UKEB
UK Endorsement Board

Analysis of 2022 Annual Reports – Final Report

Executive Summary

Project Type	Influencing
Project Scope	Research

Purpose of the paper

The UKEB approved a research project focused on connectivity between IFRS Sustainability Disclosure Standards and IFRS Accounting Standards in March 2023.

This paper provides the final report for deliverable two in the Climate-related Matters Project Initiation Plan (PIP). Following the approval of the PIP in March, the UKEB has been provided with two updates on this research project.

The first update in April related to the project's mobilisation and resourcing and the second in May, to review potential inconsistencies identified in Annual Reports relating to property, plant and equipment and intangible assets.

Summary of the Issue

The objective of deliverable two in the PIP was to:

1. Assess areas of potential disconnects between disclosures made by UK listed companies in

   (i) the sustainability report relating to the TCFD and SECR requirements, and

   (ii) their financial statements;

2. Seek initial stakeholder perspectives; and
3. Consider the potential impacts of the draft ISSB disclosure requirements.

The final report is solely to promote discussion and awareness of potential issues regarding connectivity between sustainability and financial reporting in the UK. The report does not seek to judge the current state of reporting, comment on the approach taken by any particular entity or on areas of improvement, identify good or poor practice or draw any representative conclusions.

Individual entities have therefore not been named as the aim of the research is to identify the nature of potential inconsistencies based on information available in the market.

UK Endorsement Board

The sample of nine FTSE 350 Annual Reports from 2022 was selected from entities with significant exposure to climate-related risks as indicated through comprehensive sustainability disclosures in their Annual Reports.

As the sample is small it is not intended to provide a representative outcome but to enable the identification and deeper analysis of potential inconsistency and connectivity gaps for consideration and discussion based on real examples.

The research was desktop-based and engaged an external expert investor-focussed analyst to compare sustainability narrative disclosures in the front half of the annual reports to the financial effects reported in the financial statements.

The examples represented in the report illustrate the most, but not all, significant connectivity themes identified and many potentially raise expectations for financial statements impacts across multiple themes.

At the time of publication, the ISSB standards [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (S1) [1] and [draft] S2 *Climate-related Disclosures* (S2) [2] were still in draft. The research is therefore based on the Task Force on Climate-Related Financial Disclosures (TCFD)[3] as an appropriate proxy for the proposed ISSB Standards as they are both based on the TCFD architecture.

The research excludes any assessment of interoperability with other jurisdictional sustainability requirements, nor does it seek to assess or comment on the current level of compliance with TCFD or Streamlined Energy and Carbon Report (SECR) reporting requirements in the UK

The report contains the following chapters and appendices:

- Executive Summary
- Objectives ad approach
- Potentially inconsistent and disconnect information
  - Section One: Plant Property and Equipment (PPE) and Intangible Assets:
  - Section Two: Commitments and other provisions
  - Section Three: Emissions reduction targets
  - Section Four: Other connectivity themes identified
  - Section Five: Initial stakeholder feedback
- Conclusions and next steps
- Appendices

1 [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (March 2022)
2 [draft] IFRS S2 *Climate-related Disclosures* (March 2022)
3 Please refer to Appendix E for a comparison between TCFD and S2 requirements and a summary of additional S2 requirements.

- Glossary

Next Steps

Following discussion at the UKEB, the report is intended to be shared with UK stakeholders as part of the UKEB consultation on the ISSB Request for Information and to help inform the UKEB Comment Letter.

It is also intended to share the report with the IASB Climate-related risk in Financial Statements project team as they gather stakeholder feedback to determine the direction and scope of that project.

Decisions for the Board

1. Do Board members have any questions or comments on the analysis of connectivity gaps presented in the research report?
2. Do the Board approve the publication of the report, subject to changes requested at the June meeting?

Recommendation

That the Board discuss and consider the final report. The updated PIP did not include a review of a second draft of the report, however, if the Board requires this, the report could be brought to the September meeting for a final review.

Appendices

Appendix A Analysis of 2022 Annual Reports - Final Report

UKEB
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A Study in Connectivity: Analysis of 2022 UK Company Annual Reports

June 2023

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Executive Summary

The UKEB recognises that sustainability disclosure reporting and its relationship with the financial statements is at an early stage of development and that significant effort is being made by UK entities to provide consistent and connected information for users in Annual Reports, where considered material.

The aim of the report is solely to promote discussion and awareness of potential issues regarding connectivity between sustainability and financial reporting observed in the UK. The report does not seek to judge the current state of reporting, comment on the approach taken by any particular entity or on areas of improvement, identify good or poor practice or draw any representative conclusions as to the quality of reporting.

Individual entities have therefore not been named as the aim of the research is to identify the nature of potential inconsistencies based on information available in the market.

The examples selected from the FTSE 350 2022 Annual Reports illustrate the most significant connectivity themes identified, and many potentially raise expectations for financial statements impact across multiple themes.

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Context

1. The International Accounting Standards Board (IASB) Third Agenda Consultation Feedback Statement[1] noted 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 statements. In March 2023, the IASB activated a project entitled Climate-related risks in Financial Statements[2] and are currently seeking stakeholder views on the project's direction.

2. In May 2023, the International Sustainability Standards Board (ISSB) issued a Request for Information[3] to inform its initial two-year work plan. One of the proposed research projects is entitled 'integration in reporting'. Initially this ISSB project was entitled 'connectivity in reporting' and was proposed to 'undertake a joint project with the IASB to develop comprehensive disclosure requirements and guidance that enable entities to report connected discussion and analysis of their financial statements and sustainability-related financial disclosures'[4]. However, the ISSB Staff noted that 'much of the contemplated work in the original

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1 Third Agenda Consultation Feedback Statement (July 2022)

2 IASB initiates project to consider climate-related risks in financial statements (March 2023)

3 Request for Information IFRS® Sustainability Disclosure Standards (May 2023)

4 ISSB Agenda Paper 2 Paragraphs 39–42 (December 2022)

connectivity project description' had already been met'[5] and the project name and scope was subsequently changed.

3. The UKEB is assisting the UK Government by carrying out work to consider the overlap or impact of the proposed ISSB IFRS Sustainability Disclosure Standards with IFRS Accounting Standards. 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.

Objectives and approach

4. The objective of the research is to develop an evidence-base for the UKEB response to both the IASB project on Climate-related risks in Financial Statements, and the ISSB Request for Information on its initial two-year work plan.

5. Per the Project Initiation Plan[6] the research aims to promote discussion on the current landscape of sustainability disclosures and financial reporting. To identify potential disconnects leading to perceived inconsistencies, a sample of nine FTSE 350 entities' Annual Reports were selected across a range of industries and entity sizes. All had exposure to climate-related risks and had communicated the significance of these risks through their comprehensive sustainability disclosures.

6. At the time of publication, the ISSB standards [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (S1) [7] and [draft] S2 *Climate-related Disclosures* (S2) [8] were still in draft. The research is therefore based on the Task Force on Climate-Related Financial Disclosures (TCFD)[9] as an appropriate proxy for the proposed ISSB Standards as they are both based on the TCFD architecture. Please refer to Appendix C: 'A comparison of TCFD and [draft] IFRS S2' for a detailed comparison.

7. As the sample is small it is not intended to provide a representative outcome but to enable the identification and deeper analysis of potential inconsistency and connectivity gaps for consideration and discussion based on real examples.

8. The assessment was desktop-based, and the project team included an investor focused analyst to ensure an investor perspective was applied to the comparison of sustainability narrative disclosures in the front half of the annual reports to the financial effects reported in the financial statements.

9. The research excludes any assessment of interoperability with other jurisdictional sustainability requirements, nor does it seek to assess or comment on the current

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5 ISSB Agenda Paper 2 (March 2022)

6 Project Initiation Plan: Climate-related Matters (May 2023)

7 [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (March 2022)

8 [draft] IFRS S2 *Climate-related Disclosures* (March 2022)

9 Please refer to Appendix E for a comparison between TCFD and S2 requirements and a summary of additional S2 requirements.

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level of compliance with TCFD or Streamlined Energy and Carbon Report (SECR) reporting requirements in the UK

Main findings

10. The key areas identified in the research are summarised below. These are further illustrated in Chapter 3 with examples of the actual sustainability and financial statements disclosures sourced from the Annual Reports.

11. There are several similarities and differences between ISSB IFRS Sustainability Disclosure Standards and IASB IFRS Accounting Standards. This is primarily due to the information being prepared on a difference basis for example sustainability standards are forward looking and over longer time frames than IASB standards. Please refer to Appendix B: 'Differences and similarities between IASB and ISSB standards' for more information.

Property Plant and Equipment (PPE) and intangibles

12. PPE and intangibles had the largest range of potential connectivity issues covering areas relating to depreciation and amortisation, impairment in relation to transition risks and research and development costs.

13. In relation to depreciation and amortisation, there were examples of clear disclosure connecting sustainability disclosures with the financial statements clarifying that potential implications on existing assets had been considered and were not anticipated to have any material impacts from their replacement. However, other examples of general accounting policy level disclosures without clarification of any potential impacts were also identified. Additionally, the quantitative materiality of the assets was often unclear, and information to understand its depreciation profile not provided.

14. Examples illustrating impairment noted areas where entities had disclosed climate-related risks and the potential mitigations, typically relating to carbon-intensive assets. In some cases, an assertion was made to confirm that climate was not material, but companies may then not have provided enough information for a user to understand actual impacts as a potential indicator of impairment or in the risk-adjusted cash flows or discount rate used in performing impairment testing.

15. The climate-related research and development illustrative examples appeared to suggest the existence of research costs and potentially capitalisable assets in the front half of the Annual Report, however these were not disclosed in the financial statements. Even if considered immaterial quantitatively, disclosure may have been qualitatively material to users as an indicator of progress toward achieving emission targets.

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Commitments and other provisions

16. An example indicated good connectivity on this theme providing good connectivity to the provisioning in terms of what it related to as well as the amounts involved. However, other examples demonstrated limited clarity regarding the nature of third-party relationships and funding commitments, assumptions made regarding remaining Useful Economic Lives and the timing of any asset retirement obligations.

Emissions reduction targets

17. An entity had provided detailed sustainability disclosures including quantitative climate-related assumptions but included caveats which made connectivity difficult in terms of understanding the extent to which these had been reflected in the financial statements. In another example, while the entity had disclosed targets it was unclear whether these had been considered at all in the financial statements.

Initial stakeholder feedback

18. The UKEB Sustainability Working Group[10] and advisory groups of Preparers[11], and Investors[12] all considered drafts of the illustrative examples and discussed the potential implications of S1 and S2.[13]

19. Members identified several possible operational reasons for inconsistencies leading to disconnects between sustainability disclosures and the financial statements. These included the inconsistent application of IAS 1 *Presentation of Financial Statements,* IFRS Practice Statement 2: *Making Materiality Judgements* and organisation connectivity challenges between entities ESG and financial reporting teams.

20. In relation to the potential impacts from the implementation of ISSB Standards

    a) The Sustainability Working Group noted that boiler plate disclosure and greenwashing may reduce with the focus on material information required under ISSB Standards however;

    b) Preparers were concerned that the application of the same definition of materiality may not be possible due to the different nature and time frame of sustainability disclosures. They noted a risk that this may lead to different levels of materiality applied in the same Annual Report.

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10 UKEB Sustainability Working Group

11 Preparer Advisory Group (PAG)

12 Investor Advisory Group (IAG)

13 Due to the timing of the Accounting Firms & Institutes Advisory Group (AFIAG) meeting we were unable to reflect those members comments in this draft of the report. AFIAG members feedback will be advised verbally at the UKEB discussion and included in the next version of the report.

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c) Users and preparers shared a common concern that there would be a significant increase in the granularity and volume of information in Annual Reports, potentially making connectivity more challenging.

d) Prepares also noted that users' ability to make connections to the financial statements may be obscured by over-disclosure and that some preparers may be hesitant to adopt ISSB standards due to a perceived heightened potential exposure to litigation risk.

21. The members also discussed potential solutions and actions noting the following:

a) There was still significant investigation and collaboration required between the ISSB and IASB to ensure the new ISSB standards were implemented successfully and did not lead to unintentional disconnects with the financial statements.

b) Coordinated steps towards implementation were required between the IASB, ISSB, National Standard Setters, regulators, and preparers to ensure consistent comparable and decision-useful information for investors and the market.

c) There appeared to be a sufficiency question in relation to the application of IAS 1 in that users and prepares appeared to interpret some of the requirements in different ways. This may require further discussion and potentially guidance from the IASB.

d) Updated and potentially further illustrative guidance regarding Materiality Judgements from both the ISSB and IASB. This should consider the potential for qualitative materiality to act as the bridge between the two sets of standards.

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Conclusions and next steps

22. While the aim of the ISSB is to primarily provide relevant and timely information to meet investors requirements, the illustrative examples and initial stakeholder feedback indicate that clarification is still required. Without this clarity investors may struggle to connect the two types of information disclosed and understand the impact of the sustainability risks and opportunities on the entity's profitability or financial position.

23. The findings of this report appear to contrast with the view that connectivity challenges have been fully resolved as evidenced by the wide range of potential challenges identified in this report from a small sample of entities.

24. In the UK, the working assumption is that both sets of information will be presented in the Annual Report as entities are required to incorporate TCFD in their Strategic Report. It will therefore be critical that users are able to identify material climate-related risks and opportunities from the sustainability disclosures

in the front half of the Annual Report and connect them with the associated financial statement impacts.

Next Steps

25. The ISSB is on track to issue final versions of both [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (S1) [14] and [draft] S2 *Climate-related Disclosures* (S2) [15] at the end of June 2023.

26. The IASB is currently in the research phase of the Climate-related risks in Financial Statements and is actively seeking feedback from stakeholders.

27. As the UK develops a mechanism for the formal adoption of ISSB Standards the UKEB will continue to assist with the work on connectivity between the ISSB and IASB Standards.

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14 [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (March 2022)

15 [draft] IFRS S2 *Climate-related Disclosures* (March 2022)

1. Context

International Accounting Standards Board (IASB) and climate

1.1 In November 2019[16] and again in November 2020[17] the IASB published articles on IFRS Standards and climate-related disclosures. These communicated that IASB Standards adequately catered for all material risks, whether climate-related or not, and that companies 'must consider climate-related matters in applying IFRS Standards when the effect of those matters is material in the context of the financial statements taken as a whole'.

1.2 The IASB also commented in its Feedback Statement on the Third Agenda Consultation[18] that the future ISSB Standards and IASB Standards were intended to provide investors with a 'connected financial reporting package' to meet their information needs'. Please refer to Appendix B 'Differences and similarities between IASB and ISSB standards'.

1.3 In March 2023 the IASB Chair published an article[19] entitled 'Connectivity in practice' emphasising the importance of connectivity between the IASB and ISSB and announcing the activation of a narrow scope maintenance project on Climate-related risks in Financial Statements.

International Sustainability Standards Board (ISSB)

1.4 The establishment of the ISSB was announced at COP 26 in November 2021 by the IFRS Foundation Trustees. The objective of the ISSB is to enable a comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets[20].

1.5 The ISSB has since drafted two initial Standards— [draft] IFRS S1[21] *General Requirements for Disclosure of Sustainability-related Financial Information* (S1) and [draft] IFRS S2 *Climate-related Disclosures* (S2)[22].

1.6 In May 2023, the ISSB issued a Request for Information[23] to inform its initial two-year work plan. One of the proposed research projects is 'integration in reporting' which will explore how to integrate information in financial reporting beyond the requirements related to connected information in IFRS S1 and IFRS S2.

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16 IFRS Standards and climate-related disclosures (November 2019)

17 Effects of climate-related matters on financial statements (November 2020)

18 Third Agenda Consultation Feedback Statement (July 2022)

19 Connectivity in practice: the IASB's new project on Climate-related Risks (March 2023)

20 ISSB delivers proposals that create comprehensive global baseline of sustainability disclosures (March 2022)

21 [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (March 2022)

22 IFRS S2 *Climate-related Disclosures* (March 2022)

23 Request for Information IFRS® Sustainability Disclosure Standards (May 2023)

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1.7 Initially this project was proposed to 'undertake a joint project with the IASB to develop comprehensive disclosure requirements and guidance that enable entities to report connected discussion and analysis of their financial statements and sustainability-related financial disclosures'[24]. However, this approach changed to integration in reporting when the ISSB Staff noted that 'much of the contemplated work in the original connectivity project description has already been met'[25].

UKEB Role and Remit

1.8 The UK Endorsement Board (UKEB) adopts and endorses IFRS Accounting Standards for use in the UK. Until an adoption mechanism for ISSB Standards is established, the UK Government, has asked the UKEB, the Financial Conduct Authority (FCA) and the Financial Reporting Council (FRC) to engage with the ISSB and to respond to their consultations, according to their respective regulatory objectives and functions. For further details on the sustainability reporting requirements in the UK please refer to Appendix A 'UK Sustainability Reporting Requirements'.

1.9 Accordingly, the UKEB is assisting the UK Government by carrying out work in this area to consider the overlap or impact of the proposed ISSB IFRS Sustainability Disclosure Standards with IFRS Accounting Standards.

1.10 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.

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24 ISSB Agenda Paper 2 Paragraphs 39–42 (December 2022)

25 ISSB Agenda Paper 2 (March 2023)

2. Objectives and approach

The UKEB recognises that sustainability disclosure reporting and its relationship with the financial statements is at an early stage of development and that significant effort is being made by UK entities to provide consistent and connected information for users in Annual Reports, where considered material.

The aim of the report is solely to promote discussion and awareness of potential issues regarding connectivity between sustainability and financial reporting observed in the UK. The report does not seek to judge the current state of reporting, comment on the approach taken by any particular entity or on areas of improvement, identify good or poor practice or draw any representative conclusions as to the quality of reporting.

Individual entities have therefore not been named as the aim of the research is to identify the nature of potential inconsistencies based on information available in the market.

The examples selected from the FTSE 350 2022 Annual Reports illustrate the most significant connectivity themes identified, and many potentially raise expectations for financial statements impact across multiple themes

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Objectives

2.1 The intention of this research is to support the UKEB provide an evidence-based response to both the IASB, on its project on climate-related risks in financial statements, and to the ISSB, on its Request for Information on its future agenda setting.

2.2 Per the Project Initiation Plan[26] the research aims to promote discussion on the current landscape of sustainability disclosures and financial reporting. Specifically, the research aims to:

a) Develop a body of evidence, using a limited sample of FTSE 350, to identify potential disconnects or perceived inconsistencies between sustainability narrative disclosures in the front half of 2022 Annual Reports and the disclosure of the associated financial effects in the financial statements.

b) Seek initial stakeholder perspectives on the potential impact of the ISSB disclosure requirements [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (S1) and [draft] S2 *Climate-related Disclosures* (S2).

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26 Project Initiation Plan: Climate-related Matters (May 2023)

c) Support both the work of both the ISSB Request for Information and the IASB Climate-related risks in Financial Statements project.

2.3 At the time of publication, the ISSB standards [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (S1) [27] and [draft] S2 *Climate-related Disclosures* (S2) [28] were still in draft. The research is therefore based on the Task Force on Climate-Related Financial Disclosures (TCFD)[29] as an appropriate proxy for the proposed ISSB Standards as they are both based on the TCFD architecture.

2.4 The Staff were supported in this research by an external expert analyst who supported the assessment of the sustainability and financial statement disclosures and provided an investor view on consistency and potential connectivity gaps.

Areas out of scope

2.5 The research excludes any assessment of interoperability with other jurisdictional sustainability requirements, nor does it seek to assess or comment on the current level of compliance with TCFD or Streamlined Energy and Carbon Report (SECR) reporting requirements in the UK

Approach

Sample selection

2.6 Nine entities were selected taking into consideration the expected timeline for publication of the ISSB Request for Information and UKEB resources available. The sample was selected based on the following factors:

a) Entities in an industry where climate change was likely to have a material impact on their operations.

b) A range of sizes i.e., a spread of FTSE 100 and 250 entities.

c) Availability of 2022 Annual reports with comprehensive sustainability disclosures.

d) Avoiding companies that have already been heavily assessed in TCFD research by other parties.

2.7 All entities researched were exposed to climate-related risks and had communicated the significance of these risks through their comprehensive

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27 [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (March 2022)

28 [draft] IFRS S2 *Climate-related Disclosures* (March 2022)

29 Please refer to Appendix E for a comparison between TCFD and S2 requirements and a summary of additional S2 requirements.

sustainability disclosures. The text provided in the illustrative examples are those that are available to market users and were sourced directly from the Annual Reports.

2.8 Two thirds of the companies in the sample had committed to achieving Net Zero emissions across their value chain by 2050 or sooner (ranging from 2030 to 2045). For the remaining third, it appeared to be the commitment on Scope 3 emissions that had not yet been set.

2.9 The sample of nine companies are shown in the table below. Individual entities have not been identified as the aim of the research was not to judge the state of reporting nor to comment on areas of improvement.

Industry	**FTSE 100**	**FTSE 250**	**Total**
Aerospace and defence	–	1	1
Electricity	–	1	1
General Industrials	–	1	1
Industrial Metals and Mining	1	–	1
Financial Services	1	–	1
Oil, Gas, Coal	–	1	1
Pharmaceuticals	1	–	1
Travel and Leisure	1	1	2
Total	**4**	**5**	**9**

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2.10 The sample is not intended to provide a representative result for the FTSE 350. Rather, it is intended to enable the identification and deeper analysis of potential inconsistency and connectivity gaps for consideration and discussion of potential solutions using real examples from across a range of entities and industries expected to be materially impacted by climate change.

2.11 The assessment was desktop-based and engaged the external expert investor-focussed analyst to compare sustainability narrative disclosures in the front half of the annual reports to the financial effects reported in the financial statements.

Methodology

2.12 The analysis approach was conducted on the following basis:

a) A review of the TCFD and SECR disclosures as well as considering other relevant sustainability information in the Annual Report for context.

b) Identification of 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) Identification of possible reasons for why the information was or was 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 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.

Identifying sustainability disclosures in Annual Reports

- Many of the points that may give rise to expectations for the financial statements, for example information on the entity's climate risk assessment and the entity's own climate-related commitments and targets, were also addressed in other sections of the Annual Report. In some cases, a topic was covered in multiple sections, but varied in the level of detail and specificity.
- Consequently, the approach to the research considered all sections of the annual report outside of the financial statements and audit report, for climate-related information potentially leading to an expectation of

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material information being included in disclosures to the Financial Statements.

- The text used in the illustrative examples therefore provide the most insightful information relative to considering potential financial statement consequences. However, in some cases it may not have been sourced from limited information labelled formerly as TCFD.

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3. Potentially inconsistent and disconnected information

The UKEB recognises that sustainability disclosure reporting and its relationship with the financial statements is at an early stage of development and that significant effort is being made by UK entities to provide consistent and connected information for users in Annual Reports, where considered material.

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Individual entities have therefore not been named as the aim of the research is to identify the nature of potential inconsistencies based on information available in the market.

The examples selected from the FTSE 350 2022 Annual Reports illustrate the most significant connectivity themes identified, and many potentially raise expectations for financial statements impact across multiple themes

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Chapter overview

3.1 This chapter contains the analysis of the following connectivity themes based on a detailed review of nine FTSE 350 Annual Reports. The themes identified are:

a) Section One: Plant Property and Equipment (PPE) and Intangible Assets

b) Section Two: Commitments and other provisions

c) Section Three: Emissions reduction targets

d) Section Four: Other connectivity themes identified

3.2 For each theme, the context and the potential inconsistency leading to a possible disconnect with the financial statements are illustrated with examples sourced directly from the entities Annual Reports i.e., the information users have access to in the market.

3.3 The fifth section 'Initial stakeholder feedback' summarises feedback provided by UKEB working and advisory groups on the illustrative examples, potential causes of current disconnects and views on the impact of ISSB Standards.

3.4 The illustrative examples in this chapter are in the context of *material* financial statement risk regarding climate-related risks or opportunities. The examples are

based the disclosures in each entity's Annual Report regarding the significance of climate-related risks and opportunities to the organisation.

General differences and similarities between ISSB IFRS and IASB IFRS Standards

3.5 There are several differences between proposed IFRS Sustainability Disclosure Standards and the current IFRS Accounting Standards. Due to the forward-looking nature and longer time frames of sustainability risks and opportunities, the ISSB standards will likely require reporting entities to provide descriptions, numbers, or ranges of numbers in the narrative disclosures that won't necessarily connect directly to the financial statements.

3.6 As the information is prepared on a different basis to accounting standards, it is unlikely to be identical. However, users still need to be able to make connections, where appropriate, and understand the financial effects of sustainability matters, both in the narrative disclosures as well as in the financial statements, to the extent relevant.

Key differences identified so far include:

3.7 **Timeframe** – sustainability disclosures require the disclosure of the financial effects over the short, medium, and long term but do not define those periods. IAS 1 *Presentation of Financial Statements* requires management to look at least 12 months from the end of the reporting period and requires the distinction to be made between current and non-current assets and liabilities.

3.8 **Perspective** – while accounting standards consider forward-looking information such as with impairment testing and useful economic lives, the amounts generally reflect historic cost values[30]. Sustainability disclosures are forward-looking in nature and use scenarios, assumptions and estimates to forecast a range of possible future outcomes.

3.9 **Scope** – sustainability disclosures require material information about sustainability-related risks and opportunities across an entity's 'value chain'. The value chain is defined as the 'full range of activities, resources and relationships related to an entity's business model and the external environment in which it operates'. Accounting standards have a narrower definition of scope related to the legal reporting entity or group of entities[31].

3.10 **Recognition** – Reporting levels of greenhouse gas emissions require measurement and there is an increased focus on emissions and emission rights which may lead to an expectation around recognition of related assets or

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30 Conceptual Framework [paragraphs 3.4-3.6] notes that financial statements are prepared for a specified period of time and provide comparative information and under certain circumstances forward-looking information.

31 Conceptual Framework [paragraph 3.10] A reporting entity is an entity that is required, or chooses, to prepare financial statements. A reporting entity can be a single entity or a portion of an entity or can comprise more than one entity. A reporting entity is not necessarily a legal entity.

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liabilities. This would not necessarily lead to an immediate recognition of an asset or liability in the financial statements[32] but may lead to their recognition in a later period.

3.11 **Assurance** – IFRS financial statements are typically subject to independent audit by an established network of experienced audit professionals. It is yet to be determined what level of assurance will be required for sustainability disclosures or who might undertake that work.

Key similarities

3.12 **Adapted from IFRS Accounting Standards** – primarily IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The ISSB has also redeliberated to use concepts from IFRS Accounting Standards. For example, entities are required to use information that is 'reasonable and supportable and available without undue cost or effort' which is consistent with IFRS 9 *Financial Instruments*.

3.13 **Materiality** – the ISSB redeliberated and tentatively agreed to use the same definition of "material" as IFRS Accounting Standards to ensure investors understand sustainability risks and opportunities i.e., 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence investor decisions.'

3.14 **Publication and reporting period** – entities are required to disclose sustainability-related financial information as a part of general-purpose financial reporting (at the same time and for the same period). This is intended to ensure that financial statement information and sustainability-related financial disclosures can be considered together.

3.15 Please refer to Appendix B 'Differences and similarities between IASB and ISSB standards' for further information.

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32 Conceptual Framework [paragraph 5.6] Only items that meet the definition of an asset, a liability or equity are recognised in the statement of financial position.

Section One: Property Plant and Equipment (PPE) and intangibles

A. Section One: Depreciation and amortisation

Context

3.16 This theme includes consideration of how climate-related risks may impact depreciation or depletion of property, plant and equipment (PPE) assets, and amortisation of finite-lived intangibles.

3.17 Reduced estimates of remaining asset lives may result from the need to retire carbon-intensive PPE earlier than was previously expected. Additionally, estimated residual values may decline if carbon intensive assets become less desirable. Carbon intensity may be ascribed to various categories of PPE, for example fossil fuel reserves themselves (coal, oil, gas reserves), assets powered by fossil fuel (machinery and vehicles that run on fossil fuels), assets used to produce inventory that is powered by fossil fuels (machinery that produces internal combustion engines), etc. As a result, decreases in such asset lives and residual values may lead to higher depreciation expense.

Potential inconsistencies with the financial statements

3.18 Users might expect visibility of how climate-related matters such as climate risks and emissions reduction targets have been considered in the estimates of remaining useful life/production and residual values. To the extent that changes in depreciation result, these should be disclosed, if material, in accordance with IAS 8 *Accounting Policies, Accounting Estimates and Errors* (paragraph 39).

3.19 If no adjustments are made, users may expect disclosure explaining why this is reasonable in consideration of the sustainability issues identified. In some cases, it may be expected that the carrying amount of relevant carbon-intensive assets, and information on their assumed remaining lives/residual values be disclosed to provide an understanding of the situation.

3.20 From a user perspective, even if sustainability reporting outside the financial statements discloses sufficient information to understand the lack of financial statement adjustment, IAS 1 still requires that sufficient information is disclosed within the financial statements.

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Examples of potential disconnects or inconsistencies

Depreciation and amortisation

Example 1: Depreciation and amortisation – **Fleet renewal** (1)	
Travel and leisure industry	Annual Report disclosures relating to information on fleet renewals to reduce emissions are noted below for the Travel and leisure industry (emphasis added).
Sustainability disclosures	**Company A** “A modern fleet of aircraft is instrumental in driving down emissions and so **we will be making a list price investment of $21 billion over the coming years to continue to renew our fleet. All 168 new aircraft deliveries, scheduled between FY23 and FY29**, will be Airbus NEO aircraft, which are at least 15% more fuel efficient and 50% quieter than the aircraft they replace.” **Company B** “Over the course of 2022, **we signed agreements with Airbus and Boeing to acquire 87 new aircraft** which will reduce our emissions by up to 20 per cent and we thank our shareholders for their approval.... plans to make a EUR 13.5bn investment between 2023-30 for 192 new, efficient aircraft.”
Financial statement disclosure	**Company A** Residual values are reviewed annually against prevailing market rates for equivalently aged assets at the end of the reporting period, and depreciation rates are adjusted accordingly on a prospective basis. The carrying value of PPE assets is part of the Airline CGU and is therefore reviewed for impairment at least annually or when there is any indication of impairment within the CGU. ... Future developments, such as the impact of climate change on the technological, market, economic or legal environment, are considered when assessing residual values and useful economic lives. **Company B** “Long term fleet plans and useful economic lives. ... During the course of 2020 as a result of the impact of COVID-19, the Group permanently stood down 82 aircraft (of which ten were subsequently stood back up), their associated engines and rotable inventories. ...” “With the permanent standing down of these aircraft, coupled with the future committed delivery of 192 fuel efficient aircraft as detailed in note 15 (commitments), the Group considers the existing fleet assets align with the long-term fleet plans to achieve its climate strategy. All aircraft in the fleet, and those due to be delivered in the future, have the

Example 1: Depreciation and amortisation – **Fleet renewal** (1)	
	capability to utilise SAF[33] in their operations without impediment. Accordingly, no impairment has arisen in the current or prior year, nor have the useful lives and residual values of aircraft been amended, as a result of the Group's decarbonisation plans."
Potential inconsistency leading to a possible disconnect	There may be an expectation of information on whether these significant new additions to the fleet have implications for the existing fleet. For example, whether the retirement of existing (more carbon intensive) fleet may be retired earlier than expected, or whether the need to reduce residual values was considered. Company B went beyond accounting policy information to confirm that it had considered the existing fleet (once augmented), and that no changes to depreciation assumptions were required.

Example 2: Depreciation and amortisation – **Fleet renewal** (2)	
Metals and mining industry	Annual Report disclosures relating to information on fleet renewals to reduce emissions are noted below for the Metals and mining industry.
Sustainability disclosures	"We are **introducing 10 fuel bulk carriers, … to our roster of vessels, with the first vessel delivered in December 2022 – the remaining vessels are expected to be delivered by mid-2024**. They offer significant environmental benefits, having the potential to cut CO2 emissions by up to 35% compared with vessels fuelled by conventional marine oil alone, while adoption of new technologies will eliminate the release of unburnt methane, as well as removing sulphur oxides, and reducing the volume of nitrogen oxides and particulate matter."
Financial statement disclosure	Accounting policy disclosure includes: 'Depreciation methods, residual values and estimated useful lives are reviewed at least annually.' PPE note disclosure includes: 'Depreciation is calculated with reference to the Group's best estimate of the impact of climate change on useful economic lives.'
Potential inconsistency leading to a possible disconnect	There may be an expectation of information on whether these significant new additions to the fleet have implications for the existing fleet. For example, whether existing (more carbon intensive) fleet may be retired earlier than expected, or whether the need to reduce residual values was considered. The disclosures made are of the nature of general policy information rather than providing an understanding of how this topic was considered in the current period.

33 Sustainable Aviation Fuel.

Example 3: Depreciation and amortisation – **Replacement of PPE**	
General industrials	Annual Report disclosures relating to abating fossil fuel heat energy used to power production assets. The company disclosed that meeting its post-2030 emissions targets would require abatement of emissions associated with heat energy used in the dyeing process, including replacement of fossil fuel burning boilers. (Emphasis added below):
Sustainability disclosures	"Post-delivery of our 2030 near-term targets, ... the key elements that will require continued abatement are the heat energy used in dyeing, the emissions from energy used by our suppliers and the emissions coming from product and people transportation. ...The emissions from heat energy in dyeing currently come from the burning of fossil fuels to produce steam which is used to heat the water used in dyeing. We see two emissions reduction roadmaps for this. **Our steam generating boilers will all require normal replacement before 2050 and any replacements will be done with biomass or electric boilers**. In parallel we will be continuing to expand the use of dyeing technologies that don't require high temperature water... **We do not, at this stage, anticipate any additional capital or operational costs for achieving net-zero that would not occur anyway in terms of asset replacement cycles**."
Financial statement disclosure	"Fixed asset useful lives - Consideration was given as to whether the impact of physical risks relating to extreme weather events (e.g. flood risk damage) may require a reassessment of the estimated useful lives of fixed assets. As noted in the physical risks section in our TCFD disclosures, no significant impacts are currently expected in the short to medium term (pre-2045), after which point the majority of the Group's current fixed asset portfolio will be fully depreciated. As such, the reassessment of fixed asset useful lives to reflect potential impacts of climate change was not deemed necessary. In light of the above, the Group's current assessment is that the climate related risks detailed in the TCFD disclosures section of the Strategic Report do not have a material impact on the key accounting policies, estimates and judgements that form the basis of these consolidated financial statements."
Potential inconsistency leading to a possible disconnect	The company did not appear to address in its financial statements, the replacement of boilers, planned in order to meet its emissions targets. While the financial statement disclosure focused on the potential impact of physical risks, users may benefit from an explanation of how the company assessed its own transition steps including the lack of need for additional capital or operating costs, and why it is reasonable that this resulted in no change in asset lives and residual values for its boilers. It might also be considered material information to identify the carrying values of the associated asset pool, and information on remaining useful lives that correspond to the lack of a need for change.

Example 4: Depreciation and amortisation – **Mitigation of physical risk**	
Defence and Aerospace industry	Annual Report disclosures relating to physical risk and infrastructure rebuild noted the that the most significant physical risk associated with climate was from flooding and storm surges. Specifically:
Sustainability disclosures	"ESG Strategy disclosure: **Our most significant physical risk is dockyard disruption and we have assessed the risk of increased flooding and storm surges**. The highest risk is seen in a 3oC scenario, where we expect to see more extreme weather patterns." "Risk: Dockyard disruption – **Dockyards owned/operated may be flooded due to an increase in sea level and higher frequency of extreme weather, resulting in storm surges. Our site is currently undertaking a significant infrastructure rebuild and climate-related risk is being factored into rebuild decisions.** In the medium to longer term as the site develops, for the design of rebuild and new facilities we will consider climate-related risk in line with the latest standards."
Financial statement disclosure	There did not appear to be any financial statement disclosures related to this sustainability disclosure.
Potential inconsistency leading to a possible disconnect	Users may require clarity regarding the accounting for the existing assets and whether they are impaired, or the depreciation schedule has been altered for the assessment of physical risk and steps taken toward mitigation. An indication of the significance of the carrying value of the associated assets, and the costs involved and whether they are operating, or capital costs would also be relevant to connect this information to the financial statements.

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B. Section One: Impairment

Context

3.21 Impairment of PPE and intangible assets includes the consideration of indicators of impairment, which give rise to requirements for the testing of impairment which entails the calculation of the recoverable amount of an asset and comparing this with the asset's carrying amount. This also includes consideration of climate-related risks and opportunities in impairment testing, regardless of whether it is required based on a climate-related indicator that requires testing or some other indicator, or as an annual test of goodwill or indefinite lived assets.

3.22 IAS 36 *Impairment of Assets* defines the recoverable amount of an asset or a cash-generating unit as the higher of its fair value less costs of disposal and its value in use.

3.23 Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement

date (IAS 36 paragraph 6), while the value in use is the present value of the future cash flows expected to be derived from an asset or cash generating unit (paragraph 6 of IAS 36).

3.24 Determining value in use is based on best estimates of expected cash flows over a forecast period, growth rates for periods thereafter, and a discount rate. The result must be risk adjusted, either via the cash flows being adjusted for risk or the discount rate. This approach is often used as well to determine fair value less costs of disposal.

3.25 Fair value less costs of disposal emphasise assumptions that would be used by a market participant and provides greater latitude for consideration of how a market participant would use the asset if improvements were possible, whereas value in use is restricted to consideration of the value of the asset in its current condition. Most of the companies reviewed appeared to use the value in use approach to determining recoverable values.

Potential inconsistencies with the financial statements

3.26 Users might expect information on how climate-related matters have been considered relative to indicators of impairment. As for impairment testing, users might expect information on how climate has been considered in determining the fair value or the risk-adjusted best estimates of cash flows and discount rates used to determine recoverable amount. Disclosure of assumptions and estimates made and any climate-related adjustments to them, might be considered material information for disclosure.

3.27 Articulating how climate-related risks and mitigation steps or opportunities have been considered relative to indicators of impairment would enable users to consider the reasonableness of an entity's consideration of these matters, given that many assets will not be tested at all unless such testing is triggered by the identification of an indicator.

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Examples of potential disconnects or inconsistencies

Impairment – Transition risks and associated costs

Example 5: Impairment – **Carbon taxes and cost of remediation**	
General Industrials industry	A company highlights that future carbon taxes represent its most significant transitional risk. It also indicated the expected carbon tax prices and expected costs before remediation and after. Specific disclosure included (emphasis added):
Sustainability disclosures	"As a major identified risk, we have also **reviewed and updated our model for future carbon taxes. ...our current most significant transitional risk remains linked to the potential introduction of carbon emission taxes**...Risk 1 Emerging regulation: Introduction of carbon taxes leading to increased energy prices. Under the company's low carbon scenario SSP1: **Under SSP1 we expect that the range of carbon taxes could be between \$90 and \$160 per tonne of CO2e, and we anticipate that this would apply to our Scope 1 and 2 emissions. Without remediation**, and hence based on current emissions levels persisting, the potential for carbon taxes under scenario SSP1 would see an **additional annual cost of between \$27m and \$48m by 2030**. ...Post-mitigation, where mitigation is taken as delivery of our Science Based Targets for reduction of Scope 1 and 2 emissions (reduction of Scope 1 and 2 emissions by 46.2% in absolute terms from a 2019 base year), **this annual cost increase would range from \$15m to \$26m** based on our above assumptions of carbon tax rates. We see the pre-mitigation potential costs remaining broadly constant through 2045 and 2070 while the post-mitigation costs would drop to immaterial levels by 2045 and beyond."
Financial statement disclosure	'The key climate related risks considered were the introduction of carbon taxes, disruption of water supply and extreme weather events (floods and extreme heat). These risks as well as any potential mitigations were considered when assessing the appropriateness of the assumptions used to project future cash flows to support the value in use of a CGU. No specific significant financial impacts were identified in relation to the CGUs that were subject to an impairment review during the year ended 31 December 2022 (see note 13). In addition, no significant short to medium term (pre-2045) climate related impacts have been identified for individual assets or other CGUs in the Group.
Potential inconsistency leading to a possible disconnect	The company provides general information that confirms the risk of carbon taxes and 'any potential mitigations' were considered. It also confirms that no 'specific significant financial impacts were identified', which appears to focus on the result of the impairment test.

Example 5: Impairment – **Carbon taxes and cost of remediation**	
	With no information provided on the actual risk/mitigation factors considered, users may require more transparency regarding the input assumptions including carbon prices or costs used in the estimated cash flows for impairment testing, and whether those assumptions were consistent with the amounts disclosed in the sustainability disclosures. Additionally, if some risks were not considered in the cash flow estimates, information on whether and how such risks were taken into account in the discount rate used could be expected.

Example 6: Impairment **– Impact on fleet**	
Travel and leisure industry	A company made the following disclosure regarding carbon tax, Sustainable Aviation Fuel, fleet renewals (emphasis added):
Sustainability disclosures	"The future impact of climate change on the business has been incorporated into **strategic plans, including the estimated financial impact within the base case cash flow projections of the future estimated price of ETS permits, the phasing out of the free ETS permits from 2024, the expected price and quantity required of Sustainable Aviation Fuel usage and fleet renewals**."
Financial statement disclosure	The company disclosed that such costs had been included in financial statement assumptions and estimates across several areas but did not appear to provide any quantitative disclosure. The company did mention the following areas where costs had been included in the financial statement assumptions: a) the estimates of future cash flows used in impairment assessments of the carrying value of non-current assets; b) the estimates of future profitability used in our assessment of the recoverability of deferred tax assets in the UK; and c) the useful economic lives and related residual values for our less fuel-efficient aircraft.
Potential inconsistency leading to a possible disconnect	Users may require greater transparency on the price/cost assumptions that are included in the estimated cash flows for impairment testing to enable them to form a view on the reasonableness of these assumptions and resiliency of the reported values.

Example 7: Impairment **- Carbon removal costs**	
Travel and leisure industry	A company made the following disclosure on 'carbon removals':
Sustainability disclosures	"Based on the latest roadmap ..., the Group **expects to use approximately 100 MT of carbon removals between 2022 and 2050 to mitigate Scope 1 emissions and could potentially be removing 2 MT annually in 2030**, conditional on clear and globally agreed verification and quality standards for removals, inclusion of removals in ETS schemes, and stable policy support."
Financial statement disclosure	The financial statements did not appear to address either the inclusion of these amounts or provide an indication of their quantitative significance.
Potential inconsistency leading to a possible disconnect	Users may expect visibility on how these costs have been incorporated in determining the recoverable values used in impairment testing, and an indication of the quantitative assumptions made. Users may be particularly interested in the progress toward the 2030 target.

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C. Section One: Research and development costs

Context

3.28 This theme includes consideration of the costs incurred to address climate-related risks and to take advantage of climate-related opportunities. There are at least two aspects to consider with respect to the appropriate accounting treatment of new climate-related costs incurred:

a) Existing carbon-intensive assets which may be subject to the energy transition (e.g., by being phased out, modified, etc.) and physical assets that are at risk from climate change (e.g., by being made more resilient against flood or heat risk).

b) New assets, for example new intangibles for costs capitalised for the development of low carbon technologies. Some of these new technologies may be at risk of being unsuccessful, and decisions to expense or capitalise (subject to amortisation and impairment) taken accordingly.

Potential inconsistencies with the financial statements

3.29 Users may expect visibility in the financial statements of material expenses and newly capitalised assets (if any) suggested by sustainability disclosures.

Examples of potential disconnects or inconsistencies

Research and Development

Example 8: Research and development - **Costs incurred on customer decarbonisation**	
Mining	A company disclosed an R&D collaboration to help customers develop new technologies. The company disclosed that it is working to decarbonise its value chain, specifically (emphasis added):
Sustainability disclosures	"Collaborating across industry to decarbonise our value chain: "As part of the Group's ambition to reduce our Scope 3 emissions by 50% by 2040, we are focusing on hard-to-abate sectors such as steel – from which most of our value chain emissions derive. We are working with steelmakers in Europe and Asia to **research** efficient feed materials – capitalising on the premium physical and chemical qualities of our minerals, including iron ore pellets and lump iron ore. These premium products are suited for use in the direct reduced iron (DRI) process, a **technically proven and significantly less carbon intensive steel production method**. The collaboration agreements …signed in 2022, are an example of this approach."
Financial statement disclosure	There does not appear to be any disclosure on this area in the financial statements.
Potential inconsistency leading to a possible disconnect	Users may expect to see visibility in the financial statements of the related expenses and newly capitalised assets (if any) suggested by the sustainability disclosures. If such amounts are very small, these may still be material to users in terms of progress toward and likelihood of achieving the company's emissions targets.

Example 9: Research and development - **Regulatory risk mitigation**	
Pharmaceutical industry	A company disclosed its programme to develop a new delivery system for a product that, when used, would substantially reduce the Greenhouse Gas emissions (GHG) produced, specifically (emphasis added):
Sustainability disclosures	"Risk Management – Potential financial impact/timeframe: High (> £250m)/ medium (3-10 years): Regulations governing the use of high global warming potential (GWP) substances are being updated in the EU and UK and were updated recently in the US. This **could lead to increasing costs and restrict the ability to manufacture our products that use a high GWP propellant**. We are **investing in an R&D programme** to reduce greenhouse gas emissions …and have made good progress towards reformulating an alternative gas that could

Example 9: Research and development - Regulatory risk mitigation	
	potentially reduce the climate impact by up to 90%, if the clinical trials are successful. "
Financial statement disclosure	There does not appear to the any disclosure related to this in the financial statements. The company does, however, confirm consideration of climate, but this appears to only be in relation to impairment of intangible assets.
Potential inconsistency leading to a possible disconnect	Users may expect to see visibility in the financial statements of the related expenses and any newly capitalised assets suggested by the sustainability disclosures. If such amounts are very small, this may still be material to users in terms of progress toward and likelihood of achieving, emissions targets.

Example 10: Research and development - **Investment in new technologies**	
Travel and leisure industry	A company made numerous references to new technologies and partnerships established to pursue R&D. Specifically (emphasis added):
Sustainability disclosures	a) "A partnership that will pioneer the **development of hydrogen combustion engine technology** capable of powering a range of aircraft... b) A programme dedicated to **developing hydrogen-powered zero emissions aircraft**. c) The **development of hydrogen ecosystems** to support the introduction of aircraft, d) A consortium led by Airbus that is **investing in Direct Air Carbon Capture and Sequestration** (DACCS), a form of technical carbon removal. e) A **multi-million-pound fleet-wide investment into the latest technology** from Airbus to achieve further carbon emission reduction through Descent Profile Optimisation. f) Harnessing the power of AI and big data through initiatives such as the **deployment of a fuel management tool**." It was also disclosed that the company had announced its pathway to net zero. 'This roadmap references several partnerships with other commercial companies to explore certain technologies which may assist with the overall goal to decarbonise the aviation industry. The **majority of these partnerships are in fact agreements to work together on the areas identified and do not involve a financial commitment** ... other than the time and effort involved in the collaboration over an agreed period. Where there may be areas requiring a financial

Example 10: Research and development - **Investment in new technologies**	
	commitment ... in the future, these are still subject to negotiation and there is no binding commitment on the company at the date of publication of these financial statements'
Financial statement disclosure	There does not appear to be any reference to development assets or research expenses. The value of software has increased, but there is no accompanying disclosure.
Potential inconsistency leading to a possible disconnect	The comments appear to suggest that the costs associated with these will be the company's own costs (not via investee entities), so users may expect visibility in the accounts of the related expenses and newly capitalised assets (if any) suggested by the sustainability disclosures. If such amounts are very small, this too may be material to users in terms of progress toward and likelihood of achieving the company's emissions targets.

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Section Two: Commitments and other provisions

Context

3.30 This theme includes consideration of how climate-related risks and steps to mitigate them may impact the accounting for provisions and disclosure of provisions and commitments. In practice, this theme may cover a wide range of potential topics, for example and not exclusively: onerous contracts, asset retirement obligations, restructuring provisions, and various commitments such as for future investment in capital expenditure, operating expenditure, or joint ventures/associates, etc.

3.31 This theme does not include any suggestion that provisions for emissions targets and commitments are expected. Such targets are addressed in the next theme.

Potential inconsistencies with the financial statements

3.32 Users may expect visibility in the financial statements of various arrangements or developments suggested by the sustainability reporting. This may appear in various places within the note disclosures, for example in a commitments provisions note, or in relation to relationships with investee companies or partner-suppliers for outsourced functions.

3.33 With respect to Asset Retirement Obligations, climate risks may result in the bringing forward of steps to fulfil obligations, to the extent the associated assets are retired sooner than previously expected. Both Asset Retirement Obligation liabilities and the value of the associated property plan and equipment may increase as a result. For example:

a) For Asset Retirement Obligations that are currently recognised on the balance sheet as liabilities (and therefore already included in the value of the PPE assets) a shortened useful life may result in an increase to both the liability and the asset as the period of discounting is reduced.

b) Asset Retirement Obligations may not currently be recognised as a liability due to their timing being indeterminate. A shortened useful life could result in the full value of the liability becoming recognised. In other cases, companies may assert that assets will be repurposed, for example a fossil fuel refining plant converted to producing hydrogen.

3.34 Users may expect to see information on how the entity has considered the impact of climate on the timing of Asset Retirement Obligations being met, and any resulting adjustment to the liability that was recognised.

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Examples of potential disconnects or inconsistencies

Commitments and other provisions

Example 11: Commitments and provisions **– Power purchase agreements and innovation funding**	
General Industrials industry	A company disclosed various steps being taken to transform its raw materials supply and electricity source in order to meet its emissions reduction commitments (emphasis added):
Sustainability disclosures	"Our priority objective is to use our electricity demand to promote the creation of new renewable energy assets. We have already made good progress through collaboration with renewables suppliers in many geographic locations resulting in installation of new roof-top solar arrays as well as **contracting to off-site wind-farm energy supply through Power Purchase Agreements.** " and separately "Our Innovation Hub in Shenzhen, China has been repurposed to focus on its new mission to accelerate the transition from oil-based to recycled and renewable materials. We announced a **$10m fund to advance green technologies and materials, including bio-materials relevant to our industry supply chain.**
Financial statement disclosure	The company discloses a total amount for commitments in respect of contracts placed for future capital expenditure, but there does not appear to be any disclosure on these arrangements in the financial statements.
Potential inconsistency leading to a possible disconnect	Users may expect to see such arrangements disclosed in the financial statements, for example information on the nature of commitments made, whether there are implications for potentially onerous contracts in relation to the current supply, etc. Additionally, it does not appear to be clear in the annual report whether the innovation fund is an internal budgetary commitment or involves external commitments. Clarification on the nature of the innovation fund would also provide a better understanding for users.

Example 12: Commitments and provisions **– Sustainable fuel investment, new fleet, and carbon removals**	
Travel and leisure industry	A company disclosed commitments to the purchase of new aircraft fleet, Sustainable Aviation Fuel investment, and investment in carbon removals. Specifically (emphasis added):
Sustainability disclosures	“Over the course of 2022, we signed agreements with Airbus and Boeing to acquire 87 new aircraft which will reduce our emissions by up to 20 per cent and we thank our shareholders for their approval. We have also increased our investment in Sustainable Aviation Fuels (SAF) to power our fleet in a way that will reduce its impact on the environment. This is part of our commitment to meet at least 10 per cent of our fuel needs with SAF by 2030. We estimate that this will cut at least two million tonnes of CO2 in 2030.” Disclosure on the transition plan details the following components: • "**New aircraft and operations: €13.5 billion investment between 2023-30 for 192 new, efficient aircraft** • **SAF: US$865 million committed** to date on SAF offtake and agreements, based on assumed energy prices • Carbon removals: Refining the company’s carbon removals roadmap" This disclosure also lists venture investments/key innovation partners for each element.
Financial statement disclosure	**Note: Capital expenditure commitments.** Capital expenditure authorised and contracted but not provided for in the accounts, including outstanding aircraft commitments, at December 31, 2022 amounted to €13,749 million (December 31, 2021: €10,911 million). ... In May 2022, the Group agreed to purchase 25 Boeing 737-8200 and 25 737-10 aircraft, with 100 options to purchase further such aircraft. In addition, in July 2022, the Group agreed to exercise its option over 12 Airbus A320neos/A321neos and to purchase 25 Airbus A320neos/A321neos with 50 options to purchase further such aircraft. The determination of the split between A320neos and A321neos will be made closer to delivery. ... Under the terms of the committed purchase agreements, the Group is required to make periodic advance payments towards the purchase price, with the commitments above stated net of advance payments that have been made at the reporting date. The Group has certain rights to defer aircraft deliveries and to cancel commitments in the event of significant delays to aircraft deliveries caused by the aircraft manufacturers. No such rights had been exercised as at December 31, 2022.” Additional disclosure is found in the note on climate change: “The details regarding the inputs and assumptions used in the determination of the Flightpath Net Zero climate strategy include, but are not limited to, the following that are within the control of the Group: • the additional cost of the Group’s commitment to increasing the level of Sustainable Aviation Fuels (SAF) to ten per cent by 2030 and to seventy per cent by

Example 12: Commitments and provisions **– Sustainable fuel investment, new fleet, and carbon removals**	
	2050; • the cost of incurring an increase in the level of carbon offsetting and carbon capture schemes; and • the impact of introducing more fuel-efficient aircraft and being able to operate these more efficiently.
Potential inconsistency leading to a possible disconnect	In addition to the information provided on the capital commitments for fleet renewal, users may expect to see additional information to clarify the nature of relationships with the various venture investments/key innovation partners named in the sustainability reporting, and commitments associated with capex and opex, including quantification of these amounts given the critical nature of them to the company's strategy on emissions reduction.

Example 13: Commitments and provisions **– Decommissioning obligations and restructuring**	
Energy	A company disclosed a delay to its plans, specifically (emphasis added):
Sustainability disclosures	"In July 2022 the Group confirmed that, at the request of the UK Government, it had entered into an agreement with the National Grid to make our two coal-fired units ...available to operate as a winter contingency to the UK power system until the end of March 2023. The units will only operate if and when we are instructed to do so by the National Grid. Whilst this means prolonging the UK's dependence on fossil fuels, which is not aligned with the Group's strategy, we recognise that as part of the UK's critical national infrastructure, we play a key role in providing security of energy supply and take this responsibility seriously. The winter contingency service agreement is not expected to interfere with our plans for developing BECCS at (the site). Site preparation works for BECCS are ongoing and will continue following formal closure of the coal units at the end of March 2023 on conclusion of the contract..."
Financial statement disclosure	**Decommissioning:** The decommissioning provision is based on the assumption that the decommissioning and reinstatement will take place at the end of the expected useful economic life (UEL) of the Power Station, currently estimated to be 2039. This has been estimated using existing technology at current prices based on independent third-party advice, updated on a triennial basis as a minimum, but more regularly where deemed appropriate due to changes in plans for decommissioning the

Example 13: Commitments and provisions – Decommissioning obligations and restructuring	
	site that would impact the expected costs. The most recent update took place in December 2020. This cost of decommissioning was estimated to be £56.0 million. An inflation curve was then applied to estimate the decommissioning costs in 2039. This value was then discounted to calculate the present value of the provision to be recognised. The discount rate used is a nominal risk-free rate that reflects the duration of the liability. The discount rate is estimated using forward UK Gilt curves as a proxy for risk-free rates. The use of a risk-free rate reflects the fact that the estimated future cash flows have built-in risks specific to the liability. The discount rate used for the Group's decommissioning provision is 4.05% (2021: 1.16%). ... The cost of decommissioning a site the size of the Power Station will be impacted by things such as the exact composition and volumes of materials used in the structures to be decommissioned, and the presence of contaminants. Full site surveys and investigations will need to be performed once the site ceases operation to ascertain further information necessary to decommission the site which could impact the potential costs. Notwithstanding this, due to the high degree of estimation and uncertainty regarding the potential costs and timing of decommissioning the Power Station, there remains a risk of a material adjustment to the carrying amount in the longer-term. **Restructuring** The restructuring provision consists of redundancy costs relating to the formal closure of the coal units at the Power Station which was initially planned for September 2022. It also includes costs for engineering works required to make the coal units and related assets safe when they cease operating. ... delayed ...formal closure of the coal units …has resulted in the utilisation of certain amounts of the restructuring provision also being delayed. This has not materially impacted the expected costs. The amount of the restructuring provision utilised in the year predominantly relates to engineering and redundancy costs. Of the balance remaining at 31 December 2022, £11.6 million relates to engineering works, of which £3.2 million is expected to be utilised in 2023 with the remaining amounts expected to be utilised in the period 2024 to 2026. A further £0.6 million relates to redundancy costs, which are expected to be utilised in 2023, and the remaining £0.5 million relates to other costs, which are expected to be utilised in the period 2024 to 2026.

Example 13: Commitments and provisions **– Decommissioning obligations and restructuring**	
Potential inconsistency leading to a possible disconnect	These disclosures provide good visibility of the provisioning and what it relates to, as well as amounts involved. For example, on decommissioning obligations, the disclosure includes all of: the current cost estimate, the timing of the assumed decommissioning activities, the assumed discount rate, and the present value reflected as a liability. There may be expectations of further clarity on the assumption of the asset's useful economic life and timing of the decommissioning running to 2039 relative to closure that is expected to be in 2023. There also appears to be a significant contingency relating to the timing of transitioning the former coal units to biofuel. The company discloses that a "change in useful economic lives in relation to the entities Power Station's biomass assets has been disclosed as a key source of estimation uncertainty. If Bioenergy with carbon capture and storage (BECCS) is deployed at entities Power Station this could result in an extension of the end of station life beyond the current assumed end date of 2039." The company provided a sensitivity analysis of depreciation expense should the lives become lengthened, but it does not appear to be clear how the timing of retirement obligations relates to the current useful economic life or potential changes

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Section Three: Emissions reduction targets

Context

3.35 Most of the entities analysed appear to have committed to Net Zero Greenhouse gas emissions by 2050 or sooner, and all had set various targets to reduce their emissions profile over time.

3.36 This theme includes consideration of whether the extent to which the entity had considered its targets in its accounting, can be determined. That is, this addresses a question of consistency across reporting and whether it is clear how the targets disclosed in the Sustainability reporting have been considered in the Financial Statements (as appropriate under IFRS). This does not include any assertion that the financial statements should include provisions relating to the targets alone.

Potential inconsistencies with the financial statements

3.37 Users may expect that the current information on targets has been incorporated in the financial statements, or clarification on the extent of inclusion or reasons for any differences. While further changes may be made to best estimates based on internal and external factors, those could be expected to require changes to both the sustainability and financial reporting when they occur.

3.38 While there may be an expectation that the targets and steps to meet them have been fully incorporated into the accounting considerations (for example assumptions and estimates) this may not be the case or it may not be possible for users to determine whether it is the case from the disclosure provided. Thus, a question of 'to what extent they have been incorporated' could be asked.

Examples of potential disconnects or inconsistencies

3.39 For several of the companies reviewed, it did not appear possible to ascertain whether meeting their emissions targets had been fully considered in the assumptions and estimates used in preparing the financial statements. The examples provided below illustrate more specific aspects for consideration.

Emissions reductions targets

Example 14: Emissions targets – **Best estimate caveats**	
Travel and leisure industry	A company disclosed the following emissions targets:
Sustainability disclosures	Flightpath Net Zero climate strategy commits the Group to net zero emissions by 2050, with removals for any residual emissions. Interim targets (vs 2019): 2025:

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Example 14: Emissions targets – **Best estimate caveats**	
	• 11% better carbon efficiency, to 80 gCO2/pkm; 2030: • 10% Sustainable Aviation Fuel (SAF) • 20% drop in net Scope 1 emissions, to 22 MT; • 20% drop in net Scope 3 emissions, to 6.6 MT
Financial statement disclosure	"As a result of climate change the Group has designed and approved its Flightpath Net Zero climate strategy, which commits the Group to net zero emissions by 2050. While approved business plans currently have a duration of three years, the Flightpath Net Zero climate strategy impacts both the short, medium and long-term operations of the Group. The details regarding the inputs and assumptions used in the determination of the Flightpath Net Zero climate strategy include, but are not limited to...: • the additional cost of the Group's commitment to increasing the level of Sustainable Aviation Fuels (SAF) to ten per cent by 2030 and to seventy per cent by 2050; • the cost of incurring an increase in the level of carbon offsetting and carbon capture schemes; and • the impact of introducing more fuel-efficient aircraft and being able to operate these more efficiently.... • the impact on passenger demand for air travel as a result of both passenger trends regarding climate change and government policies; • investment and policy regarding the development of SAF production facilities; • investment and improvements in air traffic management; and • the price of carbon through the EU, Swiss and UK Emissions Trading Schemes (ETS) and the UN Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). The Board approved the Group three-year business plan in the fourth quarter of the year. Adjustments have been made to the final year of the business plan cash flows to incorporate the impacts of climate change **that the Group can reliably estimate at the reporting date**. However, given the long-term nature of the Group's sustainability commitments, there are **other aspects of these commitments that cannot be reliably estimated and accordingly have been excluded from the value-in-use calculations**. The business plan cash flows used in the value-in-use calculations also reflect all restructuring of the business where relevant that has been approved by the Board and

Example 14: Emissions targets – **Best estimate caveats**	
	which can be executed by management under existing labour agreements. ...the Group adjusts the final year of the three-year business plans to incorporate the **medium-term impacts of climate change from the Group's Flightpath Net Zero climate strategy**. These adjustments include the following key assumptions: (i) a 10 per cent level of SAF consumption out of the overall fuel mix with an assumed price of €2,275 per metric tonne; (ii) a kerosene tax of €325 per metric tonne on all intra-EU flights; (iii) for costs of carbon, prices of €130, €130, €175 and €25 for EU ETS allowances, Swiss ETS allowances, UK ETS allowances and CORSIA allowances, respectively, per tonne of CO2 equivalents emitted; and (iv) the removal of all free ETS and CORSIA allowances."
Potential inconsistency leading to a possible disconnect	This disclosure provides far more detail than many companies on, for example, the quantitative climate-related assumptions used in the Flightpath Net Zero climate strategy that is used in accounting estimates. Nonetheless, the caveat '**that the Group can reliably estimate at the reporting date**' leaves users unable to understand the extent to which the assumptions used have and have not been updated to consider the current targets. Users may expect to see further material information on the '**other aspects of these commitments that cannot be reliably estimated and accordingly have been excluded from the value-in-use calculations', and perhaps these relate to beyond 'the medium term'**. However, it seems difficult to understand the consistency of current information on targets and current information incorporated in the financial statements, or the extent of and reason for any differences, without additional clarification. While further changes may be made to best estimates of internal and external factors such as those listed by this company, those could be expected to require changes to both the sustainability and financial reporting when they occur.

Example 15: Emissions targets – **Best estimates: changes in specific asset estimates vs overall changes required**	
Metals and Mining Industry	A company disclosed the following emissions targets:
Sustainability disclosures	"2040: Scopes 1&2 carbon neutral; and Scope 3 50% reduction vs 2020. 2030: Reduce Scope 1 and 2 GHG emissions by 30% (2016 baseline); and improve energy efficiency by 30%; carbon neutral at 8 sites."
Financial statement disclosure	The company's financial statements disclose the following (emphasis added): "Cash flow projections are based on financial budgets and Life of Asset Plans or, for non-mine assets, an equivalent appropriate long-term forecast. ... The cost and benefits of achieving the Group's emissions reduction ambitions and targets and the implementation of projects to mitigate physical climate risk are included when the Group has a **high degree of confidence that a project is technically feasible and it is included in the Life of Asset Plan, which typically aligns with the related capital project being internally approved.**"
Potential inconsistency leading to a possible disconnect	The Financial Statement disclosure suggests that the Life of Mine plans for its carbon intensive assets provide key inputs considered in the accounting. Information on the procedural approach to updating these plans is helpful. Nonetheless, the caveat around including in cash flows amounts when there is a 'high degree of confidence that a project is technically feasible, and it is included in the Life of Asset Plan' does not provide an understanding of the extent to which such plans have been updated for steps needed to meet the company's current emissions targets. Users may expect to see further material information to provide an understanding of this as it implies that not all required changes will have been implemented at the level of a specific asset in the respective Life of Mine Plan, albeit additional changes will likely be required over the portfolio in order to meet the company's emissions targets. It seems difficult to understand the consistency of current information on targets and current information incorporated in the financial statements, or the extent of and reason for any differences, without additional clarification. While further changes may be made to best estimates of internal and external factors such as those listed by this company, those could be expected to require changes to both the sustainability and financial reporting when they occur.

Example 16: Emissions targets – **Extent to which considered**	
Energy	A company disclosed the following emissions targets:
Sustainability disclosures	'We have been resolute in our focus on reducing GHG emissions from our operations throughout 2022 with a particular focus on reducing methane intensity, underpinned by our clearly defined targets (relative to a 2020 baseline): a) 30% reduction in Scope 1 methane intensity by 2026; b) 50% reduction in Scope 1 methane intensity by 2030; and c) A longer-term goal of achieving net zero Scope 1 and 2 GHG emissions by 2040.'
Financial statement disclosure	The company's financial statements disclose only the following relevant to consideration of climate: 'IMPAIRMENT ASSESSMENT FOR NATURAL GAS AND OIL PROPERTIES For the period ended 31 December 2022, the Directors assessed the indicators of impairment, noting volatile pricing in near term and resilient commodity price on the forward curve after the near-term volatility subsides which supports a healthy outlook for the Group. This assessment also included a comparison of the carrying value of the Group's natural gas and oil properties to their fair values and an assessment of the projected impact of climate change on the Group. As a result of their assessments no impairment indicators were identified.' However, the auditor's report explains that 'These goals do not directly impact the current financial reporting, as management is still developing its pathway to deliver on these goals and will only model the impact when such a pathway has been developed.'
Potential inconsistency leading to a possible disconnect	The Financial Statements do not appear to provide a basis for understanding the extent to which (or whether) the company has considered the impact of the company's existing emissions targets. For example, while there is disclosure of there being no impairment indicators identified in relation to gas and oil properties, it is not clear whether the targets were considered or not, or whether any aspects of climate risk were considered. There are several potential financial statement implications that may be expected to be linked to climate related uncertainties in the financial statements, including the valuation and depreciation of gas and oil properties and of PPE, as well as associated liabilities for asset retirement obligations, acquisition accounting etc.

Section Four: Other connectivity themes noted

3.40 In the limited sample reviewed, no expectations were identified relating to financial statement topics such as inventory valuation, recoverability of trade or lease receivables, grant accounting or changes in segment reporting related to climate risk and the response to it, for example in the context of restructuring the business.

3.41 However, in addition to the themes in this report, there were several other topics identified as potentially giving rise to expectations for visibility in the financial statements.

Current accounting for offsetting and carbon costs

3.42 In relation to the transactional accounting for carbon credits and any associated assets or liabilities, and any liabilities relating to offsetting obligations, depending on the level of emissions produced up to the balance sheet date.

3.43 Such items could be expected to become more quantitatively material in the future as, for example, governments bring in new systems to tax or otherwise charge for excess emissions, or entity obligations become recognisable as provisions for offsetting.

3.44 In the meantime, quantitative disclosure of amounts within various financial statement lines could potentially be considered information that is needed to provide an understanding of such mechanisms that are material at least by their nature.

Deferred Tax Assets

3.45 For this topic, financial statement risk relating to climate typically focuses on the recoverability of assets associated with tax loss and tax credit carry forwards. Recoverability through future profitability may have a dependency on those profits being sufficient, for example even if diminished by incremental climate-related costs or diminished income from declines in demand for an entity's products and services. A few of the companies reviewed had significant deferred tax assets recognised on the balance sheet.

Debt

3.46 There were several examples of climate-related borrowings in the sample of reports reviewed. An example was sustainability linked debt, and what appeared to be interest rate triggers linked to climate target achievement (for example the meeting of emissions targets).

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Investments and Insurance

3.47 This relates to the valuation of debt and equity instruments at fair value and amortised cost under the methods applied by the entity. For fair value, the question is focused on consideration of climate factors in estimating Level 3 fair values.

3.48 At least one entity also addressed climate in the context of valuing assets in its pension fund. For amortised cost, the question relates to consideration of climate in assessing credit risk.

3.49 This was a particularly relevant topic for the review of the insurance sector entity's annual report. The entity identified that investments were the largest source of emissions in their value chain, representing over 90% of Scope 3 emissions. It also indicated that its principal risks impacted by climate change were credit and market risk (pertaining to investments), as well as general and life insurance risk.

3.50 While it did not appear that consideration of climate was disclosed in the financial statements in relation to insurance risk, the entity did provide a few sentences of disclosure on climate in its footnote on fair value methodology. These related to valuation of UK investment property using a methodology that was said to include climate, and the valuation of mortgage loans which included climate-related adjustments to capex and growth assumptions that were associated with climate actions and potential legislative changes.

Joint ventures and associates accounted for under the equity method

3.51 The valuation of these holdings under the equity method and the potential for impairment relating to climate risk, raises many of the same issues identified in the separate themes (PPE depreciation and impairment, commitments, and provisions, etc.)

3.52 References were noted to such entities and some new arrangements with 'partners' that could be or become such investees. However, we have not separately identified these as a theme of expectations for the financial statements as the underlying climate risk issues are already covered relative to the consolidated group entities.

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Section Five: Initial stakeholder feedback

3.53 The UKEB Sustainability Working Group[34], Advisory Groups of Preparers[35], and Investors[36] considered draft of the illustrative examples and discussed the potential implications of S1 and S2.

3.54 For context the members of each group considered the overarching requirements of IAS 1 *Presentation of Financial Statements* (IAS 1), the scope of the IASB project Climate-related risks in Financial Statements and an overview of the proposed disclosure requirements of S1 and S2.

3.55 As per the research methodology[37] the members of these groups were asked to comment on:

a) the overall appropriateness of the illustrative examples in terms of user expectations

b) possible reasons for why expected information may not have been disclosed in the financial statements

c) the potential impact of the proposed IFRS sustainability disclosure requirements

d) to consider possible solutions, what action could be taken and by whom for any remaining areas of potential inconsistency or disconnect with the financial statements

Appropriateness of the illustrative examples

3.56 Based on the profile of the entities in the sample, members considered that the sustainability disclosures in relation to climate-related business and financial risks would potentially create user expectations of financial statement risk.

3.57 No members noted any significant issues with current accounting standards or suggested new accounting standards may be required.

Possible reasons for disconnects with financial statements

Inconsistent application of IAS 1 *Presentation of Financial Statements*

3.58 Members noted a general assertion or accounting policy disclosure that climate-related matters had been considered could be a helpful disclosure for users. However, when climate-related matters were considered material, this level of disclosure (or none), maybe insufficient and in addition, may not satisfy the IAS 1

34 UKEB Sustainability Working Group

35 Preparer Advisory Group (PAG)

36 Investor Advisory Group (IAG)

37 Project Initiation Plan: Climate-related Matters (May 2023)

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test for providing an overall understanding of the impact on the financial statements.

3.59 The Sustainability Working Group observed that users placed significant reliance on the requirements of IAS 1 in relation to material climate-related matters in financial statements. However, it was also noted that, preparers could also interpret the qualitative materiality measures as rationale for excluding information and avoid unnecessary clutter in the financial statements.

Application of materiality

3.60 It was observed by a range of members that the last guidance issued by the IASB was several years ago[38] and the new Climate-related risks in Financial Statements was a welcome development. However, it was also observed that guidance on long terms risks may be more aligned to the IASB principles-based approach rather further specific guidance regarding climate.

3.61 Preparers noted that users can incorrectly perceive inconsistencies or disconnects in the financial statements if they are unaware of the differences between the prospective nature of sustainability disclosures and the measurement and recognition criteria applied in financial reporting.

3.62 They observed that when they had assessed climate-risks as immaterial, the accounting standards do not require disclosure in the financial statements. However, some users could incorrectly assume that if climate-related risks commentary was not disclosed in the financial statements that the management had failed to consider it.

3.63 Users observed that IASB guidance on the application of materiality[39] stated that information could be both quantitively and qualitatively material. For example, even where no adjustments or disclosures were required in the financial statements the information may still be material to disclose for users.

Organisational design and timing of reporting

3.64 Preparers noted that often separate teams prepare the sustainability and financial reports. These tended to be specialist teams generally without commonality of skill sets. In addition, as the sustainability information can be published months after the financial statements there can be an internal disconnect between the reporting teams. This in turn can lead to unintended disconnects in the final reports when consolidated in the Annual Report.

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38 Effects of climate-related matters on financial statements (November 2020)

39 IFRS Practice Statement 2: Making Materiality Judgements (September 2017)

Potential impact of the IFRS sustainability disclosure standards

Increased granularity of disclosures and volume of Annual Reports

3.65 Preparers anticipated a significant increase in the level of granularity and therefore volumes of Annual Reports. This may risk obfuscation and challenge the ability of users to identify key business and financial risks to connect in the financial statements.

3.66 It was noted by preparers that disclosures of potential financial impacts of climate-related risks and opportunities under S2 may increase the perception financial statement risk by users. They noted a concern that without resolving the existing issues, user frustration may increase.

3.67 Prepares observed that some entities may be hesitant to adopt due to the disclosure of speculative information and the potential exposure to both litigation and commercial sensitivities.

3.68 Users also noted concerns over the anticipated significant increase in data and expansion of the Annual Report in particular in relation to the additional sustainability disclosures required over the entities value chain.

Application of the same definition of materiality

3.69 The Sustainability Working Group commented that boiler plate disclosures and potential green washing may be reduced as sustainability disclosures may focus more on material information. However, the ISSB Standards would need time to be applied in practice before a conclusion could be reached.

3.70 Prepares were concerned that it may not be possible to apply the same definition of materiality to sustainability information due to the longer timeframes and prospective nature of the disclosures. They noted a risk that two levels of materiality may result in the same Annual Report.

Possible solutions and actions

Joint implementation approach

3.71 Overall members considered that the responsibility for managing the changes brought in by the adoption of ISSB standards should be equally and jointly shared across standard setters, regulators, and preparers.

3.72 Members noted the significant number of examples in the report from a small sample of entities. They considered it critical and a priority for the IASB and ISSB to work collaboratively to fully understand and assess the impacts, both intentional and unintentional of connections between the requirements.

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Application guidance for IAS 1

3.73 There may be a sufficiency question regarding the application of IAS 1 for the IASB to consider as users and preparers may be applying it for different purposes.

Materiality

3.74 Members of the Sustainability Working Group commented that the guidance regarding the application of qualitative materiality could be a usefully bridge the gap between sustainability disclosures and the financial statements. Most members considered a new joint Practice Statement from the IASB and ISSB would be beneficial.

3.75 Additional guidance may also be required to support users to understand the types of situations when the absence of information in the financial statements does not automatically indicate an inappropriate inconsistency between the front and back of an Annual Report. For example, when an aspiration transition plan has been outlined in the sustainability disclosures but is not at a level of certainty that meets the recognition or measurement criteria for the accounting standards.

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4. Conclusion and next steps

Connections between IASB and ISSB Standards

4.1 A key relationship between the IASB and ISSB standards is that they are intended to provide information about an entity for the same reporting period and at the same time.

4.2 While the aim is to primarily provide relevant and timely information to meet investors requirements the illustrative examples and stakeholder comments contained in this report indicate that clarification is still required to ensure investors will be able to connect the two types of information and understand the impact on the entity's profitability or financial position.

4.3 The report appears to contrast with the ISSB Staff assessment that 'much of the contemplated work in the original connectivity project description has already been met'[40] due to the range of potential connectivity challenges with only a small sample of entities.

4.4 In the UK, the working assumption is that both sets of information will be presented in the Annual Report as entities are required to incorporate TCFD in their Strategic Report.

4.5 It will therefore be critical that users are able to identify material business and financial risk climate-related risks and opportunities from the sustainability disclosures in the front half of the Annual Report and make the connection with the associated financial statement risks.

Next Steps

4.6 The ISSB is on track to issue final versions of both [draft] IFRS S1General Requirements for Disclosure of Sustainability-related Financial Information (S1) and [draft] S2 Climate-related Disclosures (S2) at the end of June 2023.

4.7 The IASB is currently in the research phase of the Climate-related risks in Financial Statements and is actively seeking feedback from stakeholders.

4.8 As the UK develops a mechanism for the formal adoption of ISSB Standards the UKEB will continue to assist with the work on connectivity between the ISSB and IASB Standards

40 ISSB Agenda Paper 2 (March 2022)

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Appendix A: UK Sustainability Reporting Requirements

Companies Act 2006

A1. All UK companies, except micro-entities, must prepare a Directors' Report; companies that are medium-sized or larger must also produce a Strategic Report; for Limited Liability Partnerships (LLPs) there is no requirement to produce a Directors' Report or Strategic Report (or equivalent).

A2. The Directors Report for all quoted companies, as well as large unquoted companies, and groups, includes a Streamlined Energy and Carbon Report (SECR) which discloses greenhouse gas emissions, energy consumption and energy efficiency action taken. Please refer to Appendix D: 'A comparison of SECR and [draft] IFRS S2' for a detailed comparison.

A3. Large LLPs are required to include their SECR disclosures in an Energy and Carbon Report, as they are not, by their nature as a partnership, required to file a Directors' Report. The legislation bringing these requirements into force was made in 2018 and applies to financial years beginning on or after 1 April 2019[41].

A4. The Strategic Report[42] requires large companies to explain how the directors are acting to promote the success of the company, including 'the impact of the compnay's operations on the community and the environment'. Public interest entities (PIEs), companies traded on the Alternative Investment Market (AIM), and companies (and LLPs) with more than £500m turnover, and in all cases having more than 500 employees, must also include a Non-financial and Sustainability Information (NFSI) statement.

A5. The NFSI statement must include 'information, to the extent necessary for an understanding of the company's development, performance and position and the impact of its activity, relating to, as a minimum … environmental matters (including the impact of the company's business on the environment)' as well as 'climate-related financial disclosures'.

A6. This disclosure requirement is set out in secondary legislation mandating TCFD-aligned climate disclosure requirements, which applies to reporting for financial years starting on or after 6 April 2022. The requirements apply to all large companies (listed and private[43]) with a turnover in excess of £500 million and

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41 The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018

42 Section 172 of the Companies Act

43 The Companies (Strategic Report) (Climate-related financial disclosure) Regulations 2022

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more than 500 employees; and, traded or banking LLPs[44] with over 500 employees.

UK listing rules and TCFD

A7. In December 2020, the Financial Conduct Authority (FCA), introduced listing rules, requiring commercial companies with a UK premium listing to disclose against the recommendations of the TCFD framework on a "comply or explain basis". The rule came into effect for accounting periods beginning on or after 1 January 2021.

A8. In December 2021, the FCA extended that rule to issuers of standard listed shares and standard listed global depositary receipts representing equity shares (excluding standard listed investment entities and shell companies). The rule applies for accounting periods beginning on or after 1 January 2022.

A9. The FCA also introduced new TCFD-aligned disclosure rules for asset managers and certain asset owners, which came into force for the largest firms on 1 January 2022 and will apply to smaller firms one year later. The disclosures required under these rules are directed at clients and are separate to the listing rules.

A10. UK companies in scope of both the Companies Act regulations and the relevant FCA rules will be subject to both sets of requirements. However, whilst the Listing Rules require entities to disclose on a comply or explain basis, the Companies Act requirements are mandatory.

A11. Stakeholders appear to be giving increasing importance to connectivity between sustainability disclosures and financial reporting, as demonstrated by several recent studies and reports in the UK highlighting the disconnect between TCFD disclosures on climate-related risks to companies' business models in the front half of companies' Annual Reports and information disclosed in their financial statements.

A12. To avoid duplication and repetition, UKEB research seeks to build upon existing TCFD-based research. In particular, the approach will seek to reference previous work in the UK by other organisations[45].

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44 The Limited Liability Partnerships (Climate-related Financial Disclosure) Regulations 2022

45 Climate-Related Matters: Summary of Connectivity Research – Draft Report (April 2023)

Appendix B: Differences and similarities between IASB and ISSB standards

B1. This appendix provides a summary level overview of the components of IFRS Accounting and the draft IFRS Sustainability Disclosures Standards for comparison.

IASB accounting standards: disclosure requirements

B2. IAS 1 provides several overall disclosure requirements that are in addition to requirements specified in other topic-specific standards (for example those in IAS 36 *Impairment of Assets* and IAS 16 *Property, Plant and Equipment*). These overall requirements provide an 'understanding' for stakeholders in relation to:

a) **Fair presentation** (para. 17) and Materiality and aggregation (para. 31): 'provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.'

b) **Structure of the notes** (para. 112c): The notes shall: … '(c) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.'

c) **Accounting policy information** (para. 117): 'disclose material accounting policy information – i.e., when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.'

d) **Judgements** (para. 122): 'judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.'

e) **Sources of estimation uncertainty:** a further requirement (paras. 125, 129) to: 'disclose information about the assumptions [the entity] makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.'

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ISSB sustainability disclosure standards: requirements

B3. Draft S1 and S2 require the disclosure of the *financial effects* of sustainability and climate-related risks and opportunities. Draft S2 specifically requires the disclosure of information regarding an entity's exposure to climate-related risks and opportunities, including current and anticipated impacts on its business model, financial statements and cash flows.

B4. Draft S1 and S2 requires disclosure of quantitative information (single amounts or a range) unless an entity is unable to do so. In that situation, an entity must disclose qualitative information. The objective of the approach is to allow investors to connect between different sustainability-related risks and opportunities and to understand how those items relate to the entity's financial statements.

B5. Specific disclosures are required for physical risks (e.g. flood risk), transition risks (e.g. regulatory change risk) and climate-related opportunities (e.g. new technology) in relation to their current and anticipated financial effects:

a) **Financial impacts**: how significant climate-related risks and opportunities have affected its most recently reported financial position, financial performance and cash flows.

b) **Quantitative and qualitative:** if the entity is unable to disclose quantitative information, an explanation of why that is the case is required and qualitative disclosures are required.

c) **Material risk:** for information identified in (a) above for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year.

d) **Changes in financial position:** how the entity expects its financial position to change over time, given its strategy to address significant climate-related risks and opportunities, reflecting:

i. its current and committed investment plans and their anticipated effects on its financial position (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements); and,

ii. its planned sources of funding to implement its strategy.

e) **Timeframe:** how an entity expects its financial performance to change over the short, medium and long terms, given its strategy to address significant climate-related risks and opportunities (for example, increased revenue from or costs of products and services aligned with a lower-carbon economy, consistent with the latest international agreement on climate

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change; physical damage to assets from climate events; and the costs of climate adaptation or mitigation).

f) **Reporting Boundary** – disclosures are required regarding significant climate-related risks and opportunities in an entity's value chain and where in that chain the significant climate-related risks and opportunities are concentrated.

Issuing new standards or amending existing standards

B6. In developing their respective standards, the IASB and ISSB may need to retain at the forefront of their decision-making that, both investors and entities think in a 'connected' way about the link between financial statements and sustainability disclosures.

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B7. The pressure for this connectivity is expected, in the first instance, for items that are material to communicate in both the financial statements and the sustainability disclosures. However, the need for connectivity is likely to become pervasive as further standards are developed by the ISSB.

B8. The draft IFRS Sustainability Disclosure Standards have highlighted that entities cannot consider sustainability and climate-related issues in isolation. Consideration of how the sustainability-related reporting relates to the financial statements is essential, especially if any additional or new risks to the entity are identified because of that process.

B9. It is, therefore, possible that the new sustainability disclosure standards also have implications for the application of existing IFRS Accounting Standards. Some examples of the potentially affected application of IFRS Accounting Standards, include:

a) Assets:

i. Recognition.

ii. Measurement (depreciation and revaluation models).

iii. Impairment.

iv. Expected credit losses related to financial assets.

b) Liabilities and provisions:

i. Confidential and commercially sensitive information.

ii. Recognition.

c) Fair value measurement.

d) Disclosures:

i. Purpose and objectives of sustainability disclosures.

ii. Scope of estimation uncertainty.

iii. Communicating levels of uncertainty – hierarchy of disclosures.

iv. Risk disclosures relating to financial assets, non-financial assets and liabilities.

v. Sustainability policy disclosures.

vi. Reporting of outcomes against previously disclosed plans.

vii. Internal transfer pricing vs internal carbon pricing.

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e) Other considerations

i. Scope of consolidated information.

ii. Control.

iii. Exemption from disclosure.

f) Conceptual Framework and materiality: Implications for the Conceptual Framework.

B10. It is also likely that, in this new way in which entities need to consider, the opposite is also true, and that issuing new or amended IFRS Accounting Standards may also have implications for the IFRS Sustainability Disclosure Standards.

DRAFT

Appendix C: A comparison of TCFD and [draft] IFRS S2

TCFD disclosures - observations

28. The research used TCFD as an appropriate proxy for the proposed ISSB Standards as both S1 and S2 are based on the TCFD disclosure architecture.

29. It was noted in the Annual Reports reviewed that there were significant variations in the format as well as the content of TCFD disclosures.

    a) Two indicated partial compliance / that they were working toward full compliance.

    b) Many provided narrative and/or tabular information labelled as TCFD reporting which addressed each of the TCFD Framework topics, with cross references to other parts of the annual report.

    c) Several referenced sections of separate reports on climate which could be found on their websites.

30. One included a short TCFD cross reference table in their annual report, with cross references being to a separate report on climate rather than other sections of the annual report.

31. The layering into the Annual Report and Accounts of TCFD reporting as it stands, may have certain lessons or implications for how /S2 requirements might best be folded into the UK's reporting structure as well.

DRAFT

C1. This appendix contains a comparison between the Task Force on Climate-related Financial Disclosures (TCFD) [46] and International Sustainability Standards Board (ISSB) Exposure Draft *Climate-related Disclosures* (S2)[47]

C2. TCFD contains eleven disclosure recommendations that span four areas: governance, strategy, risk management, and metrics and targets. In March 2022, the ISSB published S2 which built upon the recommendations of TCFD, and incorporated industry-based disclosure requirements derived from SASB Standards *(these are excluded from the comparison).*

C3. The sections below provide a summary comparison between the TCFD and the S2 requirements. It also provides a direct detailed comparison between in a table format following each section.

Governance disclosure requirements

C4. S2 is consistent with the TCFD governance recommendations a) and b) but also includes the following additional requirements:

a) identity of the body or individual within a body responsible for oversight of climate-related risks and opportunities,

b) how the body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies,

c) how the body ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities, and

d) information about whether dedicated controls and procedures are applied to management of climate-related risks and opportunities and, if so, how they are integrated with other internal functions

46 Task Force on Climate-related Financial Disclosures

47 Exposure Draft IFRS S2 Climate-related Disclosures

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Detailed governance disclosure requirements	
TCFD	**[Draft] S2(these numbers are the paragraph numbers in S2)**
Disclosure of the organization's governance regarding climate-related risks and opportunities. Recommended disclosures a) Describe the board's oversight of climate-related risks and opportunities. b) Describe management's role in assessing and managing climate-related risks and opportunities.	4 The objective of climate-related financial disclosures on governance is to enable users of general-purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. 5 To achieve this objective, an entity shall disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and information about management's role in those processes. Specifically, an entity shall disclose: a) the identity of the body or individual within a body responsible for oversight of climate-related risks and opportunities; b) how the body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies; c) how the body ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities; d) how and how often the body and its committees (audit, risk or other committees) are informed about climate-related risks and opportunities; e) how the body and its committees consider climate-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions, and its risk management policies, including any assessment of trade-offs and analysis of sensitivity to uncertainty that may be required; f) how the body and its committees oversee the setting of targets related to significant climate-related risks and opportunities, and monitor progress towards them (see paragraphs 23–24), including whether and how related performance metrics are included in remuneration policies (see paragraph 21(g)); and g) a description of management's role in assessing and managing climate related risks and opportunities, including whether that role is delegated to a specific management-level position or committee and how oversight is exercised over that position or

Detailed governance disclosure requirements	
TCFD	**[Draft] S2(these numbers are the paragraph numbers in S2)**
	committee. The description shall include information about whether dedicated controls and procedures are applied to management of climate-related risks and opportunities and, if so, how they are integrated with other internal functions. 6* In preparing disclosures to fulfil the requirements in paragraph 5, an entity shall avoid unnecessary duplication in accordance with [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (see paragraph 78). For example, although an entity shall provide the information required by paragraph 5, when its oversight of sustainability-related risks and opportunities is managed on an integrated basis, providing integrated governance disclosures rather than separate disclosures for each significant sustainability-related risk and opportunity would reduce duplication.

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Strategy disclosure requirements

C5. S2 is consistent with the TCFD strategy recommendations a) and b) but requires additional, more granular requirements describing the impact of risks and opportunities:

a) how the entity is directly responding to risks and opportunities, including changes to its business model, strategy, resource allocation, production processes, workforce;

b) how it is indirectly responding to risks and opportunities, including working with customers and suppliers;

c) how its strategy and plans will be resourced;

d) expected changes in financial position over time, including investment plans and sources of funding;

e) expected changes in financial performance over time (revenue and costs)

C6. S2 requires transition plans to be referenced as a part of an entity's strategy, and hence subject to strategic disclosure requirements, with explicit requirements around disclosure of emission reduction targets and use of carbon offsets

C7. S2 is also consistent with the TCFD strategy recommendation c) but requires additional information on resilience regarding:

a) significant areas of uncertainty for strategy resilience;

b) an entity's capacity to adjust and adapt its strategy over time;

c) details on how any resilience analysis or assessment has been conducted

DRAFT

Strategy disclosure requirements	
TCFD	**[Draft] S2 (these numbers are the paragraph numbers in S2)**
Disclosure of the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material. Recommended disclosures a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term. b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning. c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	7 The objective of climate-related financial disclosures on strategy is to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant climate-related risks and opportunities. 8 To achieve this objective, an entity shall disclose information about: a) the significant climate-related risks and opportunities that it reasonably expects could affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term (see paragraphs 9–11); b) the effects of significant climate-related risks and opportunities on its business model and value chain (see paragraph 12); c) the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans (see paragraph 13); d) the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (see paragraph 14); and e) the climate resilience of its strategy (including its business model) to significant physical risks and significant transition risks (see paragraph 15). **Climate-related risks and opportunities** 9 An entity shall disclose information that enables users of general purpose financial reporting to understand the significant climate-related risks and opportunities that could reasonably be expected to affect the entity's business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. Specifically, the entity shall disclose: a) a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model,

Strategy disclosure requirements	
TCFD	**[Draft] S2 (these numbers are the paragraph numbers in S2)**
	strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. b) how it defines short, medium and long term and how these definitions are linked to the entity's strategic planning horizons and capital allocation plans. c) whether the risks identified are physical risks or transition risks. For example, acute physical risks could include the increased severity of extreme weather events such as cyclones and floods, and examples of chronic physical risks include rising sea levels or rising mean temperatures. Transition risks could include regulatory, technological, market, legal or reputational risks. 10 In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity shall refer to the disclosure topics defined in the industry disclosure requirements (Appendix B of IFRS S2) 11 In preparing disclosures to fulfil the requirements in paragraphs 12–15, an entity shall refer to and consider the applicability of cross-industry metric categories and the industry-based metrics associated with disclosure topics, as described in paragraph 20. 12 An entity shall disclose information that enables users of general purpose financial reporting to understand its assessment of the current and anticipated effects of significant climate-related risks and opportunities on its business model. Specifically, an entity shall disclose: a) a description of the current and anticipated effects of significant climate-related risks and opportunities on its value chain; and b) a description of where in its value chain significant climate-related risks and opportunities are concentrated (for example, geographical areas, facilities or types of assets, inputs, outputs or distribution channels).

Strategy disclosure requirements	
TCFD	**[Draft] S2 (these numbers are the paragraph numbers in S2)**
	Strategy and decision-making 13 An entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans. Specifically, an entity shall disclose: a) how it is responding to significant climate-related risks and opportunities including how it plans to achieve any climate-related targets it has set. This shall include: i. information about current and anticipated changes to its business model, including: (1) about changes the entity is making in strategy and resource allocation to address the risks and opportunities identified in paragraph 12. Examples of these changes include resource allocations resulting from demand or supply changes, or from new business lines; resource allocations arising from business development through capital expenditures or additional expenditure on operations or research and development; and acquisitions and divestments. This information includes plans and critical assumptions for legacy assets, including strategies to manage carbon energy- and water-intensive operations, and to decommission carbon- energy- and water-intensive assets. (2) information about direct adaptation and mitigation efforts it is undertaking (for example, through changes in production processes, workforce adjustments, changes in materials used, product specifications or through introduction of efficiency measures). (3) information about indirect adaptation and mitigation efforts it is undertaking (for example, by working with customers and supply chains or use of procurement). ii. how these plans will be resourced.

Strategy disclosure requirements	
TCFD	**[Draft] S2 (these numbers are the paragraph numbers in S2)**
	b) Information regarding climate-related targets for these plans including: i. the processes in place for review of the targets; ii. the amount of the entity's emission target to be achieved through emission reductions within the entity's value chain; iii. the intended use of carbon offsets in achieving emissions targets. In explaining the intended use of carbon offsets the entity shall disclose information including: (1) the extent to which the targets rely on the use of carbon offsets; (2) whether the offsets will be subject to a third-party offset verification or certification scheme (certified carbon offset), and if so, which scheme, or schemes; (3) the type of carbon offset, including whether the offset will be nature-based or based on technological carbon removals and whether the amount intended to be achieved is through carbon removal or emission avoidance; and (4) any other significant factors necessary for users to understand the credibility and integrity of offsets intended to be used by the entity (for example, assumptions regarding the permanence of the carbon offset). c) quantitative and qualitative information about the progress of plans disclosed in prior reporting periods in accordance with paragraph 13(a)–(b). Related requirements are provided in paragraph 20. **Financial position, financial performance and cash flows** 14 An entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning. An entity shall disclose quantitative information unless it is unable

Strategy disclosure requirements	
TCFD	**[Draft] S2 (these numbers are the paragraph numbers in S2)**
	to do so. If an entity is unable to provide quantitative information, it shall provide qualitative information. When providing quantitative information, an entity can disclose single amounts or a range. Specifically, an entity shall disclose: a) how significant climate-related risks and opportunities have affected its most recently reported financial position, financial performance and cash flows; b) information about the climate-related risks and opportunities identified in paragraph 14(a) for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year; c) how it expects its financial position to change over time, given its strategy to address significant climate-related risks and opportunities, reflecting: i. its current and committed investment plans and their anticipated effects on its financial position (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements); ii. its planned sources of funding to implement its strategy; d) how it expects its financial performance to change over time, given its strategy to address significant climate-related risks and opportunities (for example, increased revenue from or costs of products and services aligned with a lower-carbon economy, consistent with the latest international agreement on climate change; physical damage to assets from climate events; and the costs of climate adaptation or mitigation); and e) if the entity is unable to disclose quantitative information for paragraph 14(a)–(d), an explanation of why that is the case.

Strategy disclosure requirements	
TCFD	**[Draft] S2 (these numbers are the paragraph numbers in S2)**
	Climate resilience 15 An entity shall disclose information that enables users of general purpose financial reporting to understand the resilience of the entity's strategy (including its business model) to climate-related changes, developments or uncertainties—taking into consideration an entity's identified significant climate-related risks and opportunities and related uncertainties. The entity shall use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience. When providing quantitative information, an entity can disclose single amounts or a range. Specifically, the entity shall disclose: a) the results of the analysis of climate resilience, which shall enable users to understand: i. the implications, if any, of the entity's findings for its strategy, including how it would need to respond to the effects identified in paragraph 15(b)(i)(8) or 15(b)(ii)(6); ii. the significant areas of uncertainty considered in the analysis of climate resilience; iii. the entity's capacity to adjust or adapt its strategy and business model over the short, medium and long term to climate developments in terms of: (1) the availability of, and flexibility in, existing financial resources, including capital, to address climate-related risks, and/or to be redirected to take advantage of climate-related opportunities; (2) the ability to redeploy, repurpose, upgrade or decommission existing assets; and (3) the effect of current or planned investments in climate related mitigation, adaptation or opportunities for climate resilience. b) how the analysis has been conducted, including:

Strategy disclosure requirements	
TCFD	**[Draft] S2 (these numbers are the paragraph numbers in S2)**
	i. when climate-related scenario analysis is used: (1) which scenarios were used for the assessment and the sources of the scenarios used; (2) whether the analysis has been conducted by comparing a diverse range of climate-related scenarios; (3) whether the scenarios used are associated with transition risks or increased physical risks; (4) whether the entity has used, among its scenarios, a scenario aligned with the latest international agreement on climate change; (5) an explanation of why the entity has decided that its chosen scenarios are relevant to assessing its resilience to climate-related risks and opportunities; (6) the time horizons used in the analysis; (7) the inputs used in the analysis, including—but not limited to—the scope of risks (for example, the scope of physical risks included in the scenario analysis), the scope of operations covered (for example, the operating locations used), and details of the assumptions (for example, geospatial coordinates specific to entity locations or national- or regional-level broad assumptions); and (8) assumptions about the way the transition to a lower carbon economy will affect the entity, including policy assumptions for the jurisdictions in which the entity operates; assumptions about macroeconomic trends; energy usage and mix; and technology. ii when climate-related scenario analysis is not used: (1) an explanation of the methods or techniques used to assess the entity's climate resilience (for example, single-point forecasts, sensitivity analysis or qualitative analysis);

Strategy disclosure requirements	
TCFD	**[Draft] S2 (these numbers are the paragraph numbers in S2)**
	(2) the climate-related assumptions used in the analysis including whether it includes a range of hypothetical outcomes; (3) an explanation of why the entity has decided that the chosen climate-related assumptions are relevant to assessing its resilience to climate-related risks and opportunities; (4) the time horizons used in the analysis; (5) the inputs used in the analysis, including—but not limited to—the scope of risks (for example, the scope of physical risks included in the analysis), the scope of operations covered (for example, the operating locations used), and details of the assumptions (for example, geospatial coordinates specific to entity locations or national- or regional-level broad assumptions); (6) assumptions about the way the transition to a lower carbon economy will affect the entity, including policy assumptions for the jurisdictions in which the entity operates; assumptions about macroeconomic trends; energy usage and mix; and technology; and (7) an explanation of why the entity was unable to use climate-related scenario analysis to assess the climate resilience of its strategy.

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Risk Management disclosure requirements

C8. S2 is consistent with the TCFD governance recommendations a) but with the following additions:

a) inclusion of processes used to identify and prioritise opportunities;

b) the input parameters is uses to identify risks; and

c) whether it has changed the processes used compared to the prior period

C9. S2 is consistent with the TCFD recommended disclosures b) and c)

Risk Management disclosure requirements	
TCFD	**[Draft] S2 (these numbers are the paragraph numbers in S2)**
Disclosure of how the organization identifies, assesses, and manages climate-related risks. Recommended disclosures a) Describe the organization's processes for identifying and assessing climate-related risks. b) Describe the organization's processes for managing climate-related risks. c) c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	16 The objective of climate-related financial disclosures on risk management is to enable users of general purpose financial reporting to understand the process, or processes, by which climate-related risks and opportunities are identified, assessed and managed. 17 To achieve this objective, an entity shall disclose: a) the process, or processes, it uses to identify climate-related: i. risks; and ii. opportunities; b) the process, or processes, it uses to identify climate-related risks for risk management purposes, including when applicable: i. how it assesses the likelihood and effects associated with such risks (such as the qualitative factors, quantitative thresholds and other criteria used); ii. how it prioritises climate-related risks relative to other types of risks, including its use of risk-assessment tools (for example, science-based risk-assessment tools);

Risk Management disclosure requirements	
TCFD	**[Draft] S2 (these numbers are the paragraph numbers in S2)**
	iii. the input parameters it uses (for example, data sources, the scope of operations covered and the detail used in assumptions); and iv. whether it has changed the processes used compared to the prior reporting period; c) the process, or processes, it uses to identify, assess and prioritise climate-related opportunities; d) the process, or processes, it uses to monitor and manage the climate-related: i. risks, including related policies; and ii. opportunities, including related policies; e) the extent to which and how the climate-related risk identification, assessment and management process, or processes, are integrated into the entity's overall risk management process; and f) the extent to which and how the climate-related opportunity identification, assessment and management process, or processes, are integrated into the entity's overall management process. 18 In preparing disclosures to fulfil the requirements in paragraph 17, an entity shall avoid unnecessary duplication in accordance with [draft] S1General Requirements for Disclosure of Sustainability-related Financial Information (see paragraph 78). For example, although an entity shall provide the information required by paragraph 17, when its oversight of sustainability-related risks and opportunities is managed on an integrated basis, providing integrated risk management disclosures rather than separate disclosures for each significant sustainability-related risk and opportunity would reduce duplication.

Metrics and Targets disclosure requirements

C10. S2 requires the same categories of cross-industry metrics as per TCFD disclosure requirement a).However, it differs in requiring disclosure of the industry-based metrics (based on the SABS standards) relevant to and entity's industry and activities.

C11. For TCFD disclosure requirement b), S2 requires a different disclosure treatment of greenhouse gases, as follows:

a) Scope 1 and Scope 2, a separate disclosure of emissions for (1) the consolidated accounting group, and for (2) associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group. [This requirement is to provide transparency on the emissions related to those companies that are *not consolidated for accounting purposes* but are within the operational control of the parent company],

b) Disclosure of the total emissions of the consolidated group and unconsolidated investees should reconcile to the total scope 1 and 2 emissions. [*This disclosure aims to connect emissions disclosures to the financial statements*];

c) Scope 3 disclosure is required

d) Disclosure of the approach used and the reasons for choosing the approach to determine the scope boundaries is also required.

C12. S2 does not explicitly mention WACI or the use of the PCAF methodology for calculating banks' and asset managers' financed emissions. However, the proposed industry-based disclosure requirements for financed and facilitated emissions are based on PCAF.

C13. S2 differs from the TCFD guidance c) in the following disclosure requirements:

a) how the target compares with those created in the latest international agreement on climate change and whether it has been validated by a third party; and

b) whether the target was derived using a sectoral decarbonisation approach using industry-based metrics which are associated with disclosure topics and relevant to entities that participate within an industry, or whose business models and underlying activities share common features with those of the industry;

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<table>
<tr><th colspan="2">Metrics and Targets disclosure requirements</th></tr>
<tr><th>TCFD</th><th>[Draft] S2 (these numbers are the paragraph numbers in S2)</th></tr>
<tr><td>Disclosure of the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Recommended disclosures

a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.

c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.</td><td>19 The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant climate-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.

20 To achieve this objective, an entity shall disclose:

a) information relevant to the cross-industry metric categories (see paragraph 21), which are relevant to entities regardless of industry and business model;

b) industry-based metrics (as set out in Appendix B of IFRS S2) which are associated with disclosure topics and relevant to entities that participate within an industry, or whose business models and underlying activities share common features with those of the industry;

c) other metrics used by the board or management to measure progress towards the targets identified in paragraph 20(d); and

d) targets set by the entity to mitigate or adapt to climate-related risks or maximise climate-related opportunities.

21 An entity shall disclose information relevant to the cross-industry metric categories of:

a) greenhouse gas emissions—the entity shall disclose:

i. its absolute gross greenhouse gas emissions generated during the reporting period, measured in accordance with the Greenhouse Gas Protocol Corporate Standard, expressed as metric tonnes of CO2 equivalent, classified as:

(1) Scope 1 emissions;

(2) Scope 2 emissions;

(3) Scope 3 emissions;</td></tr>
</table>

Metrics and Targets disclosure requirements	
TCFD	**[Draft] S2 (these numbers are the paragraph numbers in S2)**
	ii. its greenhouse gas emissions intensity for each scope in paragraph 21(a)(i)(1)–(3), expressed as metric tonnes of CO2 equivalent per unit of physical or economic output; iii. for Scope 1 and Scope 2 emissions disclosed in accordance with paragraph 21(a)(i)(1)–(2), the entity shall disclose emissions separately for: (1) the consolidated accounting group (the parent and its subsidiaries); (2) associates, joint ventures, unconsolidated subsidiaries or affiliates not included in paragraph 21(a)(iii)(1); iv. the approach it used to include emissions for the entities included in paragraph 21(a)(iii)(2) (for example, the equity share or operational control method in the Greenhouse Gas Protocol Corporate Standard); v. the reason, or reasons, for the entity's choice of approach in paragraph 21(a)(iv) and how that relates to the disclosure objective in paragraph 19; vi. for Scope 3 emissions disclosed in accordance with paragraph 21(a)(i)(3): (1) an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions; (2) an entity shall disclose the categories included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported; (3) when the entity's measure of Scope 3 emissions includes information provided by entities in its value chain, it shall explain the basis for that measurement; (4) if the entity excludes those greenhouse gas emissions in paragraph 21(a)(vi)(3), it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure;

Metrics and Targets disclosure requirements	
TCFD	**[Draft] S2 (these numbers are the paragraph numbers in S2)**
	b) transition risks—the amount and percentage of assets or business activities vulnerable to transition risks; c) physical risks—the amount and percentage of assets or business activities vulnerable to physical risks; d) climate-related opportunities—the amount and percentage of assets or business activities aligned with climate-related opportunities; e) capital deployment—the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities; f) internal carbon prices: i. the price for each metric tonne of greenhouse gas emissions that the entity uses to assess the costs of its emissions; ii. an explanation of how the entity is applying the carbon price in decision-making (for example, investment decisions, transfer pricing and scenario analysis); g) remuneration: i. the percentage of executive management remuneration recognised in the current period that is linked to climaterelated considerations; and ii a description of how climate-related considerations are factored into executive remuneration (also see paragraph 5(f)). 22 In preparing disclosures to fulfil the requirements in paragraph 21(b)–(g), an entity shall a) consider whether industry-based metrics associated with disclosure topics, as described in paragraph 20(b), including those defined in an applicable IFRS Sustainability Disclosure Standard or those that otherwise satisfy [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information could be used in whole or part to meet the requirements; and

Metrics and Targets disclosure requirements	
TCFD	**[Draft] S2 (these numbers are the paragraph numbers in S2)**
	b) in accordance with paragraphs 37–38 of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, consider the relationship of these amounts with the amounts recognised and disclosed in the accompanying financial statements (for example, the carrying amount of assets used should be consistent with amounts included in the financial statements and when possible the connections between information in these disclosures and amounts in the financial statements should be explained). 23 An entity shall disclose its climate-related targets. For each climate-related target, an entity shall disclose: a) metrics used to assess progress towards reaching the target and achieving its strategic goals; b) the specific target the entity has set for addressing climate-related risks and opportunities; c) whether this target is an absolute target or an intensity target; d) the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives); e) how the target compares with those created in the latest international agreement on climate change and whether it has been validated by a third party; f) whether the target was derived using a sectoral decarbonisation approach; g) the period over which the target applies; h) the base period from which progress is measured; and i) any milestones or interim targets. 24 In identifying, selecting and disclosing the metrics described in paragraph 23(a), an entity shall refer to and consider the applicability of industry-based metrics, as described in paragraph 20(b), including those defined in Appendix B of IFRS S2, those

Metrics and Targets disclosure requirements	
TCFD	**[Draft] S2 (these numbers are the paragraph numbers in S2)**
	included in an applicable IFRS Sustainability Disclosure Standard, or those that otherwise satisfy [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information.

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Appendix D: A comparison of SECR and [draft] IFRS S2

SECR disclosures - observations

- The research noted that, while each Annual Report contained SECR disclosures, not all clearly identified these disclosures as related to the SECR requirements. These disclosures did not appear to give rise to any expectations for the financial statements, but did provide a common source of information, on Green House Gas (GHG) emissions.
- Two of the entities assessed had not completed analysis of their scope three emissions, and one reported Scope three on a 1-year delayed basis. For the remainder of the sample, variations in the emissions profile were significant. Scope 3 emissions ranged from less than 5% to nearly 90% of total emissions, reflecting the range of sectors in the sample.
- This information was helpful contextually for considering the aspects of each company's operations that gave rise to carbon intensity, and potential climate-related implications for its financial statements.

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D1. This appendix contains a comparison between the Streamlined Energy and Carbon Reporting (SECR) and International Sustainability Standards Board (ISSB) Exposure Draft *Climate-related Disclosures* (S2)[48].

D2. The is the principal regulatory regime for reporting emissions and associated information and is intended to complement the TCFD framework. Quoted companies[49] of any size that are required to prepare a Directors' Report under Part 15 of the Companies Act 2006, large[50] unquoted companies and LLPs

D3. SECR requires quoted and large unquoted companies to include their greenhouse gas emissions, energy consumption and energy efficiency action in their annual Directors' report and large LLPs to report that information in an Energy and Carbon Report. The requirements apply to financial years beginning on or after 1 April 2019. The SECR includes one set of reporting requirements for quoted companies, and another for large unquoted companies and LLPs.

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48 Exposure Draft IFRS S2 *Climate-related Disclosures*

49 Quoted companies in this respect are those whose equity share capital is officially listed on the main market of the London Stock Exchange; or is officially listed in a European Economic Area State; or is admitted to dealing on either the New York Stock Exchange or NASDAQ

50 The definition of "large" is the same as applies in the existing framework for annual accounts and reports, based on sections 465 and 466 of the Companies Act 2006.The qualifying conditions are met by a company or LLP in a year in which it satisfies two or more of the following requirements:
a) Turnover of £36 million or more,
b) Balance sheet total of £18 million or more;
c) Employees of 250 or more
Under changes made by the 2018 Regulations, unquoted companies incorporated in the UK which are required to prepare a Directors' Report under Part 15 of the Companies Act 2006, and which are "large" are required to prepare and file energy and carbon information in their Directors' Reports. This applies to both registered companies and to unregistered companies which are required to prepare company accounts and reports. Under the 2018 Regulations, LLPs which are "large" are also required to prepare and file energy and carbon information in their accounts and reports (in a new 'Energy and Carbon Report').

SECR	[Draft] S2[51]
<u>Governance and risk management</u>: Disclose in the Directors' report any measures taken for the purpose of increasing the company's energy efficiency, including a description of the principal measures taken for that purpose. **<u>Metrics</u>:** <u>Quoted companies</u> within the scope of the legislation must continue as a minimum to disclose in their Directors' Report their: • Global scope 1 and 2 GHG emissions. Reporting scope 3 emissions is voluntary, but strongly recommended. • At least one emissions intensity ratio. Intensity ratios compare emissions data with an appropriate business metric or financial indicator, such as sales revenue or square metres of floor space, and allow for comparability. • Underlying global energy use for the current reporting year. • Previous year's figures for energy use and GHG. • Energy efficiency actions, with a narrative description of the main measures taken to increase energy efficiency in the relevant financial year. • Methodology used. It is recommended that companies use a widely recognized independent standard, such as: GHG Reporting Protocol (Corporate Standard), International Organisation for Standardization, ISO (ISO 14064-1:2018), Climate Disclosure Standards Board (CDSB), The Global Reporting Initiative Sustainability Reporting Guidelines.	21 An entity shall disclose information relevant to the cross-industry metric categories of: a) greenhouse gas emissions—the entity shall disclose: i. its absolute gross greenhouse gas emissions generated during the reporting period, measured in accordance with the Greenhouse Gas Protocol Corporate Standard, expressed as metric tonnes of CO2 equivalent, classified as: (1) Scope 1 emissions; (2) Scope 2 emissions; (3) Scope 3 emissions; ii. its greenhouse gas emissions intensity for each scope in paragraph 21(a)(i)(1)–(3), expressed as metric tonnes of CO2 equivalent per unit of physical or economic output; iii. for Scope 1 and Scope 2 emissions disclosed in accordance with paragraph 21(a)(i)(1)–(2), the entity shall disclose emissions separately for: (1) the consolidated accounting group (the parent and its subsidiaries); (2) associates, joint ventures, unconsolidated subsidiaries or affiliates not included in paragraph 21(a)(iii)(1); iv. the approach it used to include emissions for the entities included in paragraph 21(a)(iii)(2) (for

51 Paragraph 21 and 22 of IFRS S2 which are specific to greenhouse gas emissions are included here for comparison with IFRS S2

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Large unquoted companies and LLPs must report: • UK energy use and associated GHG emissions. • Previous year's figures for energy use and GHG emissions. • At least one intensity ratio. • Energy efficiency actions. • Methodology used.	example, the equity share or operational control method in the Greenhouse Gas Protocol Corporate Standard); v. the reason, or reasons, for the entity's choice of approach in paragraph 21(a)(iv) and how that relates to the disclosure objective in paragraph 19; vi. for Scope 3 emissions disclosed in accordance with paragraph 21(a)(i)(3): (1) an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions; (2) an entity shall disclose the categories included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported; (3) when the entity's measure of Scope 3 emissions includes information provided by entities in its value chain, it shall explain the basis for that measurement; (4) if the entity excludes those greenhouse gas emissions in paragraph 21(a)(vi)(3), it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure; b) transition risks—the amount and percentage of assets or business activities vulnerable to transition risks; c) physical risks—the amount and percentage of assets or business activities vulnerable to physical risks;

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	d) climate-related opportunities—the amount and percentage of assets or business activities aligned with climate-related opportunities; e) capital deployment—the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities; f) internal carbon prices: i. the price for each metric tonne of greenhouse gas emissions that the entity uses to assess the costs of its emissions; ii. an explanation of how the entity is applying the carbon price in decision-making (for example, investment decisions, transfer pricing and scenario analysis); g) remuneration: i. the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations; and ii. a description of how climate-related considerations are factored into executive remuneration (also see paragraph 5(f)). 22 In preparing disclosures to fulfil the requirements in paragraph 21(b)–(g), an entity shall a) consider whether industry-based metrics associated with disclosure topics, as described in paragraph 20(b), including those defined in an applicable IFRS Sustainability Disclosure Standard or those that otherwise satisfy [draft] IFRS S1 General Requirements

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	for Disclosure of Sustainability-related Financial Information could be used in whole or part to meet the requirements; and b) in accordance with paragraphs 37–38 of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, consider the relationship of these amounts with the amounts recognised and disclosed in the accompanying financial statements (for example, the carrying amount of assets used should be consistent with amounts included in the financial statements and when possible the connections between information in these disclosures and amounts in the financial statements should be explained).

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Appendix E Glossary of terms

Term	Description
Annual Report	A document that public corporations must provide annually to shareholders that describes their operations and financial conditions.
Amortisation	The systematic allocation of the depreciable amount of an intangible asset over its useful life. (IAS 38, paragraph 8)
Carbon tax	A carbon tax is an indirect tax designed to reduce greenhouse gas emissions by increasing prices of the fossil fuels that emit them when burned.
CGU	A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of asset. (IAS 36, paragraph 6)
Companies Act 2006	The Companies Act 2006 is legislation that governs companies in the UK.
Companies (Strategic Report)	The strategic report provides a company's shareholders with a holistic and meaningful picture of a company's business model, strategy, risks, development, performance, position and future prospects including relevant non-financial information.
COP 26	The 2021 United Nations Climate Change Conference, more commonly referred to as COP26, was the 26th United Nations Climate Change conference, held at the SEC Centre in Glasgow, Scotland, United Kingdom, from 31 October to 13 November 2021.
CO2	Carbon dioxide (CO_2) is an important heat-trapping gas, or greenhouse gas, that comes from the extraction and burning of fossil fuels (such as coal, oil, and natural gas), from wildfires, and from natural processes like volcanic eruptions.

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Term	Description
Depreciation	Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. (IAS 16, paragraph 6)
DRI	Direct reduced iron (DRI), also called sponge iron is produced from the direct reduction of iron ore (in the form of lumps, pellets, or fines) into iron by a reducing gas or elemental carbon produced from natural gas or coal.
ESG	Environmental, social, and corporate governance, also known as environmental, social, governance, is a business framework for considering environmental issues and social issues in the context of corporate governance.
ETS	Emissions Trading Schemes
FCA	The Financial Conduct Authority regulates financial services firms and financial markets in the UK.
Financial Statements	Report financial results of an entity for a given period.
FRC	The Financial Reporting Council regulate auditors, accountants and actuaries, and set the UK's Corporate Governance and Stewardship Codes.
FTSE 100	A share index of the 100 largest companies traded on the London Stock Exchange (LSE).
FTSE 250	A share index of the 250 largest companies traded on the London Stock Exchange (LSE).
FTSE 350	A share index of the 350 largest companies traded on the London Stock Exchange (LSE). The FTSE 350 index is made up of the constituents of the FTSE 100 and FTSE 250 index
GHG	Greenhouse gases
Greenwashing	Greenwashing is the process of conveying a false impression or misleading information about how a company's products are environmentally sound.
IAS 1	International Accounting Standard *Presentation of Financial Statements*

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Term	Description
IAS 8	International Accounting Standard *Accounting Policies, Changes in Accounting Estimates and Errors*
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
Intangible assets	An identifiable non-monetary asset without physical substance.
ISSB	International Sustainability Standards Board
Material/Materiality	Material: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. (IAS 1, paragraph 7) Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole. (IAS 1, paragraph 7)
Net Zero	Net zero refers to a state in which the greenhouse gases going into the atmosphere are balanced by removal out of the atmosphere.
PPE	Property, plant and equipment are tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one period. (IAS 16, paragraph 6)
R&D	Research and Development
RFI	Requests for information are formal requests for feedback or other information, including on technical projects, post-implementation reviews and broader consultations.

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Term	Description
Residual value	The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. (IAS 16, paragraph 6)
Scope 3 emissions	Scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly affects in its value chain.
SECR	Streamlined Energy and Carbon Reporting is a mandatory scheme that applies to large UK companies. Businesses within scope must collect information relating to their energy use and associated carbon emissions, then submit this as part of their annual reporting to Companies House.
SAF	Sustainable Aviation Fuel (SAF)
Sustainability linked debt	Sustainability-linked loans are loans where a portion of the interest rate is linked to the borrower's ability to meet sustainability targets.
TCFD	The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information.
The Listing Rules	The Listing Rules set out mandatory standards for any company wishing to list its shares or securities for sale to the public, and are subject to the oversight of the Financial Conduct Authority (FCA).
Useful life	The period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.
UKEB	United Kingdom Endorsement Board

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