FUNDING THE FUTURE: ESG REPORTING

Businesses face increased demands from regulators, shareholders, and customers to measure and monitor their environmental and social impacts. This heightened scrutiny has spurred a proliferation of Environmental, Social, and Governance (ESG) reporting frameworks, metrics, and disclosure requirements, resulting in a complex and fragmented landscape for businesses and finance providers.

For asset finance providers, the complexity of the ESG reporting landscape presents additional challenges. Providers may find themselves tasked with assessing the sustainability performance of not only their own businesses, but the companies and assets which they fund. For example, a bank's leases and loans already count as part of its Scope 3 emissions under most reporting frameworks. This adds costs for funders, which may limit the availability of funding.

This paper highlights the challenges posed by the current ESG reporting landscape and advocates for a simpler and more streamlined approach to green reporting requirements. We recommend:

- **Creating a consistent framework for reporting**, to avoid duplication of effort and make it easier for firms to report.

- **Advocating for international alignment**, making the UK a global leader in setting simple and robust international reporting standards.

Creating a consistent framework for reporting

Companies often find themselves confronted with a multitude of standards and guidelines, each with their own unique reporting criteria and metrics. Navigating this labyrinth of frameworks can be overwhelming, time-consuming, and resource-intensive, especially for small and medium-sized enterprises (SMEs) with limited capacity to dedicate to ESG reporting.

The rapid pace of development in the ESG reporting landscape compounds the challenges faced by businesses and finance providers. As new regulations, standards, and reporting requirements emerge, there is a constant need for companies to adapt and keep up with the evolving landscape. This perpetual state of flux not only adds complexity but also creates uncertainty and potential compliance risks for businesses striving to meet the growing demands for ESG reporting. Companies are already seeking to future proof their activities in anticipation of ever more demanding reporting requirements.

The UK Government should take the lead in establishing a standardised and comprehensive National ESG Reporting Framework, under the auspices of the Financial Stability Board and with close involvement of the Financial Reporting Council. This framework should consolidate existing reporting requirements and align with internationally recognised standards such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB). By creating a unified reporting framework, businesses will benefit from simplified guidelines and reduced reporting burden, while enabling comparability and transparency across sectors. Agreed standards would also drive up the use of products including green securitisation, which currently only occurs on a modest scale in the UK as compared to, for example, the USA.

To achieve this, the government can establish a task force comprising representatives from regulatory bodies, standard-setting organizations, and industry associations This collaborative effort will ensure that a National ESG Reporting Framework is delivered within 2 years, addressing the needs and concerns of various stakeholders, leading to greater acceptance and adoption within the business community.

The ESG reporting framework would focus on:

- Enabling greater adoption of green finance, including green securitisation
- Creating certainty for business using reporting and minimising the use of competing standards
- Setting a predictable timetable for changes in reporting requirements
- Ensuring a proportionate administrative burden that does not punish smaller businesses
- Building on the successes of existing, well established reporting frameworks and creating a positive culture of honest reporting, rather than using reporting as a "greenwashing" exercise

Advocating for international alignment

The US, EU, and UK all operate multiple reporting standards for ESG. Respective industry bodies, including accountancy bodies have also planned their own standards.

Although there is some broad alignment between these standards, the proliferation and future development of these standards could lead to significant divergence, creating issues for businesses. This not only increases complexity for the businesses that follow standards but creates the opportunity for arbitrage between standards by businesses operating in multiple jurisdictions.

The UK Government can play a role as a global leader in actively promoting international alignment and collaboration on ESG reporting standards. By engaging with international counterparts, such as the International Financial Reporting Standards (IFRS) Foundation and other regulatory bodies, the government can contribute to the development of globally recognised reporting frameworks. This collaboration will help reduce fragmentation, minimise reporting discrepancies, and enhance comparability across borders. This work can align with the Government's existing Green Finance Strategy.

This work would be led by the UK's Financial Reporting Council (FRC), who would play a significant role in seeking to harmonise reporting requirements globally by encouraging the adoption of common metrics, disclosure guidelines, and reporting formats, enabling businesses and finance providers to navigate the international reporting landscape more efficiently. The FRC would also consider the views of investors in designing a new reporting architecture. By fostering international alignment of regulatory bodies, reporting organisations, investors and other stakeholders, the government can enhance the attractiveness of the UK as a sustainable finance hub.

About the FLA

The Finance & Leasing Association (FLA) is the leading trade body for the UK business finance (leasing and hire purchase), consumer credit and motor finance sectors. In 2022, members of the Finance & Leasing Association (FLA) provided £150 billion of new finance to UK businesses and households, £51 billion of which helped consumers and businesses buy new and used cars, including 84% of private new car registrations. £116 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. £34 billion of finance was provided to businesses and the public sector to support investment in new equipment, representing almost a third of UK investment in machinery, equipment and purchased software in the UK last year.