



Streamlined Energy and Carbon Reporting

ICAEW welcomes the opportunity to comment on the consultation *Streamlined Energy and Carbon Reporting* published by Department for Business, Energy & Industrial Strategy (BEIS) in October 2017, a copy of which is available from this [link](#).

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MAJOR POINTS

Communicating a clear objective

1. ICAEW strongly supports efforts to address concerns about climate change. In our view, initiatives which raise the awareness of energy and carbon use at board level, and which have the potential to influence corporate behaviour over time, are an important way to move the debate forward. However, this is a complex area of reporting and one that is becoming crowded in terms of initiatives, with many standard setting and other bodies seeking to effect change and much diversity in reporting practice. We are concerned that the Department for Business, Energy and Industrial Strategy (BEIS) proposals, as set out in the consultation document, may add to the potential confusion of users and preparers alike in this respect.
2. Part of the problem, in our view, is that BEIS has not communicated clearly the primary objective of its proposed streamlined energy and carbon reporting policy. Without a clear and well-understood objective, it is very difficult to determine whether or not additional information is needed over and above existing reporting requirements/initiatives, or whether the proposed reporting requirements are appropriate. For example, the primary objective might be to collect data and understand how UK companies are managing their energy consumption or alternatively to improve transparency and reporting to investors on climate-related impacts. The difference between these two objectives will affect views on the scope, content, and publication of any proposed reporting requirements.

Lack of evidence

3. In our view, the consultation document does not consider in sufficient detail the effectiveness of existing reporting requirements and initiatives. For example, we note that the objective of the current CRC Energy Scheme is to 'improve energy efficiency in organisations, leading to carbon and bill savings.' Under this scheme 5,200 businesses and public sector organisations must report annually on total UK energy use and purchase allowances, and this information is publicly available for individual entities and in aggregate. If the objective of the government's proposed policy is to continue to understand how UK companies are managing energy consumption and to influence behaviour, then we would have expected the consultation document to assess the extent to which the CRC scheme has been effective before developing new reporting requirements. Any new reporting requirements should consider who is expected to use the resulting information and their information needs, which may be different for listed and unlisted companies and for users of aggregate data.
4. We are also concerned about the limited references to the wider debate on the reporting of energy use and climate change. As noted above, this is a complex and increasingly crowded area of reporting. In particular, we refer to the development of the Financial Stability Board (FSB) Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). While the consultation does make reference to the FSB guidelines, we think that the government needs to take a more joined up approach when developing policy on energy and carbon use, explaining how it links to existing mandatory carbon emissions as well as other proposals for change.

Outside of the annual report

5. In our view, the annual report should form a coherent, stand-alone document aimed at current and potential capital providers, free of clutter and preferably without information that is required by government or regulators primarily to meet other public policy objectives. It should clearly articulate a consistent narrative that demonstrates how the business achieves success from the perspective of informing those providing the risk capital for the business. Such a narrative should combine both financial and non-financial information likely to be of interest to capital providers in a way most likely to convey clearly and effectively the company's key messages about its performance, position and prospects.

6. With this in mind, we strongly disagree that the proposed information on energy and carbon use should be included in the annual report. That is not, of course, to say that we do not support companies reporting on their energy and carbon use. Indeed, where this is an area identified as a principal risk and/or is relevant to the extent necessary for an understanding of a company's development, performance, position at the year end, it should be discussed in the company's strategic report. However, in our view, the more detailed information as proposed in this consultation would be better presented outside of the annual report, for example, on the company's website or, preferably, a government sponsored website. Any discussion included in the strategic report, where relevant, could then cross-refer to this more detailed information.
7. ICAEW has been a strong supporter of this alternative approach to reporting which has become increasingly common in recent years. The government should adopt a similar approach for the reporting of energy and carbon use, and, indeed, should in our view reconsider the current requirement for some companies to report data on greenhouse gas emissions in the annual report.

Alternative reporting channels – the bigger picture

8. We recognise that there are challenges in adopting this different approach to the disclosure of information required to meet policy objectives, particularly as there is currently no consistent approach taken by government departments when devising any new requirements to disclose regulatory information outside of the annual report. As discussed below, ICAEW's recent *What's next for corporate reporting: time to decide?* report sets out a number of important recommendations in this respect.

RESPONSES TO SPECIFIC QUESTIONS

Question 1:

Do you agree that the proposed energy and carbon reporting policy should apply across the UK? [yes or no] Please explain your answer.

9. Yes. We agree that an energy and carbon reporting policy should, when finalised, apply across the UK provided it is targeted to where public reporting would help meet the policy objective. However, as discussed in our responses below we do not agree with the way in which the government is currently proposing to introduce such a policy in the UK.

Question 2:

Do you have any comments on the analysis set out in the Impact Assessment? We would welcome any additional evidence on costs and benefits to support a final assessment of impacts.

10. We do not, at this stage, have any detailed comments on the analysis set out in the Impact Assessment. We expect that additional costs will be incurred in order to collate and report on the proposed information, particularly by companies not already captured by an energy reporting scheme. In addition, the costs of users who access the information should also be included.

Question 3:

Do you agree that reporting should be done through annual reports? [Yes or No] Please explain your answer.

If yes, would any of the following, forming part of companies' annual reports, be better suited? A) directors' report, b) Strategic reports, or c) a new, bespoke report. Please explain your answer, not any issues you see with using these reports, and provide any comments on how proposals might best fit within the annual reports regime.

11. No. We very strongly disagree that the proposed information on energy and carbon use should be reported in the annual report.

12. That is not, of course, to say that we do not support companies reporting on their energy and carbon use. Indeed, where this is an area identified as a principal risk and/or is relevant to the extent necessary for an understanding of a company's development, performance, position at the year end, it should be discussed in the company's strategic report. However, in our view, the more detailed information as proposed in this consultation should be presented outside of the annual report, for example, on the company's website or, preferably, a government sponsored website. Any discussion included in the strategic report could then cross-refer to this more detailed information. Our expectation is that all public reporting by companies will receive an appropriate level of scrutiny from boards and senior management whether or not it is included in the annual report.
13. This alternative approach to reporting has become increasingly common in recent years in response to growing demands for corporate transparency, for example in relation to sustainability. ICAEW has been a strong supporter of this trend, which encompasses, for example, the following recent initiatives requiring companies to publish information on designated websites:
 - Information required under the UK Modern Slavery Act 2015 which must be published on the organisation's website;
 - Gender pay information which must be published on the organisation's website supplemented by links to information on a government-sponsored website; and
 - Information on payments to suppliers which must be reported via a UK government-sponsored website.

We strongly suggest that the government adopts a similar alternative reporting approach for the reporting of energy and carbon use, particularly if there is a need for users to be able to readily compare companies or see aggregated UK totals.

14. We recognise that there are also challenges to taking this alternative approach, particularly as there is currently no consistent approach taken by government departments when devising any new requirements to disclose regulatory information outside of the annual report. ICAEW's recent *What's next for corporate reporting: time to decide?* report recommends that the government adopts a more consistent approach in this area, including for example the development of principles for measurement objectives, updating organisational boundaries and assurance as well as the style, presentation and placement of information. We also recommend the designation of a 'gatekeeper' to assess all suggestions for new legal requirements for corporate disclosures in the annual report and to ensure a more uniform approach is taken to other disclosure requirements in terms of scope and method of disclosure.
15. Finally, on a practical note, we are uncertain whether the proposed information would be readily available within the reporting cycle for a company's annual report. It would be advisable for the government to consult with companies to understand the expected challenges and timescale for capturing the required information. Indeed, such information may receive greater management scrutiny if it is produced outside of the financial reporting cycle.

Question 4:

Do you agree that from 2019 energy and carbon reporting to Companies House should be electronic? [Yes or No] If yes, please specify any digital formats, such as XBRL/iXBRL, that may be suited to this purpose, and any opportunities or challenges these may present.

16. We do not object in principle to the proposed energy and carbon reporting being filed electronically at Companies House, provided that this information is not required within the annual report.
17. If, despite our strong reservations, the government decides to go ahead with plans to require detailed reporting of energy and carbon use in the annual report, it will be necessary to consider very carefully how this information would be presented and then filed 'electronically' at

Companies House, making due reference to the new requirements for electronic filing due to become mandatory for some companies from 1 January 2020. The proposals in this area are not well thought out and the consultation does not make it clear if, or how, this would work in practice.

Question 5:

Do you agree that the government should seek to establish a mechanism for collating published energy and carbon data for example via a central published report or tool? Please explain your answer.

18. We agree in principle that the government could usefully seek to establish a mechanism for collating published energy and carbon data. This would certainly be a more appropriate mechanism for mandatory disclosure than the annual report.

Question 6:

Do you think that the policy should apply to:

- A) all 'large' companies based on employee numbers and financial tests;
B) companies who meet the 6GWh ex-CRC annual electricity use threshold described;
or
C) another threshold

Please explain your answer. Please state if you have any views on whether reporting should be required to operate at the group or individual company level.

19. Generally speaking we prefer use of existing definitions and thresholds for a 'large' company as set out in the Companies Act. However, if the government decides that this information would be better placed outside of the annual report, there may be scope to consider an alternative threshold. For example, defining a large company based on financial tests may not necessarily capture companies with high energy consumption. On the other hand, the definition of 'large' as set out in the ESOS scheme would appear to draw in some small or medium-sized companies, which might not be appropriate. Again, it is necessary to consider the principal objective of the government's proposed policy. If it is to understand how large companies manage energy consumption, then perhaps a threshold based on one or more aspects of energy use would be more appropriate. If the objective is for investors to use the information, the thresholds should target quoted companies. Similarly, whether groups or individual companies should report depends on the policy objective, which - as already noted - seems insufficiently defined.

Question 7:

If you prefer Population Approach A (all 'large' companies) which of the proposed company size definitions seems to most appropriate to you, (i) Companies Act 2006, or (ii) ESOS, or (iii) any others?

20. Please see our response to question 6.

Question 8:

If you prefer Population Approach C, which energy use threshold is most appropriate? Please explain your answer, and state who you think should be required to report, describing any other energy threshold(s) you may favour (with options including but not limited to 6GWh per year across all energy products, and 500MWh per year for each of electricity, gas, and transport).

21. Please see our response to question 6.

Question 9:

Should reporting requirements within the Companies Act regime also apply to Limited Liability Partnerships (LLPs)? [Yes or No]. Please explain your answer.

22. Yes. Depending on the policy objective, we see no reason why LLPs (nor public sector entities) should not be subject to the same reporting requirements for energy and carbon use as companies.

Question 10:

Please state where you agree that UK quoted companies should continue, or start to report, on one or more of the following a) global Scope 1 and 2 GHG emissions b) an intensity metric, and start to report on c) global total energy use?

Please also provide any views and evidence on the effectiveness of the current mandatory GHG reporting regime in improving corporate transparency, reducing energy use, and reducing emissions.

23. We support in principle the disclosure by UK quoted companies of information on GHG emissions, although we would like to better understand the extent to which the disclosures to date have met the government's policy objectives in this area. In any case, in our view, this information would be much better placed on company or government websites. Quoted companies are also required to disclose in the strategic report details (to the extent necessary for an understanding of the development, performance, or position of the company's business) of environmental matters. Therefore the broader discussion on environmental matters included in the strategic report can cross-refer, where relevant, to the more specific detail on greenhouse gas emissions disclosed elsewhere.
24. Whether or not quoted companies should also report on energy use depends on the intended objective of the government's policy. Energy usage is one of the contributory elements to GHG emissions and requiring this additional information would only appear to be relevant if the objective is to collect more data on energy use and understand how UK companies are managing their energy consumption. On the other hand, if the intention is to report to investors on the impact of quoted companies on climate change, then it is questionable whether information on energy usage is needed as well as on GHG emissions.

Question 11:

Do you agree that UK unquoted companies in scope should report on a) total UK energy use, b) Scope 1 and 2 GHG emissions associated with UK use c) an intensity metric? Please explain your answer.

Do you agree that only electricity, gas and transport energy should be in scope for unquoted companies? [Yes or No]. Please explain your answer, and if no please set out what you think the scope should be.

25. Depending on the policy objective, in principle we would not object to extending requirements to report on energy and carbon use to large unquoted companies. However, as noted above, we do not believe that this detailed information belongs in the annual report. Also, consistent with our response to question 10, whether or not unquoted companies should report on energy use and GHG emissions depends, in our view, on the objective of the government's policy ie, to collect data on energy consumption, or to report to investors on climate change issues. It may also be appropriate to consider whether any new requirements should apply, at least initially, only to certain sectors.

Question 12:

Should the government a) mandate the use of specific intensity metrics by sector; b) propose best practice in any guidance; or c) leave the matter to sectors, and to existing best practice and guidance?

26. No. We do not think it is necessary for the government to mandate the use of specific intensity metrics by sector or to propose best practice guidance. In our view, it is better to let companies experiment and for best practice to emerge over time.

Question 13:

A) Do you think it should be mandatory for UK quoted and unquoted companies in scope to include information from the most recent audit (including energy management systems such as ISO50001) on i) any identified energy savings opportunities [Yes or No] and ii) any energy efficiency action taken? [Yes or No]

27. The scope of the reporting requirements needed to meet the policy objective needs to be determined before this question can be answered, particularly with regard to unquoted companies. We are concerned, however, that mandatory reporting in this area would prove premature and potentially overlap with other initiatives.

B) Building on the energy and carbon disclosures proposed here, please provide views on whether in the long-term any of the TCFD recommended voluntary disclosures should become mandatory disclosures within companies' annual reports.

C) Please specify what support government could provide to support uptake of TCFD disclosures by companies from all sectors.

28. ICAEW supports the Financial Stability Board (FSB) Recommendations of the Task Force on Climate-related Financial Disclosures. In our recent response to the FSB (ICAEW Rep 21/17) we strongly supported the proposed voluntary approach to implementation of the guidelines. Thinking and practice regarding the assessment of climate change risk are at a very early stage with companies and other organisations still experimenting with what to disclose and how to disclose it. We continue to hold this view and believe that it is right that a period of experimentation should continue for some time yet and that practices should continue to be allowed to evolve in response to market demand for information.
29. Having said that, we acknowledge that a voluntary approach tends to lead in practice to diversity in the quality and style of disclosure, and that this in turn creates issues for users regarding comparability. We have suggested to the FSB that the success of the proposed approach should be monitored closely for an agreed period of time with a view to reviewing the case for taking steps in the direction of a mandatory approach. An initial assessment of progress might be possible after say three years. Any move towards future regulatory intervention should involve further public consultation. In the meantime, the Task Force recommendations could usefully clarify the factors that the Task Force or its successor body (or local regulators in the meantime) might consider when assessing the success of the voluntary disclosure regime.

D) Reporting of what other complementary information would add most value for businesses, the market and other stakeholders?

30. We have no comments at this time.

Question 14:

Please explain what guidance, tools and data companies might need: i) for financial and risk managers to understand climate risks and their implications for their business and ii) for companies to implement the TCFD recommendations in financial disclosures.

31. We suggest that the government considers how best to highlight the TCFD recommendations, explaining their voluntary nature and encouraging uptake. There are likely to be a number of issues on which companies would welcome further clarification, perhaps on conducting climate scenario analysis, on placement of the recommended information and on the risks/liabilities involved in making or not making disclosures in this area. The government should explore with other stakeholders what further clarification would be helpful and who should provide it, although this may not become clear until companies have become more familiar with the recommendations and attempted to implement them in practice.

Question 15:

What other policy approaches can work with reporting to drive energy efficiency, reduce bills, reduce emissions, and improve transparency for investors so they are more able to hold companies to account? We are particularly interested to hear about any implications of potential complementary policy approaches for the design of an energy and carbon reporting scheme.

32. We have no further comments at this time.

Question 16:

Please provide views and any information you may have on the relative costs and benefits of:

A:

(1) Central digital reporting and publication of energy and carbon data, including specifically how these costs and benefits compare to reporting through the Companies Act regime on paper that is scanned to images by Companies House to make it available

(2) Please outline the different costs and benefits of:

(i) mandating electronic energy and carbon reporting via Companies House, with complementary activity by government to collate public data and make a single central data set available

(ii) replacing reporting to Companies House with a new dedicated central IT portal, the data from which could be published

(iii) placing such a dedicated central IT portal alongside the current proposals

B:

(1) Dedicated administrator(s) and regulator(s), including specifically how these costs and benefits compare to administration and regulation of energy and carbon reporting as described within the Companies Act regime

(2) Please outline the different costs and benefits of administration and regulation in relation to both replacing the current

33. We have no detailed comments on the relative costs and benefits of the possible future plans for an improved energy and carbon use reporting regime. In our view, it is too early to make any accurate assessment based on the information provided in the consultation document.

Question 17:

If replacing the proposed regime in future, please set out how a dedicated central energy and carbon reporting regime could continue to meet the needs of investors and others in relation to GHG reporting by UK quoted companies, currently required to be alongside financial information in annual reports.

34. As discussed in our response to question 10, we believe that the detailed information on GHG emissions required by quoted companies should be published outside of the annual report. In our view, investors needs would still be met if this information were published on a central energy and carbon reporting website as the broader discussion on environmental matters would be included in the strategic report and could then cross-refer, where relevant, to the more specific detail located elsewhere.

Question 18:

Do you have any other comments on the description of how potential future enhancements to energy and carbon reporting might function under any of the possible approaches, have other suggestions for future enhancements, or consider that any aspects of energy and carbon reporting proposed for 2019 might be better deferred? Please explain your answer.

35. We have no further comments at this time.