

The Next Stages: A Policy Brief

An overview of key policy changes to reporting standards



James Clarke, December 2022

Executive Summary

With regards to CSRD, SECR, TCFD, and ESOS there are three common themes emerging.

- The first is an apparent desire to expand the schemes through the likely lowering of qualifying criteria.
- A secondary theme is a want for increased data quality with an end-goal of more detailed and in-depth reporting.
- The final common theme surrounding these schemes is a growing call for greater standardisation across all reporting which will likely be enforced through mandatory conformance with fixed procedures set out by governing bodies.

As well as expansion of the UK ETS it is incredibly likely that carbon pricing and fines for exceeding the carbon allowance will increase. There are growing calls to have WLCAs brought in with a likely initial focus on the built environment. A notable shift is the growing movement in the US which will see the US catching up to EU and UK standards of reporting in the very near future.

In general, most of the projected changes in policy highlighted in this report will take place between 2023-2031.

Introduction

Policy remains a rapid and ever-changing environment, especially with regards to the environment and sustainability. This brief shall provide an assessment of the changes that are likely to come to policy within the European Union (EU) and Anglosphere, taking a primary focus on the United Kingdom (UK). It must be noted that despite evidence supporting the likely shifts in policy highlighted in this report, the ever-changing nature of the political realm threatens to undermine this brief's assertions.

The following areas will form the basis of this policy brief: the Corporate Sustainability Report Directive (CSRD), Streamlined Energy and Carbon Reporting (SECR), the Task Force on Climate-Related Financial Disclosures (TCFD), the UK Emissions Trading Scheme (ETS) and carbon pricing, whole life carbon assessments (WLCAs), the Energy Savings and Opportunity Scheme (ESOS), and more generally, the Securities and Exchange Commission (SEC) and United States (US).

Caveats To Policy Research

Policy is a very uncertain area due to the unpredictability of the political landscape. The free-flowing state of policy can often be summarised as 'one small step for man, one giant leap in the wrong direction.'

Research Methodology

The foundation of this brief largely depends on the following resources: Think-tanks, international organisations, and government bodies (civil service/committees). This analysis of policy primarily focuses on Europe and countries within the Anglosphere. It benefits to draw from this wide range of resources that originate from varied geographical areas as often governments tend to play copycat with one another when falling behind in sustainability or, more generally, environmental policy. This can be evidenced by the UK Government stating that '[they] will review the different methodologies employed by these [European] countries, and monitor the impact of their implementation, to help inform our [the UK's] future policy making.'

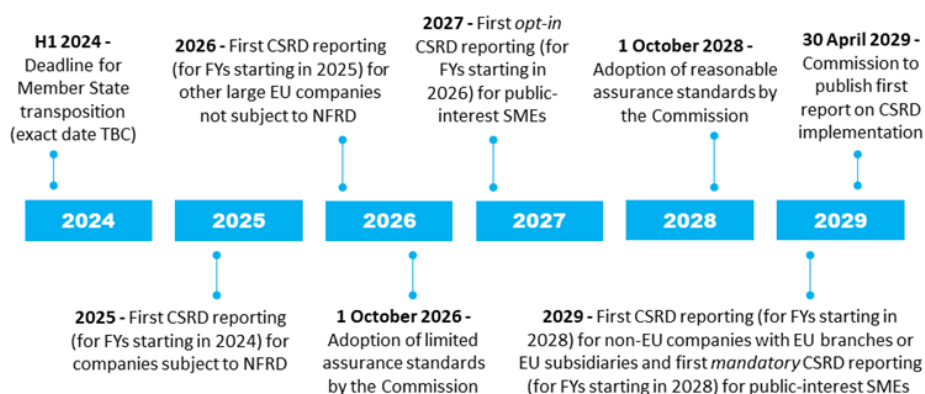
CSRD

The European [CSRD](#) will be replacing the Non-Financial Reporting Directive. Under this new legislation nearly 50,000 EU companies will be required to disclose their impact on the environment to help consumers and investors make sustainable choices.

To come under the [CSRD's criteria](#) a company must have a total revenue of EUR 40 million or hold EUR 20 million in assets, and have over 250 employees. There is some talk of lowering these criteria so that SMEs are incorporated sooner than the 2027 timeframe. New reporting would also apply to non-European companies that generate new turnover of at least EUR 150,000,000 in the EU and have at least one subsidiary or branch in the EU.

The future of what the CSRD will include, remains under constant debate. There is potential that the CSRD will include a mandate to consider double materiality (how a company both impacts and is impacted by climate change), and to incorporate value chain sustainability factors. [The CSRD will require](#) companies to report Scope 3 emissions. However, reporting of the whole of Scope 3 emissions is unlikely and the CSRD will probably focus on categories that are directly controlled by a business, such as business travel. What is known is that the CSRD will require much more detailed and in-depth reporting, and that such reporting will be required to be published.

Below is a [timeline](#) of what CSRD implementation is projected to look like. However, this is always subject to change.



SECR

With regards to SECR it is unlikely that the scope of what is covered will expand in the near future. However, it is likely that the number of UK businesses with reporting obligations [will increase](#). Reporting obligations will most likely expand under the basis of including more sectors of business or even a new carbon reporting scheme that will incorporate smaller companies.

It is likely that SECR will follow the CSRD in the enforcement of improved data quality and [more in-depth reporting](#). In line with this probable shift in a similar direction of the CSRD, SECR will more than likely [implement Scope 3](#) categories that are directly

controlled by a business and place more emphasis on providing a greater breakdown of entities within a companies SECR report.

Further changes that are likely to come to the SECR will generally surround the expansion of the scheme and greater standardisation across those companies who are required to produce SECR reports.

Following the desired expansion of SECR it is expected that [unquoted companies](#) will have to begin reporting like quoted companies. In terms of standardisation there are many expected changes that will come to SECR in the near future to ensure the goal of standardisation is met. If reporting is carried out inhouse it is likely that there will be [mandatory verification](#) from outsider third parties. In keeping with the theme of standardisation it is also more than likely that the Green House Gas Protocol will be incorporated, on an increasing scale, as the [standard methodology](#).

Many sources have pointed towards an idea that ultimately, SECR likely hopes to put more emphasis on businesses meeting both [internal and national targets](#). This shift will more than likely require businesses to pay increased attention to developments in policy relating to said targets.

TCFD

There are no major updates to TCFD that have not been largely implemented already. However, in the UK organisations with an AUM or assets under the already published [criteria](#) but above £5 billion are expected to disclose for accounting periods beginning on or after the 1st January 2023. It must be noted that the UK Government has showed concern with the number of companies that are [not meeting TCFD requirements](#). To give an idea of this lack of conformance with TCFD it is believed that only 4% of companies have met all the TCFD requirements. As such, it is likely that if any changes are made to TCFD it is likely that these will revolve around a desire to increase conformance and transparency with reporting.

UK ETS and Carbon Pricing

Phase 1 of the [UK ETS](#) will be split up into two halves, with the first half taking place between 2021-2025 and the second half taking place from 2026-2030. The first half of Phase 1 will have an initial review conducted from 2023 to assess whole system performance and following this assessment any necessary changes to design features will be implemented by 2026. So, it is difficult to project what changes may come to the UK ETS before these dates. A full review of the UK ETS will take place

from 2028 onwards to again assess whole system performance across Phase 1, with any updates to the UK ETS rules being implemented from 2031. So, again it is unlikely we will gather a full picture of the UK ETS any earlier than 2028.

However, despite not knowing the definite future of the UK ETS, we can speculate using what is known about similar schemes across the world. In line with the EU ETS it is likely that the UK ETS will increase in scale as it only covers around [25%](#) of carbon emissions to date; expansion of the scheme to more sectors seems like the most logical next step.

The UK will again probably draw some inspiration from the United States (US) with the removing of a need for permits around renewables, so that more renewables can be built, reforming energy markets and [incentivising technology](#) neutrality whereby the government does not favour specific low carbon solutions.

With regards to carbon tax, we can view Canada as a likely inspiration for the UK. Canada intends to increase carbon tax, currently \$50 per tonne, by \$15 ever year reaching a peak of [\\$170 by 2030](#). The UK will very likely follow this example and will likely go beyond Canada's \$170 as the UK generally tends to trend towards higher costs surrounding carbon, as evidenced by the UK fining £100 per tonne for exceeding the carbon allowance.

WLCAs

Currently there is no national UK policy/legislation requiring the production of a WLCAs. However, this legislation is likely to come as can be seen with a [growing movement](#) in European countries legislating WLCAs and setting WLC targets. Already in the UK local authorities are mandating WLCAs of their own accord. Such moves at the [municipality levels](#) will likely hasten the mandating of WLCAs on a national scale.

In line with European countries it is likely that UK legislation on WLCAs will [focus](#) on the built environment and will more than likely be seen upon the introduction of the Future Homes Standard. Such WLCAs surrounding the built environment will likely be applied to buildings above a gross internal area of 1000 square metres, or those buildings that create more than 10 dwellings. The UK Government is set to meet to consult on these criteria in 2023.

ESOS

It has already been stated by the UK Government that ESOS will be [refocused](#) to include energy efficiency and net zero. ESOS is likely to become more compulsory on a wider scope and be extended to SMEs that are not already part of a corporate group containing a large business. There is a potential that an alternate scheme will be created for [SMES](#). However, this is highly dependent on future UK Government budgeting, and given the current global financial situation, it is likely that due to cost saving SMEs will be incorporated into the already existing ESOS framework.

To [increase transparency](#) with regards to ESOS reporting the UK Government is more than likely to require mandatory publishing of ESOS recommendations and subsequent actions. To ensure an upkeep of standards in this area the UK Government is likely to formulate a standard template for including compliance information in ESOS reports, comprising ESOS information the participant should already have available.

The SEC and US More Generally

Finally, the SEC has been proposing [new rules](#) to enhance and standardize climate-related disclosures by public companies. Such rules are likely to include the mandatory reporting of Scope 1 and 2 emissions, which is already seen across most of the European continent. The US like the EU and UK is likely to initially focus on public companies and then in the coming years expand the schemes they implement to incorporate a larger scale of companies. Given previous attempts in New York to implement such legislation by 2025, the likely timeframe for the implementation of these schemes that will require full emission disclosures will be between 2023-2026.

Given the structure of the US system of governance, such schemes will likely be brought in on a [state-by-state basis](#), and it is unlikely that we will see schemes implemented on a federal level any time soon.

Conclusion

Upon evaluation of the current state of policy shifts, it is likely that within the next decade we will see a great transformation and incredible expansion in the environmental and sustainability policy areas. However, such changes are increasingly subject to change, and much more is yet to be done if the world is to be successful in the fight against climate change.