

An aerial photograph of a large concrete dam spanning a river. The river is a vibrant turquoise color, likely due to glacial silt. The surrounding landscape is a dense, dark green forest. A road and some buildings are visible on the right bank of the river. The text is overlaid on the left side of the image.

FD Update: Accounting for ESG

September 2024

Now, for tomorrow



An independent member of
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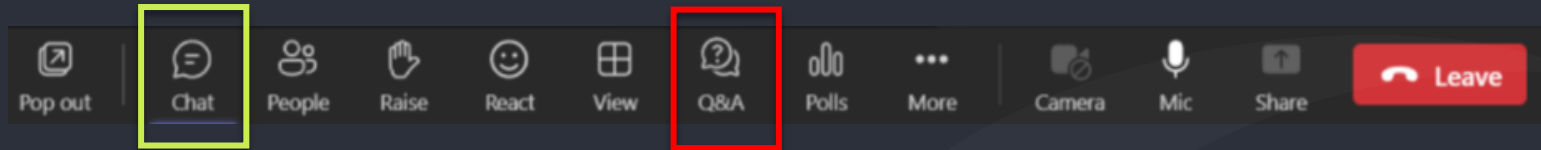
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Thank you for joining us

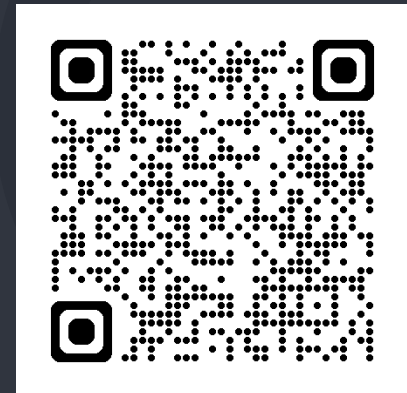


A copy of the slides has been sent to you this morning, are available to download from our website, via the QR code here, or via the link in the **Chat**, where you will find other useful information.

Please use the **Q&A** to ask any questions. We will do our best to answer them during the webinar or will raise it on your behalf during the Q&A at the end with all of our presenters – so don't go away!

Any outstanding questions (not asked anonymously) will be responded to directly.

Please keep your microphone muted & camera off.



Feedback & CPD Certificates

This is a CPD Course and provides 1 hour of relevant CPD.

Please use our feedback form to request your CPD certificate for attending. Certificates will be sent out **by the end of November**, once your attendance has been verified.

We appreciate all feedback, which helps us to plan future events to ensure they meet your needs.

The recording from today's webinar will also be available in the next couple of weeks.

www.surveymonkey.com/r/ESGupdateSep24

Our Speakers



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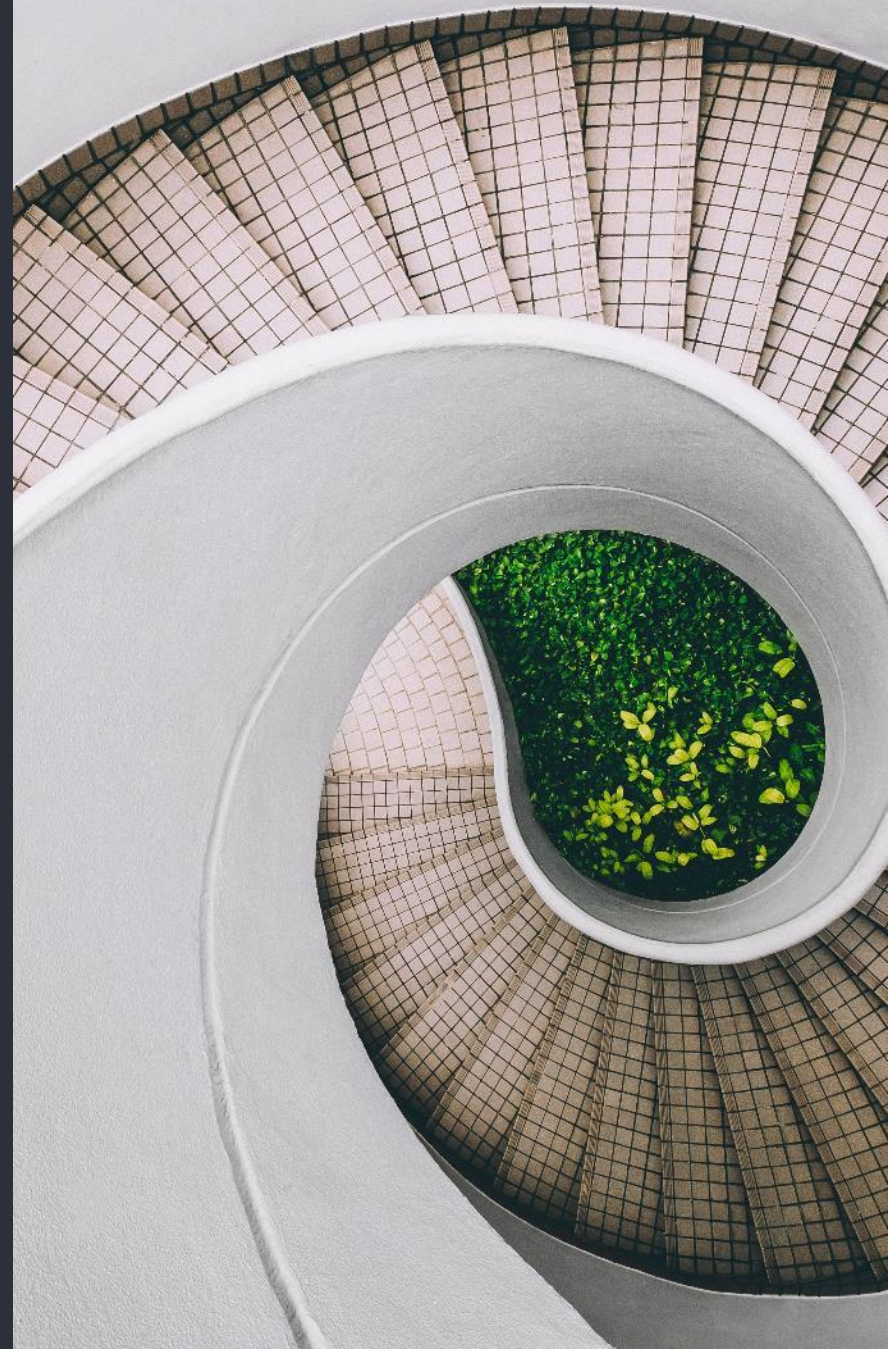
Tim Dee-McCullough
Sustainability & ESG Technical Director

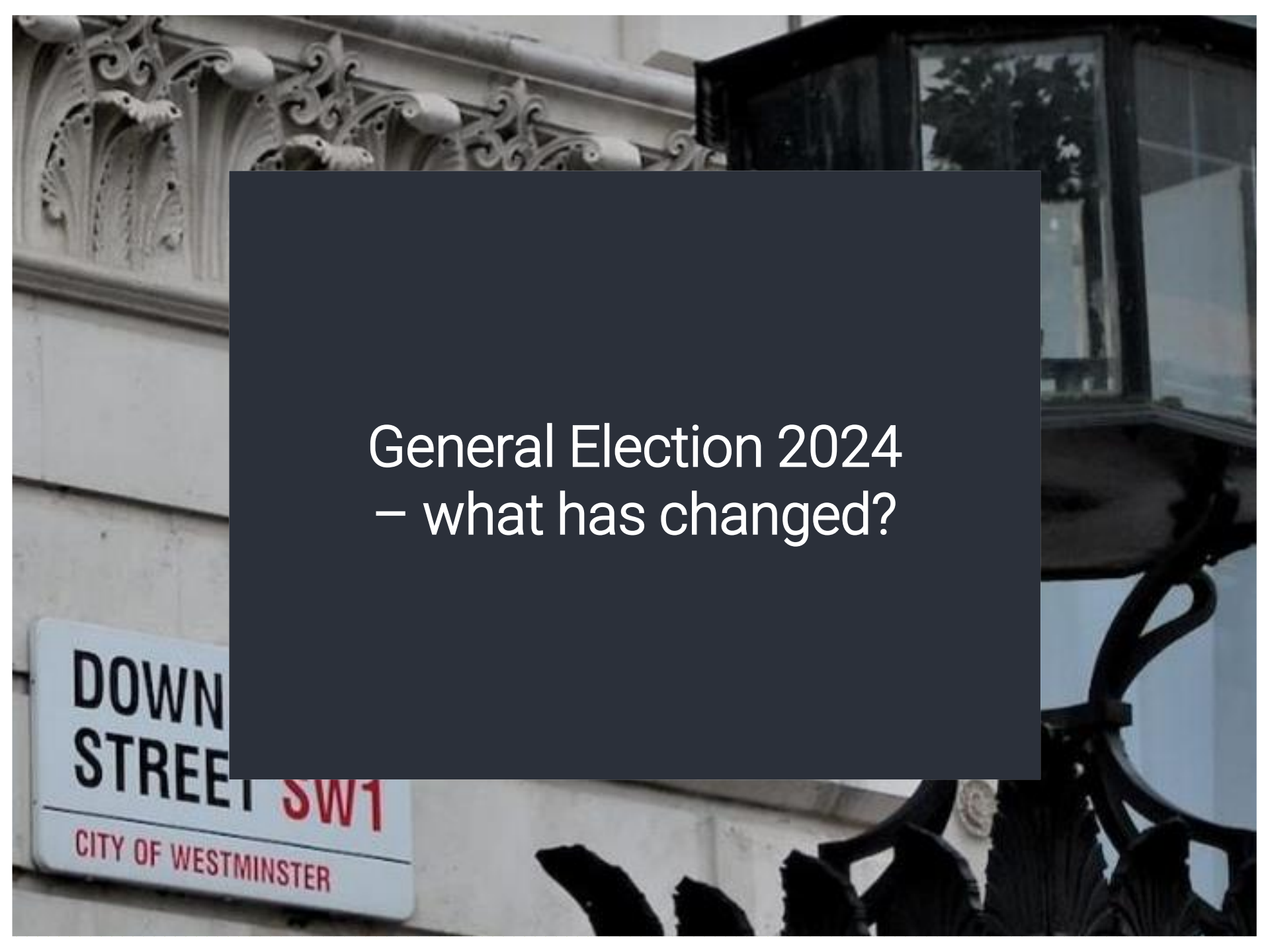
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Poll Question

Where is your organisation with ESOS compliance?

- We fully complied before the July and August deadlines
- We're not in scope, and don't expect to be in scope
- We haven't registered yet, but we breach the thresholds
- Don't know / never heard of ESOS



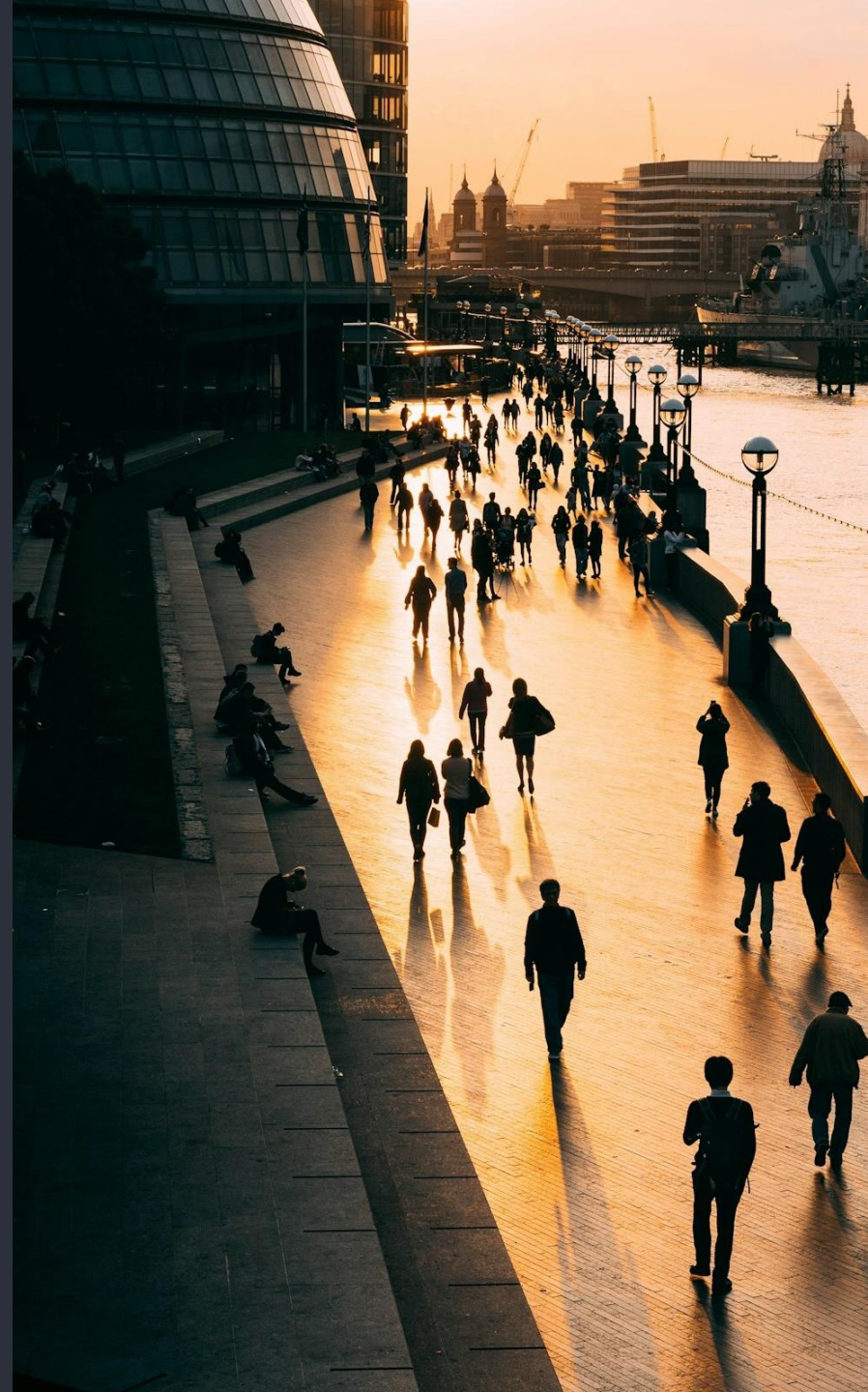


General Election 2024 – what has changed?

**DOWN
STREET SW1**
CITY OF WESTMINSTER

...Not a lot (unless you're a landlord)

- Environment Agency has found its teeth on ESOS
- Rental properties to require EPC 'C' rating before they can be sub-let – climate risk impact on financials
- No visible acceleration of UK Sustainability Disclosure Standards
- We expect any new announcements to be made via the Autumn Budget Statement



Energy Savings and Opportunities Scheme (ESOS)

Scoping

- >250 employees
- Revenue >£44m and gross assets >£38m

Determined at UK entity level

'One in, all in' – if one UK entity breaches the thresholds, all UK entities of that group are in scope

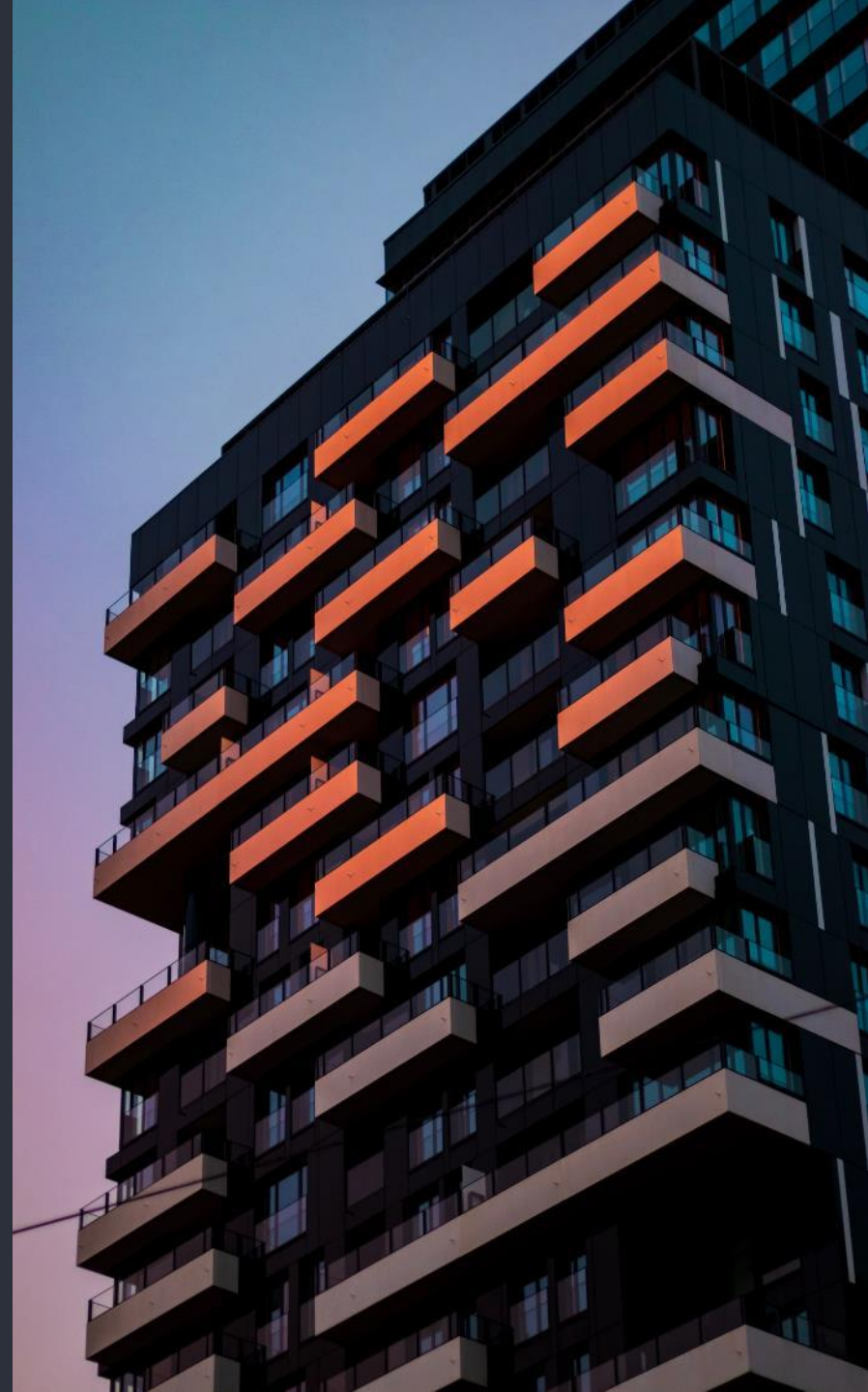
UK energy consumption: businesses with <40Mwh annual consumption must still register but do not need to appoint a “lead assessor”

Environment Agency enforcement letters

- Sporadic approach, largely driven by most recent financial statements lodged with Companies House
- EA staff do not always know the difference between consolidated and solus financials
- Legislation is itself vague in several areas and will likely need to be tested by the courts
- FE/HE colleges in receipt of public funds – tuition fees regarded as ‘commercial income’ so could be in scope

EPC 'C' rating requirement for rental properties – accounting for climate risk

- Scope of requirement expected to include both private and social housing
- Impact on valuation of properties, where carried at fair value / revaluation method - are the properties lettable?
- Impact on valuation of goodwill / associated intangibles – reduction in rental income while work carried out
- Impact on going concern – can the organisation sustain the costs of compliance and/or reduction in rental income?




Poll Question

Is your organisation ready for climate-related financial disclosures?

- Yes, we already prepare disclosures under the TCFD or Companies Act
- No, but we plan to do so
- No, we have never considered this





Update on UK Sustainability Disclosure Standards (UK SDS)

Background

- LSE Main Market groups already subject to TCFD framework
- Larger groups (>£500m revenue and >500 employees, or just >500 employees for AIM registrants) already subject to Companies Act version of requirements
- ISSB published its inaugural standards in July 2023:
 - IFRS S1 *General Requirements for Sustainability-related Financial Information*
 - IFRS S2 *Climate-related Disclosure*
- Sunak government assigned responsibility for endorsement / amendment to the UK Endorsement Board (UKEB)
- Announced in May 2024 that UK version of ISSB standards (UK SDS) expected to be issued as final in Q1 2025
- Applicability of UK SDS to UK organisations to be confirmed in Q2 2025



Our predictions for UK SDS

- Expected to replace TCFD in the UK Listing Rules for LSE Main Market registrants
- Could replace Companies Act requirements for AIM-listed or large private groups
- Not expected to be mandatory for other groups initially *however* we consider it is only a matter of time




Companies Act requirements (section 414CB)

Companies Act 2006 requirements – section 414CB(2A)	Indicative TCFD Pillar Mapping
(a) A description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities;	Governance
(b) A description of how the company identifies, assesses, and manages climate-related risks and opportunities; (c) A description of how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management process;	Risk
(d) A description of: I. The principal climate-related risks and opportunities arising in connection with the company's operations, and II. The time periods by reference to which those risks and opportunities are assessed; (e) A description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy; (f) An analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios;	Strategy
(g) A description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets; and	Metrics
(h) A description of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based.	

First year of UK CFD – common issues

- Businesses were largely unprepared and in many cases their board did not discuss climate-related risks prior to year end
- Very few businesses invested in scenario analysis
- High number of businesses disclosed only parts (a) to (d), stating that requirements (e) to (h) “were not relevant to understand their business” – this is a particular concern for ‘high intensity’ sectors such as construction
- Some businesses embraced the issues and thoroughly explored the impact of climate risk on their business
- Some businesses went overboard – one building society gave 48 pages



Preparing for the Corporate Sustainability Reporting Directive (CSRD)

CSRD scope

Large companies meeting 2 of 3 criteria:
Revenue > €50m
Gross assets > €20m
>250 employees

Non-EU groups with an EU-registered subsidiary or branch, EU revenue > €150m

2024

2025

2026

2028

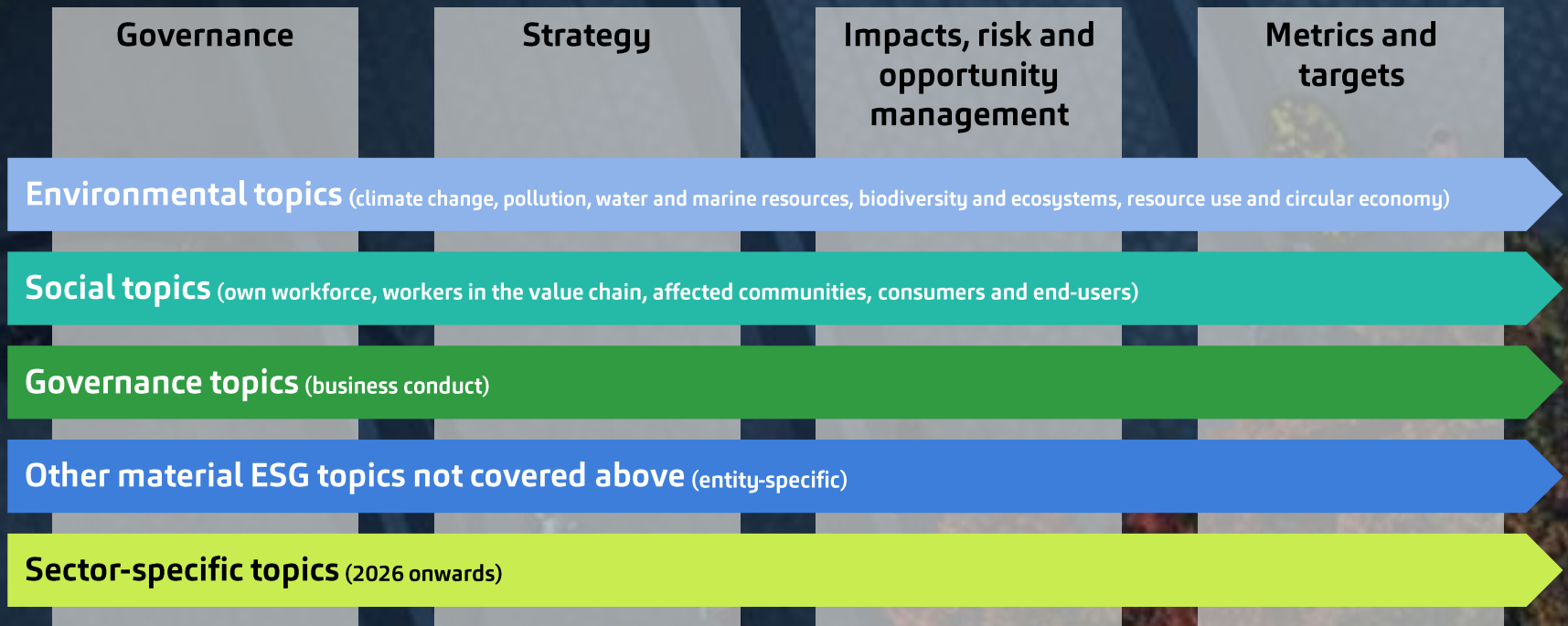
Largest PIEs in EU,
with >500 employees

Listed SMEs, small and non-complex
financial institutions, captive
(re)insurance entities

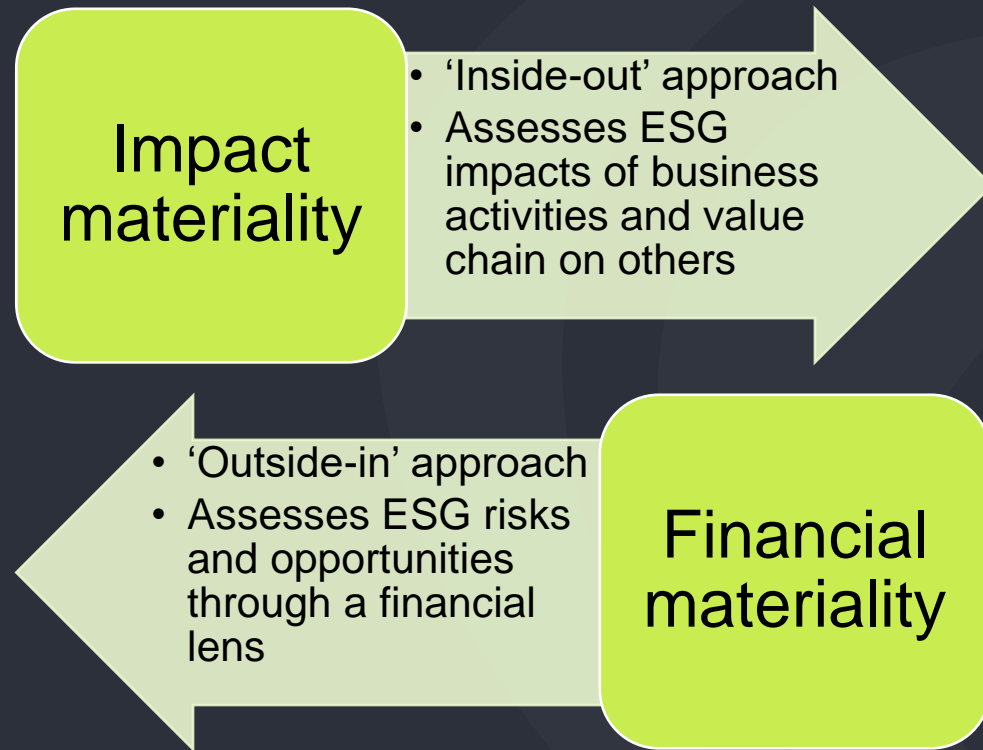


European Sustainability Reporting Standards (ESRS)

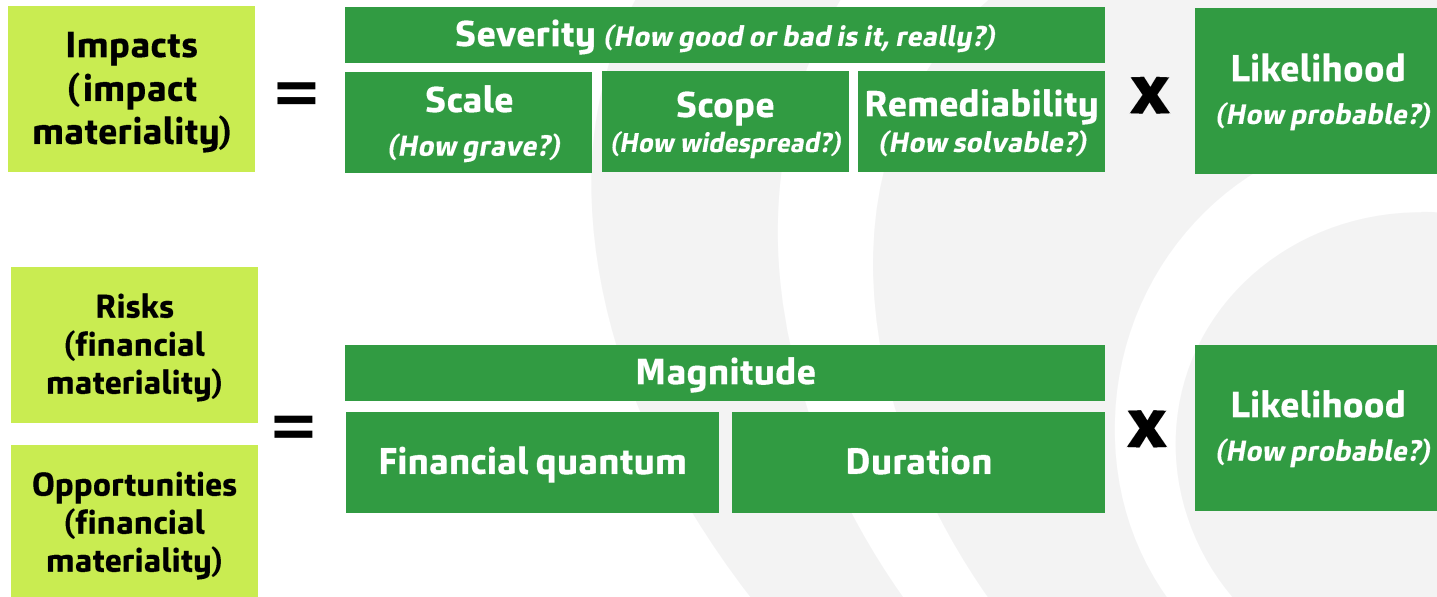
Consistent framework across topics along 4 pillars



Double materiality assessment



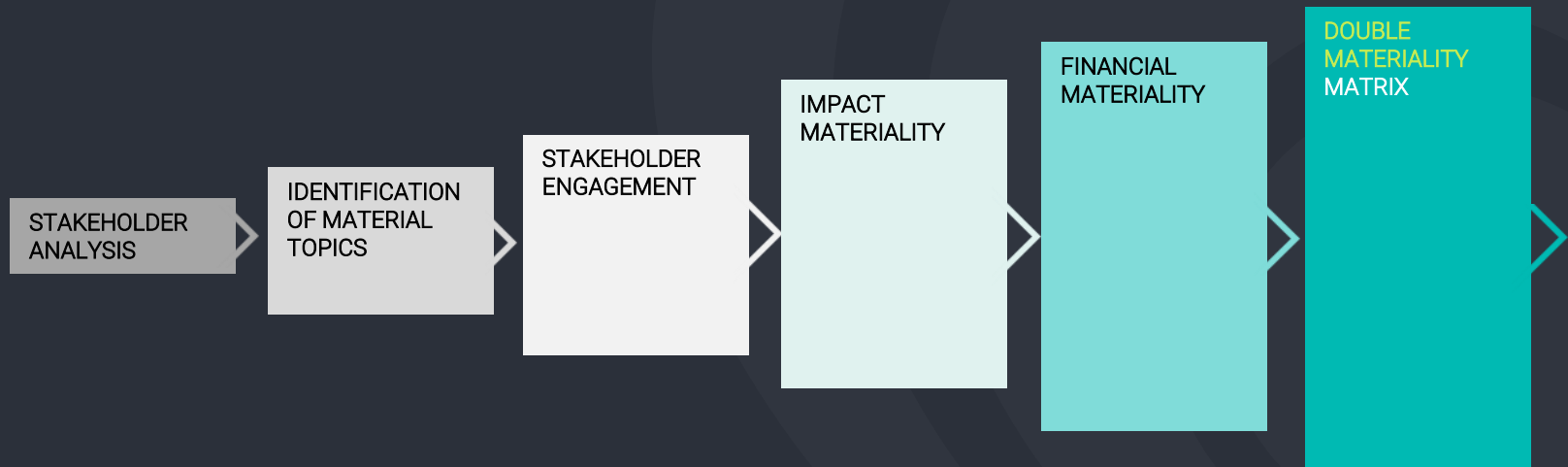
Double materiality assessment



The process followed is as important as the outcome

Materiality assessment process

Our materiality assessment process in 2023 included the following:



DMA considerations

- Start ASAP. A decent DMA takes between 5-8 months
- Engage your assurance provider from the outset – they will need to observe stakeholder engagement sessions
- Identify your potential stakeholders – who are the people impacted by your activities, or your value chain activities?
- Don't shortcut the process – this will likely lead to an adverse assurance conclusion
- Consider the value chain **meaningfully** – do not shortcut just because it seems too difficult
- Speak to your insurance underwriters – they see the complete value chain

Value chain: Do we *really* need to contact our customers and suppliers? Yes, but be strategic

- Map the value chain by identifying business activities **upstream**, **downstream** and **within operations**
- **Stakeholder surveys** aid identification of impacts, risks and opportunities but **should not be relied on in isolation**
- **Validate** impacts, risks and opportunities through **stakeholder workshops** and **interviews**
- Consider **actors beyond tier 1** (suppliers' suppliers, customers' customers) and **engage early on** – understanding these actors' perspectives is becoming good business practice
- Blanket exclusions are not 'assurable' – need to demonstrate efforts to engage with stakeholders, any exclusion of particular stakeholders should be justified in writing having made **reasonable efforts** to engage



Questions



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Save the date

We host a range of seminars and online webinars throughout the year, which you can find out more about on our website.

**Please save the date for our next
Finance Directors Update Course:**

Date: Thursday 13th February 2025
Time: 8.30am – 12.30pm
CPD: 3 hours