



State of Play – ESG Reporting June 2022

Background

To achieve the net zero agenda by 2050, the whole economy will have to undergo a significant and rapid transformation. This transition to a low-carbon economy will not be possible without large-scale investment into green assets and sustainable growth. Policymakers have therefore identified the financial services sector as crucial for meeting decarbonisation targets, as set out in the [Green Finance Strategy 2019](#), through the ‘greening’ of firms themselves and through the ‘financing’ of the green. In addition to reducing environmental impacts, there has been a shift in consumer demand for more ethical businesses practices - largely illuminated by the pandemic and resulting economic crisis - that has also led to a focus on firm’s social impacts in society. In response, Government is increasingly regulating to mandate corporate reporting against ESG requirements to stimulate green investment, make sustainability considerations central to financial decision-making, and support businesses and financial institutions to do their part to enable a just transition.

The Government sets out these aims for the UK to become a net-zero aligned financial centre in [Greening Finance: A Roadmap to Sustainable Investing \(publishing.service.gov.uk\)](#). This roadmap explains that the Government will legislate for several corporate reporting frameworks such as TCFD and SDR, in addition to existing sustainability reporting requirements, to successfully decarbonise the economy. These myriad frameworks, which aim to inform investors and consumers of the sustainability of a company, can be captured under the umbrella term of ESG reporting. This is because environmental, social, governance (ESG) factors can be used to assess the short, medium and long-term sustainability and viability of firms, as information on aspects such as an organization’s carbon emissions, modern slavery in supply chains, or board diversity and structure is now critical for investment decisions and corporate reputations. Some elements of ESG reporting as raised in the roadmap are currently under consultation. They include the international standard for climate-related reporting (ISSB) which contains proposals for car rental and leasing industry-based disclosures, and the transition plans which will comprise part of the Sustainability Disclosure Requirements (SDR). The BVRLA is currently seeking member views to respond to these consultations.

A summary of these and other ESG reporting frameworks from the roadmap are listed below:

Summary of Regulation

Framework	Timeline	Scope	Reporting on what?	For who?	Where?
Established framework:					
SECR (Streamlined Energy and Carbon Reporting)	In effect <i>1 April 2019</i>	Large unquoted companies (annual turnover >£36m, 250+ employees) and LLPs, quoted companies	UK energy use, Scope 1 and 2 greenhouse gas emissions according to Greenhouse Gas (GHG) Protocol	Investors, shareholders	Group-level: Directors Report for quoted/unquoted companies, Energy and Carbon report for LLP’s

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Materiality assessment: The following disclosure frameworks are material to investors as they have a direct impact on the value of the disclosing company;

<p>TCFD (Taskforce for Climate-Related Financial Disclosures)</p>	<p>In force <i>6 April 2022</i>. Review consultation in 2023</p>	<p>Premium listed companies, all UK companies/LLPs with 500+ employees AND either a) annual turnover >£500m, b) is quoted, or c) is a Public Interest Entity. Scope to expand subject to 2023 review; most companies by 2025</p>	<p>Climate-related physical or transitional financial risks under four pillars; <i>governance, strategy, risk management and metrics and targets</i>, analysed against qualitative scenarios.</p>	<p>Investors, lenders, insurers, FCA listing rule 'comply or explain' basis for premium listed companies</p>	<p>Group-level: Strategic Report; Non-Financial and Sustainability Information Statement</p>
<p>ISSB Climate Reporting Standard (International Sustainability Standards Board)</p> <p>NB: EU equivalent is EFRAG</p>	<p>UNDER CONSULTATION (closing 29 July 2022). Final standard expected by end of 2022</p>	<p>Global baseline for climate disclosures; companies in scope will depend on how jurisdictions adopt the disclosure standard. UK likely to incorporate ISSB climate standard for TCFD reporting 1-2 years after implementation.</p>	<p>1. Exposure draft on climate disclosures – TCFD recommendations + mandated <i>Scope 3 reporting</i> 2. Industry-based standard – car rental and leasing: disclose <i>fleet fuel economy & utilisation, size, age and availability</i>.</p>	<p>Investors</p>	<p>Annual Report (where TCFD is housed)</p>

Double materiality assessment: The following framework/s require information that is both a) material to investors as it has a direct impact on the value of the disclosing company, and b) material beyond finance as it pertains to how firms impact the environment and/or society;

<p>SDR (Sustainability Disclosure Requirements)</p> <p>NB: EU equivalent is SFDR</p>	<p>First consultation expected in July. Requirements expected by end of 2022. Further consultations</p>	<p>Initially banks, insurers and companies subject to TCFD. Scope eventually expanded to economy-wide corporates, subject to</p>	<p>Reporting sustainability (not just climate-related) information against TCFD recommended categories – <i>governance, strategy, risk management, and metrics and targets</i> at both a product-level and entity-level. Products will require sustainability labels.</p>	<p>Consumers; product-level disclosures, Institutional investors; detailed disclosures, FCA; product sustainability labels, Government and regulators; taxonomy/</p>	<p>Annual Report</p>
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	widening scope expected 2023.	2022/23 consultation	Broader information requirements than TCFD as SDR will include disclosures on 1) proportion of assets/percentage of activities aligned to 'green' taxonomy and 2) transition plans.	transition plan elements	
UK Green Taxonomy NB: Based on EU Taxonomy	First consultation on high-level Technical Screening Criteria expected July 2022. Second consultation on detailed objectives expected Q1 2023.	'Economically significant' UK-registered and UK-listed companies, full scope TBD through consultation.	Taxonomy classifies economic activities as sustainable, transitional, or enabling. Companies to report the percentage of capital expenditure, operational expenditure and turnover that is Taxonomy-aligned.	Investors and consumers	Annual Report
TPT (Transition Plans Taskforce)	UNDER CONSULTATION (closing 13 th July 2022).	Private sector companies economy-wide, may include SMEs. To be determined through consultation.	Element of SDR reports, transition plans set out concrete actions taken by firms to achieve their net zero targets. Proposed reporting against 11 elements focused on emissions reduction; <i>ambition, target setting, management activities, internal policies, products and services, value chains, public sector engagement, industry engagement, monitoring, skills, and governance.</i>	Investors for comparability	To be determined through consultation. Options: a) in existing annual financial disclosures, b) standalone sustainability reports, c) standalone strategy documents.

BVRLA Position – Member Input Required

ISSB Consultation (Climate-related Reporting)

The International Sustainability Standards Board (ISSB) was established at COP26 to develop a global standard of ESG disclosures for capital markets. It is currently consulting on the exposure draft for the international climate-related reporting standard. These proposals build on the TCFD recommendations such as reporting on financial risks and opportunities, but are more granular, as they include Scope 3 emissions and incorporate industry-based disclosure requirements designed to



meet the information needs of investors assessing enterprise value in different sectors. The UK has committed to adopting the ISSB standard once it is finalised. To deliver this, the Government will regulate to integrate the standard with existing TCFD requirements and ensure in-scope companies are not required to report the same information twice.

The proposed [ISSB industry standard](#) contains metrics on fleet utilization data, total available rental days and average age of vehicles on fleet. These measurements may form the quantitative element of qualitative TCFD reports for vehicle rental and leasing. We are seeking feedback on whether these metrics represent the best ways of making an environmental assessment of firms in our industry, or whether there are more appropriate metrics that will satisfy reporting requirements. **As the only vehicle rental/leasing-specific reporting metrics being proposed at this stage, it is essential we receive views from members on the consultation.**

In the near future, the ISSB will also consult on broader sustainability-reporting standards, which encompass wider factors to business value than climate-related financial risks alone. The UK will adopt this international standard for the Sustainability Disclosure Requirements (SDR) regime, which will require further information on how firms impact the environment through reporting against the Green Taxonomy and the publication of private sector transition plans. The Government are currently consulting on the latter element of the SDR (see below).

TPT Call for Evidence (Transition Plans)

The UK will require private sector companies, initially financial firms, to publish a robust transition plan under the SDR on a comply or explain basis. Transition plans set out how firms intend to decarbonise and meet legally-binding net zero targets (such as the ICE vehicle phaseout by 2030). The aim of mandating them is to increase transparency and accountability for the concrete actions firms are taking to adapt to climate change and align with the economic transition. Plans should set out a) high-level targets the organisation is using to mitigate climate risk, including greenhouse gas reduction targets (e.g. a net zero commitment), b) interim milestones, and c) actionable steps the organisation plans to take to hit those targets. Detailed and credible transition plans are important for investors comparing firms and holding company boards to account, and as such the Government wants to see their widescale adoption across the economy.

Whilst the UK intends to legislate for mandatory private sector transition plans by 2023, there is not yet a clear or common standard for what a good quality transition plan looks like. The Taskforce are therefore currently seeking views on best practice for the sector neutral-framework and sector-specific templates of financial firms' [transition plans](#). Proposals for the sector-neutral framework currently focus on firms setting overall emissions reductions targets and then reporting on offsets, action plans, company policies, and employees responsible for meeting these targets. The Taskforce will consult separately later in 2022 on sector-specific templates. **The BVRLA also requests your high-level views on the initial proposals of the TPT.**

Useful Links

[Update to Green Finance Strategy CfE](#), [SECR Guidelines](#), [TCFD Guidance](#), [TCFD Roadmap](#), [ISSB Climate and Sustainability Reporting Standards](#), [Factsheet: Net zero-aligned Financial Centre](#).