

Connectivity – update on analysis of 2022 Annual Reports

Executive Summary

Project Type	Influencing
Project Scope	Research
Purpose of the paper	
<p>The UKEB approved a research project focussed on connectivity between IFRS Sustainability Disclosure Standards and Accounting Standards. This paper provides an update on Deliverable Two included in the Climate-related Matters Project Initiation Plan (PIP)¹: the assessment of areas of potential disconnects between the TCFD and SECR disclosures and the financial statements, to seek initial stakeholder perspectives and to consider the potential impacts of the draft ISSB disclosure requirements.</p>	
Summary of the Issue	
<p>This research is in the early stages and is being prepared to support the UKEB response to both the ISSB Request for Information (RFI) on its workplan and the IASB's project regarding Climate-related Risks in Financial Statements.</p> <p>As noted in the PIP this is the first update for the UKEB Board on the research project. A second update is expected at the May 2023 UKEB meeting and the final presentation of the findings is currently scheduled for the UKEB June 2023 meeting.</p>	
Decisions for the Board	
<ol style="list-style-type: none">1. Do Board members have any questions or comments on the status, plan or approach of the assessment?2. Do the Board support the revised assessment approach and if so, do they require the PIP to be updated?	
Recommendation	
N/A	
Appendices	
Appendix A Annual Report Analysis Update	

¹ [Project Initiation Plan](#) – Climate-related Matters

Appendix A: Annual Report Analysis: Update

Context

- A1. In August 2022, the UK Government¹ requested that the UKEB carry out work to consider the overlap or impact of the proposed International Sustainability Standards Board's (ISSB) IFRS Sustainability Disclosure Standards with those accounting standards issued by the International Accounting Standards Board (IASB).
- A2. The International Sustainability Standards Board (ISSB) is currently developing a Request for Information (RFI) to inform its initial two-year work plan. At the time of writing, the IFRS Foundation website indicated that the ISSB RFI will be issued during May 2023.
- A3. Based on recent discussions at ISSB meetings, one of four proposed projects in the RFI is expected to be a project that focusses on integration in reporting. The project may include a discussion of the requirements in draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and draft IFRS S2 *Climate-related Disclosures* in relation to connected information between sustainability disclosures and disclosures in the financial statements.
- A4. In parallel, the International Accounting Standards Board (IASB) has activated a project named 'Climate-related Risks in the Financial Statements'². The IASB had noted concerns raised by stakeholders regarding climate-related disclosures in its Feedback Statement on its Third Agenda Consultation and is seeking to better understand the causes.
- A5. At the March 2023 meeting the UKEB approved a research project focussed on connectivity between IFRS Sustainability Disclosure Standards and Accounting Standards. This research is intended to support the UKEB response to both the ISSB RFI and the IASB's project Climate-related Risks in Financial Statements.
- A6. This update paper relates to Deliverable Two of the Climate-related Matters Project Initiation Plan (PIP)³: the assessment of areas of potential disconnects between the TCFD and SECR disclosures and the financial statements, to seek initial stakeholder perspectives and to consider the potential impacts of the draft ISSB disclosure requirements.

¹ [Letter from Lord Callanan](#) to the International Sustainability Standards Board regarding their exposure drafts IFRS S1 and IFRS S2 (1 August 2022).

² [Connectivity in practice: the IASB's new project on Climate-related Risks in the Financial Statements.](#)

³ [Project Initiation Plan](#) – Climate-related Matters.

Scope and deliverables

- A7. The research is solely focussed on identifying potential connectivity issues between narrative climate-related sustainability disclosures and the financial statements based on IFRS Accounting Standards. This work will not include any assessment of interoperability with other jurisdictional sustainability requirements nor seek to assess or comment on the current level of compliance with TCFD or SECR reporting requirements in the UK.
- A8. The specific outcomes for this deliverable are:
- a) An analysis of connectivity gaps identified and the extent to which the cause may be due to incongruence between accounting standards and the requirements of TCFD (as a proxy for draft IFRS S2 *Climate-related Disclosures*).
 - b) The potential impact of the adoption of draft IFRS S1 and draft IFRS S2 on those gaps.
 - c) A summary of stakeholder views obtained from UKEB Working and Advisory Groups on the findings.
- A9. The sample of nine FTSE 350, 2022 Annual Reports is not intended to provide a representative result for the FTSE 350. Rather, it will allow the identification and deeper analysis of potential connectivity issues and consideration of potential solutions using real examples from across a range of entities and industries impacted by climate change.
- A10. In accordance with the Board's direction that this work is not intended to comment on the current level of compliance, the outcome of the research will be presented at a summary level and with anonymised illustrative examples.

Current Status

- A11. The project team, which includes an external part time expert analyst, began work during March 2023. A kick off meeting established the annual reports to be included in the sample.
- A12. Two annual report connectivity deep dives are in progress. One relating to an entity in the extractive industry and another on an entity in the aviation industry. The implications for the application of draft IFRS S1 and S2 are currently being assessed by the project team. The remaining seven assessments are on track to be completed for a discussion of the results at the June UKEB meeting.

Approach

- A13. As noted in the Research PIP, the external expert has reviewed the proposed methodology and recommended improvements. It is proposed that the analysis approach follows 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.

Sample selected

- A14. Nine companies have been selected taking into consideration the expected timeline for publication of the ISSB RFI and resources available. The sample was selected based on the following factors:
- a) Organisations in an industry where climate change is likely to have a material impact.
 - b) A spread of FTSE 100 and 250 companies.
 - c) Availability of 2022 Annual reports with comprehensive TCFD disclosures.
 - d) UKEB member suggestions
 - e) Avoiding companies that have already been heavily assessed in TCFD research by other parties.

A15. The sample of nine companies are shown in the table below.

Sector	FTSE 100	FTSE 250	Total
Aerospace and defence	–	1	1
Electricity	–	1	1
General Industrials	–	1	1
Industrial Metals and Mining	1	–	1
Insurance	1	–	1
Oil, Gas, Coal	–	1	1
Pharmaceuticals and Biotechnology	1	–	1
Travel and Leisure	1	1	2
Total	4	5	9

Next Steps

- A16. The project team will continue its work on the annual report analysis and will arrange a meeting of the UKEB Sustainability Working Group to discuss the draft results.
- A17. We expect to present a further update at the May 2023 UKEB meeting and the final presentation of the findings is currently scheduled for the UKEB June 2023 meeting.

Question for the Board

1. Do Board members have any questions or comments on the status, plan or approach of the assessment?
2. Do the Board support the revised assessment approach and if so, do they require the PIP to be updated?