

Appendix B: Project Initiation Plan: Climate-related Matters (Updated as of May 2023)

Project Type	Thought Leadership
Project Scope	Limited scope

Overview

- B1. The UKEB Regulatory Strategy 2023/24 (draft) includes a research project entitled 'Reporting climate-related matters in financial statements' in the workplan. This paper provides the Board with a draft PIP for a project to consider the reporting of climate-related matters in the financial statements.
- B2. The UKEB delegated functions include responsibility for "participating in and contributing to the development of a single set of international accounting standards." Undertaking pro-active thought leadership activities is key to the UKEB's ability to effectively deliver this statutory function. The UKEB's Terms of Reference (ToR) further explain that regarding thought leadership, it shall proactively participate in the development of new global accounting standards, for example by undertaking research.
- B3. In August 2022, the Department for Business, Energy, and Industrial Strategy (BEIS) requested¹ the UKEB carry out work to consider the overlap or impact of the proposed International Sustainability Standards Board (ISSB) Sustainability Disclosure Standards with those issued by the International Accounting Standards Board (IASB).
- B4. The IASB has added a pipeline project 'Climate-related Risks in the Financial Statements', after noting in its Feedback Statement on the Third Agenda Consultation that stakeholders had commented on inconsistent application of IFRS Accounting Standards to climate-related risks; and that there was insufficient information disclosed about climate-related risks in the financial statements².

¹ Letter from [Lord Callanan](#) to the International Sustainability Standards Board (1 August 2022). On 7 February 2023, the Government announced a machinery of government update creating a new Department for Business and Trade (DBT). The UKEB is now a partner body to DBT.

² Third Agenda Consultation - [Projects to add to the work plan](#)

- B5. While IASB staff noted, at the time, that underlying causes of any deficiencies in reporting were unclear, they also observed that, "...the ISSB's work on climate-related disclosures (and sustainability-related financial information more broadly) could provide the IASB with helpful insights about potential improvements to the information provided in the financial statements about climate-related risks³".
- B6. In response, to the feedback the IASB added a pipeline project 'Climate-related Risks in the Financial Statements'⁴ and noted three objectives:
- a) research the causes of stakeholders' concerns about inconsistent application and insufficient information.
 - b) research whether the IFRS Foundation's educational material on the Effects of climate-related matters on financial statements and the application of the ISSB's future standard on climate-related disclosures help to address these concerns; and
 - c) consider whether and, if so, what narrow-scope actions might be needed.
- B7. In March 2023, the IASB moved the project from the maintenance project pipeline to the maintenance project workplan.
- B8. The ISSB has issued a Request for Information (RFI) to inform its initial two-year work plan. The approach will include both foundational work, which will build on draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (S1) and draft IFRS S2 *Climate-related Disclosures* (S2), and potential research and standard setting projects.
- B9. One of the ISSB projects in the RFI is focussed on integration in reporting. This includes a discussion of the requirements in IFRS S1 and S2 in relation to connected information. The project is proposed as an ISSB project that could be pursued jointly with the IASB, rather than as a formal joint project with the IASB.
- B10. Stakeholders appear to be giving increasing importance to connectivity, as demonstrated by several recent studies and reports in the UK highlighting the disconnect between Task Force on Climate-related Financial Disclosures⁵ (TCFD) disclosures on climate-related risks to companies' business models in the front half of companies' Annual Reports⁶ and information disclosed in their financial

³ IASB Agenda paper Ref 24A, April 2022 para 24 (c)

⁴ IASB Maintenance [project pipeline](#)

⁵ TCFD requires all large listed, unlisted and LLPs to report on a mandatory basis, within the Strategic Report Financial for years beginning on or after 6 April 2022. Metrics and target require the disclose of Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

⁶ SECR is the principal regulatory regime for reporting emissions and associated information and is intended to complement the TCFD disclosures. SECR requires businesses to include their greenhouse gas emissions, energy consumption and energy efficiency action by quoted and large unquoted companies in their annual Directors' report (for companies) or the Energy and Carbon Report (for large LLPs) for financial years beginning on or after 1 April 2019.

statements⁷. As both S1 and S2 use TCFD as its basis, the TCFD-based research is an appropriate proxy for the proposed ISSB Standards and their expected connectivity with IASB standards. For example:

- a) Carbon Trackers October 2022 report ‘Still Flying Blind⁸: The Absence of Climate Risk in Financial Reporting’ noted, “Most of the companies reviewed⁹ did not provide sufficient evidence that their financial statements included the impacts of material climate-related matters. The failure to provide this information raises questions about whether companies are reflecting the financial consequences of climate risk and the energy transition within their financial statements”.
- b) The FRC Corporate Reporting Review (CRR)’s July 2022 thematic¹⁰ review assessed both TCFD disclosures and climate-related reporting in the financial statements of 25 carbon intensive, large premium listed companies in the UK. The FRC noted, “Some companies did not provide sufficient detail in their financial statement disclosures to provide meaningful information to users, especially when compared to extensive disclosures about climate-related risks and opportunities in the strategic report.” In addition, that, “Only a small portion of companies disclosed the impact of climate change on amount recognised in the financial statements”.
- c) PWC’s April 2022 report ‘The green shoots of TCFD reporting’¹¹ found that only 8% of the first 50 published annual reports by FSTE 350 companies in 2021 quantified the estimated financial impact of climate risks in their strategic report. They noted that when financial information was disclosed in the financial statements it was often a brief statement that climate change was not material.
- d) ACCA and the Adam Smith Business School Research Report ‘Companies’ readiness to adopt IFRS S2 climate-related disclosures’¹² focussed on the 100 companies with the highest average GHG emissions over the three-year period 2018-2020 in the construction materials and chemicals industries (50 from each industry) worldwide, which provided annual reports in English. The report noted that, “there is a low level of climate-related disclosure pertinent to an entity’s financial position, performance,

⁷ Financial Conduct Authority (FCA), via its listing rules, requires that certain UK premium listed companies and standard listed companies include a statement in their annual financial report which sets out whether they have made disclosures consistent with the TCFD’s framework. These rules came into force for accounting periods beginning on or after 1st January 2022.

⁸ [Still Flying Blind: The Absence of Climate Risk in Financial Reporting](#) (October 2022)

⁹ 134 carbon-exposed companies that are key to “driving the global net zero emissions transition” and include those companies that contribute to up to 80% of global industrial greenhouse gas emissions.

¹⁰ [CRR Thematic review of TCFD disclosures and climate in the financial statements](#) (July 2022)

¹¹ [The green shoots of TCFD reporting](#): An analysis of the first 50 companies to report under the Listing Rules (April 2022)

¹² [Companies’ readiness to adopt IFRS S2 climate-related disclosures](#) (August 2022)

and cash flows” and that “this finding is of particular interest as these disclosures refer to the integration of the ‘front-end’ of companies’ annual reports with the ‘back-end’ (i.e., financial statements)”.

Objective of the project

- B11. A research project on reporting climate-related matters in financial statements is consistent with the UKEB’s statutory functions as well as the request for additional work on connectivity by the Government. In addition, the evidence gathered will help the UKEB to obtain insight on the UK companies’ existing experience of reporting on climate-related matters. This will help the UKEB provide evidence-based responses to both the IASB, on its project on climate-related risks in financial statements, and to the ISSB, on its RFI on its future agenda setting.
- B12. The objective of the research is to develop a body of evidence, using FTSE 350 annual reports to identify disconnects between TCFD and SECR narrative disclosures in the front half of the annual report and the disclosure of the associated financial effects in the financial statements.
- B13. The project will also document the process, to ensure the research could be repeated to gauge the level of improvements in connectivity over time. To avoid duplication and repetition, the research approach will seek to build upon existing TCFD-based research. In particular, the approach will seek to reference previous work in the UK by other organisations.
- B14. A separate PIP will be prepared for the ISSB RFI¹³ which will include formal stakeholder outreach however, as this is preparatory research, outreach will be limited to the UKEB working and advisory groups.
- B15. The deliverables of the research project are to:
- a) Understand the current issues already identified regarding the reporting of climate-related matters in financial statements.
 - b) Assess the areas of disconnect between the TCFD and SECR disclosures and the financial statements, seek initial stakeholder perspectives and to consider the potential impact of draft ISSB disclosure requirements.
- B16. For each deliverable a description of the objectives, proposed methodology for gathering of evidence, the expected outcomes, timing, and resources required are set out below.

¹³ This PIP is being taken to the May 2023 UKEB meeting.

Deliverable One: Assessment of current research

Objective

- B17. To understand the current issues already identified regarding the reporting of climate-related matters in financial statements. This will enable the UKEB to be aware of research already completed and to identify areas of further investigation.

Methodology

- B18. Identify and assess current UK focussed and global TCFD based research, identify key themes and potential causes.

Outcome

- B19. A reference document containing a high-level summary of the key findings from recent research regarding issues identified in the reporting of climate-related risks in financial statements. The document will also identify potential further areas for focussed UKEB research.

Timing and resources

- B20. This activity could be started immediately by a Project Manager and is likely to require between one to two months to complete.

Deliverable Two: Analysis of 2022 FTSE annual reports

Objective

- B21. To determine the nature of connectivity gaps, to assess the extent to which the cause may be incongruence between accounting standards and the requirements of TCFD and to assess the potential impact of ISSB standards on those gaps.

Methodology

- B22. The assessment will initially focus on a sample of nine annual reports from the FTSE 350 and focus on entities from a range of industries. The sample will be weighted towards industries considered to be heavier carbon emitters but also seek to include companies from a range of industries.

- B23. The assessment will help inform the amount of time taken and provide an indication as to whether a review of a larger sample may be feasible within the timeframe and resource constraints. The Board will be updated on progress, the available options and recommended next steps on a regular basis.

- B24. The deep dives will be desktop-based and will compare TCFD and SECR narrative disclosures in the front half of annual reports to the financial effects reported in the financial statements based on IFRS Accounting Standards and consider

whether any disconnects identified would be addressed by the adoption of IFRS S1 and S2.

B25. The analysis approach will follow the sequence set out below:

- a) A review of the TCFD and SECR disclosures as well as considering other relevant sustainability information for context.
- b) Identify areas that a user of the annual report would reasonably expect could have a financial impact on the financial statements.
- c) Review the financial statements for those anticipated financial impacts.
- d) Identify possible reasons for why information is or is not disclosed in the financial statements.
- e) For areas where the consideration of financial effect was reasonably expected but not disclosed in the financial statements, consider what impact the sustainability disclosure requirements in draft IFRS S1 and S2 may have to support users' expectations.
- f) For any remaining areas unlikely to be addressed by ISSB disclosures, consider possible solutions, what action could be taken and by whom.
- g) Present the analysis at a summary level to a meeting of the UKEB Sustainability Working Group as well as seeking comments from other UKEB Advisory Groups.

Outcome

B26. A report including the following:

- a) an analysis of the connectivity gaps identified and the extent to which the cause may be due to incongruence between accounting standards and the requirements of TCFD.
- b) the potential impact of the adoption of draft S1 and S2 on those gaps.
- c) a summary of stakeholder views obtained from UKEB working and advisory groups.

Timing and resources

- B27. The financial reporting analysis will be conducted primarily by the external researcher¹⁴ with part time support of a UKEB Project Manager and Director.
- B28. A majority of UK listed companies have December year-ends and tend to start publishing their annual reports from end of February onwards. As a result, the work is expected to commence fully from mid-March 2023. Once commenced the work is estimated to take between three to four months to complete.

Key planning assumptions, constraints, and timeline

Key planning assumptions and constraints

- B29. Given the limited resource available within the UKEB Secretariat, the immediate focus will be on-boarding an external researcher, with an investment background, to work alongside UKEB staff to review the approach and design of the desktop research. The initial activity will consist of an assessment of the existing TCFD based research.
- B30. It is expected that several of the activities to be undertaken as part of this project will result in opportunities to collaborate with, and contribute to, other UKEB projects. For example, there is a potential overlap with the Intangibles research project. We will actively look for ways to incorporate cross-sectional thinking and help ensure maximum impact for this thought leadership project.
- B31. Once the project has concluded, there may be an opportunity to work with academics and academic journals using the final report to support further research. The UKEB Academic Advisory Group would play a key role in considering whether to recommend any further research in this area to the UKEB.

Stakeholder outreach

- B32. *Investor focus:* The Conceptual Framework for Financial Reporting¹⁵ identifies the primary users of financial reports as existing and potential investors, lenders and other creditors that cannot require entities to provide information directly to them. The project will, therefore, focus primarily on investors' requirements, as they rely on General Purpose Financial Statements (GPFS) to provide useful information.
- B33. *Stakeholder outreach:* Formal stakeholder outreach will *not be conducted* as part of this research project. The UKEB is in the process of establishing both a Sustainability Working Group (SWG) and, at the Secretariat level, a National Standard Setters (NSS) Sustainability Forum. These groups will be the main form of outreach on draft project deliverables. The UKEB will also seek to engage UKEB

¹⁴ Note - this and all other assumptions regarding estimated researcher effort are subject to change as the researcher will need to validate once on boarded to the project team.

¹⁵ See [Chapter 2: Objective, usefulness and limitations of general purpose financial reporting](#)

Advisory Groups, as appropriate, but this is expected to be less frequent as the members of the SWG will be drawn from existing UKEB Advisory Groups.

Resource

- B34. In addition to outreach and technical support from the UKEB SWG and Advisory Groups, the project currently expects the following level of input from the technical staff:
- a) 0.75 FTE project director [0.5 FTE of a project director on a consistent basis and 0.25 of a project director to support key deliverables];
 - b) 0.25 FTE project manager to support research and contribute to specific deliverables on a consistent basis; and
 - c) External researcher: two days a week, initially for three months
- B35. It is also important to acknowledge that additional research opportunities and outputs could emerge, or be identified, while the project is underway. Any significant changes to the research approach, outputs, timetable, or costs will be presented to the Board.

Risks

- B36. As the RFI consultation period closes on 1 September the UKEB will need to consider the most appropriate options for approving the final comment letter as 1 September falls between UKEB meetings.
- B37. While we are aware that the IASB's 'Climate-related Risks in the Financial Statements' project commenced in March 2023, however, the timing of an ED has not yet been confirmed.
- B38. The UKEB project timelines and milestones will need to remain flexible to respond to developments at the ISSB and IASB to ensure the UKEB outputs are timely and have maximum impact on the activities of both boards.

Project closure

- B39. Each output will comply with the expected due process requirements appropriate to the nature of the output.

Project timeline

B40. The proposed high-level project timeline is as follows (a graphical representation is included on the next page). Note that dates are indicative only, and subject to revision by the Board as the project develops:

Expected Date	Expected Milestones	
	Summary of current connectivity research	Analysis of 2022 annual reports
March 2023	Project Initiation Plan approval	
	Commencement of work	
April 2023	UKEB to consider report	Update for the Board
May 2023	n/a	Update for the Board
June 2023	n/a	UKEB to consider report

High-level timeline

