13 December 2023

Via email: reporting@energysecurity.gov.uk

Dear Department for Energy Security and Net Zero,

Consultation: Scope 3 emissions in the UK Reporting landscape

The Corporate Reporting Users' Forum (CRUF) group welcomes the opportunity to provide the Department for Energy Security and Net Zero with our comments on its current consultation.

The CRUF was established in 2005 and we have been holding regular meetings since. CRUF UK and CRUF ESG groups have prepared this comment letter based on discussions in CRUF meetings and have reflected input from other CRUFs globally. As always, we do not seek to reach a consensus within the CRUF but to reflect a broad spectrum of users' views. Our comments are based on our professional experience as users of corporate reporting.

We are firmly of the view that the UK should continue to require the disclosure of Scope 3 emissions by companies. As investors, we see this as a crucial metric for understanding the climate change risk exposures attaching to businesses, not least because for many companies, Scope 3 emissions represent 85-95% of their emissions. Only by disclosing these emissions over time, and by explaining how the company is seeking to manage, mitigate and bring them down, will investors have confidence that businesses are preparing effectively for the lower carbon economy that is the future. Companies do not control either upstream or downstream emissions but they do have influence over them, and they should be actively doing so in order to understand and reduce over time the carbon intensity of their business operations in the fullest sense. Failure to do so would mark a failure to mitigate a key risk, and we would have concerns that companies which either do not manage downwards their emissions (including Scope 3 emissions), or are not willing to disclose them, do not have a sustainable future at all.

Of course, we recognise that there are limitations currently regarding the accuracy of emissions data, and particularly Scope 3 emissions data. There will be some double-counting, and inevitably to an extent Scope 3 emissions are not under the control of the reporting company – though that doesn't mean the reporting company should be permitted to ignore them or imply that they do not exist or are not associated with their operations. Furthermore, we know that the market for assuring this data remains immature. But we must not delay disclosure while we wait for perfect measures and models. As investors, we understand that the Scope 3 emissions numbers disclosed by companies will not be precisely correct; nonetheless, they will be far more accurate than the zero emissions that would be implied if this disclosure requirement were withdrawn.

Emissions reporting is a learning process. Having reported on their Scope 3 emissions one year, the burden of reporting the subsequent year's emissions will be much reduced. Challenging areas can be focused on in subsequent years and reporting made more accurate over time. Suspending or cancelling the requirement to report Scope-3 emissions will reduce or completely remove the ability of capital markets to play a role in the race against climate change.

We do not respond to the questions that are directed at companies, but our responses to the questions raised in the consultation that are relevant to investors are set out below.

General Questions

3. What is your role in relation to company reporting? For example, are you a reporting entity, a company within the supply chain of a reporting entity, an investor and/or a user of accounts, contracted to report on behalf of a reporting entity, part of a consultancy firm, or part of a voluntary reporting scheme?

We are an informal grouping of investors who place importance on company reporting, both of financial matters and of broader measures of business performance, including of climate-related and other ESG matters.

4. What role does Scope 3 emissions reporting currently play in your organisation? If your organisation does report its Scope 3 emissions, which Scope 3 emissions categories are you currently reporting on and why? Is this on a voluntary or mandatory basis? Please state whether you have done so in the past and, if you no longer report Scope 3 data, why.

CRUF does not report, and has no plans to report, its Scope-3 emissions. However, our members regard climate change as a key investment risk. For many companies, Scope 3 emissions will be their largest source of emissions, representing the most immediate area of climate risk that needs to be understood by the board, and both mitigated and managed. As investors, we expect evidence that boards are doing this, and proactively grasping the risks and opportunities that the carbon transition brings for their business. We therefore value Scope 3 emissions data, and regard it as a necessary requirement for businesses seeking to demonstrate to their investors that they are planning strategically for the future – indeed, will have a future.

We are thus firmly in favour of retaining the Scope 3 emissions disclosure requirements.

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

We firmly believe that disclosure of Scope 3 data is vital to investor understanding of material climate change risks in business, and so to investor confidence that those businesses will have a future in a lower carbon world.

6. 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.

We believe that Scope 3 emissions data will be material at almost every company: climate change is clearly a material risk for all companies, and Scope 3 emissions are the predominant form of emissions for many businesses.

We wish to highlight our agreement with the ISSB's point that Scope 3 emissions disclosures level the playing field between businesses that outsource activities and those that carry them out in-house. Comparability, something that investors value highly, would be removed between different business structures and models were the disclosure of only Scopes 1 and 2 required.

7. 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?

We believe that the GHG Protocol is the sole globally recognised and consistent model for this disclosure. We recognise the ISSB's pragmatism in being flexible should certain companies face local disclosure requirements founded on a different basis, but we believe that this would be a second best to consistent application of the protocol as the standard.

9. Is there any additional emissions or energy-consumption related data that is not required within IFRS S2 that you believe is valuable for investors, users of accounts and other stakeholders?

We are content that companies disclosing effectively and fully against IFRS S2 would deliver on investors' needs in this regard.

Questions for investors and other users of accounts

12. 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?

Scope 3 emissions, which represent 85-95% of many companies' emissions, are a key metric for investor understanding of companies' prospects of survival and growth in an environment increasingly impacted by climate change. As mentioned in our response to Q6, information on Scope 3 emissions is essential for ensuring comparability between different companies – including with regard to the use and impact of outsourcing. There is a risk that not having to report Scope 3 emissions could distort board decision-making on outsourcing.

Different investors will of course take different approaches, but a failure to manage and mitigate emissions is likely to notably reduce investor confidence in a company, its board and management. Depending on mandates and investment styles, Scope 3 disclosures may thus lead to investment decisions, either to buy or sell (or increase or decrease levels of exposure), or to exercise stewardship functions appropriately.

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

Each of the 15 categories will be material for some businesses, though not all are relevant or material to all. We believe that the distinction between upstream and downstream Scope 3 emissions is an important one; again, which of the two is more significant to an individual company (and so to investor decision-making) will depend on the sector and on specific business models.

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

Materiality of individual categories, and of upstream and downstream emissions, certainly will vary according to sector and business model. However, overall Scope 3 data will be material to companies of all sizes and across all sectors. As our world shifts to a less carbon-intensive economy every economic actor must transition their business. That makes Scope 3 data material for all and a useful insight for investors in every company.

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

As already explained in our answers to many of the questions above, Scope 3 reporting will provide a basis for managing down, and encourage companies to manage down, the upstream and downstream emissions from their activities. Conversely, an absence of Scope 3 data may both encourage companies to move emissions upstream and enable them to ignore the impact of their products in downstream markets.

In many key sectors, e.g. financial services, automotives, chemicals, construction, emissions produced upstream and downstream constitute the overwhelming majority of emissions created by their business. For investors, an inability to capture Scope 3 data will severely hamper their ability to assess many companies' prospects of survival and growth in a world increasingly impacted by climate change.

16. What benefits could Scope 3 reporting bring to your organisation. Please be as precise as possible when explaining the basis of any benefits they provide.

Scope 3 reporting will enable our members to better assess companies' survival and growth prospects in a world increasingly impacted by climate change.

For example:

- an investor in banks will be able to distinguish between banks which are continuing to lend to companies that are likely to be casualties of climate change (energy companies failing to develop green business lines), and banks which are withdrawing their balance sheets from such companies.
- An investor in automotive manufacturers (OEMs) will be able to distinguish between OEMs which remain more reliant on fossil-fuel powered models and do not collaborate with their suppliers to reduce emissions in components, and those OEMs which move

quickest to selling EV models only and collaborate effectively with their component suppliers on reducing emissions.

25. What benefits does robust Scope 3 reporting provide to stakeholders outside of the investment community?

Requiring companies to report their Scope-3 emissions will allow financial markets to more effectively allocate capital towards companies expected to survive and grow in a world increasingly impacted by climate change. This will allow a positive feedback loop to occur such that forward-looking companies are able to invest more cheaply, and the net zero transition should be accelerated. This will benefit all.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers, investors and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations depending on their area of interest or expertise. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. Also, it would not be correct to assume that nonparticipants agree with the initiative. This response is a summary of the range of opinions discussed at CRUF meetings and provided by participants in drafting the response. Differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer or other organisations they are a member of or associated with. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective employer or other organisations. The participants in the CRUF that have specifically endorsed this response are listed below.

Signatures

Paul Lee

Jeremy Stuber

Sawan Kumar

Peter Parry

Charles Henderson

Andy Burton

Sue Milton

Jane Fuller

Peter Elwin

Sue Harding