

ESG Report & Regulation Regulatory Reporting



Now, for tomorrow



An independent member of

bakertilly
INTERNATIONAL

Regulatory Reporting

SEC

The US Securities and Exchange Commission (SEC) issued a proposed rule on climate-related disclosures for publicly-listed companies in March 2021 (refer to SEC.gov SEC Proposed Rules to Enhance and Standardize Climate-Related Disclosures for Investors).

If enacted, the rule would require companies to describe their governance, strategy and risk management in relation to climate change in ways similar to those recommended by the Task Force on Climate-related Financial Disclosures (TCFD).

The information would have to be included in companies' registration statements, annual reports and other filings.

NFRD

Non-Financial Reporting Directive (NFRD) has been implemented in the UK through company law. It applies to large public-interest entities with more than 500 employees.

Companies in scope are required to disclose information in their annual reports on environmental, social and employee matters, respect for human rights, anti-corruption and bribery.

SECR

Streamlined Energy and Carbon Reporting (SECR) requires all large UK companies and large LLPs, as well as quoted companies, to report on their annual energy use, greenhouse gas emissions and the energy efficiency actions they have taken. SECR will impact any companies, LLPs and groups that exceed at least two of the following three thresholds in the preceding financial year:

- £36m of annual turnover
- £18m balance sheet total
- 250 employees

ESOS

Energy Savings Opportunity Scheme (ESOS) is a mandatory energy assessment scheme for large organisations in the UK. Organisations in scope of the scheme need to carry out audits of the energy used by their buildings, industrial processes and transport every 4 years, and identify cost-effective energy saving measures.

For the qualification date for the third compliance period (31 December 2022), a large undertaking is any UK company that either:

- Employs ≥ 250 employees;
- £44m of annual turnover
- £38m balance sheet total

ESG Disclosures overview

TCFD & Net Zero transition plans

Under the UK's mandatory climate-related financial disclosures framework, many of the country's largest private businesses (with financial periods on or after 6 April 2022) with over 500 employees and £500m in turnover must publish information consistent with TCFD 4 pillars and 11 recommended disclosures. We support clients in this journey regarding how the regulation impacts the preparation of the financial statements (including supporting the development of transparent transition plans with interim milestones and support for the quantification and translation of material ESG risk within the back-end information such as impact of Scope 1 emissions commitments on UEL of tangible assets) to support clients' commitment to be a net zero business by 2050.

Carbon accounting

There is no information regarding the methodology on Scope 3 emissions and documentation with information as to the boundary of emissions and scope (note: Net Zero = Scope 1 + Scope 2 + Scope 3 – if no Scope 3 disclosures this can be considered as 'greenwashing'; overoptimistic climate commitments = 'green wishing')

Other

There is no information as to which ESG risks should be considered as principal risks and/or emerging risks. We support clients in developing disclosures on Board ESG oversight (including adequate competency). The risks and disclosures are overseen by specialist teams in the business'.

Other legal reporting requirements required for client entities are SECR and ESOS for which we can provide assurance.



ESG Disclosures overview

Expectation from investor groups (Paris aligned accounts)

- Net zero ambition date should be set relative to the most granular, ambitious, science-based 1.5°C decarbonisation pathway available for the sector.
- Material Scope 3 emissions should be included in net zero commitments.
- Targets should cover at least 95% of Scope 1 and Scope 2 emissions (additional disclosure should include sites covered by this target).
- Companies should set separate short-term, medium-term and long-term targets that are consistent with a net zero pathway and cover all material emissions.
- Targets should be set for the firm's most material Scope 3 emissions and be explicit about which emissions the target applies to.

- Targets should specify whether emissions are accounted for under the operational, financial or equity share approach.
- Setting either absolute or intensity science-based targets is acceptable. Target baselines are representative of the business.

Other considerations: striving to be a net zero business by 2050.

The results from the first company assessments found that 52% of companies had set 2050 net zero targets in some form, 87% had board-level oversight of climate change and 72% had committed to align their disclosures with TCFD recommendations.

However, overall, no company performed at a high level across all indicators and there were clear gaps around short-term and medium-term targets, Scope 3 emissions and aligning capex with a 1.5°C global warming scenario (source: ClimateAction-100-2021-Progress- Update-Final.pdf(climateaction100.org))



What is GHG emissions reporting?

What is required?

Consideration	ISSB	EFRAG	SEC
Scopes 1 and 2?	Yes	Yes	Yes
Scope 3?	Yes	Yes	Yes, if material or included in targets
Basis for organisational boundaries	Consistent with GHG Protocol	Consistent with the financial statements, but expanded to cover the broader value chain (including associates)	Consistent with the financial statements based on control and share of equity-method investees (associates)
Intensity metrics?	Yes, based on a unit of output for each of scopes 1, 2 and 3	Yes, energy consumption. Based on net turnover for the total of scopes 1,2 and 3 in 'high climate impact sectors	Yes, based on revenue and a unit of production for the total of scopes 1 and 2, and separately for scope 3 (if included)
Disclose targets?	Yes	Yes, based on Paris Agreement	Yes, if used

Key contacts

Mark Lumsdon-Taylor

Audit Assurance Advisory

E: Mark.Lumsdon-Taylor@mha.co.uk

Ruby Schofield

Audit and Advisory

E: Ruby.Schofield@mha.co.uk

Anne Walton

Internal ESG and Advisory

E: Anne.Walton@mha.co.uk

David Hall

ESG Advisory

E: David.Hall@mha.co.uk

mha.co.uk

MHA is the trading name of MacIntyre Hudson LLP, a limited liability partnership, registered in England with registered number OC312313. A list of partners' names is open for inspection at its registered office, The Pinnacle, Building A, 150-170 Midsummer Boulevard, Milton Keynes, MK9 1FD.

MHA is an independent member of Baker Tilly International Limited, the members of which are separate and independent legal entities. Arrandco Investments Limited is the registered owner of the UK trade mark for the name Baker Tilly. The associated logo is used under licence from Baker Tilly International Limited. Further information can be found via our website <https://www.mha.co.uk/terms-and-conditions>

Now, for tomorrow

