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CONSULTATION RESPONSE August 2023

SMARTER REGULATION NON-FINANCIAL REPORTING REVIEW

E3G RESPONSE TO THE CALL FOR EVIDENCE

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E3G is pleased to provide feedback to the Department of Business and Trade's Call for Evidence 'Smarter Regulation: Non-Financial Reporting Review'. Delivering a credible non-financial reporting regulatory framework will be essential if the UK is to become a world-leading Net Zero Aligned Financial Centre and remain an attractive place to invest. In line with the strong support for high-quality non-financial reporting by leading UK investors and businesses, E3G recommends the roll out, as soon as possible, of the UK's Sustainability Disclosure Requirement (SDR) reporting framework. This framework should be science-based, adopt ISSB standards and ensure interoperability with other key international standards, and include clear requirements for all large companies and financial institutions to disclose their transition plans, underpinned by gold-standard Transition Plan Taskforce guidance.

Response to Call for Evidence Questions

I would like my response to be treated as confidential.

☐ Yes

☐ No

What type of respondent are you?

☐ Individual

☐ Investor

☐ Shareholder

☐ Academic

☐ Business

☐ Representative Body

☐ Charity

☐ Other (please specify) Non-Profit Think Tank

What is your name?
Joe Dillon

What size is your business?
☐ Micro (1-9 employees)
☐ Small (10-49) employees)
☐ Medium (50-249 employees)
☐ Large (250 or more employees)

And are you an accountancy firm?
☐ Yes
☐ No

What is your organisation's name? *Third Generation Environmentalism (E3G)*

What is your email address? *joe.dillon@e3g.org*

How did you hear about this consultation?

☐ Email from the Department for Business and Trade
☐ Email from elsewhere
☐ GOV.UK/GOV.UK alert
☐ Newsletter
☐ Twitter
☐ LinkedIn
☐ Other (please specify)

Are you a preparer or a user of non-financial information?
☐ Preparer
☐ User
☐ Other (please specify)
We use non-financial disclosures to better understand the role played by firms in the UK and global net zero transition, and to inform our future work on essential policy reforms required to deliver the UK's Net Zero Aligned Financial Centre.

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Questions for Users

To what extent do you agree or disagree that non-financial information prepared by companies is useful?

☐ **Strongly Agree**
☐ Agree
☐ Neither agree nor disagree
☐ Disagree
☐ Strongly disagree
☐ Don't know

- **Non-financial disclosures are an essential building block for the UK's Net Zero transition. These disclosures enable the identification of risks by a range of market actors, policymakers and CSOs, and facilitate the mobilisation of investment at scale towards net zero opportunities.** Sustainability disclosures are clearly valued by leading UK investors and businesses, who recognise both threats and opportunities from the net zero transition.

- **Investors and businesses recognise that the value of non-financial reporting is high and the costs of failure to do so higher still. Many companies are therefore already voluntarily disclosing non-financial sustainability information**. This norm is increasingly cemented by leading global investors and businesses. In 2022, companies representing over half of global market capitalization voluntarily disclosed to CDP in line with TCFD standards[1]. In the UK, this included 1,448 companies[2], with 99% of the UK's 100 largest companies by revenues reporting on sustainability to some degree[3].

- **Non-financial data have several important use-cases to a wide range of market actors, including:**

  - **Policymakers:** Prime Minister Rishi Sunak demonstrated ambition at COP26 with his commitment to make the UK the world's first Net Zero Aligned Financial Centre[4]. To meet this goal, high quality non-financial reporting guidance is required to enable financial institutions and companies to measure their progress towards net zero and manage the

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[1] CDP, 2023, **New CDP data shows companies are recognizing the need for climate transition plans but are not moving fast enough amidst incoming mandatory disclosure**

[2] CDP, 2023, **New CDP data shows companies are recognizing the need for climate transition plans but are not moving fast enough amidst incoming mandatory disclosure**

[3] KPMG, 2022, **Survey of Sustainability Reporting**

[4] HMG, 2021, **Fact Sheet: Net Zero-aligned Financial Centre**

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related risks. This in turn provides the aggregate data required to inform policymaking to inform any course corrections, and further incentivise private investment towards net zero.

- Strong progress has been already made by Government in the 2023 Green Finance Strategy, which set out clear timelines for consultations on the UK green taxonomy, transition plans, and committing to adopt the International Sustainability Standards Board (ISSB) S1 & S2 standards within the UK's broader sustainability reporting regime. The FCA is also developing standards for sustainability product labelling, to further add clarity to the market on non-financial disclosures. When implemented, these measures will increase the quality of data required to inform investment decisions, unlock private sector net zero investment and deliver on the prime minister's pledge of a Net Zero Aligned Financial Centre in the UK.
- The UK led the world in establishing transition plans as a norm by introducing transition plan requirements for listed companies, and further enhanced this action by developing gold-standard guidance through the Transition Plan Taskforce. The UK has also committed to consult on extending these requirements to all large private companies and financial institutions.
- However, improvements in the quality of data and standardised reporting will be required to take the UK down the final stretch. Globally, significant issues arise with low quality or misleading sustainability data hampering private sector decision making. 87% of investors think corporate reporting contains unsupported sustainability claims (i.e. greenwashing)[5]. Developing a science based, coherent and consistent set of requirements around non-financial reporting will help address this problem and allow policymakers to take the steps needed to deliver on the prime minister's pledge.

- **Companies:** There are several benefits to disclosure for companies. Chief among them is helping UK businesses to manage risk, both by helping them identify and analyse transition and physical risks of the transition, as well as identify economic opportunities. Acting to appropriately regulate the UK market to account for the UK transition

[5] PwC, 2022, **Global Investor Survey**

and capture the global opportunities could bring over £1trillion in value every year to UK businesses by 2030[6].

- High quality non-financial disclosures also enable companies to attract investment. According to EY, 99% of investors utilise companies' ESG disclosures as a part of their investment decision-making[7], which gives an advantage to firms with stronger non-financial disclosure practices. For the UK, having world leading disclosure requirements that are interoperable with other key jurisdictions and international standards (i.e., adopting ISSB) will increase the UK's ability to attract foreign direct investment (FDI).

- **Investors:** Investor surveys have revealed that "investors have a strong demand for climate risk disclosures. Empirical analyses of holdings data corroborate this evidence by showing a significantly positive association between climate-conscious institutional ownership and better firm-level climate risk disclosure"[8]

- 79% of investors believe that climate risk disclosure is at least as important as financial disclosure, and almost one-third consider it to be more important[9]. Investors mainly use sustainability data to analyse potential opportunities and judge the associated risks. However, as we approach the 2050 deadline for the UK to be a net zero aligned financial centre, more accurate, standardised and comprehensive disclosures will be required for investors to assess progress towards both the UKs, and their own, net zero targets.

- Accordingly, investors are already developing credible methodologies to analyse non-financial disclosure data. According to the 2022 EY Global Corporate Reporting and Institutional Investor Survey, 74% of investors are already using a 'rigorous and structured' approach to analysing disclosures[10]. To prevent fragmentation and increase the usability of disclosure data, the development of a streamlined,

[6] McKinsey, 2021, **Opportunities for UK businesses in the net-zero transition**

[7] EY, 2022, **Global Corporate Reporting and Institutional Investor Survey**

[8] Emirhan Ilhan and others, 2023, **Climate Risk Disclosure and Institutional Investors, The Review of Financial Studies, Volume 36, Issue 7**

[9] Emirhan Ilhan and others, 2023, **Climate Risk Disclosure and Institutional Investors, The Review of Financial Studies, Volume 36, Issue 7**

[10] EY, 2022, **Global Corporate Reporting and Institutional Investor Survey**

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interoperable reporting framework and clear guidance, will be key.

- **Consumers:** High quality, standardised, non-financial disclosures build consumer confidence in firms by allowing them to better judge the value of the goods and services they are buying. The increased transparency that disclosure brings promotes fairer pricing and helps protect consumers from unseen risks.

How, if at all, do you use non-financial information?

> **Non-financial disclosures are useful to a wide range of actors. The ready availability of comparable, credible sustainability data is essential to make sure that policymakers, investors and companies have the information they need for decision making and risk management.** Stakeholders include CSOs, policymakers, investors, regulators and the Bank of England, and a whole swathe of private sector data analysts both within FIs and providing services to the market (e.g., Thomson Reuters). Clear and coherent requirements on non-financial disclosure creates a level playing field, allowing market participants a greater level of insight into the risks and opportunities associated with different companies, and facilitates analysis. This protects consumers, promotes fair pricing and greatly informs decision making. In many cases, non-financial data is also critical for tracking progress against financial goals.

> **For E3G, as a non-profit working on climate change, non-financial disclosures by firms are vital to our operation and strategy.** E3G benefits from non-financial information in a variety of different ways, including:

- Tackling greenwash by providing the data to assess the quality of private sector net zero non-financial disclosures, including net zero transition plans.

- Supporting our understanding of the UK's progress towards mobilising investment for the net zero transition. Recent analysis from WWF and E3G found that the Net Zero Investment Gap is around £81-110 billion to 2030[11]. Better non-financial sustainability disclosures, including tying these disclosures to company financials by encouraging disclosure against a UK green taxonomy, would facilitate market actors and CSOs in understanding which sectors

[11] https://www.e3g.org/publications/e3g-and-wwf-joint-report-the-uk-s-net-zero-investment-gaps/

are most in need of policy and regulatory incentives to further mobilise investment.

- Understanding the extent to which, over time, government policies have facilitated net zero investment by creating more granular understanding of where investment gaps, and market barriers exist and what needs to be done to address them. Disclosures such as transition plans will further facilitate this understanding by increasing the dialogue between government policy and market actors to further mobilise net zero investment.

How easy or difficult is it to interpret non-financial reporting disclosures?

☐ Very easy
☐ Easy
☐ Neither easy nor difficult
☐ Difficult
☐ Very difficult
☐ Don't know

> **Non-financial reporting data could and should be easier to interpret.** As a user which has an interest in understanding the role played by firms in the UK and global climate transition, our main priorities are making sure that the data is useful, accurate easily accessible and comparable with other companies' disclosures both in the UK and from abroad.

> **UK multinational companies are already exposed to disclosure requirements from other markets in which they operate: most notably the EU.** UK businesses are increasingly facing de facto disclosure requirements. These can be from investors or stakeholders looking to stay on track to net zero[12], or in many cases from international bodies. This is most notable with the EU. From next year 1,183 UK companies operating in the EU[13], as well as multinationals investing in both jurisdictions, will be required to disclose in line with the Corporate Sustainability Reporting Directive (CSRD). Given that the EU accounts for 42% of UK trade (equivalent to £340 billion in exports[14]), it is safe to assume that going forward an increasing number of UK companies will need to disclose non-financial information.

[12] Emirhan Ilhan and others, 2023, **Climate Risk Disclosure and Institutional Investors, The Review of Financial Studies, Volume 36, Issue 7**

[13] Wall Street Journal, 2023, **At Least 10,000 Foreign Companies to be Hit by EU Sustainability Rules**

[14] House of Commons, 2023, **Statistics on EU-UK Trade**

> **However, delays in rolling out the UK's Sustainability Disclosure Requirements (SDR) have led to several issues which make it difficult to easily access and analyse non-financial sustainability information**. To minimise reporting costs, and maximise the benefits of this data, the key challenges which must be addressed are:

- **Fragmentation of guidance, overlap in reporting requirements (FCA guidance, TPT guidance, TCFD) and the lack of a central UK definition on what is green, or is 'transition' finance'**. This is both creating additional reporting burdens for companies and reducing the utility of the non-financial data being disclosed – at worst leading to greenwash. Currently, 87% of investors think corporate reporting contains unsupported sustainability claims (i.e., greenwashing)[15].

> **A lack of comparable reporting standards increases company level reporting burden** and limits the applicability of techniques to reduce reporting burden such as machine readability and AI technology. Over half of respondents to a 2019 survey conducted by BEIS and PwC mentioned the variations in reporting between companies and the resulting difficulties in comparing company reports[16].

> **A lack of a level playing field across the economy, with not all large private companies required to disclose**. As highlighted by Chris Skidmore MP's Independent Review of Net Zero, the transition to net zero is a whole economy transition[17]. The lack of requirement on large private companies omits a significant part of the business community to develop strategies to achieve net zero emissions, and disadvantages listed UK companies in being able to capture the economic opportunities of the transition. This also risks the ability of companies to attract investment, as shareholders demand transparency and alignment with ESG investor preferences from their portfolio companies.

> **To address these issues and ensure non-financial reporting data is useful to all types of user and preparer, it is crucial that non-financial disclosures include risk and opportunity identification, transition plans and integration between non-financial and financial reporting**. According to a FTSE Russell survey, over half of global asset owners surveyed responded that the primary

[15] PwC, 2022, **Global Investor Survey**

[16] BEIS, 2019, **Stakeholder perceptions of non-financial reporting**

[17] HM Government, 2023, **Mission Zero: Independent Review of Net Zero**

reason for implementing sustainable investment considerations in their strategies is to mitigate long-term investment risk[18]. However, non-financial data is difficult to interpret if it does not signpost to, and is not consistent with, company financial statements. This remains a significant issue. Carbon Tracker estimated that, of the 134 multi-national companies responsible for up to 80% of corporate industrial greenhouse gas emissions, 98% did not provide sufficient evidence that their financial statements include the impacts of climate-related matters[19]. Moreover, 80% of auditors did not appear to assess the effects of climate risks in their auditing of those companies covered in the study, which encompassed a wide range of emission intensive sectors. Without linking this information, the value of non-financial reporting will be undermined.

> **Key reforms to integrate non-financial and financial information include encouraging voluntary reporting of the alignment of company financial flows against the UK Green Taxonomy as soon as possible. A clear timeline should be set out to making this mandatory for large UK companies and financial institutions.** This could also, in line with FCA work on sustainability labelling, include alignment with UK guidance on transition finance, following the outcomes of the Transition Finance Review, to provide further clarity and data on the alignment of portfolios with the UK's Net Zero Transition.

> **To enable accessibility, we urge disclosure data to be accessible online and use consistent digital tags, formats and metrics to allow for aggregation and comparison**. These tags should be consistent with the FCA's sustainability labels to ensure comparability. Making the data easy to access and use for stakeholders is crucial to maximising its benefit. Examples of this include making it quicker and simpler for policymakers to use the data to inform decisions, and to make it easier and more attractive for investors considering UK opportunities to analyse associated opportunities.

All respondents

What changes, if any, would you like the UK Government to make to the current legal requirements for companies to prepare non-financial information, and why?

> **Given the clear evidence of investor appetite for non-financial disclosures, the key question for government is how the UK can minimise costs and maximise benefits of non-financial reporting. Critical to this is**

[18] FTSE Russell, Sustainable Investment: 2021 global survey findings from asset owners, October 2021.

[19] Carbon Tracker, 2022, **Still Flying Blind: The Absence of Climate Risk in Financial Reporting**

solving the issue of fragmentation. This will ensure that UK businesses and investors avoid being overburdened by overlapping disclosure requirements and can make full use of the advantages that non-financial reporting brings.

> **To do this the UK must fully adopt ISSB S1 and S2 as soon as possible**. ISSB is the emerging global sustainability standard, backed by the G7, the International Organisation of Securities Commissions, and with jurisdictions such as Australia, Brazil, Canada, Japan and South Korea setting up adoption processes on ISSB[20]. Interoperability is the only way to ensure that UK non-financial reporting requirements aide UK business in accessing international investment and trade opportunities, as well as avoid unnecessarily increasing reporting burdens. Making certain that the UK is part of the first wave of economies to adopt the ISSB framework will ensure that UK businesses are the most competitive globally.

> **UK multinationals are already implicitly exposed to disclosure requirements from other markets in which they, most notably the EU. Because of this the UK Government must ensure that UK disclosure requirements are interoperable with EU requirements on taxonomies and CSRD.** This will make sure that fragmentation of standards doesn't become a barrier for the 1,183 affected UK companies operating in the EU[21] nor multinationals bridging both.

> As well as addressing fragmentation, **a second priority should be to expand non-financial reporting requirements to all large companies as part of SDR using the ISSB standard as a baseline**. Non-Financial Reporting requirements should be assured at the same level and rigour as financial reporting, including standardised rules and metrics to ease reporting. Specific indicators should be developed for companies reporting on impact in line with international best practice. Currently, while well over 1,000 UK companies (1448) disclose with CDP, only 6 of them disclose to all key indicators[22].

> **Finally, non-financial reporting should encourage and guide private sector transition planning. UK leadership on Transition Planning has**

[20] IFRS, 2023, **ISSB: Frequently Asked Questions**

[21] Wall Street Journal, 2023, **At Least 10,000 Foreign Companies to be Hit by EU Sustainability Rules**

[22] CDP, 2023, **New CDP data shows companies are recognizing the need for climate transition plans but are not moving fast enough amidst incoming mandatory disclosure**

catalysed new global regulatory norms around private sector transition plans. Transition plan disclosure requirements are a key part of delivering on the UK's goal to become the world's first Net Zero-aligned Financial Centre. Since this announcement at COP26 in 2021, momentum on transition plans has built, with G7 leaders highlighting the need for credible transition plans[23]. Transition plan disclosure is also under consideration in a wide range of multilateral regulatory forums, including the International Organization of Securities Commissions (IOSCO), Financial Stability Board, Basel Committee on Banking Supervision, Network for Greening the Financial System. Additionally, many jurisdictions including the European Union, Japan, Brazil, Australia and the USA have developed or are developing requirements[24].

Thinking about the future of your organisation and the UK's transition to a net zero economy, what changes, if any, do you think may be required to the type of non-financial information produced to guide decision making, and why?

There are several changes that should be made to the type of non-financial information disclosure requirements to maximize the quality of disclosure data for decision making. These include:

- **Non-financial reporting requirements should be mandatory for all large companies as part of the UK's Sustainability Disclosure Requirements, using the ISSB standard as a baseline.** Non-Financial Reporting requirements should be assured at the same level and rigour as financial reporting, including standardised rules and metrics to ease reporting. Specific indicators should be developed for companies reporting on impact in line with international best practice. Currently, while well over 1,000 UK companies (1448) disclose with CDP, only 6 disclose to all key indicators[25].
- **To minimise fragmentation of standards, and reduce reporting burden, UK non-financial reporting requirements must adopt the International Sustainability Standard Board (ISSB) standards and promote interoperability with EU CSRD**. The UK should also leverage its influence in key international fora such as the IPSF to encourage other jurisdictions to adopt, or be interoperable with, ISSB standards. This will ensure that the

[23] ESG Today, 2023, **G7 Leaders Support Development of Global Sustainable Disclosure Standards**

[24] See: **Transition Plan Taskforce (2023) Building momentum for transition plans – status update published**

[25] CDP, 2023, **New CDP data shows companies are recognizing the need for climate transition plans but are not moving fast enough amidst incoming mandatory disclosure**

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UK promotes international interoperability and a science-based best practice baseline, enabling UK businesses and investors to easily operate in other jurisdictions without disproportionately increasing their reporting burden.

- **To further promote interoperability with ISSB, the UK should make mandatory the disclosure of all material Scope 3 emissions as currently defined by the GHG Protocol.** This would be achieved through full implementation of ISSB S2 standard which requires disclosure of Scope 3 emissions. Given the materiality of Scope 3 emissions for many sectors and companies exposure to climate risk through their value chains, this data is essential information for investors and other users decision-making. Research by FTSE Russell finds that of the 4,000 large and mid-size constituents in the FTSE All World index, only 58% disclose both their Scope 1 and 2 carbon emissions[26], with many companies over-reliant on relatively less accurate data estimates. Mandatory requirements and clear guidance would help address this disclosure gap.

- **The UK should embed transition plan requirements, underpinned by TPT guidance, within its Sustainability Disclosure Requirements (SDR).** Climate transition plans support the integration of climate objectives into corporate strategy. When published these transition plans create transparency and accountability for companies and support financial institutions in their stewardship, capital allocation and risk management decisions. Interview evidence shows key motivators for developing transition plans include investor demand, pressure from other stakeholders including customers, clients and employees, management of risks and opportunities and reputational benefits[27].

- **To maximise the benefits of the net zero transition, the UK government should set expectations for transition plan disclosures for all large companies, including private companies.** The FCA has already taken steps to require disclosure of transition plans, in accordance with TCFD guidance, on a comply or explain basis[28]. It expects to consult on strengthening these rules drawing on the TPT Disclosure Framework[29]. Government and FCA

[26] FTSE Russell, **Mind the gaps: Clarifying corporate carbon**, May 2022.

[27] Eunomia, 2021, **Net Zero Transition for Non-Financial Corporates: Assessing Motivations, Challenges, and the Role of TCFD Disclosure**

[28] See: FCA **Handbook** LR 9.8 Annual financial report and FCA **Handbook** LR 14.3 Continuing obligations

[29] FCA, 2022, **Primary Market Bulletin 42**

can maximise the benefits to users and preparers by implementing the TPT Disclosure Framework to create comparability between transition plans. This ensures international interoperability by building closely on the ISSB standards and consultation feedback shows all TPT recommended disclosures are expected to be useful for informing decision-making[30]. Requirements should be extended to cover large private companies, to avoid omitting a significant part of the business community who can contribute to the transition to a net zero economy.

> **A UK science-based UK green taxonomy should be published as soon as possible, and companies and investors should be encouraged to report against this as soon as is possible, with a longer-term view to making this mandatory.** A credible, science-based green taxonomy can support users to analyse disclosed non-financial data, creating a common reference point with which businesses and investors can compare investments' contribution to the net zero transition. The UK Green Taxonomy should also prioritise interoperability with the EU Taxonomy to promote interoperability and reduce reporting burden for multinational companies.

> **To provide further clarity to the market, the Transition Finance Market review should be encouraged to develop clear guardrails around what can credibly be called a transition investment.** This will provide investors with the clarity they require to align their activities with the UK's Net Zero target and prevent greenwash around transition products. Any guidance from the Transition Finance Market review should be aligned with the FCA's Sustainability Labelling guidance to provide a common point of reference[31]. This guidance should be regularly updated as the UK's transition progresses.

> **UK regulators should conduct a mapping exercise of existing and planned UK reporting requirements to prevent domestic fragmentation and overlap of reporting requirements**. Overlap of reporting requirements should be eradicated and streamlined into one framework under SDR. This includes harmonising language and creating reporting templates to promote coherency with the FCA's sustainability reporting requirements. This mapping should also take into account any divergences between the UK reporting requirements and any relevant international standards.

[30] Transition Plan Taskforce, 2023, **Building momentum for transition plans – status update published**

[31] **E3G response to the FCA's discussion paper on Sustainability Labelling Regime CP22/20 - E3G**

> **To address the disparities between financial and non-financial reporting, company financial statements should be consistent with non-financial disclosures made in annual reporting.** Consistency is critical for providing clarity for investors on companies' financial health and long-term value. Companies must be encouraged to ensure non-financial assessments of core risks and strategy are consistent with financial information as to how they are managing climate-related risks (i.e., physical or transition), and the financial impacts of the company's business model and any activities undertaken. Auditors should be encouraged to clearly demonstrate that they have considered the consistency of financial and non-financial disclosures, and the relationship between these two types of information[32].

How should the standards being prepared by the International Sustainability Standards board (ISSB) be incorporated into the UK's non-financial reporting framework?

> **ISSB is the global baseline for non-financial reporting standards. To minimise fragmentation of standards, and reduce reporting burden, UK non-financial reporting requirements must adopt ISSB standards, and prioritise interoperability with other sustainability standards such as ESRS**. It is therefore essential that ISSB S1 and S2 are fully adopted into UK requirements for the reasons set out in the first question of the 'all respondents' section. This will ensure that the UK promotes international interoperability and a science-based best practice baseline. We recommend providing detailed requirements for transition plan disclosure, in line with the UK's commitment to consult on extending requirements to large private companies and building on the TPT's guidance.

To what extent do you agree or disagree that current size and company type thresholds for non-financial reporting information could benefit from simplification?

☐ Strongly agree
☐ Agree
☐ Neither agree nor disagree
☐ Disagree
☐ Strongly disagree
☐ Don't know

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- **Although mandatory requirements for Non-Financial Reporting should be rolled out to all large companies eligible for TCFD reporting, HMG should also consider evaluating eligibility on a risk basis as well as size,** especially where private companies are operating in particularly high emitting sectors, or where the sectoral decarbonisation pathway is less clear. More work on this by the Department of Business and Trade, the FRC and other key departments would be welcome.

- **Over time, a clear timeline should be set out for the roll out of SME reporting requirements**, and simplified guidance should be developed through consultation with the British Business Bank and other key stakeholders.

Do you have any other comments that might aid the consultation process as a whole?

- **The net zero economic potential from delivering a world-leading Net Zero Aligned Financial Centre is substantial; and the costs of inaction are high.** McKinsey calculates that acting to appropriately regulate the UK market to account for the UK transition and capture the global opportunities could bring over £1 trillion in value every year to UK businesses by 2030[33], while the Grantham Research Centre at LSE projected in May last year that without further policy action, the total cost of climate change damages to the UK would increase from 1.1% of GDP to 3.3% by 2050[34]. While the Green Finance Strategy and other policies adopted since then have taken welcome steps, more must be done to protect the UK economy from climate related risk.

- **The green investment market has grown fast in the UK. In 2022 alone, £23 billion of new low carbon investment was delivered in the UK[35], with London topping the Global Green Finance Index and establishing itself as the world's leading green financial centre[36].** Investors are actively prioritising ESG, with the UK market for UK domiciled responsible investment funds growing by 64% during 2021, while the overall market for UK domiciled funds only growing

[33] McKinsey, 2021, **Opportunities for UK businesses in the net-zero transition**

[34] Grantham LSE, 2022, **What will climate change cost the UK?**

[35] HM Government, 2023, **Mobilising Green Investment: 2023 Green Finance Strategy**

[36] Zyen, 2022, **The Global Green Finance Index 9**

11%[37]. The 2023 Green Finance Strategy notes that "ESG-oriented AUM is set to grow much faster than the asset and wealth market as a whole"[38].

> **The UK is well placed to lead on green finance and create a world-leading non-financial disclosure regulatory framework.** In 2013 the UK was the first to make emissions reporting mandatory, including a requirement for listed companies in the Companies Act. This catalyzed environmental disclosure regulations worldwide. The UK was the first G20 country to make it mandatory for the largest businesses to disclose their climate-related risks and opportunities. As a result, the UK has the highest disclosure rate on climate risk and carbon reduction globally. This includes 96% of the UK's largest 100 companies by revenue disclosing in line with Task Force on Climate-Related Financial Disclosures (TCFD) requirements[39]. Progress was also made through the FCA's introduction of comply or explain transition plan reporting requirements for listed companies, supported by development of gold standard guidance by the Transition Plan Taskforce.

> **The 2023 Green Finance Strategy showed ambition by committing to deliver a range of net zero regulatory reforms,** including clarifying the timelines for consultations on: extending transition plan requirements to all large private companies; a science-based UK Green Taxonomy; and implementing the UK's commitment to align its broader sustainability reporting regime with the International Sustainability Standards Board (ISSB) S1 & S2 Standards.

> **However, delays in rolling out the UK's SDR framework and the UK Green Taxonomy have shaken business confidence in the Government's commitment to delivering on its Net Zero targets.** It is essential that the UK Government reclaims its leadership and continues to build this momentum on non-financial reporting to unlock further benefits and retain the UK's competitive advantage in the global economy.

> **The question is therefore not how much a net zero aligned UK regulatory regime will cost businesses in terms of reporting, but rather how the UK can minimise costs and maximise benefits through creating a streamlined, interoperable and coherent reporting framework**. This reporting framework will protect consumers and investors from hidden risk and greenwash, as well as minimising reporting burden by preventing the fragmentation of standards.

[37] FCA, 2022, **Sustainability Disclosure Requirements (SDR) and investment labels (Consultation Paper)**

[38] HM Government, 2023, **Mobilising Green Investment: 2023 Green Finance Strategy**

[39] **KPMG, 2022, Small Steps, Big Shifts: Survey of Sustainability Reporting**

We are already seeing these burdens building as new reporting standards and formats are added. For example, the EU estimates that the annual recurring cost of the CSRD will be around €3.6 billion[40]. By ensuring that UK reporting requirements adopt ISSB, and are interoperable with other relevant international norms, the government can protect UK businesses from additional costs caused by fragmentation and ensure that they can reap the full benefits of non-financial disclosure.

About E3G

on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

More information is available at **www.e3g.org**

[40] IR Magazine, 2022, **Tsunami of Detail Required in Europe's New Common Reporting Framework**