



Financial Reporting Council

FRC ESG Statement of Intent: What's Next



January 2023

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Foreword

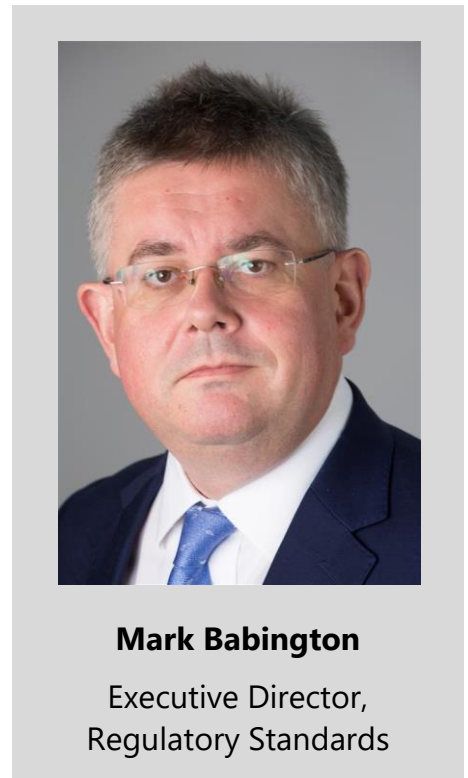
In 2021, the Financial Reporting Council (FRC) published its Statement of Intent on Environmental, Social and Governance (ESG). This update sets out areas in which there are ongoing challenges with ESG reporting, actions to address these, and the FRC's planned activities in this area. This update summarises the significant number of initiatives that the FRC has undertaken during the last 18 months to assist and support our wide stakeholder universe and drive best practice both in the UK and internationally.

Much of the work the FRC has done since 2021 has been focused on how to best meet stakeholder needs for consistent, comparable, decision-useful information. We have done this by promoting improvements and innovation in the areas for which we are responsible, exploring good practice with a wide range of stakeholders and developing practical guidance for future reporting. Improving transparency on climate and wider ESG risks and opportunities, and related governance activities and behaviours, is a key priority of our ESG strategy. This is a critical part of the FRC's role as an improvement regulator.

To deliver this work in a way that draws on all of the skills that the FRC has, we have established the FRC ESG Group. The ESG Group is the FRC's advisory body providing cross-FRC thinking and response to ESG challenges and is the author of our ESG Strategy. Being agile is key to navigating the evolving ESG landscape, and the ESG Group allows us to respond more quickly and effectively to meet our stakeholder needs. A particular example of this approach was the release of guidance on the application of auditor responsibilities under ISA (UK) 720 in respect of climate-related reporting which the Financial Conduct Authority required following a change to its rules.

Today's report also outlines some of the forward-looking work that our Supervision team has done to encourage good practice, as well as the work of our Stewardship team which has focused on encouraging investors to further integrate ESG and climate factors into investment decisions. We are also active internationally, where we undertake key roles in global standard-setting organisations and partnerships seeking to deliver international ESG reporting and assurance solutions. Our involvement at an international level recognises the importance of global reporting and assurance solutions, which benefit business and leads to more effective global capital allocation benefitting UK investors, companies and the UK economy as a whole. The FRC continues to work closely with the UK Government and other UK regulators through the development of the Green Finance Strategy and other collaborative efforts supporting better reporting and assurance.

There are a number of helpful links throughout this report, showcasing the wide range of material produced by the FRC on matters relating to ESG reporting and governance which I am sure you will find valuable when navigating what remains a challenging and evolving reporting landscape.



Key FRC ESG activities

Outlined below are some specific activities the FRC has taken to contribute to the evolution of reporting, assurance and governance of ESG matters.

Some of these activities were initiated to directly address particular ESG matters, whilst other activities demonstrate how the FRC is integrating ESG into all of its areas of responsibility in the public interest.

The FRC will continue to act, including through developing codes, standards, and guidance, monitoring their effectiveness and influencing standard setters, regulators, market participants and other stakeholders to build a system that is forward-looking and fit for purpose.

The challenges of ESG involve all of our objectives

Setting high standards and promoting improvements and innovation in the areas for which we are responsible, exploring good practice with a wide range of stakeholders.

In 2022 the FRC's Guidance on the Strategic Report was revised to incorporate guidance on climate-related financial risks and opportunities, in line with the Taskforce on Climate-Related Financial Disclosures (TCFD) and Streamlined Energy and Carbon Reporting (SECR) requirements.

Once the TCFD requirements came into effect, the FRC's Supervision team conducted a thematic review of TCFD and wider climate-related disclosures in the financial statements of 25 premium-listed companies, in conjunction with the FCA, the report highlighted areas of good practice and several areas where companies will need to raise the quality of their disclosures in future years.

Those are just two examples of the programme of work we have conducted to assist our stakeholders in addressing a number of challenges, in particular, the FRC has published a number of thematics, guidance and examples of best practice related to ESG and related reporting:

- [What Makes a Good Annual Report and Accounts \[December 2022\]](#)
- [Disclosure of net zero commitments, targets and plans \[October 2022\]](#)
- [ESG data production for companies \[August 2022\]](#)
- [Factsheet on climate-related matters for FRS 102 preparers \[November 2021\]](#)
- [Annual Review of Corporate Reporting including findings on climate-related reporting \[October 2021 and 2022\]](#)
- [TCFD reporting ahead of mandatory reporting \[October 2021\]](#)
- [Climate-related scenario analysis in collaboration with Alliance Manchester Business School \[October 2021\]](#)
- [Thematic Review of Streamlined Energy and Carbon Reporting \(SECR\) \[September 2021\]](#)
- [Reporting on Stakeholder, Decisions and Section 172 \[July 2021\]](#)
- [Digital reporting taxonomies for TCFD reporting, SECR, Gender Pay Gap, and other Diversity and Inclusion data.](#)

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- [The FRC's annual review of corporate governance reporting in 2022](#), which involved the review of 100 companies, and an enhanced focus on ESG governance and reporting.
 - [Navigating barriers to senior leadership for people from minority ethnic groups in FTSE 100 and FTSE 250 companies \[September 2022\]](#)
 - [In Focus: Corporate Purpose and ESG \[April 2022\]](#)
 - [FRC Creating Positive Culture: Opportunities and Challenges \[December 2021\]](#)
 - [Research on modern slavery reporting practices in conjunction with the Anti-Slavery Commissioner and Lancaster University \[April 2022\]](#)
 - [FRC Board Diversity and Effectiveness in FTSE 350 Companies \[July 2021\]](#)

We have integrated ESG considerations across all our supervisory activity. For all audits we inspected, we reviewed the audit team's consideration of climate change in their risk assessment procedures, and included in the listed companies reports and accounts TCFD disclosures and the impact of climate on the financial statements. In addition,

- We performed a second review of the firm-wide practices that support the role of the auditor in considering climate related risk, and issued a [letter to the seven largest audit firms outlining the observations and findings](#)
- We reviewed firms' policies and procedures around the identification and consideration of ESG risks in acceptance and continuance decisions for audit clients. We performed independent research to assess the sufficiency of the firms' considerations of ESG factors for a sample of new and continuing audit clients.
- Reviewed the professional bodies ESG content within their professional qualification and CPD and audit inspection procedures for ESG

Contributing to a co-ordinated international approach to climate and environmental issues

The FRC has been supporting international efforts towards a common international framework for sustainability disclosures and welcomed the establishment of the International Sustainability Standards Board (ISSB) in 2021. We issued comprehensive responses to the ISSB's first two Exposure Drafts; IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures in June 2022 and have had regular engagement with the ISSB. We will be represented on the ISSB's Sustainability Standards Advisory Forum.

The FRC also works closely in support of the projects underway by the IAASB and IESBA to develop international ethical, independence and assurance standards to support high-quality and consistent ESG reporting and assurance, using frameworks which underpin public confidence. We recognise it is important these frameworks can be used regardless of who the provider is to ensure that this work is carried out to consistently high standards. In addition, the FRC is co-leading IFIAR's Sustainability/ESG task-force.

All our published work can be found on our [ESG web page](#).

What's Next

Working closely with our stakeholders, the FRC's ESG strategy will continue to develop as we respond to the changing regulatory and reporting landscape. We will also continue to be agile and react quickly to new demands for guidance and clarity to enhance better quality reporting and assurance

Some key areas of focus over the coming year include the following:



With the first phase of our project on **ESG Data** now complete we are focusing on developing guidance and best practice on the distribution and consumption of ESG data, examining how ESG data is communicated to the market and how investors, regulators and other stakeholders engage with and consume ESG data to meet their needs.



As reporting requirements continue to evolve, **materiality** is a powerful tool in ensuring disclosures remain relevant and provide decision-useful information to investors. We are currently examining how companies develop, assess and use materiality to consider how enhancements to materiality processes could be made, to ensure that companies are able to report in a way that provides stakeholders with relevant and decision useful information, rather than ever longer reports.



Demand from stakeholders continues to increase the focus on how Environmental, Social and Governance (ESG) matters can affect companies' financial position and performance, and the associated risks that they face. **FRS 102 preparers** continue to face challenges as new reporting requirements emerge. To help preparers meet those challenges we will update our guidance on Climate-related risks for FRS 102 preparers.



In addition, we will be providing a further comprehensive update to the **Guidance on the Strategic Report** to capture changes in requirements including new narrative reporting requirements, other changes to the existing non-financial reporting framework and where necessary any sustainability reporting arising from developments in the Sustainability Disclosure Requirements.



Later in 2023, the FRC will build on the very well received thematic reviews of **TCFD disclosures** and climate reporting in the financial statements of UK listed companies by publishing a further thematic report focused on **metrics and targets for four key industries**, as part of our response to the work of the Transition Plan Taskforce (TPT), launched by HM Treasury in April 2022, to develop a common framework for developing and reporting **climate transition plans**.



In revisions to the **Technical Actuarial Standards**, the FRC will introduce requirements for **actuaries** to take account of climate and other ESG related risks in their work.



The FRC will continue its review of **corporate governance reporting**. In 2023 we will be undertaking a revision of the UK Corporate Governance Code, in a way that recognises the growing importance of ESG reporting and their importance to the work of company boards.



As part of assessing applicants as signatories to the Code the FRC Stewardship team continues to assess how investors integrate material ESG issues into their **investment management activities**, as part of the annual assessment programme for signatories to the Code.



As you would expect there remain increasing expectations around audit and assurance work on climate-related risks. The FRC's programme of **audit quality inspections** will continue to pay particular attention to the auditor's work on climate-related risks, including the linkage between the audited financial statements and climate-related disclosures elsewhere in the Annual Report. This work will be supported by targeted thematic work including on hot reviews (in-flight reviews), where we will look at how and to what extent these reviews consider ESG matters.



In further Supervisory work the PIE (Public Interest Entity) Audit Registration team will consider identifying PIEs with significant environmental risk and monitoring whether the respective senior statutory auditor has completed appropriate and relevant training.



The FRC hopes that this update not only reminds its stakeholders of its commitment to produce helpful and relevant material with regard to ESG reporting and assurance. We also continue to engage both in the UK and internationally to ensure that our work and the development of policy meets the needs of our stakeholders as they navigate all of the requirements of decision relevant ESG and Climate reporting required by global capital markets.



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