosure for annual report preparers and users – and lead to misalignment with the TCFD framework and developing/new standards.
164. For financial reporting, short-, medium-, and long-term are not defined either by IFRS Accounting Standards or relevant authorities across the public sector. ARAs often define short-, medium-, and long-term - for performance and financial reporting to provide context (e.g., in lease disclosures, in loan portfolios, etc.) – rarely very long term (except on general provisions). However, in HM Treasury’s annual guidance for discount rates, time horizons are defined for general provisions, and the concept of very long-term is also introduced.
- *Short-term: applied on cash flows from up to and including 5 years from the date of the Statement of Financial Position.*
 - *Medium-term: applied on cash flows from after 5 and up to and including 10 years from the date of the Statement of Financial Position.*
 - *Long-term: applied on cash flows from after 10 years and up to and including 40 years from the date of the Statement of Financial Position.*
 - *Very long-term: applied on cash flows from after 40 years from the date of the Statement of Financial Position.*

165. As mentioned for option a), extending time horizons to the end-of-the-century is not routine and this is the very upper limit for almost all government analysis. There is significant uncertainty that far into the future.
166. The application guidance could introduce a level of optionality in applying very long-term climate scenario analysis - allowing preparers with limited resources and less mature thinking to analyse short-/medium-term (set by the entity) and long-term (2050) - but to optionally analyse very long-term (end-of-the-century) scenarios (as best practice/where appropriate).
167. This would avoid preparers having to explain non-compliance for a time frame which may be far less relevant in their specific circumstances (e.g., Arms-Length Body holding no physical assets and less impacted service potential). Some members of TCFD-TWG were more supportive of this approach.

c) All (including short) defined centrally

168. Under this approach, the anchor points for medium- and long-term time horizons are defined in line with options a) or b) - however, the short-term time horizon is also set centrally in the application guidance.

Short-term anchor: Spending Reviews (for central government only) (other anchor points align with option a) and relevant authorities identify their own anchor point)

169. Fixed business, capital and resource allocation planning horizons would be the most appropriate short-term time horizon (e.g., SRs for central government, settlements for local authorities and NHS bodies). These are already used by central government bodies for planning purposes.
170. As the timing of these events are set by ministers (e.g., often based on election cycles), and are often irregular/unpredictable, this may prove challenging - for both HM Treasury (as standard setters) and preparers – to follow. For example, annual reports for the same financial year, but published before and after an SR may be inconsistent - or based on outdated/irrelevant information. These inconsistencies would likely be exacerbated if climate scenario analysis is applied on a periodic basis (i.e., 3-5 years in line with GAD's advice) rather than annually.
171. There may, however, be the opportunity to align the frequency of the climate scenario analysis with the SR. For example, short-term climate scenario analysis could be conducted as part of the SR, and then published in the next ARA. This option is more relevant for central government bodies, and other relevant allocation processes have to be identified and used for other public sector bodies (and agreed upon by the relevant authority).

d) Shorter term focus

172. Time horizons ranges vary depending on the context they are being used for, entity-specific factors, and preference by those applying them. A shorter focus for scenario time horizons would allow for better alignment with generally accepted time horizons and common risk management practices – refer to [Annex 2e](#). This approach could allow for alignment of short-, medium-, and long-term time horizons used in Strategy a) and c) – (relevant if FRAB-SSC choose not to support HM Treasury's recommendation in Question 1).
173. Most TCFD-aligned disclosures in the private sector, as well as by existing central government reporters (UKEF, BBB) have defined long-term as earlier than 2050 – refer to [Annex 2e](#) for further details. The OBR sets their minimum time horizons as five years.
174. However, the Task Force *challenge organisations to think longer term than traditional planning horizons*. The government's stewardship responsibilities over the economy, the environment and the public necessitate long-term thinking by government, which may not be adequately addressed with a shorter-term focus.

175. TCFD-TWG members noted that applying longer-term anchor points allows specific hazards or events that generate potential risks or opportunities to the organisation (and to government) to crystallise – particularly those that are embryonic and require a cross-government response.

Medium-term: 2035 (*other anchor points have been covered previously*)

176. Various anchor points could be selected between now and 2050. 2035 represents a year close to the mid-point and is probably the most used interim target year in delivery and policy (e.g., 100% zero-emission vehicle sales, target date to decarbonise the electricity system). However, this isn't a legislated date - unlike net zero by 2050. Furthermore, the proximity of 2035, may impede the long-term thinking of such an anchor point.

177. HM Treasury is supportive of GAD's advice on scenario time horizons (option a). However, from discussions with the TCFD-TWG and other experts/stakeholders, there are differences in opinion on these anchor points. Incorporating options on scenario time horizons into the Exposure Draft may be useful to gather a wider range of views on which to determine the preferred/best option. If this approach is taken, HM Treasury would recommend that the Subcommittee put forward no more than two options for the Exposure Draft – preferably option a) and option b).

Question 4 – If scenario time horizons are set centrally, which option does FRAB-SSC support the application guidance using:

- a) **In line with GAD's advice** with (recommended)
 - Short – to be defined by the entity in line with their business planning cycle
 - Medium – 2050
 - Long – end of century
- b) GAD's advice with the **addition of 'very long-term'** (*alternative recommendation for inclusion alongside option a) in Exposure Draft*):
 - Short and medium – to be defined by the entity in line with their business planning cycle
 - Long – 2050
 - Very long – end of century (which could incorporate optionality)
- c) **All (including short) defined centrally** with (*not recommended*):
 - Short – next SR period
 - Medium – 2050
 - Long – end of century
- d) **Shorter term focus** (*not recommended*):
 - Short– to be defined by the entity in line with their business planning cycle
 - Medium – 2035
 - Long – 2050

Question 4a. - If both option a) and b); or option b) alone; are supported, does FRAB-SSC support optionality in the 'very long-term' scenario time horizons? Yes / No

Scenario c) Climate scenario analysis definitions

178. Climate scenarios can be driven by physical or transition definitions – or a combination of the two. TCFD's Guidance on Scenario Climate Analysis states: *Climate-related scenarios allow an organisation to build an understanding of how the physical and transition risks and opportunities of climate change might plausibly develop in different ways, and how the business might be impacted over time.*

179. The UN's Intergovernmental Panel on Climate Change (IPCC) defines climate scenarios in terms of pathways for emissions and socioeconomic factors - with either Representative Concentration Pathways (RCPs) or Shared Socioeconomic Pathways (SSPs). SSPs set general global socio-economic changes to mitigation and adaptation – rather than UK specific.
180. GAD's report - Appendix 2 of [FRAB 152 \(02\)](#) - introduces climate scenario analysis and sets out advice for applying scenario analysis for the UK public sector. GAD recommended that *scenarios for physical risk will be defined either by referring to particular SSP-RCP combinations, or temperature pathways (2 and 4 degrees by the end-of-the-century). Transition scenarios are to be defined by entities if they are to be explored.*
181. The Subcommittee discussed climate scenario analysis, asking HM Treasury to develop options for implementing climate scenario analysis, highlighting:
- Climate scenario analysis definitions:
- support for standardisation and clear guidance, to simplify the climate scenario analysis for preparers, where possible.
 - the importance of both physical and transition-driven scenarios, acknowledging the challenges associated with policy-driven responses.
 - the need to consider the usefulness of providing key central assumptions and principles, acknowledging the difficulty of doing so, given the inherent uncertainty and complexity in predicting future government policies.
182. In March 2024, the Subcommittee was supportive of using central definitions, where possible, for climate scenario analysis. This section provides context on the extent we can define climate scenarios centrally, and the potential drawbacks of doing so.
- Defined by the reporting entity (rejected)
183. Allowing organisations to define their own scenarios would enable flexibility - allowing a more bespoke analysis which can focus on the informational needs of management.
184. We expect, however, that most preparers would not have the skills and expertise to do this - at least initially – increasing the reporting burden and reducing the quality of the analysis in most cases. This approach would also greatly augment the resource and cost implications of TCFD implementation. Inconsistent scenarios would reduce the comparability of disclosures across the sector.
- Defined centrally in the application guidance - in full or in part (supported)
185. Defining climate scenarios centrally would drive consistency and comparability across the public sector, simplify implementation decisions for preparers, and likely improve the quality of disclosures preventing preparers from selecting inappropriate climate scenarios. Organisations wishing to define their own scenarios (e.g., for regulatory reasons) would be able to do so via 'comply or explain'.
186. Were UK public sector bodies to apply the same climate scenarios, there is a risk of 'group think'. If the eventual effects of climate change were significantly different from our chosen scenarios, the utility of the reported data may be limited.
187. While setting time horizons centrally simplifies decisions for preparers, it also reduces the engagement and the exploratory element of the analysis. Conversely, these definitions are already used in other climate risk analysis and reporting frameworks. Setting these centrally in the application guidance gives us more control to drive analysis where appropriate.
188. Existing climate scenario guidance (e.g., Climate Change Risk Assessment, Adaption Reporting Power) focuses on physical risk driven scenarios. While financial institutions and

their regulators tend to incorporate transition risk driven scenarios. This difference is driven by the perceived risks and opportunities for users, and the reporting purpose.

Scenarios for physical risks

189. This section explores the extent to which physical driven climate scenarios should be defined centrally and sets out our recommendation to the Subcommittee. GAD proposed that *scenarios for physical risk will be defined either by referring to particular SSP-RCP combinations (e.g. SSP1-2.6), or temperature pathways (2 and 4 degrees by the end-of-the-century).*
190. GAD's advice notes *using 2 and 4 degree aligned scenarios is consistent with existing guidance including the Department for Environment Food and Rural Affairs (Defra) adaptation risk assessment guidance. Defra also sets out possible SSP-RCP combinations for their temperature aligned scenarios.*
191. The UK climate projections - UK Climate Projections (UKCP18) - provide the most up-to-date and highest resolution locality data to assess how the climate of the UK may change. UKCP is provided by the Meteorological Office (Met Office) using a mix of both global warming levels and RCP emissions pathways. In order for entities to easily make use of the full range of UKCP data, temperature scenarios (i.e., global warming levels) with the aligned RCP emissions pathways are likely to be required - similar to the way Defra sets out in the ARP.
192. Aligning with scenarios used by Defra in the Climate Change Risk Assessment (CCRA) and Adaption Reporting Power (ARP) would allow preparers to leverage existing (often well-established) analysis and reporting processes – reducing the burden and avoiding divergence. These physical risk scenarios have also been adopted in other government guidance (e.g., Office for Government Property's Estates Adaptation Framework), which can be used to support preparers.
193. The Met Office is developing a new standard for climate scenarios. This will focus on global warming levels - rather than SSP-RCP pathways. There isn't a clear timetable for when this will be published; however, we understand this will be after the exposure draft (and application guidance) are due. HM Treasury (and GAD) will continue discussions with the Met Office over the coming months, and consider how and whether this should be incorporated into future versions of the application guidance (bringing proposed changes to FRAB-SSC and ultimately FRAB).
194. The comply or explain basis for disclosure allows organisations to use different scenario definitions for physical risks, where needed.

Question 5 - HM Treasury, in line with GAD's advice, recommends setting physical driven scenarios in line with Defra's existing climate risk reporting frameworks. Does FRAB-SSC agree with the proposal to incorporate a 2°C and 4°C scenario (with possible SSP-RCP combinations), aligning with Defra's existing climate reporting frameworks? Yes / No

Scenarios for transition risks

195. This section explores the extent to which transition-driven climate scenarios should be defined centrally and sets out our recommendation to the Subcommittee. GAD proposed that *transition scenarios are to be defined by entities if they are to be explored in scenario analysis, with some high-level additional guidance from HMT.*

Government policy

196. Government policy will significantly impact an organisation's strategy, in responding to climate change and the transition to net zero. Consequently, this cannot be ignored. Doing so would significantly reduce the relevance of the analysis. FRAB-SSC reached this position in March 2024.

197. While HM Treasury does contribute to policy setting on climate change, other departments (i.e., Defra, the Department for Energy Security and Net Zero (DESNZ), and others) have cross-government authority in this space (e.g., policy, legislative, regulatory). Moreover, other respective authorities across the UK public sector make decisions on how to enact government policy (e.g., timing, extent) – not HM Treasury.
198. Announcements of varying size, duration and specificity are made by policy-setting bodies on a regular basis, and there is no centralised listing maintained by HM Treasury.
199. Government policy is not static. Transition scenario definitions set centrally would need to be updated regularly or risk rapidly becoming out of date. This risk is further exasperated under GAD’s proposal (which we support) to update scenarios every 3-5 years.
200. Taking on this monitoring role (and maintaining an up-to-date central definition) - even in the limited capacity of climate policy - would be a significant undertaking and go beyond HM Treasury’s authority (which is not to manage, coordinate and track government and public sector announcements). Likewise, the intention of this guidance is not to set central policy on climate change or on the transition to net zero – but instead support reporting entities to communicate relevant entity-level information to primary users on these matters.
201. Additionally, government, policy announcements may require legislation in order to be implemented. HM Treasury centrally deciding on which climate policy announcements to use in scenario definition could be seen as pre-empting Parliament in advance of legislation.
202. Moreover, an announced government policy may not in all instances lead to implementation. Government is in a unique position to reverse or amend announcements on the scope of a policy or even decide whether the policy will go ahead at all. Reporting treatment is dependent on the nature of the announcement, the details provided and whether the reporting entity has undertaken any further actions or administrative processes that create a valid expectation by those affected. This was explored in detail in the IAS 37 and Grantor Accounting: Application Guidance – but similarly applies to these climate-related disclosures.
203. If HM Treasury were to set out which of government’s climate policies should be included in the TCFD-aligned disclosures, this could lead to inconsistencies between the assessment made by management on other information included in the annual report and accounts (e.g., obligating events, provisions).

Question 6 – HM Treasury recommends that transition-driven scenarios are not set in the application guidance. Does FRAB-SSC agree? Yes / No

Principles

204. However, the application guidance could set out principles for organisations to use to identify and assess relevant government policy for scenarios at the time of the analysis - applied at the assessment date. Similar expectations for an awareness of cross-government policy are placed on reporting entities for financial reporting purposes. For financial reporting, HM Treasury has issued guidance on applying IFRS Accounting principles and concepts in the UK public sector where there is ambiguity – via the Financial Reporting Manual (FRM), application guidance.
205. The underlying uncertainty of scenarios means that the specificity of quantitative information is limited – supporting reporting entities to make high-level assessments – which are not subject to standalone assurance procedures.
206. Our application guidance will necessitate appropriate disclosure of the key assumptions, including on government policy. Furthermore, the guidance will support preparers to assess the significance of assumptions, and the level of detail to include in the annual report.

Question 7 - HM Treasury recommends that principles are incorporated into the application guidance to support reporting entities to set their own transition scenarios. Does FRAB-SSC agree? Yes / No

Principles for setting transition climate scenario

207. This section explores the areas where the application guidance could set out principles for transition-driven scenarios – selected as either being the most important/impactful or contentious/difficult to apply.

Enacted government policy (recommended)

208. Where government policy has been enacted - including where legislation and regulation have been agreed – this should be incorporated into the scenario analysis.

209. Defining climate scenario definitions centrally on a regular basis would lead to significant misalignment between annual reports across the sector, and our application guidance - reducing the comparability and effectiveness of TCFD-aligned disclosures.

Individual net zero and other targets (recommended)

210. Important for entities which have made a net zero commitment earlier than the government's 2050 timeline or are ministerial policy-setters. There may be other formal intermediate targets set by the entity or relevant authority which should also be incorporated.

Future carbon prices and expected traded carbon values (recommended)

211. There is some guidance on estimating future carbon values. In the past, DECC published Guidance on estimating carbon values beyond 2050. More recently DESNZ published Supplementary Green Book Guidance on Valuing greenhouse gas emissions in policy appraisal.

212. Signposting to these publications, with high-level guidance on their application, would be useful for preparers. The Phase 1 and 2 application guidance already signposts to this carbon value guidance for policy appraisals.

213. In November 2023, DESNZ published Traded carbon values used for modelling purposes to 2050 - separated into:

- Low Sensitivity - High Fossil Fuel Prices and Low Economic Growth
- Net Zero Strategy Aligned
- High Sensitivity – Low Fossil Fuel Prices and High Economic Growth

214. The Net Zero Strategy Aligned carbon values represent the most appropriate data to inform transition scenarios – as by definition this aligns with government policy; while high and low sensitivity could provide alternative scenarios for analysis purposes.

215. DESNZ notes *these values are based on a specific set of assumptions with respect to the policy mix, cost of fuels, level of emissions etc. Consequently, these values should not be considered as 'forecasts' of future prices.* The annual report should explain that these are assumptions - and not government – in line with the DESNZ caveats.

Plans from external experts (not recommended)

216. External experts set out transition pathways for economic participants and policy setters to adopt. These are not under the direct control of government, providing a level of objectivity and independence. HM Treasury does not have ultimate control over which climate policies to enact - nor the necessary expertise to assess the appropriateness or applicability of each of these external proposals.

217. For clarity, a singular independent expert would need to be identified - to avoid conflating sources. The Climate Change Act 2008 established the Committee on Climate Change (CCC) to ensure that emissions targets are evidence-based and independently assessed.
218. The Act requires the Government to assess the risks and opportunities from climate change for the UK, and to adapt to them. The CCC's Adaptation Committee advises¹¹ on these climate change risks and assesses progress towards tackling them.
219. Plans by the CCC (and others) and not sufficiently granular or detailed to be applied. Furthermore, incorporating these external climate policies into our guidance could be seen as pre-empting government policy. Consequently, we do not recommend including this (or other external plans) in the transition scenario principles.

Question 8 – HM Treasury recommends that principles are set out in the application guidance to cover:

- Enacted government policy
- Individual net zero and other targets
- Future carbon prices and expected traded carbon values

Does FRAB-SSC agree?

Question 8a. Are there other important or contentious areas for transition-driven scenarios which the Subcommittee wants HM Treasury to explore in the application guidance?

220. As climate-related financial disclosures are adopted across the UK private and public sector, we expect standard approaches to develop and best practice to become more apparent. Upcoming developments by standard setters are expected to drive up quality, with guidance from government policy setters (i.e., Defra, Met Office) providing additional detail for upcoming reporting rounds. In addition to the planned good practice guides for annual reports, and in line with our Government Financial Reporting Review, HM Treasury plans to conduct a post implementation review (after 2025-26) and to evaluate implementation and re-assess the guidance approach, where necessary.

¹¹ CCC commissioned Ricardo Energy & Environment to provide an independent and critical assessment of what a UK transition plan should include, what the options for monitoring and governing transition plans are, and what mechanisms can be put in place to ensure the UK transition plan standard actually raises emissions reduction ambition. At present, however, neither these transition plans nor the decarbonisation pathways set out by the CCC are sufficiently detailed and granular to set climate scenario assumptions.

Annex 2c

Strategy pillar recommended disclosure and supporting guidance from TCFD

TCFD recommendations and recommended disclosures

Recommended disclosure for Strategy (a)

Risk and opportunity profile

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

Supporting guidance from TCFD

Organisations should provide the following information:

- a description of what they consider to be the relevant short-, medium-, and long-term time horizons, taking into consideration the useful life of the organisation's assets or infrastructure and the fact that climate-related issues often manifest themselves over the medium and longer terms;
- a description of the specific climate-related issues potentially arising in each time horizon (short, medium, and long term) that could have a material financial impact on the organisation; and
- a description of the process(es) used to determine which risks and opportunities could have a material financial impact on the organisation.

Organisations should consider providing a description of their risks and opportunities by sector and/or geography, as appropriate. In describing climate-related issues, organisations should refer to Tables A1.1 and A1.2 *in Annex A*.

No adaptations or interpretations are proposed for Strategy a) recommendation or recommended disclosure.

Recommended disclosure for Strategy (b)

Impact

Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning

Supporting guidance from TCFD

Building on recommended disclosure (a), organisations should discuss how identified climate-related issues have affected their businesses, strategy, and financial planning.

Organisations should consider including the impact on their businesses, strategy, and financial planning in the following areas:

- Products and services
- Supply chain and/or value chain
- Adaptation and mitigation activities

- Investment in research and development
- Operations (including types of operations and location of facilities)
- Acquisitions or divestments
- Access to capital

Organisations should describe how climate-related issues serve as an input to their financial planning process, the time period(s) used, and how these risks and opportunities are prioritized. Organisations' disclosures should reflect a holistic picture of the interdependencies among the factors that affect their ability to create value over time.

Organisations should describe the impact of climate-related issues on their financial performance (e.g., revenues, costs) and financial position (e.g., assets, liabilities). If climate-related scenarios were used to inform the organisation's strategy and financial planning, such scenarios should be described.

Organisations that have made GHG emissions reduction commitments, operate in jurisdictions that have made such commitments, or have agreed to meet investor expectations regarding GHG emissions reductions should describe their plans for transitioning to a low-carbon economy, which could include GHG emissions targets and specific activities intended to reduce GHG emissions in their operations and value chain or to otherwise support the transition.

Recommended disclosure for Strategy (c)

Scenario analysis

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Supporting guidance from TCFD

Organisations should describe how resilient their strategies are to climate-related risks and opportunities, taking into consideration a transition to a low-carbon economy consistent with a 2°C or lower scenario and, where relevant to the organisation, scenarios consistent with increased physical climate-related risks.

Organisations should consider discussing:

- where they believe their strategies may be affected by climate-related risks and opportunities;
- how their strategies might change to address such potential risks and opportunities;
- the potential impact of climate-related issues on financial performance (e.g., revenues, costs) and financial position (e.g., assets, liabilities); and
- the climate-related scenarios and associated time horizon(s) considered.

Refer to Section D in the Task Force's report for information on applying scenarios to forward-looking analysis

Further extract on climate scenario analysis which is planned for inclusion in the Exposure Draft

Reporting entities may wish to consider further TCFD's Guidance on Climate Scenario Analysis which provides useful context and background.

Key Messages

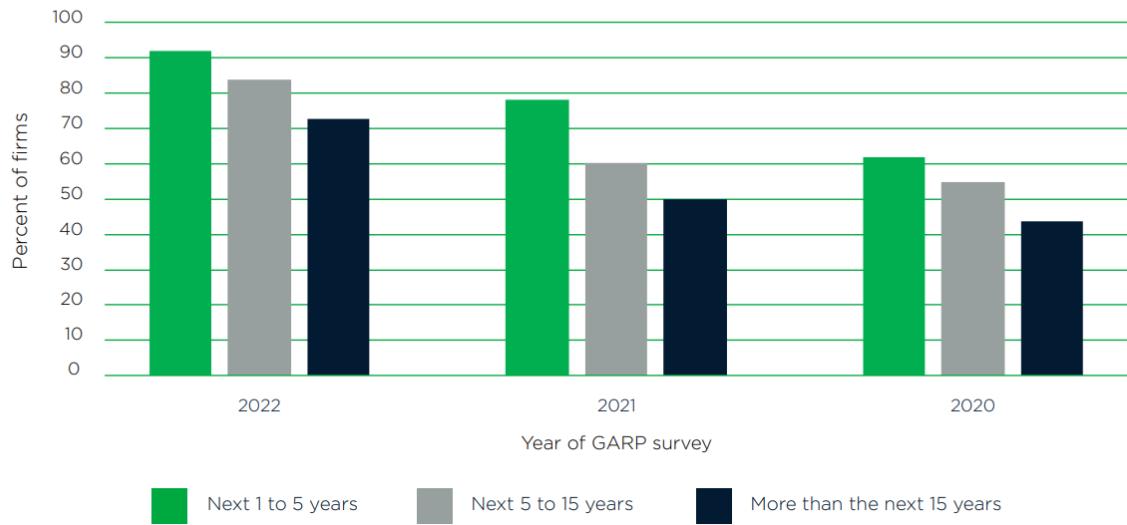
- Scenarios are descriptions of hypothetical, plausible futures (not forecasts) that help companies to answer the question “What would be the potential implications for our strategy if the future described in a scenario came to pass?”
- The number of scenarios should be sufficiently diverse to create challenging “what-if” analyses and capture a wide range of insights about uncertain futures.
- Publicly available scenarios (e.g., Intergovernmental Panel on Climate Change (IPCC), International Energy Agency (IEA)) are useful starting points and can serve to provide context, and as anchors for in-house-developed scenarios.
- Scenario analysis starts with a crisp, concise focal question that provides direction for the analysis and a link to decisions and actions to which the analysis contributes.
- Scenarios basically describe two things — an outcome at a certain time horizon, and a pathway from today to the selected outcome.
 - A scenario's driving forces and assumptions about how those forces interact and develop over time define a pathway from the present to the future scenario outcome. There are multiple possible pathways to any particular outcome.
 - Scenarios should consider both transition risks and physical risks, and the interaction between them.
- It is important to develop a sound scenario narrative first and then proceed to quantifying the scenario if necessary. Quantification at some level should be a goal in a mature scenario process; investors expect a company to quantify potential impacts.
- Scenarios should be high quality, periodically updated, and transparent to be an effective decision tool and to have credibility with investors.

Annex 2d

Time horizons used by other climate and sustainability reporting frameworks and existing climate-related disclosures

	Short-	Medium-	Long-
Central government annual reports			
UK Export Finance	Up to 2 years	2 to 10 years	Beyond 10 years
British Business Bank, <i>focuses on Small and Medium-sized Enterprises (SMEs), considering macro-economic factors in future planning</i>	Within the next year	Within the next 5 years (also our Business Planning horizon)	5 years and beyond, aligns to the long 5-20-year investment horizon in venture capital equity portfolios in British Patient Capital and British Business Investments.
BBC	2023-29	2030-39	2040-59
Private sector overview from <i>FRC's Climate Thematic Review</i>	0 to 1 year	2 to 4 years	5 to 10 years although others considered significantly longer (e.g., end of century).
Other central government (and cross national) risk frameworks			
Defra – Adaption Reporting Power	N/a	Mid-century	End of century
National Risk Register	N/a - no consistent definition of time horizons		
Other climate-related standards setters and frameworks			
Transition Plans Taskforce (TPT)	Recommends no longer than 3 years – aligning with when transition plans are due	-	-
Science Based Targets initiative (SBTi)	5 to 10 years	-	2050 or more
EU's Own Risk Solvency Assessment (ORSA)	5 to 10 years	Next 30 years (by mid-century)	For next 80 years (end of century)

Figure 9: Time Horizons Where Risks or Opportunities Have Been Identified



Source: GARP Risk Institute Fourth Annual Global Survey of Climate Risk Management at Financial Firms www.garp.org/hubfs/Website/SCR/PDF/GRI_22ClimateRiskSurveyReport.pdf

Annex 2e

Summary minutes from the TCFD Technical Working Group (TWG) meeting on 24 April 2024.

TCFD-TWG 05 - April 2024

Attendees: representatives from: HM Treasury (Resource Accounts Team), Ministry of Defence, British Business Bank, Sellafield Sites, Department for Health and Social Care, Government Actuary Department, Department for Work and Pensions, HM Revenue and Customs, Institute of Chartered Accounts for England and Wales (ICAEW).

Update since TCFD-TWG-04 from 10-11.30am on in February 2024

- Presentation slides were shared to update attendees on key publications and recent developments.
- Updates were provided on Phase 3 Strategy pillar recommended disclosures, and GAD's climate scenario analysis report, including in Appendix 2 of the [FRAB 152 \(02\)](#). For understanding climate scenario analysis, the GAD team have included a comprehensive introduction on the topic in Appendix 2 of the GAD report.
- HMT is in early discussion on training sessions with GAD and ICAEW on Phase 3 disclosures. They are aiming to have training in place by autumn/year-end to prepare for upcoming reporting cycles.

Climate scenario analysis

- Advice from GAD emphasized analysing temperature impacts and global changes related to climate, using IPCC models and other data sources to assess potential business impacts, particularly focusing on entity operations.
- Timeframes for analysis were outlined, suggesting short-term (defined by the entity), medium-term (by 2050), and long-term (end-of-the-century) scenarios, aligning with IPCC recommendations.
- Two scenarios were proposed: 2 degrees and 4 degrees, with a quantitative focus on departmental operations complemented by qualitative analysis of broader economic, environmental, and people impacts.
- TWG asked about timeframes for implementing climate scenario disclosures. HMT noted that this was for 2025-26. Application guidance will be released in November 2024 to facilitate early preparation. HMT explained that non-compliance can be justified by resource constraints, and there's an expectation to build capacity over time.
- If climate change isn't a principal risk, these disclosures are not mandatory -however, voluntary disclosure (in full or in part) may be useful for decision-making.

Annual Reporting

- Discussions on progress for 2023-24 disclosures for Phase 1 and 2 disclosures (among early adopters).

Proportionality

- A TWG member noted challenges from management on including TCFD-related disclosures in ARAs due to their length - prompting considerations for separate

sustainability reports. They queried whether other preparers were considering potential strategies for future reporting formats.

- TWG members echoed challenges in achieving a balanced approach to disclosure, acknowledging the need for consistency, and learning from other organisations' practices. HMT noted plans to publish a good practice report later in the year.
- Members agreed with these challenges, noting efforts to streamline other disclosures in their ARA. Others noted challenges balancing quantitative performance reporting content in ARAs - with the inclusion of TCFD-related disclosures - aiming for consistency and integration within the overall report structure.

Principal risk determination

- TWG questioned how organisations determine climate risk as a principal risk and whether the system may be gamed to avoid disclosure.
- HMT emphasized the importance of honesty in assessing climate risk as a principal risk, advocating for clarity and transparency in reporting even if climate is not deemed a principal risk – noting the ability to explain non-compliance. HMT discussed potential updates to guidance (and elsewhere) on reporting principal risks, aiming to provide more detailed instructions without stepping into risk prioritisation territory.

Developing standards

- TWG asked about new IFRS Sustainability Standards and their potential application to government. HMT confirmed that these developing standards – in addition to the International Public Sector Accounting Standards Board's (IPSASB's) Climate Standards – are being monitored.
- They incorporate the TCFD framework's structure and recommended disclosures. FRAB issued a position statement that adopting TCFD is an appropriate step forward for what may come next.

Strategy a) Risk profiles

- Phase 3 guidance, included classifying risks into short, medium, and long-term categories, prioritizing them, and assessing their impact on organisational strategy and financial planning.

Time frames for risk profile vs. scenario analysis

- HMT clarified the difference in timeframes specified in the GAD recommendations for climate scenario analysis, Strategy c), regarding short-term, medium-term (2050), and long-term (end-of-the-century) risks - from Strategy a) which focus on business planning risks within entity-defined time horizons.
- TWG raised concerns about potential confusion between entity-led risk management and centrally defined time horizons for climate scenario analysis, and the reason for this differing approach.
- HMT explained the rationale behind differentiating shorter-term business planning and risk management in Strategy a) - from longer-term scenario analysis, Strategy c), which is uncertain and used more for longer-term strategic planning. HMT agreed with the need for clarity of terminology in the guidance.
- HMT outlined the options for defining time horizons in climate scenario analysis Strategy c), including aligning on time horizons (GAD's advice), allowing organisations

to set their own longer-term time horizons (expensive, lacks consistency), or other options.

Risk ownership

- A TWG member noted the importance of organisational ownership of risk - that these are not always clearly defined (e.g., National Risk Register). Furthermore, there may be potential conflicts arising from government-imposed timeframes for climate scenario analysis.
- A member asked about climate scenario definitions and their impact on time horizons, highlighting the importance of aligning scenarios with timeframes. HMT confirmed plans to centrally define climate scenarios (e.g., 2-degree and 4-degree scenarios) with the benefit of data application to departmental models based on IPCC outputs.

External expertise

- GAD noted the need to develop internal skills within departments for conducting scenario analysis in the longer-term, with external support provided as needed. For the initial disclosure, external expertise is likely required – however, future updates would require less external input.

Longer-term horizons

- TWG noted challenges in aligning longer-term climate strategies (e.g., planning for 2100) with shorter-term departmental planning, emphasizing the need for upskilling and meaningful integration of climate scenarios into departmental disclosures. Integrating long-term scenario analysis into departmental planning and finance processes needs to address the perceived value (and effort) and financial commitment required for regular reviews of long-term scenarios.
- TWG suggested aligning time horizons with industry practices and other regulatory guidance, proposing the inclusion of a "very long-term" option (e.g., up to 2100) alongside shorter-term horizons for more flexibility.
- HMT noted that a "very long-term" option had briefly been considered but rejected based on the divergence from the framework and complexity in its introduction. However, expressed openness to setting out this option, based on feedback from TWG at the meeting.
- TWG highlighted the importance of ensuring buy-in from organisations for meaningful scenario analysis and suggested a nuanced approach that aligns with entity-defined timelines while allowing for longer-term perspectives.
- Another member emphasized the need to link reporting with actual activities (e.g., long-term provisions), noting the Public Expenditure Estimates System (PES) discount rate paper for reference for long-term planning.

Long-term strategic view across-government

- Another member advocated for a longer-term view in government disclosures to counteract short-termism, suggesting collaboration between GAD and Whole of Government Accounts (WGA) for bespoke scenario analysis.
- HMT sought clarification on the approach for integrating longer-term scenario analysis into the WGA, discussing whether it should be bottom-up data-driven or centrally conducted (which is likely to be more effective).

Strategy c) Scenario definitions

- HMT noted the focus on physical risk-driven scenarios – as opposed to transition policy-driven scenarios for climate scenario analysis – although a level of awareness of government policy would be necessary in a similar way to financial reporting. The complexity and rapid changes in government policies means that centralised guidance would become out of date quickly.

Strategy b) Impacts, mainly financial planning

- HMT proposed leverage of existing reporting frameworks (common core tables, estimates) for financial planning disclosures related to climate change adaptation and transition to net zero. Additional classifications could be added for comparability and consistency between departments.
- TWG raised concerns in applying operational spending related to climate change initiatives due to the challenge in identifying and reporting such expenditures accurately across different programs and departments.
- HMT acknowledged the challenge of ensuring data quality and consistency in reporting – noting difficulties in previous similar cross-government commissions.
- TWG emphasized that if this was to be used there would be a need for clear definitions and guidance on levels of materiality when determining what expenditures should be included in climate-related financial disclosures.

Consolidation and aggregating at group-level`

- Another member noted the complexities and resource constraints involved in compiling detailed climate-related data, especially at the departmental level, due to varying accounting systems and the burden it would impose on entities.

Spending Review

- Another TWG member highlighted the existing trend towards assessing carbon impacts of spending (e.g., SR21) - albeit more qualitatively. A light-touch approach to reflect direct net zero spend in guidance may be beneficial - acknowledging the need for consistency in messaging from HMT.

Cost of carbon

- Another member shared insights on the inclusion of financial liabilities for the cost of carbon as part of spending profiles to estimate future liabilities if no action is taken on decarbonisation.