Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Phone: +44 (0)20 7936 3000
Fax: +44 (0)20 7583 1198
www.deloitte.co.uk

Direct phone: +44 20 7007 0884
vepoole@deloitte.co.uk

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Business Energy Transformation - Department for Energy Security and Net Zero
By email - reporting@energysecurity.gov.uk

To whom it may concern,

Scope 3 Emissions in the UK Reporting Landscape: call for evidence

Deloitte LLP welcomes the opportunity to respond to the call for evidence on Scope 3 Emissions in the UK Reporting Landscape ("the call for evidence") issued by the Department for Energy Security and Net Zero (DESNZ).

Scope 3 emissions
Scope 3 emissions form an important component of investment risk analysis and investors have for some time been calling for businesses to report their material Scope 3 emissions. For many entities, Scope 3 emissions represent by far the largest portion of their Greenhouse Gas (GHG) emissions. Scope 3 emissions data can help users of general purpose financial reports evaluate the broader risks which an entity may face in making the transition to a low-carbon economy. Thus, the measurement and disclosure of Scope 3 GHG emissions enables an entity and its investors to obtain greater insight into an entity's exposure to climate-related risks and opportunities in the value chain.

By providing a more complete picture of an entity's carbon footprint, disclosure of material Scope 3 emissions, coupled with clear explanations of methodology and assumptions, can significantly increase the transparency of reporting, inform investment decisions and help direct the flow of capital towards more sustainable projects and activities. Scope 3 emissions disclosures by businesses will also aid financial institutions in understanding their financed emissions and evaluating their exposure to carbon-related risks.

The concept of Scope 3 emissions also reflects the fact that mitigating climate change is a shared endeavour and success in reducing global GHG emissions requires an ecosystem of different stakeholders working together. Mapping value chains and working with value chain partners and other stakeholders are often prerequisites to the measurement and reporting of material Scope 3 emissions for organisations. In undertaking these activities for measurement and reporting purposes, an entity may be able to develop an approach that supports more effective ways to respond to climate risks and opportunities as well as address climate change, in collaboration with partners and stakeholders across the value chain.

Reporting of Scope 3 emissions in the UK is not new; companies subject to the Listing Rule to report on consistency with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations are already expected to disclose material Scope 3 emissions or explain why they have not done so. Many companies therefore already report on at least some of their Scope 3 emissions and/or have plans in place to improve their GHG emissions data quality and management. International Financial Reporting Standards (IFRS) S1 and S2 introduce requirements for entities to report their Scope 3 emissions,

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observing that limiting disclosures to Scope 1 and 2 emissions would lead to an incomplete picture of an entity's transition risk exposure.

As set out in our response to the UK Sustainability Disclosure Technical Advisory Committee's (UK SDTAC's) call for evidence on the UK endorsement of IFRS S1 and IFRS S2, we firmly support adoption of the International Sustainability Standards Board (ISSB) standards in the UK without modification, to the fullest extent possible – in other words, including the requirement to report material Scope 3 emissions, and using the GHG Protocol to do so. We believe this will support the establishment of a consistent and comparable global baseline for the reporting of decision-useful sustainability information which will improve transparency and encourage better informed pricing and capital allocation, building a more resilient economy in view of the wide-ranging sustainability-related risks companies face today.

IFRS S2 provides a clear and proportionate framework for reporting on material Scope 3 emissions. It includes provisions to support preparers, such as guidance on estimation uncertainty and the Scope 3 measurement framework, and transitional reliefs including not requiring an entity to disclose its Scope 3 GHG emissions in its first annual reporting period in which IFRS S1 and S2 are applied. The GHG Protocol, which uses the categories of Scope 1, Scope 2 and Scope 3 GHG emissions, is a well-established and internationally recognised framework which is already widely adopted in the UK, and both the TCFD recommendations and the environmental reporting guidelines supporting Streamlined Energy and Carbon Reporting (SECR) recommend its use. The Transition Plan Taskforce (TPT) Framework, which the government has indicated its support for in its 2023 Green Finance Strategy, also requires disclosures using the Scopes 1, 2 and 3 system. We further note that other jurisdictions are proposing the use or mandating aspects of the GHG Protocol.

We acknowledge that challenges exist in measuring Scope 3 emissions. There are difficulties in obtaining data, and methodologies for calculating these emissions using estimates can be inherently uncertain. However, we believe that the benefits of disclosing material Scope 3 emissions in line with the requirements of IFRS S2 significantly outweigh the costs. We also believe that requiring Scope 3 reporting via implementation of IFRS S2 will create market certainty that should enable the development of a wider system including further guidance, the development of more consistent and standardised methodologies for calculating Scope 3 emissions, and drive systems and technology development, enhancing data quality and comparability over time. We encourage the government to consider ways to reduce the burden of generating this data and supporting emissions data generation and the reporting process for small and medium-sized enterprises in particular.

Streamlined Energy and Carbon Reporting (SECR)
We believe that SECR has served to draw attention to the importance of sustainability reporting and has driven increased reporting of emissions and energy consumption. However, it is now outdated and has been overtaken by recent years' developments which have led to a much more sophisticated sustainability reporting regime in the UK, including the Listing Rule requiring reporting on consistency with TCFD and the climate-related financial disclosure (CFD) regulations. These developments, together with the proposed introduction of the ISSB standards, call into question whether SECR should continue to exist in its current form or whether an alternative framework would be more appropriate.

We believe that the implementation of the ISSB standards in the UK presents an opportunity to carry out a thorough review of existing non-financial and sustainability reporting scoping and requirements, with the objective of creating an integrated, coherent, proportionate reporting framework which operates effectively across the UK economy. We strongly encourage DESNZ to work closely with the Department for

Business and Trade (DBT), particularly in the context of DBT's ongoing non-financial reporting review, to achieve this objective.

For entities within the mandatory scope of the ISSB standards, we believe that SECR reporting should no longer be required. For entities not in scope of the ISSB standards, we suggest that the government consider whether it would be beneficial to support the development of a simplified standard that better reflects the needs of the users of the reports of those entities, replacing both the SECR and CFD regulations. This would reduce duplication, ensure there is clear alignment with the ISSB standards, and further support the ISSB standards as the global baseline.

In our view it is essential that the annual report contains all material information, and only material information; that is, information which could reasonably be expected to influence decisions of primary users, whether financial or non-financial in nature. If the SECR reporting requirements are retained, they should be subject to a materiality assessment, and continue to be included in the annual report. This means that companies may conclude that certain SECR information is immaterial to primary users and may therefore be omitted from the annual report. If the government decides that SECR information should continue to be disclosed regardless of materiality, then consideration could be given as to whether this information could be provided as a supplement to the annual report, as a separate report, via a central governmental portal or on the company's website, rather than in the annual report itself.

Additionally, we strongly recommend that if SECR is retained, all organisations in scope should also be required to a) apply the GHG Protocol and b) report on global emissions to align with the reporting requirements under the ISSB standards and achieve greater consistency in reporting. Both are already common practice for many companies and should not result in excessive burdens but would enhance the quality and comparability of information reported.

Our detailed comments on the specific topics raised in the call for evidence are set out in Appendix 1. Please note we have only responded to those questions which are relevant to Deloitte LLP, including in our capacity as a preparer of annual reports.

If you have any questions, please contact Linda Riedel on 020 7007 0227 or lriedel@deloitte.co.uk, or Anne Warner on 020 7007 5636 or annewarner@deloitte.co.uk.

Yours sincerely

Veronica Poole

Vice-Chair and UK National Head of Accounting and Corporate Reporting
Deloitte LLP

Appendix 1: Responses to detailed questions

Chapter One

General questions

1. What is your company number? If you work for an LLP, please state so here.

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2. Where applicable, what percentage of your supply chain is within the UK, within the EU, outside of the UK and the EU?

We have not answered this question.

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 primarily responding to this consultation in our capacity as a professional services firm, but are also taking into account our own mandatory and voluntary reporting as a UK LLP.

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.

Deloitte LLP's energy and carbon information is included in the group report of Deloitte NSE LLP. Our primary purposes for reporting Scope 3 emissions are:

- To support execution against our strategy with the data that helps guide our actions.
- To empower us to engage with our largest global suppliers to encourage them to monitor and report on their carbon emissions, and set a science-based, 1.5°C aligned carbon reduction target.
- To report, voluntarily, our material Scope 3 emissions externally as they represent our largest source of emissions.

We currently report against the below Scope 3 emissions categories as these are determined to be material:

- Purchased goods and services (PG&S)
- Capital goods (included in PG&S)
- Upstream transport and distribution (included in PG&S)
- Business travel
- Employee commuting and homeworking
- Upstream leased assets (included in PG&S)

Chapter Two

General questions

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

We support the requirement to disclose Scope 3 emissions in IFRS S2 and agree with the ISSB's assessment of the value of this information. The approach to Scope 3 emissions in IFRS S2, as with the whole of the ISSB standards, has been developed following a thorough due process, including substantial feedback from, and engagement with, UK stakeholders, and comprehensive re-deliberations based on that feedback to finalise and approve the standards. We believe the approach to Scope 3 emissions in the ISSB standards will facilitate disclosures which meet the needs of primary users.

As the responses to the IFRS S2 exposure draft by investors and providers of capital indicate, Scope 3 emissions form an important component of investment risk analysis. For many entities, they represent by far the largest portion of their GHG emissions. Scope 3 emissions data can help users of general purpose financial reports evaluate the broader risks which an entity may face in making the transition to a low-carbon economy. Thus, the measurement and disclosure of Scope 3 GHG emissions enable an entity and its investors to obtain greater insight into an entity's exposure to climate-related risks and opportunities in the value chain.

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.

In our view the approach to Scope 3 reporting in IFRS S2, in conjunction with the requirements of IFRS S1, is appropriate, clear and proportionate. It reflects the value of Scope 3 information but also the complexities and challenges in its measurement. For example, IFRS S2 requires disclosure of information about measurement approach, inputs and assumptions, which reflects the views of users of general-purpose financial reports responding to the IFRS S2 exposure drafts. In their response, those users state that estimates are preferable to having no Scope 3 information, provided that entities are transparent about the inputs used and the associated measurement uncertainties.

IFRS S2 provides a clear and proportionate framework for reporting on material Scope 3 emissions. It includes provisions to support preparers, such as guidance on estimation uncertainty and the Scope 3 measurement framework, and transitional reliefs including not requiring an entity to disclose its Scope 3 GHG emissions in its first annual reporting period in which IFRS S1 and S2 are applied.

We also believe that requiring Scope 3 reporting via implementation of IFRS S2 will create market certainty that should enable the development of a wider system including further guidance, the development of more consistent and standardised methodologies for calculating Scope 3 emissions, and should drive systems and technology development, enhancing data quality and comparability over time.

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?

To ensure consistency and comparability in the calculation of GHG emissions, we believe that it is appropriate to require entities to use the GHG Protocol which uses the categories of Scope 1, Scope 2 and Scope 3 GHG emissions. The GHG Protocol is a well-established and internationally recognised framework which is already widely adopted in the UK – reflected in the widespread use of the integral concepts of

Scopes 1, 2 and 3 to categorise emissions, even where the GHG Protocol is not explicitly referred to or mandated. Requiring the full use of the GHG Protocol via UK endorsement of the ISSB standards will lead to more comparable and consistent measurement and reporting of Scope 3 emissions.

The TCFD recommendations that are widely used in the UK also recommend use of the GHG Protocol and the Transition Plan Taskforce (TPT) Framework, for which the government has indicated its support in its [2023 Green Finance Strategy](), also requires disclosures using the Scopes 1, 2 and 3 system.

We further note that other jurisdictions are proposing the use or mandating aspects of the GHG Protocol; for example, the European Sustainability Reporting Standards (ESRS) require use of concepts such as Scope 1, 2 and 3 and operational control from the GHG Protocol.

8. Would using the ISSB's approach to Scope 3 reporting have knock-on consequences for your organisation that the Government should be aware of? For instance, you may wish to consider the interaction between IFRS S2 and any EU regulations, or other energy/emissions reporting requirements that your organisation may be impacted by.

Please see our responses to the general questions in Chapter Four regarding interaction with other UK reporting requirements.

As observed in our response to question 7, many businesses in the UK are already using the GHG Protocol to report on their emissions, and many are also already reporting or working to report their material Scope 3 emissions. Accordingly, we do not envisage any knock-on consequences from taking the approach set out in IFRS S2. However, we see it as critical for the UK to promote the use of the ISSB standards to help establish a consistent global baseline and facilitate global interoperability; a first step towards this is to make the ISSB standards available for use in the UK without amendment and to urge other jurisdictions to take steps consistent with establishing a global baseline, including adoption of the GHG Protocol and Scope 3 requirements as set out in IFRS S2. This would also improve the ease of preparing GHG Inventories, which tend to rely on data from global value chains.

We also strongly encourage the UK government to work towards seeking appropriate sustainability reporting equivalence decisions from other jurisdictions while ensuring that the interests of investors and other providers of financial capital are appropriately addressed and material information (as defined in IFRS S1) is not obscured by disclosures which are directed at a different objective and serve the needs of other, potentially multiple, stakeholders.

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?

Energy consumption or energy efficiency metrics for entities operating in specific industries and sectors may be valuable information for investors.

If information (including energy-related metrics) is relevant to the decisions of primary users, IFRS S1 requires entities to disclose this as entity-specific information.

Additionally, IFRS S2 also includes industry-based guidance which, subject to materiality and applicability, requires additional industry-specific metrics on emissions or energy consumption to be disclosed for entities operating in those industries. The Financial Conduct Authority (FCA) and Financial Reporting Council (FRC) have found that an industry-based approach to sustainability reporting is highly valued by investors, who often compare and benchmark companies within a given sector. As such, we support the approach taken in IFRS S2 to require additional metrics when relevant to specific sectors with a focus on material information in the context of general-purpose financial reports that enhances comparability within sectors.

In circumstances when emissions or energy consumption data is considered useful for other purposes or stakeholders, but it is not material to primary users (and thus not disclosed in general purpose financial reports under IFRS S1 or S2), the government could consider other mechanisms for reporting or collecting that information, for example through a portal or in a separate report (see our response to question 29).

Questions for reporting entities

10.What further guidance and support might be needed for your organisation, and organisations in your value chain, to report Scope 3 information in accordance with IFRS S2?

We encourage the government to consider ways to reduce the burden of calculating and reporting Scope 3 information. For challenges and concerns that are not UK-specific, the UK government, regulators and other stakeholders should engage with the ISSB to help shape the ISSB's own programme of developing educational and interpretative guidance – an initiative that the ISSB is already progressing as a priority area for its agenda and activities. For example, the government could encourage the ISSB to develop guidance on collecting and calculating accurate, consistent and comprehensive Scope 3 emissions factors, with a focus on moving beyond spend-based calculations to allow more accurate entity specific calculations.

UK-specific initiatives to support readiness could include the provision of UK-specific Scope 3 emission factors and information regarding how these are calculated and the reasoning for their fluctuation, and further promotion of data sharing initiatives between value chain participants, such as Project Perseus. One particular area where further guidance could be useful is homeworking and commuting emissions factors and methodologies for the UK context. The UK government should also, as outlined in its 2023 Green Finance Strategy, look to reduce the burden of generating Scope 3 data and supporting the data generation for businesses in scope of emissions reporting requirements (such as SECR, if retained), as well as those small and medium-sized businesses who may not be in scope but may need to report emissions information to larger entities in their value chain who are in scope.

11. If your organisation does not already prepare Scope 3 information, how long would you need to build the capacity and capability to do so?

We have not answered this question.

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?

We have not answered this question.

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?

We have not answered this question.

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

We have not answered this question.

Chapter Three

General questions

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

We believe that if Scope 3 data is material and therefore useful to decision making, then entities should be reporting on that information. Many entities are already reporting some Scope 3 emissions and are taking steps to extend their reporting to include other material activities.

For many entities, Scope 3 emissions represent by far the largest portion of their GHG emissions. Accompanied by clear explanations of methodology and assumptions, Scope 3 emissions data can help users of general-purpose financial reports evaluate the degree to which an entity is transitioning to lower carbon business models and products and services. Thus, the measurement and disclosure of Scope 3 GHG emissions enables greater insight into an entity's exposure to climate-related risks and opportunities in the value chain. Scope 3 emissions disclosures by businesses will also aid financial institutions in understanding their financed emissions and evaluating their exposure to carbon-related risks.

The concept of Scope 3 emissions also reflects the fact that mitigating climate change is a shared endeavour and success in reducing global GHG emissions requires an ecosystem of different stakeholders working together. Mapping value chains and working with value chain partners and other stakeholders are often prerequisites to the measurement of and accounting for material Scope 3 emissions for organisations. In undertaking these activities for measurement and accounting purposes, an entity may be able to create an approach that supports more effective ways to respond to climate risks and opportunities as well as address climate change, in collaboration with partners and stakeholders across the value chain.

We acknowledge that challenges exist in measuring Scope 3 emissions. There are difficulties in obtaining data, and methodologies for calculating these emissions using estimates can be inherently uncertain. These difficulties may lead to additional costs, however, we believe that the benefits of disclosing material Scope 3 emissions in line with the requirements of IFRS S2 significantly outweigh those costs. Furthermore, IFRS S1 and S2 provide guidance to support a proportionate approach as well as transitional reliefs, which will support entities to manage the costs whilst providing the benefits.

As set out in our response to the DBT's call for evidence on the non-financial reporting regime, we believe that the ISSB standards should be mandatory for companies within the proposed definition of a Public Interest Entity (PIE) as set out in the outcome of the government consultation *Restoring trust in audit and corporate governance* as a minimum. Many such companies already report their Scope 3 emissions for some or all of the 15 categories - and thus for those companies the incremental costs of reporting on Scope 3 emissions under IFRS S2 are likely to be less.

16. What benefits could Scope 3 reporting bring to your organisation? Please be as precise as possible when explaining the basis of any benefits you provide. If you currently produce Scope 3 data voluntarily under SECR, please explain the benefits you have received and how they have changed over time.

We have not answered this question.

17. What costs could Scope 3 reporting bring to your organisation? Where possible, please give a breakdown of each element of cost. Please be as precise as possible when explaining the basis of any costings you provide. If you do currently produce Scope 3 data voluntarily under SECR, please explain the costs you have incurred and how they have changed over time.

We have not answered this question.

Questions for reporting entities

18. How are you approaching the issues around data availability in relation to Scope 3 reporting? Are you aware of any useful data sources, reporting tools, or resources (such as emissions factors) to help UK organisations report their Scope 3 emissions, and how are you tackling them?

As a preparer, we ensure that we have a good understanding of the Scope 3 categories we report on.

We acknowledge the data limitations in certain areas and seek alternative approaches, including estimates and proxies, where data availability inhibits us from using primary data.

We report our emissions to the Carbon Disclosure Project (CDP) and can therefore access their emission factors for use in our Scope 3 reporting.

Engagement with suppliers and other value chain participants is also a key part of our approach to overcoming issues around data availability.

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

As a preparer, we would like to move beyond spend-based calculations for our Scope 3 data to improve the accuracy of our calculations, reduce large year-on-year fluctuations and focus our efforts to reduce those emissions. We welcome the Scope 3 measurement framework provided by IFRS S2, which provides clarity on the steps required to improve accuracy.

In our experience, the greatest challenges are the complexity of gathering consistent activity-level data based on physical units of measurement rather than based on spend, across our Scope 3 emissions (i.e. actual mileage commuted; number of tonnes of materials purchased etc.) and a lack of standardisation in the emissions factors that should then be applied (i.e. what is the embodied carbon of the laptop we buy; is everyone measuring this the same way; are these verified as being accurate, and so forth).

Using a spend-based calculation means it is necessary to rely on third party emissions factors, in our case from the CDP, for the industries through which we are purchasing goods and services. Because not all companies report to the CDP, and those that do, do not always report consistently, we have found that these emissions factors have shown large fluctuations. This in turn can create challenges when communicating this to internal and external stakeholders as it is difficult to understand why emissions are so variable.

The other implication of the spend-based method is that the main way to reduce emissions is to spend less (assuming the factors stay flat) and that spending more will cause emissions to increase. Sustainable options are often more expensive, meaning that making more sustainable choices can led to an increase in the GHG emissions in our inventory. With activity-level data not based on spend, the buyer has more control over the emissions.

20. If you currently voluntarily report your Scope 3 emissions, including through non-governmental frameworks such as CDP and SBTi, what effect has this had on your relationships with businesses in your supply chain?

We set a Science-based Target initiative (SBTi) validated science-based target in 2020. As part of this, we made a commitment to have 67% of our suppliers (by emissions) set their own SBTi by 2025. We have an active engagement programme with our major suppliers to deliver on this target and we have found the majority of conversations very positive. To date, we have not encountered a situation when the conversation around reaching net zero was challenged and we have experienced broad alignment of views. As mentioned in previous questions, we also report our emissions to CDP which gives us access to their emissions factors.

<u>Questions for smaller businesses in the supply chains</u>

21. What impact could an increase in Scope 3 reporting by a larger reporting entity have on your organisation? What are the costs and benefits of Scope 3 reporting on smaller organisations within their supply chain? Please provide any evidence you have of these.

We have not answered this question.

22. If you currently supply data to a reporting entity to enable it to voluntarily report its Scope 3 emissions, has the cost to you of doing so reduced, stayed the same or increased over time? What effect has this had on your relationship with the reporting entity?

We have not answered this question.

23. What could the Government do to reduce the costs or increase the benefits of reporting for smaller businesses in the supply chains of entities that report on Scope 3?

We have not answered this question.

24. If you supply data to a larger entity, what effect (including financial impacts) has this had on your organisation? We are particularly keen here to receive views from SMEs.

We have not answered this question.

Questions for investors and other users of accounts

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

We have not answered this question.

Chapter Four

General questions

26. Overall, do you think the SECR regulations are achieving their original objectives? If you do not think they are achieving the original objectives, or are partially achieving the objectives, please explain why.

The call for evidence states that SECR aims “to improve incentives for businesses to reduce their energy consumption and emissions and enable investors and other stakeholders to hold businesses to account for their energy efficiency and emissions”, “to reduce administrative costs for businesses, building on existing requirements for quoted companies in place since 2013 while at the same time removing reporting (and the need to buy allowances for energy emissions) obligations under the CRC Energy Efficiency Scheme” and “to provide a consistent approach for all quoted and large unquoted companies, and LLPs, to measure energy and emissions and disclose the information to a wide range of stakeholders”.

We believe that SECR has served to draw attention to the importance of sustainability reporting, driven increased reporting of emissions and energy consumption and has thus played an important role in the UK non-financial reporting framework. However, we are uncertain as to whether SECR has improved incentives to reduce energy consumption and emissions and we make some observations in our response to question 27 regarding potential inconsistencies in reported data due to lack of specificity of the requirements around methodology and reporting boundary.

In our view, the implementation of the ISSB standards in the UK presents an opportunity to carry out a thorough review of existing non-financial and sustainability reporting scoping and requirements, with the objective of creating an integrated, coherent, proportionate reporting framework which operates effectively across the UK economy. We strongly encourage DESNZ to work closely with DBT, particularly in the context of DBT’s ongoing non-financial reporting review, to achieve this objective. We discuss this further in our response to question 28.

27. Have there been any unintended effects of the SECR regulations that you think Government should consider? Please include whether there are any equality impacts to be taken into consideration.

We observe that there are challenges in interpreting disclosures made and data reported under SECR, particularly in respect of methodology. Because the SECR framework was not written to align with the GHG Protocol, there is considerable room for variation in methodology and reporting entities do not always explain clearly the methodology used or the reporting boundary applied. SECR also permits changes to methodology and/or reporting boundary without the entity being required to explain that there has been a change, what has changed, why or the impact on reported data, leading to inconsistent information and increased potential for manipulation. To address this issue, we strongly recommend that, if the SECR framework is retained, in-scope entities should be required to calculate emissions in line with the GHG Protocol, to explain any changes in reporting boundary or methodology and the impact of those changes. This would also align with the reporting requirements under the ISSB standards.

We also note that the application of size-based thresholds in determining whether an entity is in scope of SECR is inconsistent with other areas of company law. For example, when assessing whether a company qualifies as small or medium-sized, it is usually as defined within sections 381-384 or sections 465-467, respectively, of the Companies Act 2006, and it is therefore necessary not only to consider the size thresholds but also whether the company is ineligible or part of an ineligible group. However, in the context of determining whether a company is in scope of SECR reporting, Part 7A of Schedule 7 to SI

2008/410 as amended only requires the assessment to be made based on the size of the company; ineligibility is not considered. It is unclear whether this difference was intentional and we note that it has caused confusion in application. We highlighted this issue in our response to the DBT's call for evidence on the non-financial reporting regime and recommended that as part of that initiative, the scoping criteria of various requirements should be simplified and streamlined.

28. Are the current SECR requirements targeted at the correct population of businesses (including LLPs)? If not, which types of businesses and of which size do you think the requirements should apply to? If you think that different requirements should apply to different populations of businesses, please specify.

We believe that the implementation of the ISSB standards in the UK presents an opportunity to carry out a thorough review of existing non-financial and sustainability reporting scoping and requirements with the objective of creating an integrated, coherent and proportionate reporting framework which operates effectively across the UK economy. The assessment as to whether SECR is targeted at the correct population cannot, therefore, be made in isolation, but should instead be carried out in contemplation of the development of such a wider sustainability reporting framework, with the ISSB standards at the core to support establishing the ISSB standards as the global baseline.

As set out in our response to the DBT's call for evidence on the non-financial reporting regime, we believe that the ISSB standards should be mandatory for companies within the proposed definition of a PIE as set out in the outcome of the government consultation *Restoring trust in audit and corporate governance,* as a minimum. For those companies, we believe that SECR reporting should no longer be required. Any SECR policy objectives and disclosure requirements that are still considered necessary for companies in scope of the ISSB standards, but which are not addressed by those standards (e.g., disclosures on energy usage and energy efficiency) should be met through additional UK-specific requirements (please see our response to question 29 regarding the most appropriate location of such disclosures). However, care should be taken that any UK top-ups do not contradict or undermine existing ISSB objectives.

For entities not required to apply the ISSB standards, we suggest that the government consider whether it would be beneficial to support the development of a simplified sustainability disclosure standard that better reflects the needs of the users of annual reports of those entities, replacing both the SECR and CFD regulations. Such a standard would call for reduced disclosures compared to the full standards and would apply for companies outside of the proposed PIE definition (perhaps with an exemption for small and medium-sized companies). It could be developed at UK level by the UK standard setter (a reduced disclosure framework similar to the approach taken in FRS 101, which enables UK companies to use the IFRS recognition and measurement framework but with reduced disclosures, could be an option), or the government and the FRC/Audit, Reporting and Governance Authority (ARGA) could encourage the development of an ISSB standard by influencing the ISSB. This would reduce duplication, ensure there is clear alignment with the ISSB standards, and further support the ISSB standards as the global baseline.

Alternatively, the existing SECR requirements could be retained for entities not in scope of the ISSB standards (please see our response to question 29 regarding the most appropriate location of such disclosures).

29. 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?

In our view it is essential that the annual report contains all material information, and only material information; that is, information which could reasonably be expected to influence decisions of primary users, whether financial or non-financial in nature. If the SECR reporting requirements are retained, they should be subject to a materiality assessment and continue to be included in the annual report. This means that some companies may conclude that certain SECR information is immaterial to primary users and may therefore be omitted from the annual report.

If the government decides that SECR information should continue to be disclosed regardless of materiality, then consideration could be given as to whether this information could alternatively be provided as a supplement to the annual report, as a separate report, via a central governmental portal or on the company's website, rather than in the annual report itself.

30. How can the government streamline current energy and emissions reporting requirements for organisations in scope of SECR while still meeting the SECR objectives?

Please refer to our responses to questions 27 and 28.

Additionally, we strongly recommend that all entities in scope of SECR should also be required to a) apply the GHG Protocol in reporting their emissions and b) report on global emissions to align with the reporting requirements under the ISSB standards and achieve greater consistency in reporting. Both are already common practice for many entities and should not result in excessive burdens but would enhance the quality of information reported.

31. Under the existing SECR framework, there are different reporting requirements for quoted companies and unquoted companies/LLPs. Are these differing requirements appropriate? If not, what reforms would you suggest?

We do not believe that the requirement for unquoted companies and LLPs to present UK-only emissions has always resulted in useful information; companies with substantial overseas activities may report only a small proportion of their true carbon footprint as a result.

As noted in our response to question 30, we therefore believe that should the SECR reporting requirements be retained, it would be appropriate for all organisations in scope of SECR to report on global emissions to align with the reporting requirements under the ISSB standards, and to be required to apply the GHG Protocol to achieve consistent methodology. If SECR is not retained, we believe that the ISSB standards should form the basis for the development of a simplified sustainability disclosure standard for entities not required to apply the ISSB standards, as discussed in our response to question 28.

32. What resources do you currently use to comply with SECR (e.g., ERG guidance, conversion factors, the GHG Protocol, etc) and do you feel these are sufficient? If these aren't sufficient, what do you think is missing?

We have not answered this question.

<u>Questions for reporting entities</u>

33. What benefits has compliance with the current SECR regulations had for your organisation?

As we have publicly reported our emissions and environmental data since 2011, we were well placed to report in accordance with SECR when it was first introduced and therefore experienced no major benefits or challenges.

34. What are the costs (monetised costs and FTE equivalent) of reporting under the current SECR framework for your organisation? Please provide quantitative costs or estimates if possible.

As an estimate, we consider that it takes two days (FTE) to adapt the relevant data from our GHG Protocol statement to the SECR format, review and approve.

35. If your organisation reports under SECR, has the information that you have collected and reported led you to, or helped you to, reduce your energy consumption and/or carbon emissions? If so, how? Please provide energy and emissions reductions data where that is possible.

Whilst our organisation reports under SECR, we primarily report the methodologies consistent with the GHG Protocol. At the UK level, we have been collecting and reporting this data for over a decade and it has enabled us to target and reduce the material sources of our emissions. Deloitte's WorldClimate initiative was launched in 2020, with targets re-baselined to that financial year. Since then, we have reduced our total carbon emissions by 28% per FTE, our emissions from real estate by 64% per m2, energy use by 21% per m2, water use by 75% per FTE and waste production by 74% per FTE. Prior to this, our environmental programme, Our Green Journey, was launched in 2011. Tracking our efforts from 2011-present, we have reduced our emissions from real estate by 90% per m2; and improved energy efficiency by 41% per m2, water efficiency by 78% per FTE, and waste production by 77% per FTE.

36. Are you aware of the option to use SECR taxonomy for your reports? If so, please provide information on whether you have used the taxonomy or plan to.

We do not currently plan to amend our reporting to the SECR taxonomy. Instead, we follow the carbon statement template as set out in the GHG Protocol.

37. Have you experienced any overlap between the SECR regulations and other Government-led reporting requirements? Please include details of any additional voluntary or regulatory schemes you are in scope of, and the extent in which you consider the data and evidence being reported to be a duplication.

Two of our UK entities are in the scope of Procurement Policy Note (PPN) 06/21 and therefore complete carbon reduction plans. The requirements for PPN 06/21 do not fully align with IFRS S2 as PPN 06/21 mandates elements of Scope 3 that must be reported irrespective of materiality (e.g., office waste) and does not ask for additional reporting that may be relevant to our entities (e.g., purchased goods and services emissions).

Deloitte Global also prepares a global TCFD report, and we report to multiple additional frameworks and organisations. At Deloitte Global level these include the Global Reporting Initiative (GRI) and the CDP, and at the UK level we report to Ecovadis.

Questions for investors and other users of accounts

38. If you are an investor, has the information businesses report or will report under SECR affected your investment decisions? If so, how?

We have not answered this question.

39. Have you used the information businesses report under SECR to hold those businesses to account for their emissions or energy consumption? If so, how?

We have not answered this question.