



## UK Department for Business, Energy and Industrial Strategy (BEIS) Consultation on the draft guidance on Streamlined Energy and Carbon Reporting (SECR)

### CDSB Consultation Response – 14 January 2019

The Climate Disclosure Standards Board (CDSB) welcomes the opportunity to respond to the consultation on the draft Chapter 2: Guidance on Streamlined Energy and Carbon Reporting (the **Draft Guidance**) of the Environmental Reporting Guidelines<sup>1</sup> that will accompany the Companies (Directors' Report and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (the **2018 Regulations**) implementing Streamlined Energy and Carbon Reporting (SECR) which enter into force on 1 April 2019. We believe that in order to achieve financial stability across the entire economy, large unquoted companies should be subject to the same reporting requirements as listed companies, and that emissions reporting should be on a company-wide (global) basis. In this regard, we welcome the requirements for unquoted companies (and LLPs) to disclose information under the 2018 Regulations.

CDSB is an international consortium of nine business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. We do this by offering companies a framework for reporting environmental and climate information (the **CDSB Framework**) with the same rigour as financial information. In turn, this helps companies provide investors with decision-useful environmental and climate information via the mainstream corporate report, thereby enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials. Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems.

Our comments are provided in the Appendix to this letter. Please do not hesitate to contact us if you would like to discuss these further.

Best regards,

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<sup>1</sup> Department for Environment, Food and Rural Affairs (2013) Environmental Reporting Guidelines: Including mandatory greenhouse gas emissions reporting guidance. [PDF] Available from: <https://www.gov.uk/government/publications/environmental-reporting-guidelines-including-mandatory-greenhouse-gas-emissions-reporting-guidance>

## **Invitation to Comment – Responses to the Consultation Questions**

We have provided comments to the following questions on the Draft Guidance<sup>2</sup>.

### **1. Is the Draft Guidance clear to follow?**

The Draft Guidance is somewhat repetitive in parts and could be made more concise. For example, section 2 on ‘Complying with the SECR’ could form part of the Introduction.

To promote greater clarity, the Draft Guidance could adhere to the following simplified structure:

- Section 1 - Introduction to the Guidance on Streamlined Energy and Carbon Reporting - i.e. an overview of what is the SECR and who is required to report under the 2018 Regulations, and how is it enforced?
- Section 2 - What are quoted companies required to do?
- Section 3 - What are large unquoted companies required to do?/ What are large LLPs required to do?
- Section 4 - Opportunities for strengthening SECR disclosures and encouraging greater alignment with related reporting initiatives, e.g. the Task Force on Climate-related Financial Disclosures (TCFD)
- Section 5 - Related voluntary reporting by entities outside the SECR’s scope.

All guidance on how to report on the requirements for a quoted company under the SECR should be contained in Section 2 and similarly for a large unquoted company/large LLP in Section 3. This will make it easier for companies to consider the full SECR requirements and prepare the necessary disclosures.

In paragraph 1.5, the Draft Guidance acknowledges that companies may also be disclosing some of the information required under the SECR through participation in other schemes, such as the CRC, ESOS, EU ETS or MGHG. It would be very helpful for the Draft Guidance to contain a summary table showing alignment between the reporting provisions of the SECR and how the information collected through other complementary schemes could also be used for purpose of SECR reporting. We feel this would be a helpful addition to the Draft Guidance and would help reduce the reporting burden on preparers which is central to streamlined energy and carbon reporting. For example, if an entity reports under the CRC scheme what else would need to be considered by the entity to ensure full compliance with the SECR.

We also suggest including some commentary on the relationship between the SECR and the TCFD in Section 4 as many companies are currently considering how to report on the TCFD. It may also be helpful to include one or two sentences on the relationship between the SECR and the obligation to report on environmental matters “to the extent necessary for an understanding of the undertaking’s performance, position and impacts of its activity” under the EU Non-Financial Reporting Directive (2014/95/EU), as per the Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016 (Statutory Instrument No.1245).

Finally, throughout the Draft Guidance are some references to entities not required to report under the SECR. For example, in the Introduction, it states that “Companies incorporated outside the United Kingdom are not required to include energy and carbon information in their Directors’ report under this legislation”. However, it is not clear through the Draft Guidance if these companies should report. There is an opportunity for the Draft Guidance to also better make the case for voluntary reporting of those entities outside the scope of the SECR. We have suggested including this in a final section to make this clearer.

The Draft Guidance could also be improved by consistently referring to the relevant provisions of the Companies Act 2006 (as amended by the 2018 Regulations), and also to the FRC’s Strategic Report Guidance.

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<sup>2</sup> Note that all references to paragraphs here are to the draft Chapter 2: Guidance on Streamlined Energy and Carbon Reporting Chapter

As companies report under the SECR, we suggest populating the Draft Guidance with some examples of good reporting practice.

## **2. Does the guidance differentiate sufficiently between the different requirements for quoted and unquoted companies/LLPs?**

As stated in Question 1 above, we suggest that the Draft Guidance be restructured to make it easier to follow from the perspective of the three different types of entities which it aims to support, notably: quoted companies; large unquoted companies; and LLPs. If there are no differences between the requirements for large unquoted and large LLPs this should also be made explicit (and they could be covered in a single section).

We also note that in the Draft Guidance, there is some repetition in the different sections. Section 3 entitled “What needs to be reported under SECR” should be covered according to the reporting entity and should be integrated with the material in Sections 6 and 7 of the Draft Guidance.

## **3. Does the guidance strike the correct balance between the need to ensure that meeting the minimum legal obligations introduced by SECR legislation without excessive administrative burden, as well as the need for consistent and transparent disclosures?**

### **Does the guidance strike the correct balance between the need to ensure that meeting the minimum legal obligations introduced by SECR legislation without excessive administrative burden?**

The Draft Guidance appears to strike an appropriate balance between the need to ensure that meeting the minimum legal obligations introduced by SECR legislation without excessive administrative burden. We welcome efforts to make data collection and reporting more efficient and less of a burden on businesses and agree with the statement in Paragraph 1.5, that due to existing reporting requirements and schemes, “business will already have much of the information required to comply with the new disclosure requirements”.

As suggested in our response to question 1, it would be helpful for the Draft Guidance to contain a summary table showing alignment between the reporting provisions of the SECR and how the information collected through schemes could also be used for purpose of SECR reporting. It might also be helpful from a reader’s perspective to also cross-reference to the relevant sections of the FRC Guidance on the Strategic Report (July 2018) and we would expect that the FRC would incorporate this new Draft Guidance in due course.

At the end of the first year of reporting under the 2018 Regulations, we suggest disclosures are reviewed and analysed together with feedback from organisations falling within the scope of the SECR to understand the usefulness of the Draft Guidance and whether its adoption places an administrative burden on reporting organisations.

### **Does the Draft Guidance support consistent and transparent disclosures?**

The Draft Guidance does contribute to more consistent reporting of information required under the SECR. We have highlighted areas of the Draft Guidance below that support this:

- Paragraph 6.6 - We welcome the differentiation made between a company’s financial and operational boundary, which is crucial for the comparability of information.
- Paragraph 9.1- We welcome the inclusion of this paragraph and support BEIS in promoting that companies seek independent assurance (not verification) of information. We advise paragraphs 9.2 and 9.3 to be deleted.

However, we believe that the Draft Guidance could do more to support consistent and transparent disclosures.

Paragraph 1.4 sets out one of the purposes of the 2018 Regulations is to "... provide greater transparency for investors, and other stakeholders, on business energy and low carbon readiness". However, the Draft Guidance does not reflect this purpose as the requirements focus on short-term information, including companies current and past performance of emissions, energy use and energy efficiency. This is evidenced in paragraph 3.9 which appears to discourage forward-looking information in relation to describing businesses' principal energy efficiency actions – "the actions should not relate to periods outside the organisations' financial year".

The disclosure of forward-looking information of climate-related issues is important for investors and other stakeholders in understanding how individual organisations are susceptible to transition and physical risks and how such vulnerabilities are or would be addressed<sup>9</sup>. The principle of forward-looking information lies at the heart of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)<sup>3</sup>.

In order to increase corporate transparency and better allocation of capital, we suggest the information requested in the Draft Guidance could be complemented by forward-looking information stated in the TCFD recommendations, that explains how a business will adapt its strategy and business model to be part of the transition to a low-carbon economy.

We would also like to highlight the following additional areas the Draft Guidance could do more to support consistent and transparent disclosures:

- As well as organisations providing their annual and preceding year disclosures on emissions and energy use, the Draft Guidance could recommend, where appropriate adoption of emissions targets such as the Science-based Targets initiative<sup>4</sup>. This could be incorporated as additional guidance in the section - opportunities for strengthening SECR disclosures and encouraging greater alignment with related reporting initiatives – suggested in our response to question 1.
- Paragraph 3.8 notes "the obligation is to disclose annual figures for emissions and energy use. If the annual period used is not the same as the financial year covered by the relevant Report, this must be made clear in the Report." The Draft Guidance should be revised to discourage companies from using different financial years, as this affects the comparability and consistency of information across reports and organisations.
- Paragraph 6.13 – In addition to referencing the CDSB Climate Change Reporting Framework, we suggest the Draft Guidance incorporate the IASB's definition of materiality, where "Information is material if omitting it or misstating it could influence decisions that the primary users of general purpose financial reports make on the basis of financial information about a specific reporting entity."<sup>5</sup> This will help to ensure that materiality is applied consistently and comparably within reports and between organisations. Moreover, from an accounting perspective, materiality is considered at the level of specific transactions or events. We are concerned that the current wording in paragraph 6.2 and focus on operations could have the unintended effect of excluding emissions reporting.

#### 4. Does the guidance give sufficient flexibility for those organisations that want the option to go further than what is legally required e.g. organisations reporting scope 3 emissions?

The guidance does provide flexibility for those organisations that want the option to go further than what is legally required.

<sup>3</sup> Task Force on Climate-related Financial Disclosures (2017) Recommendations of the Task Force on Climate-related Financial Disclosures. [PDF]. Available from: <https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf>

<sup>4</sup> Science-based targets initiative (2018). [Online]. Available from: <https://sciencebasedtargets.org/>

<sup>5</sup> Climate Disclosure Standards Board (2018) Position paper Materiality and climate-related financial disclosures. [PDF]. Available from: [https://www.cdsb.net/sites/default/files/materiality\\_and\\_tcfid\\_paper.pdf](https://www.cdsb.net/sites/default/files/materiality_and_tcfid_paper.pdf)

Further to our response to question 2, the case for voluntary reporting could be strengthened for entities outside the scope of the SECR as well as entities within the scope of the SECR that want to go further. We have made suggestions on how these could be structured accordingly in our response to question 1.

In addition, we have commented on two specific areas where the Draft Guidance could be amended to support companies in exceeding the requirements of the 2018 Regulations below.

- Paragraph 2.7 notes “..you may exclude from your report any energy and carbon information relating to a subsidiary which the subsidiary would not itself be obliged to include if reporting on its own account.” While we recognise this is not mandatory, we believe BEIS should encourage such subsidiaries to be included in the group’s reporting, as emissions are not necessarily proportional to the size or number of employees of a company. Where companies may not be considered to be large, the emissions may still be a material proportion compared to the parent company.
- Paragraph 6.11 - The Draft Guidance could expand on the benefits of voluntary reporting of Scope 3 emissions, and paragraph 6.11 could be amended to incorporate - “Scope 3 emissions could be reported where these expose the reporting company to material risks, opportunities or financial impacts”.

## Additional comments

We suggest the following additional amendments to the Draft Guidance:

- Paragraph 8.7 – We welcome the reference to our Framework and request the reference be updated to the [“Climate Disclosure Standards Board \(CDSB\) Framework”](#) using the following URL - <https://www.cdsb.net/Framework>.
- Paragraph 9.17 – We suggest this wording is tweaked to “Organisations may choose to report SECR information in a digital format (such as inline XBRL, or iXBRL), if the annual report and accounts are also filed digitally. In this case, SECR information should be reported in the same digital format as the annual report and accounts”.

In light of the fact iXBRL is used by Companies House and the FRC has a corresponding taxonomy for the 2013 Regulations that could be used for this purpose, we recommend that BEIS and Companies House work with the FRC to advance electronic reporting across all types of corporate disclosures. This should include updating the elements of the taxonomy, so they incorporate the 2016 and 2018 amendments to the Companies Act 2006. In this regard, we are happy to support BEIS to advance this further.