



ESG Reporting

What do UK businesses need to be aware of?

Regulators worldwide are increasingly mandating the disclosure of ESG-related information. With a range of different frameworks and acronyms, it's difficult for businesses to know where to start. This briefing provides an overview of the key UK disclosure requirements which are in force and upcoming as well as equivalent EU legislation which may be relevant for UK businesses.



Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD is an internationally recognised framework for disclosing climate-related financial information. The focus of the framework is on 'single materiality', meaning the disclosures are aimed at providing information to investors on how climate-related risks could impact an entity's financial position.

Who does it apply to?

- All UK companies that are required to produce a non-financial and sustainability information statement (NSIP) which will be companies that have more than 500 employees and have either transferable securities admitted to trading on a UK regulated market or are banking companies or insurance companies.
- UK registered companies with securities admitted to AIM with more than 500 employees.
- UK registered companies not included in the categories above, which have more than 500 employees and a turnover of more than £500m.
- Large LLPs, which are not traded or banking LLPs, and have more than 500 employees and a turnover of more than £500m.
- Traded or banking LLPs which have more than 500 employees.

Non-UK companies will not count towards the TCFD in scope thresholds, but overseas companies should consider if any UK subsidiaries fall within scope. The top UK parent company will have to report on the global operations of the UK group, regardless of whether the activities are conducted through a UK or non-UK subsidiary.

UK companies with a premium or standard listing, asset managers and certain asset owners will also have to make TCFD-aligned disclosures under the FCA's Listing Rules and ESG Sourcebook. Similar disclosure requirements will also apply to regulated pensions providers. These entities should also be mindful of the annual reporting requirements under the **FCA's newly introduced Sustainability Disclosure Requirements**.

What are the timeframes?

Reporting requirements for companies and LLPs are already in force for accounting periods starting on or after 1 April 2022. When the UK government announced adoption of the framework in 2021, the intention was to make TCFD aligned disclosures mandatory across the economy by 2025.

What are the disclosure requirements?

The TCFD recommendations are structured around four thematic pillars – governance, strategy, risk management and metrics and targets. These pillars are supported by 11 climate-related financial disclosures which in-scope entities will need to make, for example an analysis of the resilience of the business model and strategy of the entity taking into consideration different climate-related scenarios. Further detail and an FAQ can be found in this **guidance document**.

What's next?

TCFD reporting will be augmented and replaced by the UK Sustainability Disclosure Standards – please see below.

Sustainability Disclosure Standards (UK SDS)

The International Sustainability Standards Board (ISSB) took over the monitoring of entities' climate related disclosures from the TCFD with effect from 2024. In June 2023, the ISSB published the IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and the IFRS S2 Climate-related Disclosures (together, the IFRS Standards).

The UK intends to formally endorse the IFRS standards through the introduction of **UK Sustainability Disclosure Standards** (UK SDS) by Q1 2025, with the expectation that the standards will take effect from Q2 2025. The UK endorsed standards will only deviate from the global ISSB baseline if absolutely necessary.

The Financial Reporting Council ran a call for evidence on the IFRS standards in the context of the UK from July to October 2023. Following endorsement, UK SDS may be referenced in any legal or regulatory requirements for UK entities. Decisions on mandating disclosure will be taken by (i) the UK government for UK registered companies and LLPs' and (ii) the FCA for listed companies.

Whats the difference about these new standards compared to TCFD?

- **IFRS 1** requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. This builds on the TCFD framework but captures sustainability issues beyond climate.
- **IFRS 2** sets out specific climate-related disclosures and is designed to be used with IFRS 1. This includes climate-related physical risks, transition risks and opportunities available to the entity. This is similar to the current TCFD disclosures, but IFRS 2 is more comprehensive and will require consideration of Scope 3 emissions e.g. emissions from an entity's supply chain.
- **TPT:** IFRS 2 requires entities to disclose information about any climate-related transition plans. The Transition Plan Taskforce (TPT) has **recently published** a disclosure framework which provides a set of good practice recommendations to help entities develop such plans.

The Institute of Chartered Accountants in England & Wales (ICAEW) **has confirmed** that companies applying the IFRS standards will meet the TCFD recommendations and so entities will not need to apply the TCFD recommendations in addition to the IFRS standards.

What's next?

The IFRS standards incorporate and build on the TCFD framework so companies which have previously followed TCFD recommendations (on a voluntary or mandatory basis) will be well positioned to apply the IFRS standards

While the IFRS standards will not immediately replace the TCFD disclosure framework, the FCA for example 'strongly encourages' listed companies to start considering the standards now. The FCA is expected to consult in the first half of 2024 on updating TCFD aligned disclosure rules for listed companies to reference the standards.

Streamlined Energy and Carbon Reporting (SECR)

The SECR framework is a set of sustainability regulations which require large businesses to publicly report on their energy use, carbon emissions and energy efficiency measures.

Who does it apply to?

- SECR applies to quoted companies of any size and unquoted companies/LLPs with (i) over 250 employees; (ii) an annual turnover exceeding £36m; or (iii) a balance sheet exceeding £18m. Entities with two or more of these criteria will be caught.
- This includes organisations undertaking public or not-for-profit activities as registered companies or companies/LLPs owned by universities, academies or NHS Trusts.
- Entities defined as public bodies and companies incorporated outside of the UK, including foreign parent companies of UK subsidiaries, are not required to report under SECR.

What are the timeframes?

Reporting requirements are already in force for financial years starting on or after 1 April 2019. In-scope entities will need to include information in line with the SECR framework in their annual Director’s report.

What are the disclosure requirements?

Reporting requirements differ for (i) quoted companies and (ii) large unquoted companies and LLPs, as outlined below:

Quoted	Large unquoted companies and LLPs
Annual global GHG emissions from activities for which the company is responsible	UK energy use (as a minimum gas, electricity and transport including UK offshore area)
Underlying global energy use	Associated greenhouse gas emissions
Energy use and GHG emissions figures from previous year	Energy use and GHG emissions figures from previous year
At least one emissions intensity ratio	At least one emissions intensity ratio
Narrative on energy efficiency measures	Narrative on energy efficiency measures
Details of methodology used	Details of methodology used

Energy Savings Opportunity Scheme (ESOS)?

The ESOS is a mandatory energy assessment and energy saving scheme that applies to large UK undertakings and their corporate groups. The scheme operates in four-yearly phases and is currently in phase 3 (Compliance Year 2023). The scheme was amended in 2023 to include enhanced audit and reporting requirements applicable from phase 3.

Who does it apply to?

ESOS applies to companies with (i) 250 or more employees; or (ii) an annual turnover exceeding £44 million and a balance sheet exceeding £38 million. If a corporate group contains at least one undertaking in the UK which meets the qualification conditions, its entire UK operation must take part in ESOS.

What are the timeframes?

Entities must notify the Environment Agency that they have complied with their ESOS obligations by a set deadline. The deadline for ESOS phase 3 was **recently extended to 5 June 2024**.

What are the disclosure requirements?

Entities that qualify for ESOS must carry out ESOS assessments every 4 years. These assessments are audits of the energy used by their buildings, industrial processes, and transport.



Corporate Sustainability Reporting Directive (CSRD)

The CSRD is an EU directive which requires companies to report on all elements of 'ESG'. Unlike TCFD, CSRD reporting requires an assessment of **'double materiality'**. This means an evaluation of (i) climate-related impacts on a company's financial position and also in turn (ii) a company's impact on people and planet. The CSRD has application to non-EU companies as well – please see below.

Who does it apply to?

In terms of what UK companies need to be aware of the, CSRD applies to the following types of non-EU companies:

- Non-EU companies that have securities listed on an EU-regulated market. The reporting year for these entities will be 2025.
- Non-EU parent companies with net turnover generated in the EU which exceeds €150 million for each of the last two consecutive financial years AND:
 - an EU subsidiary that is in scope of the CSRD (i.e. either a large undertaking or an EU company listed on an EU regulated market which isn't a micro undertaking); or
 - an EU branch with an annual net turnover exceeding €40 million in the previous financial year.

The reporting year for these entities will be 2029. These entities may be exempt from reporting if they prepare sustainability reports using 'equivalent standards' to the CSRD. The EU is developing guidelines on what these equivalent standards could be.

What are the timeframes?

The CSRD went into effect on 5 January 2023, EU member states have until early July 2024 to transpose the directive into national law as the 'baseline' standard. The first companies will therefore have to apply the directive's provisions for reports published in 2025 in respect of financial years beginning on or after 1 January 2024.

What are the disclosure requirements?

In scope companies must disclose in line with European Sustainability Reporting Standards (ESRS) which has 12 standards. Additional sector specific standards will also be implemented in due course. The standards are divided into two 'cross-cutting' standards ('general requirements' and 'general disclosures'), and 10 ESG standards (including climate change, pollution, biodiversity and ecosystems, workers in the value chain, affected communities and business conduct). It will be up to companies to determine which of these 10 standards is material to the company and the company's impacts on a double materiality basis.

What's next?

The **Corporate Sustainability Due Diligence Directive (CSDDD)** is an upcoming EU directive that establishes a corporate due diligence duty on EU and non-EU companies to conduct human rights and environmental due diligence throughout their global value chains. The CSDDD has recently (24 April 2024) been approved by the EU Parliament, with some notable amendments compared to the original proposal including increasing the threshold for in-scope companies from €150 million to €450 million and the employee threshold from 500 to 1000. The directive has been sent to the EU Council for final adoption on 24 May 2024, after which EU member states will have two years to transpose the directive into national law. Please see our **insight** on CSDDD for more information.

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