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Current Sector Developments ESG & Sustainability

Regulatory Perspective

October 2023

Now, for tomorrow



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About Us

A new perspective on sustainability
and ESG. Our guiding principle:
'Purpose, with Profit'



Corporate sustainability
doesn't have to come
at the cost of corporate
profitability.

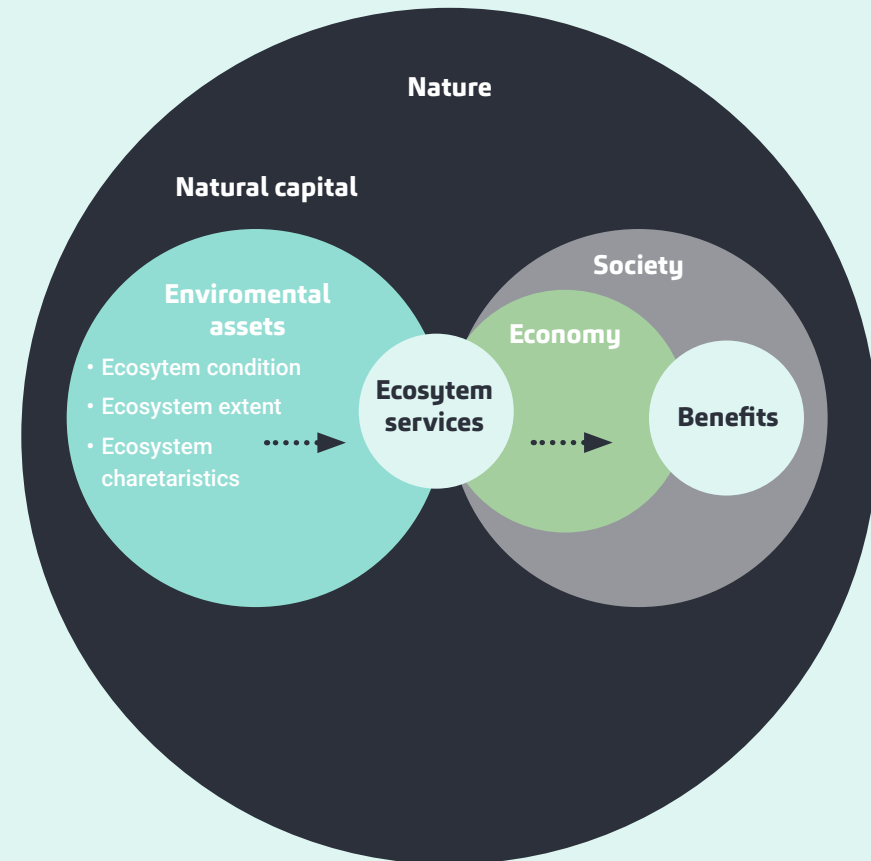
Mark J Lumsdon-Taylor
MHA Sustainability Partner

Taskforce for Nature-related Financial Disclosures

Launched at New York Climate Week in late September 2023, TNFD seeks to address nature-related disclosures in annual reports using the same four pillars as TCFD and IFRS sustainability disclosure standards.

TNFD has not yet been 'endorsed' by national governments or standard-setters, although the IFRS Foundation, EFRAG and other bodies have welcomed its publication. We expect TNFD to be formally endorsed by key regulators at COP 28 in Dubai (30 November – 12 December 2023).

TNFD introduces the following concepts/models for disclosures and, unlike TCFD, prioritises discussion of the interactions between the entity and the 'environmental assets' it interacts with:



TNFD recommendations

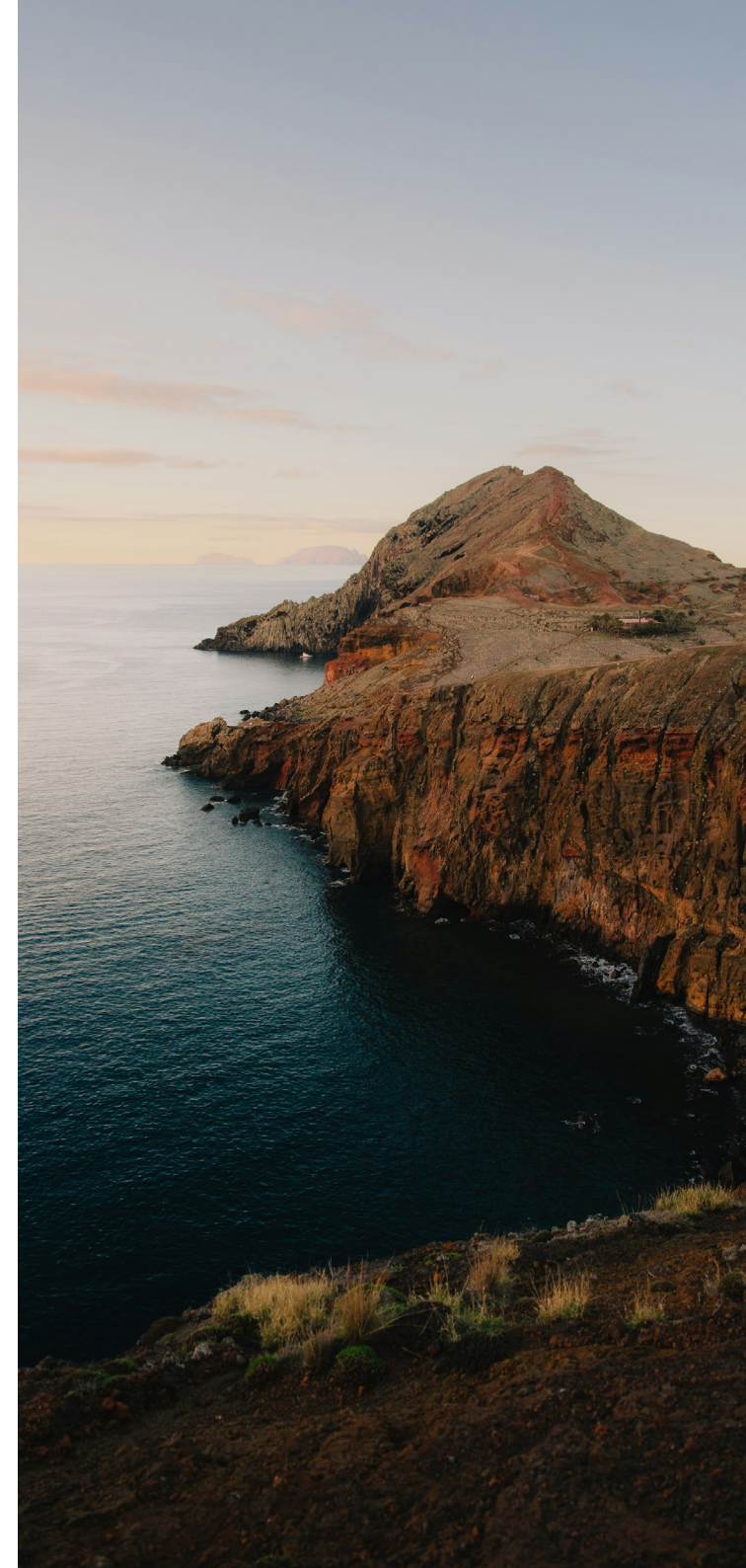
Specifically, TNFD recommends the following disclosures, which are supplemented by extensive additional guidance:

Governance	Strategy	Risk and impact management	Risk and impact management
<p>Disclose the organisation's governance of nature-related dependencies, impacts, risks and opportunities.</p>	<p>Disclose the effects of nature-related dependencies, impacts, risks and opportunities on the organisation's business model, strategy and financial planning where such information is material.</p>	<p>Describe the processes used by the organisation to identify, assess, prioritise and monitor nature-related dependencies, impacts, risks and opportunities.</p>	<p>Describe the processes used by the organisation to identify, assess, prioritise and monitor nature-related dependencies, impacts, risks and opportunities.</p>
<ul style="list-style-type: none"> • Description of the Board's oversight of nature-related dependencies, impacts, risks and opportunities • Management's role in assessing and managing nature-related dependencies, impacts, risks and opportunities • Human rights policies and engagement activities, and oversight by the board and management, with respect to Indigenous Peoples, Local Communities, affected and other stakeholders, in the organisation's assessment of, and response to, nature-related dependencies, impacts, risks and opportunities 	<ul style="list-style-type: none"> • Nature-related dependencies, impacts, risks and opportunities the organisation has identified over the short, medium and long term • Description of the effect these dependencies, impacts, risks and opportunities have had on the organisation's business model, value chain, strategy and financial planning, as well as any transition plans or analysis in place • Resilience of the organisation's strategy to nature-related risks and opportunities, taking into consideration different scenarios • Locations of assets and/or activities in the organisation's direct operations and, where possible, upstream and downstream value chain(s) that meet the criteria for priority locations 	<ul style="list-style-type: none"> • Processes for identifying, assessing and prioritising nature-related dependencies, impacts, risks and opportunities in its (i) direct operations and (ii) upstream and downstream value chain(s) • Processes for managing nature-related dependencies, impacts, risks and opportunities • Description of how the above processes are integrated into and inform the organisation's overall risk management processes 	<ul style="list-style-type: none"> • Metrics used to assess and manage material nature-related risks and opportunities in line with organisation's strategy and risk management process • Metrics used by the organisation to assess and manage dependencies and impacts on nature • Targets and goals used by the organisation to manage nature-related dependencies, impacts, risks and opportunities and its performance against these.

FRC thematic review into TCFD (July 2023): sector-specific findings

Improvements specific to Ferrexpo's sector include:

- Providing a clear link between metrics reported and the climate-related risks and opportunities outlined, with greater use of cross-referencing through the annual report
- Clear explanations of how emissions are generated in manufacturing process, and how this varies for different products/segments
- Disclosing how risks and opportunities vary across the product mix
- Reporting climate-related metrics along side other KPIs, with cross-referencing between TCFD disclosures and rest of annual report
- Increase disclosures on R&D activity and potential impacts of carbon pricing, physical risks and opportunities
- Consider metrics stated in SASB Climate Risk Technical Bulletin (April 2021)
- Where some scope 3 emissions categories excluded, consider the impact of this on the statement of consistency with TCFD and provide timeframe for full scope 3 disclosure
- Show connectivity between climate risks identified in the front half (e.g. physical and transition risks) and the extent these are reflected in the financial statements
- Explain why certain targets do not have a material impact where investors may reasonably expect them to



UK Endorsement Board papers on connectivity

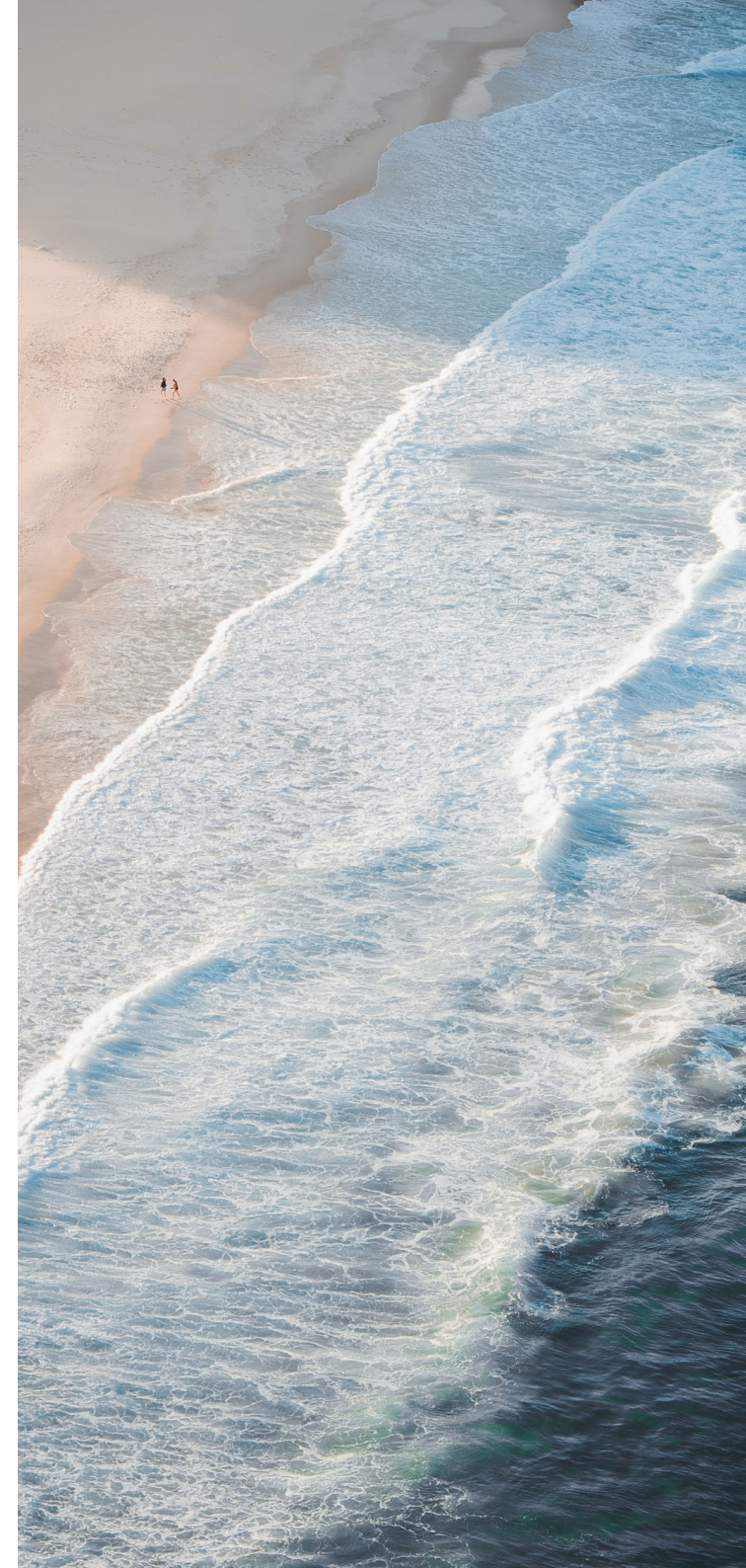
UKEB published two research reports in July 2023 and September 2023 on the connectivity and inconsistencies between matters disclosed in the front half of annual reports and the financial statements. Common themes identified centred on:

- **Connectivity** between climate-related narrative disclosures and the financial statement disclosures
- An increase in the frequency, but not **quality**, of climate-related disclosures
- Lack of **transparency** over the use/impact of climate-related matters in accounting estimates and judgements

Key areas of concern included:

- **PPE and intangible assets:** reduced estimates of remaining asset lives due to retiring carbon-intensive PPE earlier than expected; impact of climate risks and emissions reduction targets on remaining UEL and residual values; linkage between climate-related matters and identifying indicators of impairment / determining fair value / recoverable amount; visibility of material research costs expensed and newly capitalised development assets

- **Commitments, contingencies and provisions:** climate risks resulting in accelerated asset retirement obligations/timelines; reduction in UEL of asset scheduled for retirement may cause liability to be recognised in full earlier than scheduled
- **Emissions reduction targets:** explaining the extent to which targets have been reflected in the financial statements; understanding whether emissions targets (and the steps to achieving them) had been fully considered in the assumptions and estimates used in preparing the financial statements
- **Accounting for offsetting and carbon costs:** providing quantitative disclosures of amounts within financial statement captions where offsetting / carbon costs are material
- **Deferred tax assets:** consideration of climate risk on future profitability in assessing recoverability
- **Debt:** disclosure of climate-related / sustainability-linked debt and interest rate triggers linked to target achievement.



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