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Climate risk: The reporting landscape

KPMG Board Leadership Centre

Climate risk reporting doesn't begin and end with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). There is a lot more work on the horizon, much of which builds on TCFD and will require companies to collect, act and report on more granular climate and sustainability-related data.

In this paper we have outlined five key initiatives: standards, policies and requirements that UK companies will face, with details on when they came or are likely to come into force, who's in scope, what the regulations cover, and what you should do now to prepare. However, this isn't an exhaustive list – there are other mandatory and voluntary reporting requirements being developed – some that are sector-specific and some more general.

BEIS Climate-related Financial Disclosures

The BEIS requirements are built around the TCFD's four pillars of:

— Governance: your governance procedures for climate risk and opportunities

— Risk: how you identify, assess and manage the climate risks and opportunities

— Strategy: the risks and opportunities and their impact on your business, and an analysis of your strategic resilience

— Metrics and targets: your targets, how you're measuring progress, and how you're getting on.

For more information, check out this helpful Q&A document created by BEIS.

Who is covered?

All large UK companies and large limited liability partnerships (LLPs) with over 500 employees and £500 million in turnover. The precise scope is set out in section C of the Q&A document. It is important to note that you are not exempt if you have an overseas parent that reports under TCFD.

If you fall into scope, you are required to disclose at the group level, with the top UK parent expected to report on the global operations of the UK group. If you don't produce consolidated accounts, then your climate disclosures should relate to your parent company. But you'll also need to provide disclosures for any subsidiaries that fall into scope.

When does it come out?

The requirements relate to accounting periods that started on or after 6 April 2022. The legislation falls under The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 – for companies; and The Limited Liability Partnerships (Climate-related Financial Disclosure) Regulations 2022 – for LLPs.

Look to the executive to:

— Make sure you know what information you need to gather to demonstrate compliance

— Review your existing processes for emissions and financial reporting – these may provide some of the data you need, or offer a mechanism for gathering it

— Review your approach to scenario analysis and be clear on how you are identifying, assessing and managing climate risks and opportunities

— Be ready to disclose the variables you have used and any assumptions made

Sustainability Disclosure Requirements (SDR)

SDR will provide an integrated framework to ensure consistency in sustainability disclosures between corporates, financial services firms and investment products.

Firms will be expected to provide investors with climate-related information in line with the new International Sustainability Standards Board (ISSB) standards. And they'll need to report on their environmental impact using the UK Green Taxonomy. You can find more information on this below.

Who is covered?

The FCA says that 'real economy companies, including listed issuers, and asset managers and asset owners will be required to report on their sustainability risks, opportunities and impacts.'

When does it come out?

The FCA's consultation on SDR is now expected for Autumn 2022. We expect it to come into force in late 2023 or 2024.

Look to the executive to:

Focus on aligning your reporting with TCFD, the UK Green Taxonomy, and ISSB (to ensure alignment with international standards). SDR will be based on these disclosure requirements.

International Sustainability Standards Board (ISSB) standards

The aim of the ISSB is to provide a global baseline for sustainability reporting. Like IFRS Accounting Standards, the proposals focus on the information needs of investors, lenders and other creditors. They require firms to provide information on all significant sustainability-related risks and opportunities to support investors' assessments of enterprise value.

A climate proposal builds on the general requirements with climate-specific requirements – for example, disclosure of transition plans, and cross-industry and industry-specific metrics. These set out more granular requirements on metrics and targets than TCFD.

Who's covered?

This will depend on whether governments and/or regulators choose to mandate alignment with ISSB standards. The UK Government has said in the first instance this will be done through SDR (see above). But firms would be well advised to familiarise themselves with the ISSB exposure drafts in advance of SDR being finalised so that they understand the scope and implications.

When do they come out?

The first two ISSB exposure drafts were published for consultation in May 2022 and are expected to be finalised by the end of the year. Further standards will follow.

Look to the executive to:

— Establish stronger connections between your financial statements and sustainability reporting

— Avoid duplication and provide a coherent narrative in your reporting

— Review your data processes, as you will be collecting and reporting on a significant amount of new information

— Assess your use of offsets and provide a separate disclosure of GHG emissions from associates, joint ventures and non-controlled investments

UK Green Taxonomy

We expect the UK Green Taxonomy to largely replicate the structure of the EU Taxonomy that came into force in January 2022 for the first two environmental objectives (see below).

However, we're yet to see a draft of the UK version and it's possible that there may be some differences in approach and definitions to account for UK specificities.

The EU Taxonomy provides a classification system for 'environmentally sustainable' activities. In order to be considered 'environmentally sustainable', activities must contribute substantially to one or more of six environmental objectives: climate change mitigation; climate change adaptation; water and marine resources; circular economy; pollution prevention; and biodiversity and ecosystems. They must also do no harm to other objectives and comply with minimum safeguards.

Reporting in alignment with such a taxonomy could mean collecting significantly more data. For example, the EU Taxonomy requires disclosures to split out revenue, capex and opex according to 'taxonomy-aligned' and 'non-taxonomy-aligned' activities.

Who is covered?

It remains to be seen how the UK Green Taxonomy will operate in practice, but we know that it will underpin the SDR (see above). It is likely that, as with the EU Taxonomy, it will need to be applied through separate regulatory or legislative requirements.

When does it come out?

The UK government was targeting the end of 2022 to legislate for the first two environmental objectives, but it is unclear whether this is still on track: to date, no drafts have been published. The remaining four objectives would then be expected by the end of 2023.

Look to the executive to:

— Familiarise yourself with EU Taxonomy criteria, as the UK Green Taxonomy is likely to follow these to a significant extent

— Start to think through what data you might require reporting against the UK Green Taxonomy, and identify any potential gaps

— Review your internal systems architecture to identify where and how Taxonomy-related reporting might be integrated into existing systems or planned upgrades

— Consider which reporting entities are likely to be impacted by the Taxonomy so you can put in place clear implementation plans

BEIS UK Corporate Governance Reform

BEIS and the FRC announced plans for reforms of corporate reporting in the summer. As part of this, the corporate governance code is expected to be amended for periods after 1 January 2024, with companies asked to give a statement on the effectiveness of controls over year-end reporting. This will require control frameworks to be put in place.

The guidance on the specific scope is due to be released in early 2023 but it is expected that the UK will adopt a broader approach that will require controls to cover aspects of wider annual reporting – and this could cover climate disclosures.

The proposals also ask for all larger public interest entities (defined as having 750 or more employees and £750 million revenue) to create an audit and assurance policy assessing the required level of assurance over all aspects of the annual report. This in effect means that any ESG disclosures in the annual report will need to be considered for external assurance by the board and it is likely this will drive an increased level of demand for assurance.

Who is covered?

The reform will cover all UK-listed companies, credit institutions and insurance providers. Unlisted companies and partnerships with 750 or more employees and an annual turnover of £750 million or more will also be in scope.

When does it come out?

The corporate governance code is expected to be amended for periods after 1 January 2024. Guidance on the specific scope is due to be released in early 2023.

Look to the executive to:

— Plan to move from limited to reasonable assurance of non-financial activities, starting with climate

— Pilot process and controls walkthroughs for key metrics included in TCFD and other climate and sustainability legislation

— Build frameworks and remediation plans to ensure completeness, validity and accuracy of disclosures

— Look into automation of reporting and sign-offs

This is part three of a four-part series of articles on climate risk. Our first article looks at lessons learned from the last year of climate reporting. Our second article looks at what you need to know to comply with FY22 reporting. In our final article, we'll share our top tips on best practices.

The KPMG Board Leadership Centre

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