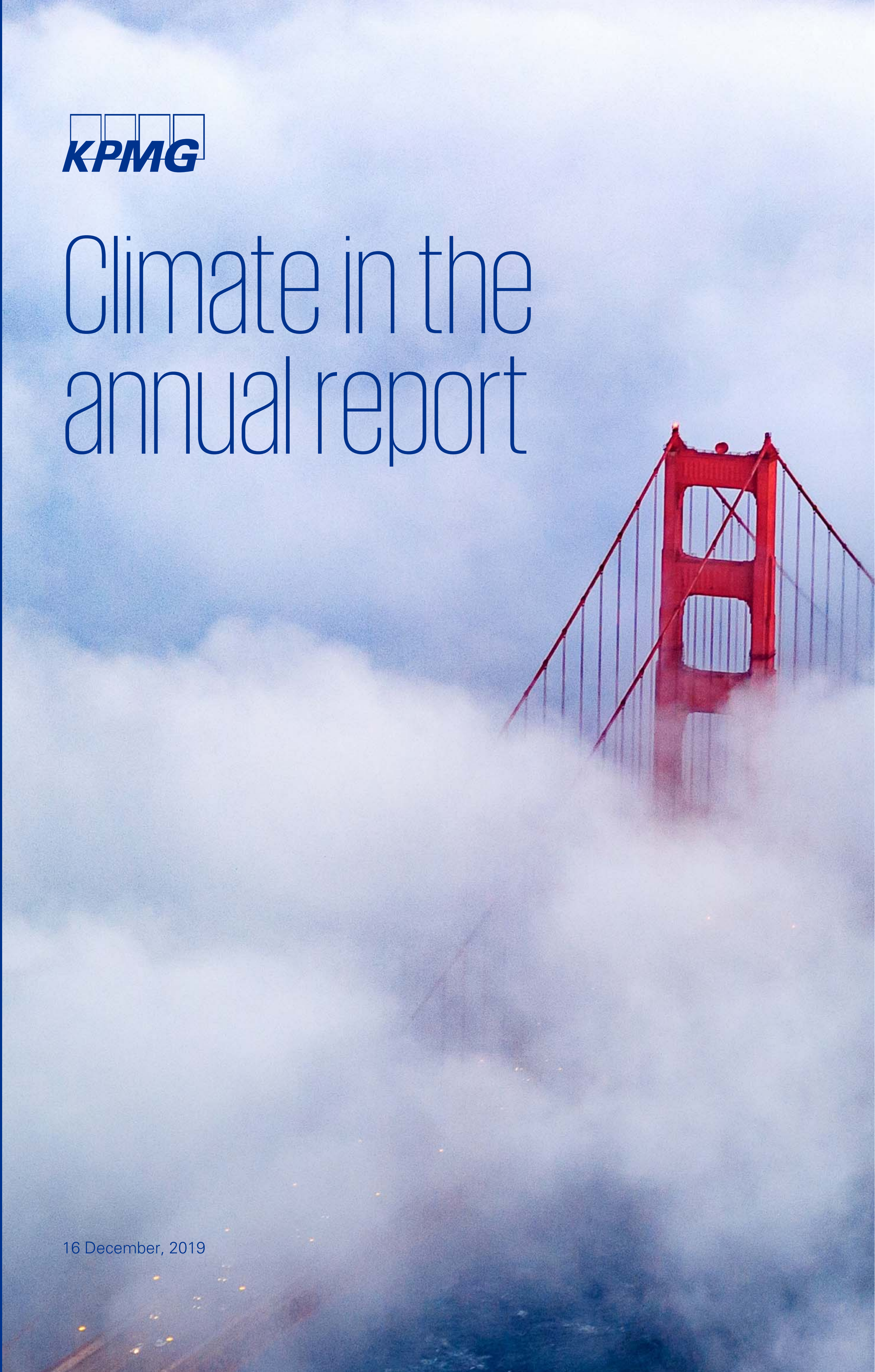
Climate in the annual report

16 December, 2019



In summary

Climate accounting and disclosure in the annual report

Making sense of climate reporting

Climate risks can affect companies in a multitude of ways. Public, political, and investor interest in the issue has led to a plethora of frameworks and guidance for reporting, and the emergence of climate-specific reporting requirements in company law and regulation. The demand for companies to disclose is further compounded by direct private information requests from investors, ratings agencies and sustainability indexers.

Demand for disclosure is particularly high in those sectors identified by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) as particularly exposed to climate risk: *banks, insurance, asset owners,* and *asset managers* in the financial sectors, and *energy, transportation, materials & buildings*, and *agriculture, food & forest products* in the non-financial sectors.

The overwhelming voice is for 'more' disclosure requirements. We think the answer is not more volume, but more focus. More focus on the specific issues affecting the company, and more focus on providing readers with the information they need to support their decisions.

In this publication we concentrate on the shareholder-focused annual report, recognising that additional information to meet others' needs will normally be provided through other channels. Our aim is to support a reasoned consideration of what to disclose in the annual report, and in what detail.

Financial statement and disclosure implications

In some areas, annual report requirements over climate-related information are explicit (greenhouse gas emissions, for example). Explicit climate disclosure requirements tend to attract the most attention, but the implicit requirements are likely to be the most significant for a climate-exposed business. If climate is a material issue, the Companies Act requirements covering business model, risks, strategy, and progress should drive the front-end disclosures that investors need to assess the issue. Where material, financial statement adjustments or disclosure may be required.

So, climate factors need to be considered as a mainstream reporting issue, rather than addressed in isolation. Approaching the issue in this way requires clarity from report preparers: how is the company exposed? And what information is needed to meet requirements to report this to shareholders?

Providing relevant disclosures

When climate is discussed, first thoughts tend to focus on the direct exposures to climate change – flood risk, for example. These may be the most significant risks in the long term, but there can be substantial uncertainty over the nature and extent of both the physical impact, and the ultimate financial impact – for example, whether costs are borne by consumers or producers. More immediate exposures may arise from potential regulatory actions affecting the company's customers, suppliers, or business model - for example, the implementation of policies aligned with the Paris Agreement. The political uncertainty inherent in regulation may lead to a wide range of potential outcomes – some may be negative, others could be margin enhancing. For these types of risk, the most relevant disclosures are likely to lie in business model detail that support an assessment of exposures across a wide range of possible outcomes.

More immediate risks may lie in a company's key relationships. Perceptions that the company is undertaking activities damaging to the climate may result in significant disruption with little advance warning. Disclosures covering risk oversight, and the company's external impacts may be of particular relevance here.

Applying materiality

Different parts of the business may be exposed in different ways, for example one regulatory path may be expected in one region, but a different path in another. Where applicable, the level at which information is aggregated will need to take this into account.

IFRS treats information as material if it could reasonably be expected to affect investors' economic decisions. It links this assessment to the practical question of whether the information would affect an investor's assessment of the company's long-term future cash flows or management's stewardship of its resources. Environmental matters will often raise questions over the long-term sustainability of the business model. The so-called 'perpetuity component' of a cash flow assessment can represent a substantial proportion of a company's value. So, environmental matters may be material even though they are not expected to crystallise for several years.

Meeting the requirements of an annual report

In this publication, we discuss the reporting requirements most likely to be affected by climate issues, covering both the financial statements and the front-end (strategic, directors', and governance reports). The list of potential disclosure considerations is long, and best approached once the specific issues that the company faces are properly understood and if necessary reflected in the balance sheet. A checklist approach is likely to result in unfocused, excessive disclosure.

Companies looking for climate-specific disclosure guidance may want to consider the TCFD recommendations. The UK Government has announced an intention to require TCFD disclosures by 2022, but its recommendations can be helpful in thinking about the information needed to meet existing disclosure obligations. We have highlighted the overlap in this publication, and also additional recommendations contained in the Financial Reporting Lab's project on climate-related corporate reporting. The TCFD has also published sector-specific guidance for those sectors it considers to be most exposed.

More Information:

Assessing your strategic report (KPMG in the UK)

Guidance on the strategic report (FRC)

Climate-related corporate reporting (FRC: Financial Reporting Lab)

Taskforce on climate-related financial disclosures (Financial Stability Board)

IFRS standards and climate related disclosures (IASB)

Areas of the annual report that may be affected by climate-related matters

Annual report considerations[a]		
Page 11	**Accounting considerations**	— IAS 16: Property, plant, and equipment and IAS 38: Intangible Assets — IAS 36: Impairment of assets and IFRS 6: Exploration for and evaluation of mineral resources — IAS 37: Provisions, contingent liabilities, and contingent assets — IFRS 9: Financial Instruments
Page 14	**Financial statement disclosure considerations**	— IAS 1: Presentation of financial statements — IAS 36: Impairment of assets — IAS 37: Provisions, contingent liabilities, and contingent assets — IFRS 7: Financial instruments disclosures — IFRS 13: Fair value measurement
Page 19	**Governance**	— Describe how risks (and any opportunities) have been considered — Section 172 statement on matters the directors had regard to in performing their duties — Describe the policies pursued in relation to the company's impact on the community and the environment, including related due diligence and outcomes
Page 21	**Risks & risk management**	— Address the assessment, management, and mitigation of principal risks and identification of emerging risks — Describe the main trends and factors likely to affect future development, performance, or position — Describe the principal risks
Page 23	**Business model**	Provide a description of the entity's business model including: — The business processes most important to the generation and preservation of value — The key resources and relationships that support the generation and preservation of value.
Page 25	**Strategy**	— Provide a description of the entity's strategy, including purpose and objectives. Give due regard to the short-, medium-, and long-term implications of matters described — Address the relationship between the entity's principal risks and its ability to meet its objectives where relevant
Page 27	**Performance**	Provide KPIs addressing matters relevant to an understanding of the entity's development, performance, position, and indicators of future prospects, including: — Progress against objectives and strategy — Progress in managing principal risks — Matters affecting long-term sustainability of the business
Page 29	**Viability**	— Explain how and over what period the board has assessed the prospects of the company taking account of its current position and principal risks — State whether the board has a reasonable expectation that the company will be able to continue in operation over this period
Page 31	**Greenhouse gas disclosure**	— Greenhouse gas statutory disclosures

Note: (a) The extent to which climate issues need to be addressed in each area (if at all) will vary depending on circumstances – refer to the section Providing relevant climate disclosures

Providing relevant climate reporting

Providing relevant climate reporting

Determining what reporting is required

Matching the reporting to the issue

Climate-related disclosures are sometimes approached on a siloed-basis, with a specific segment of the annual report devoted to the matter. Whilst this may allow companies to feel they have 'ticked the climate box', the danger is that it may lead to some companies over-disclosing on matters that are not material or, of more concern, under-disclose or omit financial statement effects.

We encourage companies to approach climate matters as a part of their mainstream reporting, recognising that, depending on circumstances, climate may touch each area of the annual report from financial statement impacts, in some cases, through to mandatory greenhouse gas disclosures. To do this, we suggest the following ladder as a starting point for considering how to reflect climate-related matters in an annual report:

Obligations resulting from climate-related matters	Financial statements impact: Provision E.g. onerous contracts and legal and constructive obligations See page 11
Climate-related expectations resulting in adjustments to book values	Financial statements impact: Impairment E.g. where expectations of an asset's value in use or useful life no longer support its book value See pages 12-13
Contingent liabilities arising from climate-related factors	Financial statements disclosure: Contingent liability E.g. relating to potential environmental remediation obligations See page 16
Climate-related factors require significant accounting judgements, estimates or assumptions	Financial statements disclosure: Accounting judgements and estimates Where climate considerations represent an important accounting judgement (e.g. valuation or impairment) See page 14-15
Climate-related matters represent a principal risk/ significant opportunity	Risk, Strategy, Progress, Viability disclosure Information needed to understand a principal risk/significant opportunity faced by the business See pages 21-22, 25-30
Climate-related matters monitored as an emerging risk	Business model, Governance disclosures Where the board is monitoring climate as a potential risk See pages 23-24, 19-20
No material climate-related matters identified	Mandatory disclosures Required in (almost) all cases, irrespective of the exposure to climate risk See pages 31-32

Providing relevant climate reporting

Matching the reporting to the issue

Matching the reporting to the issue

Not all climate-related risks are the same. Company disclosures need to reflect this if they are to provide relevant information. So the first step in determining what information needs to be disclosed is to consider exactly where the company's exposure lies. Four broad categories for consideration when thinking about annual report content could be:

Relationship risk

The company may be perceived to be undertaking activities that are damaging to the climate, resulting in potential disruption to its key relationships.

For example:

- Prolonged reputational damage resulting in significant loss of customers
- Inability to meet business customer's qualifying thresholds for environmental matters
- Societal pressure for increased regulation or taxation of key business activities

Relationship risks may represent the most immediate climate-related risks a company faces and may crystallise with little advance warning. Disclosures covering risk oversight, and the company's external impacts may be of particular relevance.

Regulatory risk

The company or its customers are exposed to the potential effects of climate related legislation or regulation.

For example:

- Additional costs or taxes may be imposed on business activities
- Localised constraints may be placed on the ability to operate affecting specific sites
- Widespread constraints may be placed on the ability to operate the underlying business model
- Prohibitions on key business inputs or products
- Loss of demand due to curtailment of customers' activities

The political uncertainty inherent in regulation may lead to a wide range of potential outcomes – some may be negative, others may be margin enhancing. Disclosure of how the risk is being managed and the details described in the business model needed to assess potential impacts across different regulatory responses may be of particular relevance.

Impact risk

The company's ability to operate successfully is directly exposed to potential adverse effects from climate change.

For example:

- Damage to owned or public infrastructure
- Loss of access to key business inputs
- Disruption to key markets
- Loss of demand for key products

Direct climate impacts may be the most significant risk for many companies in the long term. However, there may be substantial uncertainty over both the physical impacts, and their ultimate financial impact – for example, the extent to which costs are borne by consumers or producers. The details described in the business model needed to assess which activities are exposed to each risk may be of particular relevance.

Strategic opportunities

The company identifies an opportunity resulting from a climate-related matter.

For example:

- Demand for new or established products
- Damage to competitor business models

Where climate-related opportunities are an important part of a company's valuation story, information on progress in this area may be material despite an opportunity being in the early stages of growth.

Providing relevant climate reporting

Applying materiality to climate information

Applying materiality to climate information

We sometimes hear that materiality is difficult to apply to climate-related matters. The relevant information may be quantitative in nature, and the potential effects may be uncertain and lie some way into the future.

Broadly[(a)], information will be material in an annual report if it could reasonably be expected to effect investors' economic decisions. IFRS links this assessment to the practical question of whether the information would affect an investor assessment of the company's long-term future cash flows or management's stewardship of its resources.

The result is that:

i. There is no difference in how quantitative and qualitative information should be approached. Materiality is assessed from the perspective of an investor's decisions, not the magnitude of the source data.

ii. This approach to materiality is inherently long-term. There is no limit on the time horizon to be considered, other than though the time value effect on future cash flows.

Applying materiality requires a focused approach: specific information on the typically small number of matters that could move their assessment, rather than superficial information on a collection of matters that would not. Directors will need to take account of the magnitude, time value, and likelihood of potential impacts when determining which matters would affect an investor's economic decisions.

Environmental matters will often raise questions over the long-term sustainability of the business model. The so-called 'perpetuity component' of a cash flow assessment can represent a substantial proportion of a company's value. So, environmental matters may be material even though they are not expected to crystallise for several years.

There may be situations where the board is aware of specific climate-related concerns from groups of investors, notwithstanding that the board itself considers the risks to be limited. This may well be an indication that the board has information that would materially affect an investor's assessment of the company.

However, it may also be the case that the board and the group of investors have simply reached a different view. In this case, both board and audit committee may need to consider the reasons why they disagree with the investor view in order to determine whether information on the matter should be regarded as material for shareholders as a whole.

Financial statement materiality

For the financial statements, IAS 1 states that 'Omissions or misstatements are material if they could, individually or collectively, influence the economic decisions that users (financial capital providers) make on the basis of the financial statements'

Additional clarifications in the Conceptual Framework and Materiality Practice Statement emphasise that materiality judgements involve both quantitative and qualitative considerations and link users' decisions to their assessment of the amount, timing and uncertainty of the future net cash inflows to an entity, together with their assessment of management's stewardship of the entity's resources.

Strategic report materiality

Whilst the Companies Act does not explicitly refer to 'materiality', the FRC's Guidance on the Strategic Report provides guidance on what would be required to meet the applicable Companies Act requirements.

Most Strategic Report disclosures should be met to the extent necessary for an understanding of the development, performance, position or future prospects of the business (FRC Guidance: §5.7). Specifically, Information is material if its omission or misrepresentation could reasonably be expected to influence the economic decisions shareholders take on the basis of the annual report as a whole. (FRC Guidance: §5.1).

Directors' report materiality

In general directors' report disclosures must be made irrespective of materiality.

Note: (a) This is a summary. The application of materiality to different disclosure requirements is complex – see panels for more details. Notably, directors' report disclosures are generally required irrespective of materiality.

Providing relevant climate reporting

Making use of climate reporting frameworks

Alignment in climate-related reporting

The proliferation of climate and wider sustainability related reporting initiatives and frameworks is an area of acknowledged concern. The Corporate Reporting Dialogue's Better Alignment Project[a] is a step towards addressing this, with participants mapping their frameworks and standards to the Financial Stability Board's TCFD recommendations.

The TCFD recommendations have emerged as a focal point for climate-related disclosure, with the UK Government's Green Finance Strategy[b] stating that 'The Government expects all listed companies and large asset owners to be disclosing in line with the TCFD recommendations by 2022.'

Recognising this, we have included a summary of the TCFD 'all sector' recommendations alongside the most relevant Companies Act or other regulatory disclosure requirement.

In addition to all sector guidance, the TCFD developed industry level supplemental guidance addressing those industries it considered to be carrying the greatest potential exposures. The industries covered are:

— **Financial**: banks, insurance, asset owners, and asset managers; and

— **Non-Financial**: energy, transportation, materials & buildings, and agriculture, food & forest products.

Applying other frameworks

The Better Alignment Project's participants' frameworks may help companies considering additional detail needed to complement the TCFD recommendations. In the context of an annual report, the investor-focused frameworks of SASB and CDSB may be of particular help as they are designed with mainstream investor-focused reporting in mind.

As with the TCFD recommendations, these frameworks can provide a starting point for assessing how to address a company's climate-related disclosure obligations. They are not a substitute for assessing the company's specific circumstances. Not all recommended disclosures may be material, equally, they cannot be assumed to be sufficient to address the company's circumstances.

Better Alignment Project participants addressing investor-focused corporate reporting:

SASB – Sustainability Accounting Standards Board

'SASB has developed a complete set of 77 industry standards. In November 2018, SASB published these standards, providing a complete set of globally applicable industry-specific standards which identify the minimal set of financially material sustainability topics and their associated metrics for the typical company in an industry.' – SASB: Standards Overview

CDSB – Climate Disclosure Standards Board

'The CDSB Climate Change Reporting Framework is a voluntary reporting framework designed to elicit climate change-related information of value to investors in mainstream financial reports.'
– CDSB Framework

Better Alignment Project participants with other reporting objectives:

CDP – Carbon Disclosure Project

'We believe that improving corporate awareness through measurement and disclosure is essential to the effective management of carbon and climate change risk. We request information on climate risks and low carbon opportunities from the world's largest companies on behalf of over 525 institutional investor signatories with a combined US$96 trillion in assets.'
– CDP Our work: Climate Change

GRI – Global Reporting Initiative

'GRI helps businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance and social well-being. This enables real action to create social, environmental and economic benefits for everyone. The GRI Sustainability Reporting Standards are developed with true multi-stakeholder contributions and rooted in the public interest.' – About GRI

Note: (a) Information on the Corporate Reporting Dialogue's Better Alignment Project is available at: https://corporatereportingdialogue.com/better-alignment-project/
(b) HM Government: Green Finance Strategy Transforming Finance for a Greener Future, July 2019

Climate effects in the financial statements

Climate effects in the financial statements

Accounting considerations

Provisions

Comment: Financial statement provisions for climate related matters

In general, IFRS does not permit the recognition of provisions for future operating losses. However, climate related considerations may be applicable in relation to:

- Legal obligations resulting from changes or potential changes to law and regulation (for example, the implementation of legislation aligned with the Paris Agreement). In general, obligations arising from regulatory change will not be recognised until they are virtually certain.
- Constructive obligations arising from specific commitments, or past practice, to remedy environmental damage made by the entity.
- Provisions for contracts assessed to be onerous as a result of expected climate-related costs that do not amount to provisions for loss making operations.

Key Accounting Considerations: Provisions[(a)]		
IAS 37: Provisions, Contingent liabilities, and Contingent Assets		
Provisions for future losses	Future operating losses do not meet the definition of a liability, therefore as a general rule, provisions should not be recognised for future operating losses.	IAS 37 §63-64
Onerous contracts	IAS 37 defines an onerous contract as 'a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.' Where the entity identifies an onerous contract it recognises the present obligation under the contract as a provision after taking account of any impairment losses on assets dedicated to the contract. Some contracts may be part of an overall loss-making operation. In our view, a provision should not be recognised for these contracts unless the cash flows related to the contract are clearly distinguishable from the operations as a whole. Otherwise, a provision would effectively be recognised for future operating losses, which is prohibited by IFRS.	IAS 37 §66-69
Consequences of potential changes to law and regulation	Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted as drafted. The standard notes that in many cases it will be impossible to be virtually certain of the enactment of a law until it is enacted.	IAS 37 §22
Constructive obligations on the entity	IAS 37 recognises that constructive obligations arising from actions taken by an entity, for example, as the result of a sufficiently specific public statement. The standard refers to the example of environmental damage where there may be no obligation to remedy the consequences. Causing of the damage will become an obligating event when a new law requires the existing damage to be rectified or when the entity publicly accepts responsibility for rectification in a way that creates a constructive obligation.	IAS 37 §21

Note: (a) This list is intended to provide an introduction to the accounting considerations only. The specific facts of each issue will need to be considered in the context of the IFRS requirements as a whole.

Climate effects in the financial statements

Accounting considerations (cont.)

Asset lives and values

Comment: The effect of climate-related risk on financial statement assets

Climate-related factors, for example those that create the possibility of adverse regulatory outcomes, may affect an entity's expectations of the future returns an asset is capable of generating, leading to a reassessment of asset useful lives, an impairment indicator or expenses not meeting the definition of an asset that can be recognised.

In respect of financial instruments, where an entity has customers or lendees affected by climate-related risks, this may need to be considered in the assessment of expected credit losses. This is a forward-looking assessment that may require consideration of potential future economic scenarios and the likelihood of their occurrence, alongside whether there have been significant increases in credit risk.

Asset lives and impairments: Key accounting treatments that may be affected by climate-related risk[a]		
IAS 16: Property, Plant, and Equipment		
Reassessment of asset useful lives	IAS 16 requires the residual value and the useful life of an asset to be reviewed at least at each financial year-end.	IAS 16 §51
Assets held at valuation	Where assets are carried at valuation, revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.	IAS 16 §31
IAS 16: Property, Plant, and Equipment and **IAS 38:** Intangible Assets		
Recognition of expenditure as an asset	IAS 16 only allows the cost of an item of property, plant and equipment to be recognised as an asset if it is probable that future economic benefits associated with the item will flow to the entity, and the cost can be measured reliably. IAS 38 has the same requirement, along with the item needing to meet the definition of an intangible asset.	IAS 16 §7 IAS 38 §18
IFRS 6: Exploration for and Evaluation of Mineral Resources		
Impairment testing of mineral resource assets	IFRS 6 provides specific requirements for assessing the impairment of exploration and evaluation assets. These are assessed for impairment only when facts and circumstances suggest that the carrying amount of an the asset may exceed its recoverable amount, and on the transfer of the assets to development assets. In contrast to other assets, there is no requirement to assess whether an indication of impairment exists at each reporting date until an entity has sufficient information to reach a conclusion over the technical feasibility and commercial viability of extraction	IFRS 6 §18

Note: (a) This list is intended to provide an introduction to the accounting considerations only. The specific facts of each issue will need to be considered in the context of the IFRS requirements as a whole.

Climate effects in the financial statements

Accounting considerations (cont.)

Asset lives and values (cont.)

Asset lives and impairments: Key accounting treatments that may be affected by climate-related risk[a]		
IFRS 9: Financial Instruments		
Financial instrument measurement of expected credit losses	Measurement of expected credit losses An entity shall measure expected credit losses of a financial instrument in a way that reflects: a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; b) The time value of money; and c) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Significant increase in credit risk IFRS 9 requires at each reporting date, an assessment of whether the credit risk on a financial instrument has increased significantly since initial recognition.	IFRS 9 §5.5.17 IFRS 9 §5.5.9
IAS 36: Impairment of Assets		
Requirement to assess assets for impairment	IAS 36 requires an assessment at the end of each reporting period of whether there is any indication that an impairment test is required. Intangible assets with indefinite useful lives and goodwill must be tested annually.	IAS 36 §9, 10
Basis on which assets are assessed for impairment	Level at which assets are assessed Recoverable amounts are determined at an individual asset level unless the cash inflows are not largely independent of other assets or groups of assets. If this is the case, recoverable amount is determined on a cash-generating unit basis. Calculating value in use The calculation of an asset's value in use is based on the estimated future cash flows from the asset, taking account of possible variations in the amount or timing of those future cash flows, time value of money (represented by the current market risk-free rate of interest), the price for bearing the uncertainty inherent in the asset and other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset. Longer-term assumptions for calculating value in use Budgets and forecasts used for value in use projections should cover a maximum period of five years, unless a longer period can be justified. Beyond this period projections should be extrapolated using a steady or declining growth rate unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.	IAS 36 §22 IAS 36 §30 IAS 36 §33

Note: (a) This list is intended to provide an introduction to the accounting considerations only. The specific facts of each issue will need to be considered in the context of the IFRS requirements as a whole.

Climate effects in the financial statements

Disclosure considerations

Accounting judgements and estimates

Comment: Disclosure of climate-related accounting judgements and estimates

In some situations, climate factors may represent significant judgements in determining whether assets are impaired and/or a key assumption in impairment calculation. Where there is significant risk that these assumptions may change within the next financial year (for example because of an uncertain regulatory environment), IAS 1 requires the assumptions on which the accounting is based to be explained.

There may also be significant judgement as to whether climate factors results in a provision being recognised or a contingent liability disclosed.

For assets carried at fair value, expectations of climate factors may be a significant component of the fair value assumptions required to be disclosed under IFRS 13.

Climate-related risk may also be a consideration in impairment assessments for goodwill or indefinite life intangible assets. Where this represents a key assumption in the assessment (for example, because the assessment makes assumptions about particular regulatory outcomes), IAS 36 requires this to be explained, along with the impact of a reasonably possible change in this assumption (if material).

Disclosure of key accounting judgements affected by climate-related risk[(a)]		
IAS 1: Presentation of Financial Statements		
Disclosure of assumptions and estimates affecting the financial statements	For the entity's significant accounting judgements, IAS 1 requires the disclosure of those judgements that have the most significant effect on the amounts recognised in the financial statements IAS1 also requires disclosure of information about the assumptions the entity has made about the future and other major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to assets and liabilities within the next financial year. The disclosures must include their nature and carrying amount. The standard provides the following examples of potential disclosures: a) the nature of the assumption or other estimation uncertainty; b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity; c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved	IAS 1 §122 IAS 1 §125,129
Additional disclosures	IAS1 requires 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.	IAS 1 §17(c)

Note: (a) This list is intended to provide an introduction to the accounting considerations only. The specific facts of each issue will need to be considered in the context of the IFRS requirements as a whole.

Climate effects in the financial statements

Disclosure considerations (cont.)

Accounting judgements and estimates (cont.)

Disclosure of key accounting judgements affected by climate-related risk[a]		
IFRS 13: Fair value measurement		
Disclosure of assumptions relating to assets carried at fair value	IFRS 13 contains a comprehensive disclosure framework for amounts measured at fair value that aims to provide information necessary to assess: — the methods and inputs used to develop those measurements; and — the effect of the measurements on profit or loss or OCI of recurring fair value measurements that are based on significant unobservable inputs – for recurring Level 3 measurements.	IFRS 13 §91-99
	For 'Level 3' assets (that is those where the valuation depends on unobservable inputs), the disclosure requirements include the valuation technique and inputs used, quantitative information about significant unobservable inputs, valuation processes and policies, narrative description of the sensitivity to changes in unobservable inputs, and narrative discussion of sensitivity to changes in unobservable inputs The entity must consider amongst other matters how much aggregation or disaggregation to undertake and whether additional information is needed to evaluate the quantitative information disclosed.	IFRS 13 §93
	Application guidance to IFRS 13 discusses how risk should be taken into account, recognising that this may be done by the use of most-likely cash flows at a risk-adjusted discount rate, risk-adjusted cash flows (discounted at the risk free rate) or unadjusted cash flows discounted using a risk-premium	IFRS 13 Application Guidance
IAS 36: Impairment of Assets		
Goodwill impairment assumptions	IAS 36 requires disclosure of information for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. For assets where the recoverable amount is based on value in use, disclosures include: — The key assumptions affecting the recoverable amount; — Management's approach to determining each key assumption; — The period for which cash flows have been projected, and justification if this exceeds five years; — The growth rate assumed beyond the projection period, and justification if it exceeds the long term average growth rate for the country or market of operation; and — The discount rate applied.	IAS 36 §134(d)

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Climate effects in the financial statements

Disclosure considerations (cont.)

Contingent liabilities and Financial instruments

Comment: Disclosure of climate-related contingent liabilities

Contingent climate-related liabilities (such as those relating to environmental remediation) are disclosed under IAS 37 where the likelihood of settlement is less than probable, but not remote.

Climate-related investments and other financial instruments risk

The systemic nature of climate-risk may create pockets of 'concentration risk' for some entities (for example equity investments carrying exposure to a particular climate-exposed sector, geography, or wider climate outcome). IFRS 7 requires the identification of groups of financial instruments that are exposed to a particular risk characteristic.

Contingent liabilities and Financial instruments disclosures that may be affected by climate-related risk[(a)]		
IAS 37: Provisions, Contingent liabilities, and Contingent Assets		
Disclosure of contingent liabilities	Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable: (a) an estimate of its financial effect; (b) an indication of the uncertainties relating to the amount or timing of any outflow; and (c) the possibility of any reimbursement.	IAS 37 §86
IFRS 7: Financial Instruments Disclosures		
Disclosure of risks relating to financial instruments	The general disclosure principle in IFRS 7 requires an entity to make qualitative and quantitative disclosures that enable users of its financial statements to evaluate the nature and the extent of risks arising from financial instruments to which the entity is exposed at the reporting date, and how the entity has managed them. An entity discloses summary quantitative data about its exposure to each risk arising from its financial instruments at the reporting date. The disclosure is based on information that is provided internally to key management personnel of the entity.	IFRS 7
Concentration risk exposures	Concentrations of risk arise from financial instruments that have similar characteristics; and are affected in a similar manner when there are changes in economic or other conditions. Identifying concentrations of risk is a matter of judgement and therefore an entity discloses: — a description of how management determines concentrations; — a description of the shared characteristics that identify each concentration - e.g. counterparty, geographic area, currency or market; and — the amount of the risk exposure associated with financial instruments sharing that characteristic.	IFRS 7 guidance B8

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Front-end climate reporting

Front-end climate reporting
Governance

Comment: Describing board oversight of climate risks and opportunities

The Governance Code requires discussion of how the board has assessed the sustainability of the company's business model. This may include the board's oversight of climate-related matters - for example, where they affect opportunities and risks, business model sustainability, and strategy. Shareholders' understanding of and confidence in the process by which boards assessed climate-related matters may be particularly important for companies that have identified lower-levels of climate-risk compared to the market perception of sector-exposure.

In promoting the success of the company for the benefit of shareholders, directors are required to consider the impact of their decisions for the long term, and the impact of operations on the community and the environment. Where material, the directors' section 172 statement in the strategic report should describe how these factors have been considered. This might, for example, include consideration of how decisions support the long-term climate resilience of the business and the consideration of the climate impact of its operations.

Where material to shareholders, policies, outcomes, and due-diligence over environmental matters should be addressed in the strategic report. This might be the case for example where the company's activities have an adverse impact on the environment that may make them unsustainable over the longer-term.

Governance - disclosures that may need to address climate-related matters

Aspect	Disclosure Requirement
UK Corporate Governance Code §1.1	The board should assess the basis on which the company generates and preserves value over the long-term. It should describe in the annual report how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the company's business model and how its governance contributes to the delivery of its strategy.
UK Corporate Governance Code §1.5	The board should understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision-making.
Strategic Report: Section 172 Statement[a] Companies Act s414CZA	Section 172 deals with the directors' duty to promote the success of the company for the benefit of shareholders as a whole, having regard to a number of broader matters including the likely consequence of decisions for the long term, and the impact of the company's operations on the community and the environment. The section 172 statement must explain how the directors have had regard to these and the other matters set out in section 172 in performing their duties.
Strategic Report: Environmental matters[b] Companies Act s414CB (1a,2b,2c)	To the extent necessary for an understanding of the company's development, performance and position and the impact of its activity, relating to environmental matters, describe the policies pursued, including due diligence processes implemented in pursuance of those policies, and outcome of those policies. If no matters are relevant, this must be stated.

Note: (a) Applicable to large companies including subsidiaries, irrespective of listing status for periods commencing 1 January 2019. For further detail, see KPMG publication: The Section 172 Statement

(b) Applicable to quoted companies

Front-end climate reporting

Governance (cont.)

TCFD Guidance that may assist with making the disclosures (where material):

TCFD Disclosure	TCFD Guidance[(a)]
1a Describe the board's oversight of climate- related risks and opportunities	Describe the processes and frequency for informing the board and its committees on climate-related issues.
	Discuss how the board and its committees consider climate-related issues when: — Considering strategy, plans, and risk management policy; — Setting performance objectives; — Monitoring implementation and performance; and — Overseeing major capital expenditures, acquisitions, and divestitures. Discuss how progress against goals and targets for climate-related issues is monitored.
1b Describe management's role in assessing and managing climate- related risks and opportunities	Describe any climate-related responsibilities assigned to management-level positions or committees, covering: — Whether the committee or management-level position reports to the board; — The associated organizational structure(s); — The processes by which management is informed about climate-related issues; and — How management monitors climate-related issues.

Other potential disclosures identified FRC's Financial Reporting Lab may also be relevant:

Other potential disclosures identified by the Financial Reporting Lab
— The information used to help the board understand the company's risk profile — Whether the board is preparing for different outcomes where there is uncertainty — How the board gets comfort over the metrics used to monitor and manage relevant issues — The competence and expertise the board feels it needs, or needs access to, in relation to climate-related issues — Whether the board has reviewed its public policy approach to climate-related issues for consistency — Plans for, and progress made in reporting against the TCFD recommendations — Whether the board considers the climate-related reporting to be fair, balanced and understandable

Note: (a) This is a summary, the guidance is available at https://www.fsb-tcfd.org/publications/

Front-end climate reporting

Risks and risk management

Comment: Explaining climate-related risks and how they are assessed

Climate related risks may feature in a number of areas of the front-end report:

— In the first instance, the company's governance discussion may need to address how the board is monitoring for the emergence of climate-related risk. Consideration of systemic risks is given particular emphasis in the FRC's Guidance on the Strategic Report.

— The Companies Act requires discussion of the main trends and factors likely to affect the company's performance or position. This discussion is not limited to short-term factors. Longer term factors must also be considered, taking account of their timing and uncertainty to determine whether the board expects them to affect an investor's assessment of the company (see page 8 on applying materiality to climate information).

— Climate-related principal risks may arise from a number of perspectives, including potential damage to the company's key relationships, changes to law and regulation, and direct impact (see page 6). Where principal risks are identified, the risk discussion should be specific to the nature of the risk identified, so cannot be approached as a box-ticking exercise. In some instances it may be the case that climate risk is a component of a broader risk, for example because it may result in changing customer needs or tendering criteria.

— As with any other principal risk, the strategic report should explain how the risk is being managed, and its possible effects. There may well be significant uncertainties over how climate risk ultimately affects the company. In this case disclosures may best be addressed by providing sufficient business model detail to support shareholders' assessments of potential exposure, rather than on management describing a particular set of potential effects.

Risks - disclosures that may need to address climate-related matters:

Aspect	Disclosure Requirement
UK Corporate Governance Code §4.28	The board should carry out a robust assessment of the company's emerging and principal risks. The board should confirm in the annual report that it has completed this assessment, including a description of its principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated
Strategic Report: Main trends and factors[a] Companies Act s414CB (7)(a) and (7)(b)	Main trends and factors: Describe the main trends and factors likely to affect future development, performance, or position including external matters that have or are expected to affect it (FRC Guidance: §7B.22)
Strategic Report: Risks[a] Companies Act s414CB (2)(d)	To the extent necessary for an understanding of the company's development, performance and position and the impact of its activity, relating to environmental matters, describe the principal risks (s414CB(2d))
	Describe the risks and uncertainties material to the entity's development, performance, position or prospects including systemic risks (FRC Guidance: §7B.31)
	Provide detail explaining why the risk is material including likelihood, circumstances where most relevant, and possible effects (FRC Guidance: §7B.32)
	Describe how each risk is managed (s414CB(2d)) and mitigated (UK Corporate Governance Code: §4.28)

Note: (a) Applicable to quoted companies

Front-end climate reporting

Risks and risk management (cont.)

TCFD Guidance that may assist with making the disclosures (where material):

TCFD Disclosure	TCFD Guidance[a]
2a Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	— Describe the organisation's relevant short-, medium-, and long-term time horizons, taking into consideration the useful life of its assets or infrastructure.
	— Describe the specific climate-related issues potentially arising in each time horizon (short, medium, and long term) that could have a material financial impact on the organization.
	— Describe the processes used to determine which risks and opportunities could have a material financial impact on the organization.
	— Describe the risks and opportunities by sector and/or geography if applicable.
3a Describe the organization's processes for identifying and assessing climate- related risks.	— Describe the risk management processes for identifying and assessing climate-related risks including how the relative significance of climate-related risks is determined.
	— Describe the factors considered including existing and emerging regulatory requirements.
	— Disclose the processes for assessing the potential size and scope of risks, definitions of risk terminology, and references to risk classification frameworks used.
3b Describe the organization's processes for managing climate- related risks	— Describe the processes for managing climate-related risks, covering decisions to mitigate, transfer, accept, or control those risks.
	— Describe the processes for prioritizing climate-related risks, including how materiality determinations are made within their organizations.
3c Describe how processes for identifying, assessing, and managing climate- related risks are integrated into the organization's overall risk management.	— Describe how processes for identifying, assessing, and managing climate-related risks are integrated into their overall risk management.

Other potential disclosures identified FRC's Financial Reporting Lab may also be relevant:

Other potential disclosures identified by the Financial Reporting Lab
— How consideration of climate-related issues is integrated into risk management processes and connected to other related risks

Note: (a) This is a summary, the guidance is available at https://www.fsb-tcfd.org/publications/

Front-end climate reporting

Business model

Comment: The role of business model descriptions in supporting investor assessments of climate-risk

Business model descriptions should provide essential context for the matters raised throughout the strategic report. Information on the business model may be material to shareholders where it supports an assessment of the business's exposure to uncertainties such as those associated with climate related matters.

The FRC's Guidance on the Strategic Report emphasises the importance of explaining the resources and relationships the business depends on as part of the description required by the Companies Act. Features that are subject to potential climate-related disruption are likely to be material.

In determining what to describe, and what detail would be material, companies will need to take account of the exposure of business model features to potential climate disruption (and, conversely, where it provides a competitive advantage). This may, for example, include:

— The identification of key business inputs and sourcing arrangements that may be subject to disruption – 'relationship risks';

— The identification of key operating sites and resources that may be impacted by climate factors – 'direct impact risks'; or

— The identification of products or activities which may be curtailed by climate-related regulation – 'regulatory risks'.

Business model – climate-exposed features that may need to be disclosed:

Aspect	Disclosure Requirement
A description of the business model[a] Companies Act s414C(8)(b) s414CB(2)(a)	Set out the key business activities and processes: Explain how the entity generates and preserves value over the longer term (FRC Guidance: §7B.15). Focus on the business processes that are most important to the generation and preservation of value (FRC Guidance: §7B.17).
Business model detail[a] Guidance on the Strategic Report §7B.18	Set out the key features of the business: — How the entity is structured; — Its markets and how it engages with those markets; — Main products/services; — Main (categories of) customers and distribution methods; and — How the entity makes itself different from, or on the basis on which it competes, with its peers. (FRC Guidance: §7B.18) Provide sufficient granularity that the impact of matters raised elsewhere in the report can be understood
Resources & relationships[a] Guidance on the Strategic Report §7B.16	Address the key resources and relationships that support the generation and preservation of value (FRC Guidance: §7B.16) - i.e. those that are key to the ongoing success of the business.

Note: (a) Applicable to quoted companies

Front-end climate reporting

Business model (cont.)

TCFD Guidance that may assist with making the disclosures (where material):

TCFD Disclosure	TCFD Guidance[(a)]
2b Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	Address the impact on the business and strategy in the following areas: — Products and services; — Supply chain and/or value chain; — Adaptation and mitigation activities; — Investment in research and development; and — Operations (including types of operations and location of facilities)

Note: (a) This is a summary, the guidance is available at https://www.fsb-tcfd.org/publications/

Front-end climate reporting
Strategy

Comment: Explaining strategic responses to climate-related factors

The FRC's guidance on describing company strategy emphasises that it should cover both shorter and longer-term aspects of strategy. The guidance provides a structured approach built around the achievement of the company's purpose to support this. So, information on strategy may be material where it addresses shorter-term factors (for example the company's strategy for managing a climate-stressed asset), and longer-term factors that affect the achievement of the company's purpose (for example, where they may necessitate a redirection of the company's business model).

Where the company has identified material climate risks or opportunities it is likely that shareholders will need information on the company's strategy for responding to them. TCFD guidance may assist in explaining how climate-related factors are incorporated into the strategy setting process.

Strategy - disclosures that may need to address climate-related matters:

Aspect	Disclosure Requirement
A description of the strategy[(a)] Companies Act s414C(8)(a)	— **Purpose**: Why the entity exists; (FRC Guidance:§7B.8) — **Objectives**: Objectives the entity intends to achieve in pursuit of its *purpose*, allowing shareholders to assess the appropriateness of the strategy (FRC Guidance:§7B.9) — **Strategy**: How the business model is planned to be developed to meet the objectives (FRC Guidance:§7B.12) — Give due regard to the short-, medium- and long term implications of the fact or circumstance being described (FRC Guidance:§6.13)

Note: (a) Applicable to quoted companies

Front-end climate reporting
Strategy (cont.)

TCFD Guidance that may assist with making the disclosures (where material):

TCFD Disclosure	TCFD Guidance[a]
2b Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	Describe how climate-related issues serve as an input to financial planning, the time period(s) used, and how these risks and opportunities are prioritized. Address the impact on financial planning in the following areas: — Operating costs and revenues — Capital expenditures and capital allocation — Acquisitions or divestments — Access to capital
	Describe any climate-related scenarios used to inform the organization's strategy and financial planning.

Other potential disclosures identified FRC's Financial Reporting Lab may also be relevant:

Other potential disclosures identified by the Financial Reporting Lab
— What does the company look like in the future and how will it generate value? — What opportunities and risks are most relevant to the business model and strategy? — Whether the company has considered the impact of low-carbon transition as well as physical risk? — What are the possible effects on the company's revenues, expenditures, assets, liabilities, products, customers and suppliers? — How does the information gathered factor into strategic planning? — Are there opportunities to better explain exposure to particular product lines or 'green' revenue? — How are the risks and opportunities reflected in the financial statements – e.g. the effect of assumptions used in impairment testing, financial risk disclosures, etc.?

Note: (a) This is a summary, the guidance is available at https://www.fsb-tcfd.org/publications/

Front-end climate reporting

Performance

Comment: Reporting on progress managing climate-related matters

The Companies Act requires the strategic report to include non-financial (i.e. operational) KPIs that address matters relevant to understanding the company's development, performance and position. FRC guidance emphasises that this should include KPIs relevant to understanding the company's prospects.

Where a climate-related matter has been identified as a principal risk, a main trend or factor, or a strategic priority, it is likely that KPIs on progress in managing the matter will be relevant. The Companies Act also requires KPIs that address the impact of the company's activity. As with other aspects of the strategic report, measures should be included where relevant to shareholders. Climate-related impacts may be relevant, for example, where the company is exposed to relationship and reputational risks because of its activities.

There are a number of frameworks and guidance on reporting climate-related performance which may help companies identify shareholder-relevant metrics that may need to be reported.

Companies can also find they are being asked by ratings agencies to disclose climate-related performance measures. Nevertheless, the KPIs in the strategic report should be those relevant to a shareholder's assessment of the company's specific circumstances. For example, if only one part of the business is affected by a climate-related issue it would not be helpful, and may be misleading to report a business-wide measure. Information relevant to other report users may, for example, be included in separate sustainability reports.

KPIs - disclosures that may need to address climate-related matters:

Aspect	Disclosure Requirement
Strategic Report: KPIs[a] Companies Act s414C(4)(b)/s414CB(2)(e)	Provide KPIs addressing matters relevant to an understanding of the entity's development, performance, position (s414CB(2)(e)) and indicators of future prospects. (FRC Guidance: §7B.70) To determine which non-financial measures to include, first identify the matters material to the business, then determine the information required to support an understanding of each. (FRC Guidance: §5.11)
	The KPIs provided should address: — Progress against objectives and strategy (FRC Guidance: §7B.69) — Progress in managing principal risks and opportunities (FRC Guidance: §7B.70) — Matters affecting long term sustainability including the impact of activities (FRC Guidance: §7B.70)

Note: (a) Applicable to large companies

Front-end climate reporting

Performance (cont.)

TCFD Guidance that may assist with making the disclosures (where material):

TCFD Disclosure	TCFD Guidance[a]
4a Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	— Provide the key metrics used to measure and manage climate-related risks and opportunities, including those related to water, energy, land use, and waste management. Metrics should allow for trend analysis, and include a description of the methodologies used to calculate or estimate the metric. — Describe whether and how related performance metrics are incorporated into remuneration policies. — Provide internal carbon prices if applicable. — Provide climate-related opportunity metrics such as revenue from products and services designed for a lower-carbon economy.
4c Describe the targets used by the organization to manage climate- related risks and opportunities and performance against targets.	— Describe key climate-related targets such as those related to GHG emissions, water usage, energy usage, etc., in line with anticipated regulatory requirements or market constraints or other goals, such as: – Efficiency or financial goals; – Financial loss tolerances; – Avoided GHG emissions through the entire product life cycle; and – Net revenue goals for products and services designed for a lower-carbon economy. — Consider addressing whether the target is absolute or intensity based, time frames over which the target applies, base year from which progress is measured, and key performance indicators used to assess progress against targets. — Where not apparent, organizations should provide a description of the methodologies used to calculate targets and measures.

Other potential disclosures identified FRC's Financial Reporting Lab may also be relevant:

Other potential disclosures identified by the Financial Reporting Lab
— Whether the company has a strategy with related metrics to set the company on a course to net-zero carbon by 2050? — What signals or specific climate scenarios are monitored? — The scope and boundary of the information presented, and whether this is consistent across all information presented. — The level of oversight or assurance over metrics presented — The external data or external expertise the company has relied on — The methodology used for constructing metrics, whether it is comparable to other companies in the sector, and whether metrics are calculated consistently and trend data provided

Note: (a) This is a summary, the guidance is available at https://www.fsb-tcfd.org/publications/

Front-end climate reporting
Viability

Comment: Describing climate-related considerations in the viability assessment

Directors' viability assessments typically cover a period of 3-5 years, though it is good practice to describe how the directors monitor and consider longer-term factors. For a 3-5 year time horizon, it may be that the most likely climate-related factors affecting the directors' assessment are those affecting the company's relationships (for example reputational damage) or regulatory risks (leading to curtailment of activities). Depending on circumstances, assessments may need to take account that regulatory change may happen relatively quickly, and even the possibility of change may have consequences for the company's ability to access finance.

TCFD recommendations include the disclosure of climate-related scenario analysis. The uncertainties surrounding regulatory responses and whether climate-costs are borne by producers or consumers can lead to a very wide range of potential outcomes even where the TCFD's 2°C or lower scenario is used. In this context, where the presentation of a climate-related scenario is considered appropriate, sufficient detail on how the scenarios have been applied should be provided such that the potential outcomes described are not misleading.

Viability - disclosures that may need to address climate-related matters:

Aspect	Disclosure Requirement
Governance Code §4.31	Taking account of the company's current position and principal risks, the board should explain in the annual report how it has assessed the prospects of the company, over what period it has done so and why it considers that period to be appropriate. The board should state whether it has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.
See also the disclosures required in relation to the directors' section 172 statement.	

Front-end climate reporting

Viability (cont.)

TCFD Guidance that may assist with making the disclosures (where material):

TCFD Disclosure	TCFD Guidance[a]
2c Describe the resilience of the organization's strategy, taking into consideration different climate- related scenarios, including a 2°C or lower scenario.	Describe how resilient the company's strategies are, taking into consideration a transition to a lower-carbon economy to support a 2°C[b] or lower scenario and, where relevant, scenarios consistent with increased physical climate-related risks.
	Discuss how strategies may be affected by climate-related risks and opportunities, and how they might change to address this. Discuss the climate-related scenarios and associated time horizon(s) considered.

Other potential disclosures identified FRC's Financial Reporting Lab may also be relevant:

Other potential disclosures identified by the Financial Reporting Lab
— The signals or leading indicators that might encourage a reassessment of business model viability. — How the company determined which scenarios to include and whether these relate to outcomes advocated by the Paris Agreement? — How the company translated climate scenarios to financial models and whether the scenario analysis is used in strategic planning?

Note: (a) This is a summary, the guidance is available at https://www.fsb-tcfd.org/publications/

(b) The TCFD recommendations state that: *'A 2° Celsius (2°C) scenario lays out an energy system deployment pathway and an emissions trajectory consistent with limiting the global average temperature increase to 2°C above the pre-industrial average.'* The recommendations do not propose a specific 2°C scenario for consideration by organisations

Front-end climate reporting

Greenhouse gas disclosure

Comment: Making greenhouse gas disclosures

In general, the Companies Act requires information on greenhouse gas disclosures to be included in the directors' report. This information is required irrespective of materiality, though there are exemptions applicable for periods commencing 1 April 2019 for lower energy consumers and for qualifying entities in terms of size.

UK Government guidance[a] references the Greenhouse Gas Protocol as a source of guidance for calculating emissions (for example, it addresses how to calculate group-wide emissions, and the boundaries between scope 1 (direct emissions), scope 2 (indirect emissions from purchased electricity), and scope 3 (indirect emissions from the production of purchased materials)).

Greenhouse gas disclosure requirements:

Aspect	Disclosure Requirement
Greenhouse gas disclosures Accounts and Reports Regulations: Part 7, Schedule 7	Where practical, companies must disclose carbon dioxide emissions attributable to activities that the company is responsible for including the combustion of fuel and the operation of facilities. Disclosures are required irrespective of materiality and include the use of fuel, operation of facilities, and attributable to the purchase of electricity, heat, steam, or cooling, together with an applicable activity ratio.
Amended greenhouse gas disclosures Streamlined Energy and Carbon Reporting (SECR) Statutory Instrument: 2018/1155	Amendments to the above disclosure requirements apply for periods commencing 1 April 2019: — Exemptions are introduced for companies consuming <40,000kWh of energy — Disclosure requirements are extended to large unquoted companies (with exemptions for subsidiaries included in group reports) — Companies must also disclose: - Energy consumed in kWh - The proportion relating to the UK - Measures taken to enhance energy efficiency

Note: (a) HM Government: Environmental reporting guidelines: including Streamlined Energy and Carbon Reporting requirements

Front-end climate reporting

Greenhouse gas disclosure (cont.)

TCFD Guidance that may assist with making the disclosures (where material):

TCFD Disclosure	TCFD Guidance[a]
4b Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	— Provide Scope 1 and Scope 2 GHG emissions and, if appropriate, Scope 3 GHG emissions and the related risks, calculated using the GHG Protocol methodology. Provide related, generally accepted industry-specific GHG efficiency ratios. — GHG emissions and metrics should allow for trend analysis. — Provide a description of the methodologies used to calculate or estimate the metrics.

Note: (a) This is a summary, the guidance is available at https://www.fsb-tcfd.org/publications/

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