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Thursday 14 December 2023

Dear DESNZ colleagues,

Call for Evidence: Scope 3 Emissions in the UK Reporting Landscape

We welcome the opportunity to respond to your call for evidence on Scope 3 Emissions in the UK Reporting Landscape.

The Quoted Companies Alliance *Corporate Governance Expert Group* has examined the proposals and advised on this response from the viewpoint of small and mid-sized quoted companies. A list of Expert Group members can be found in Appendix A.

Overall, the QCA and our members recognise the value and importance of Scope 3 emissions information. For corporate entities, collecting and analysing Scope 3 emissions information can help to ensure that the board and management team are aware of the risks and opportunities they face, helping them to address these issues. For investors and other users of accounts, it allows them to develop a more accurate picture of the business, helping investors to inform their decisions.

However, it is important to state that despite broad agreement on the value of Scope 3 emissions information, there are practical difficulties that both corporate entities and investors face. As stated further on in our response, investors are increasingly looking for reporting entities to provide this information so that they can produce accurate models and estimations as well as, in some cases, to adhere to their own regulatory requirements. It is therefore important to them that Scope 3 emissions information is provided by reporting entities. Without such information, they are not able to build an accurate picture of the company, or have to use incomplete information to make estimates. This could potentially lead investors to divesting from certain companies who do not provide such information.

As a result of this, it would seem appropriate that greater attention is given to entities providing Scope 3 emissions information. However, there are significant challenges and barriers that entities face in collecting, analysing and eventually reporting Scope 3 emissions information. These challenges mostly relate to the costs and complexities of collecting such information. We provide further information on this in our answers to the questions below.

Finally, and as a general comment, we would strongly urge DESNZ to take into account the broader market context and the considerable decline in use of our public markets when considering any potential requirements relating to Scope 3 emissions on reporting entities. We believe this is particularly important on two fronts. Firstly, we note that the overall scope, volume and complexity of reporting requirements has increased significantly in recent years. This has resulted in companies questioning the value of public markets due to the substantial costs and burdens that they incur. It is therefore essential to ensure that the costs associated with requiring Scope 3 information do not outweigh the benefits. Secondly, we note that there are currently issues that exist within the audit market relating to constraints on resources, increasing costs and, in some cases, limited availability. As a result of this, the need for audit firms to audit annual reports and accounts with Scope 3 emissions disclosures will create further complications and exacerbate the issues that already exist.

Please note that, as the QCA, we are not a reporting entity or an investor/user of accounts and have therefore limited our responses to certain select questions where our corporate and investors members have raised concerns.

If you would like to discuss our response in more detail, please do not hesitate to contact us.

Yours sincerely,

James Ashton.

James Ashton
Chief Executive

General questions

Q5 Do you agree or disagree with the ISSB's assessment of the value of Scope 3 information?

Overall, we agree with the ISSB's assessment of the value of Scope 3 information. Reporting Scope 3 emissions for the full value chain is important for both investors and other users of accounts as well as the reporting entities. It allows investors and other users to fully assess each aspect of a company's carbon footprint, and it ensures that the board and management teams of the reporting entities have a complete understanding of the risks and opportunities they face.

That being said, and while we agree with the ISSB's assessment of the value of Scope 3 information, it is important to note that the reporting of Scope 3 information is far behind that of Scope 1 and Scope 2 information. This is due to the intrinsic difficulties associated with reporting this type of information. In particular, many smaller reporting entities often lack the data, resources and authority to obtain the information in order to report on it.

Q6 In general, what is your view on the approach to Scope 3 reporting contained within IFRS S2? Please consider the ISSB's approach to materiality in your answer.

Broadly, our investor members consider the approach to Scope 3 reporting contained within IFRS S2 to be well-framed.

Moreover, and as identified in the Call for Evidence, it can often be the case that Scope 3 emissions amount to a large percentage of an organisation's total emissions. However, we consider that materiality is key and that requiring all corporate entities to disclose Scope 3 emissions information without a materiality assessment would be disproportionate. It is therefore welcome that the requirement under IFRS S2 for entities to disclose their GHG emissions (Scope 1, Scope 2, and Scope 3) is subject to a materiality test.

However, and as mentioned in our response to Q5 above, there are difficulties for reporting entities, and in particular, smaller reporting entities relating to the practicalities and costs of collecting, analysing and addressing Scope 3 information. Therefore, the approach to Scope 3 reporting contained within IFRS S2 needs to be more flexible and, at a minimum, there should be a phased approach implemented for reporting entities of a smaller size.

We believe that a phased approach should exempt smaller entities from reporting their Scope 3 emissions until the practical solutions we have outlined throughout our response (see Q5, Q15 and Q19 in particular) have been appropriately addressed and sufficient guidance has been issued. Smaller reporting entities require sufficient clarity and consistency, as well as the ability to compare what larger entities do before being required to report their Scope 3 emissions information. A phased approach will allow smaller reporting entities to gain clarity on what they need to do, the assumptions they can apply and how to address issues with data availability and accuracy from their supply chain, for instance.

Q7 What is your view on the use of the GHG Protocol for the purposes of Scope 3 reporting within IFRS S2? Will this lead to comparable and consistent reporting that is useful for investors and users of accounts?

The use of the GHG Protocol for the purposes of Scope 3 reporting within IFRS S2 makes sense, particularly given it is widely recognised and used by many reporting entities who currently report on their Scope 3 emissions. The Scope 3 emissions categories outlined in the GHG Protocol are useful and widely understood.

However, in practice, the two dominant categories that often receive the most attention and prioritisation from a reporting point of view are purchased goods and services (Upstream Emissions) and use of sold products (Downstream Emissions).

Questions for investors and other users of accounts

Q12 How, if at all, do you expect to use the Scope 3 information that could be disclosed by businesses in accordance with IFRS S2? If you are an investor, how will this information influence your decision-making?

Our investor members have indicated that they themselves are increasingly undertaking climate risk analysis of corporate investees both on a voluntary basis and, increasingly so, due to regulatory requirements. Reporting by investees on Scope 3 information is therefore important as without this information investors have to rely on estimations and models which may not provide an accurate representation of the company's management of its risks.

Q13 If you are a user of annual reports, which of the Scope 3 GHG emissions categories do you most value information on and why?

Our investors members have indicated that the most valuable category for Scope 3 GHG emissions is purchased goods and services (Upstream Emissions). Without this disclosure, more vertically integrated business models are at a disadvantage compared to more outsourced business models.

Q14 When making investment decisions, does the usefulness of Scope 3 data vary depending on the sector and the size of the reporting organisation?

Yes – our investor members have stated that the usefulness of Scope 3 data varies depending on the sector and size of the reporting entity.

General questions

Q15 What are your views on the overall costs and benefits of Scope 3 reporting? Please be as specific as possible.

Please see our introductory remarks and response to Q5 above for our views and the views of our members on the value of Scope 3 reporting.

The costs of reporting on Scope 3 emissions for those who currently only collect and report on Scope 1 and Scope 2 emissions will likely be considerable as the extent of emissions information they would need to measure, analyse, and produce disclosures will increase substantially. This is especially likely to be the case for smaller entities who do not currently have the capacity to report such information.

In a similar vein, costs are likely to be considerable for entities who have long and complex supply chains. In particular, entities that have their supply chains operating across different jurisdictions, will face potentially significant costs through the process of collecting the necessary information from their suppliers.

Finally, corporate entities may need to bring in external expertise, make new hires or train staff where they do not have the necessary knowledge or skills to measure and assess Scope 3 emissions information which is inherently more complex than other emissions information.

Questions for reporting entities

Q19 What are, or do you anticipate being, the greatest barriers to producing consistent Scope 3 data?

There are many barriers to producing consistent Scope 3 emissions data. These relate to the complexity of the data, the availability of the data, and the accuracy of the data.

Most notably, Scope 3 emissions data is considered to be much more complex to calculate and assess than Scope 1 and Scope 2 emissions information, and some organisations may not necessarily have the skills or knowledge to adequately manage and assess this information. This is often due to the indirect emissions being outside the control of the reporting entity.

There are also administrative challenges that exist for corporate entities around the availability of such information, particularly when reporting entities are approaching their suppliers for data and information. For instance, corporate entities with supply chains in other jurisdictions may encounter considerable barriers when their suppliers are not bound to similar levels of mandatory environmental reporting requirements or standards. In these cases, corporate entities simply may not be able to acquire the necessary data.

Moreover, there are also potential challenges regarding the accuracy and reliability of the data, particularly for companies with complex supply chains in other jurisdictions. This can lead to incomplete information being used to make potentially significant estimations. The quality of data provided is paramount to the accuracy and reliability of it. If the quality of data is not good enough, this could produce issues with comparability, where organisations use different calculation methodologies, creating substantial uncertainties.

General questions

Q29 SECR reporting is currently required within a company's annual report. Would it be more appropriate to report on SECR in another document or format?

As a general comment, and given the increasing lengths of a company's annual report, there could be value in placing this information elsewhere, such as on the company website.

Appendix A

The Quoted Companies Alliance *Corporate Governance Expert Group*

Will Pomroy (Chair)	Hermes Investment Management Limited
Laura Nuttall (Deputy Chair)	One Advisory Group Ltd
Anthony Appleton	BDO LLP
Aisling Arthur	Travers Smith LLP
Edward Beale	Western Selection PLC
Nigel Brown	Gateley PLC
Amanda Cantwell	Practical Law
Richie Clark	Fox Williams LLP
Louis Cooper	Non-Executive Directors Association (NEDA)
Madeleine Cordes	Prism Cosec
Edward Craft	Wedlake Bell LLP
Ed Davies	LexisNexis
Caroline Emmet	Link Group
David Fuller	CLS Holdings PLC
Nigel Gordon	Fladgate LLP
Ian Greenwood	Korn Ferry
David Hicks	Simmons & Simmons LLP
Kate Higgins	Mishcon De Reya
Tyler Johnson-Cloherty	CLS Holdings PLC
Kam Lally	Wedlake Bell LLP
Darius Lewington	LexisNexis
Paul Norris	MM & K Limited
Emily Rees	Quartix Technologies Plc
Jack Shepherd	CMS
Julie Stanbrook	Slaughter and May LLP
Peter Swabey	C/o The Chartered Governance Institute
Chris Taylor	Young & Co’s Brewery Plc
Camelia Thomas	Practical Law Company Limited
Sanjeev Verma	Maddox Legal
Melanie Wadsworth	Faegre Baker Daniels LLP
Sarah Wild	Practical Law Company Limited
Shaun Zulafqar	Shakespeare Martineau LLP