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## Reports Highlight UK Private Sector Preference for Mandatory ESG Reporting

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By **Sukhvir Basran**  
Partner | Financial Services

UK regulators, specifically the Institute of Chartered Accountants of Scotland (ICAS) and the Financial Reporting Council (FRC), recently released reports regarding the demand for mandatory environmental, social, and governance reporting in the United Kingdom.

On June 20, 2023, **ICAS reported** that its survey of over 500 UK companies revealed strong support for mandatory reporting of ESG matters and a preference for EU-style impact reporting. The **FRC's June 2023 report** about Audit Committee Chairs (ACC) views on ESG reporting, on the other hand, highlighted concerns regarding inconsistent ESG reporting guidelines and the potential burden of ESG reporting.

### *ICAS Survey Findings*

The ICAS survey of senior managers from 581 UK companies indicated a significant level of support for mandatory reporting of ESG matters. Approximately 45% of respondents favored reporting on both the financial impact on the company of ESG factors and the broader impact of the company on external sustainability considerations. In contrast, only 17% supported financial reporting alone, suggesting a developing consensus among UK companies that ESG considerations should be integrated into their reporting frameworks to provide stakeholders with a comprehensive view of their operations. By aligning with the EU's requirements regarding impact reporting, UK companies can promote consistency and comparability in ESG reporting across borders. The desire to follow the EU's lead reflects concerns about falling behind international and European counterparts in terms of ESG reporting standards.

### *FRC's ACC Feedback*

The FRC's report highlighted concerns expressed by audit committee chairs at 40 large UK companies. These chairs pointed out inconsistencies in existing ESG reporting guidelines, emphasizing the need for clearer and more standardized frameworks. While acknowledging the

importance of ESG reporting, the chairs also cautioned against imposing excessive burdens on companies as a result of the reporting requirements. The FRC also observed that a broad definition of ESG creates challenges for companies, as it encompasses a wide range of factors, suggesting potential reporting benefits in refining and clarifying the scope of ESG reporting to facilitate more effective compliance and reporting practices.

To address the concerns raised by ACCs, the report recommends that the UK government and regulatory bodies take the following actions:

- Collaborate with industry stakeholders: Engage with companies, industry associations, and experts to develop comprehensive and harmonized ESG reporting guidelines. This collaborative approach would collect the perspectives of relevant parties, leading to more effective reporting frameworks.
- Provide guidance and support: Establish a mechanism to assist companies in implementing ESG reporting, particularly in developing the necessary skills and talent within their organizations. Offering guidance and support would help alleviate concerns regarding the current lack of expertise in reporting on sustainability matters.
- Streamline reporting requirements: Work towards simplifying and standardizing ESG reporting guidelines to avoid unnecessary complexities and burdens on companies. Clarify the definition of ESG and develop clear reporting frameworks that enable companies to identify and report on material ESG factors.
- Consider broader audit reform: The report advocates continuously assessing and enhancing the overall audit ecosystem to ensure the integrity and reliability of ESG reporting.

**Taking the Temperature: The ICAS and FRC reports highlight surprisingly strong corporate support for mandatory ESG reporting in the UK and the preference for following the EU's lead in this area, recognizing the value of aligning reporting practices with international standards to enhance transparency and comparability. The need to address the challenges posed by current guidelines necessitate collaborative efforts from regulatory bodies, companies, and industry stakeholders. By implementing the recommended actions, the UK can align its reporting practices with international standards, enhance transparency, and facilitate informed decision-making for stakeholders in ESG matters.**

**As we [reported previously](#), there is a strong call for the UK Government to accelerate its ESG efforts, but the UK has been falling behind with [delays to the introduction](#) of sustainability disclosure requirements and [no clear timeline](#) for the UK's green taxonomy. In fact, the CEO of ICAS warned that “[s]hort-term investor pressure and a lack of skills and talent to be able to report on sustainability means that the UK is at a real risk of falling behind our international and European counterparts in implementing [ESG] policies and addressing climate change.” He added that “[s]ustainability reporting needs to be on par with the level of detail and scrutiny given to financial reporting. But without the mandate from government, it is hard to see how this will happen.”**