

11 October 2023

UK Sustainability Disclosure Technical Advisory Committee

By email - UKSustainabilityTAC@frc.org.uk

To whom it may concern,

UK endorsement of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*: call for evidence

Deloitte LLP welcomes the opportunity to respond 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 ("the call for evidence").

We welcome the International Sustainability Standards Board's (ISSB) first sustainability standards—International Financial Reporting Standards (IFRS) S1 and S2—as an important milestone in achieving a global baseline of consistent, high-quality, and comparable sustainability information addressing the needs of capital markets. Adoption of the standards worldwide is needed to help achieve true harmonisation and avoid the risk of a fragmented approach to regulation.

The UK capital markets are amongst the largest and most influential globally, and adopting the ISSB standards in the UK would demonstrate clear leadership and 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. This in turn should drive investment in more sustainable projects and activities and help the UK to transition successfully, building a more resilient economy in view of the wide-ranging sustainability-related risks companies face today. Accordingly, we believe the appropriate approach to providing comparable and decision-useful information and to helping drive integrated thinking and sustainable decision-making is to:

1. make the ISSB standards available for use in the UK in full;
2. integrate those standards into the existing UK legal and regulatory framework and determine mandatory scope and application; and
3. consider whether any additional disclosure requirements are necessary to meet the UK's objectives around sustainability and climate.

The UK has historically demonstrated leadership in narrative and non-financial reporting, with a corporate reporting regime that is mature and well-established and captures many of the requirements that are set out in IFRS S1 and S2 via the strategic report, the UK Corporate Governance Code and existing climate-related reporting requirements. We therefore believe the ISSB standards will operate effectively within the existing UK reporting framework. In our view, it is essential that the ISSB standards are implemented in the UK without modification, to the fullest extent possible. We observe that the ISSB standards have been through a thorough due process, which elicited substantial feedback from, and engagement with, UK

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stakeholders, and comprehensive re-deliberations based on that feedback to finalise and approve the final standards.

We are aware that entities will face some implementation challenges. However, we do not believe these should be a barrier to UK endorsement of the full standards. 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. Concerns about the readiness of UK companies to report in line with IFRS S1 and S2 should be addressed through phasing the timing of when these standards are mandated for differing types of UK companies. This should take into consideration a company's existing disclosure requirements, similar to the phased introduction of TCFD in the UK. Other UK specific initiatives to support readiness could include education events and stakeholder outreach at UK level to help entities understand and prepare to apply the standards.

We also observe that the standards as issued already provide transitional reliefs and proportionate requirements, including allowing an entity to disclose information on only climate-related risks and opportunities (in accordance with IFRS S2) in its first annual report and consequently more time for preparers to get ready for reporting in accordance with IFRS S1; not requiring an entity to disclose its Scope 3 greenhouse gas emissions in its first annual reporting period and introducing 'proportionality' mechanisms such as the explicit recognition that qualitative information may be provided for certain disclosures where quantitative data is not available or is of insufficient quality and maturity.

Accordingly, we consider that the costs of implementation will not outweigh the significant benefits of having a single cohesive reporting framework providing primary users with comparable, decision-useful information, with a globally recognised set of standards forming the bedrock of UK sustainability reporting. A swift endorsement decision prior to mandatory application will also give companies the opportunity to become familiar with the standards and for the UK government and the FRC to conduct outreach and engagement regarding implementation and consider the timing of mandatory application for different UK businesses. We therefore believe it is firmly in the public interest for the UK government to endorse the ISSB standards for use by UK companies in full as quickly as possible and that the bar for not doing so should be set very high, i.e. that endorsement of the ISSB standards would be 'detrimental to the UK public good'.

We believe that the ISSB standards should be brought into the UK legal framework in a way that recognises both the need for the global standards to be implemented without modification to maintain the global baseline and the anticipated rapid evolution of sustainability standards. The ISSB has stated its intention to add further guidance, topical standards and requirements that will mean frequent updates to the UK framework will be needed in response. The UK government should seek to avoid the use of a mechanism that results in requirements that cannot be easily or swiftly changed and legislation becoming dated. In this regard, we believe that writing the standards directly into legislation should be avoided and we strongly encourage the UK government to consider whether there is a feasible alternative approach within the confines of the UK legal system and reporting framework.

Following endorsement, the next step would be for the Financial Conduct Authority (FCA) and the Department for Business and Trade (DBT) to seek to establish, via consultation, whether the ISSB standards should be mandated for use by companies within their respective remits and, if so, the appropriate scope and whether any additional UK-specific requirements are necessary. In our view, with appropriate integration and streamlining of existing requirements, we believe IFRS S1 and IFRS S2 will

operate effectively with the requirements and principles set out in the UK strategic report and UK Corporate Governance Code and should facilitate greater granularity, consistency, and specificity of reporting on sustainability topics. We set out a possible approach regarding scope in our August 2023 [response to the DBT's call for evidence on the UK's non-financial reporting framework](#).

We strongly encourage the UK government to work proactively towards seeking appropriate sustainability reporting equivalence decisions from other jurisdictions while ensuring that the needs of the UK capital markets are fully addressed and the global baseline of ISSB standards is preserved. This will help facilitate growth by reducing the need to apply multiple reporting requirements, minimising regulatory burdens on businesses operating across jurisdictions and maximising efficient flow of capital. This is particularly relevant in the context of the EU sustainability reporting regime, which has significant extra-territorial reach and will affect many UK companies over the coming years. The additional reporting requirements and fiduciary duties of directors mandated through UK company law, particularly in the context of the section 172(1) statement, mean that a UK regime which incorporates the ISSB standards alongside the UK legal requirement for companies and directors to consider the impact of the company and decisions taken on wider stakeholders, including communities and the environment, should be in a position to be considered as equivalent to reporting under the European Sustainability Reporting Standards (ESRS).

Our detailed comments on the specific topics raised in the call for evidence are set out in Appendix 1.

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



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Appendix 1: Responses to detailed questions

1: Overall views on the standards

[This topic specifically refers to IFRS S1 and IFRS S2 as a whole.]

Specific matters to consider in your response:

- *How easy or difficult is it to interpret the requirements described in IFRS S1 and IFRS S2?*
- *To what extent will the requirements in the standards improve upon existing reporting in the context of the UK?*
- *To what extent do you think that application of the standards in the UK is technically feasible?*
- *How, if at all, might the information disclosed in accordance with IFRS S1 and IFRS S2 be used by investors for their decision-making, and companies for the management of the business?]*

In our view, the ISSB standards are clearly and concisely drafted and have 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. The concepts and principles in IFRS S1 and S2 are consistent with those of IFRS Accounting Standards, and we therefore consider the requirements to be clear and sufficiently easy to interpret.

The UK has historically demonstrated leadership in narrative and non-financial reporting with the development of the strategic report which, in our view, is well-established and designed to provide useful information to investors and facilitate good practice in corporate reporting. We consider that adoption of the ISSB standards will build on, enhance, and broaden the existing reporting already undertaken by many UK companies based on the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD) and the more recent implementation of the climate-related financial disclosure (CFD) regulations. The ISSB standards will facilitate disclosures which clearly meet the needs of primary users by adding greater specificity, consistency and comparability of information, consistent with the UK's continued commitment to high-quality sustainability reporting.

Investors have for some time been calling on companies to disclose the information required by IFRS S1 and S2. The recent [FRC thematic review](#) on climate-related metrics and targets observed that investors “expect comparable, clear information explaining company targets, the metrics to track climate risks and the plan for transitioning to a lower carbon economy”, while the [FRC Lab's report](#) on ESG data distribution and consumption noted that investors are broadly supportive of the ISSB's project to provide a consistent international set of standards for sustainability reporting. We therefore consider that investors will obtain clear benefits from the information required to be disclosed in accordance with IFRS S1 and S2.

We see clear synergies between the objectives of the ISSB standards and existing requirements in UK company law. In particular, we note the evident parallels between the objectives of IFRS S1 as articulated in IFRS S1.2 and the strategy, business model, principal risks and uncertainties and section 172(1) disclosures in the strategic report: “Information about sustainability-related risks and opportunities is useful to primary users because an entity's ability to generate cash flows over the short, medium and long term is inextricably linked to the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain. Together, the entity and the resources and relationships throughout its value chain form an interdependent system in which the entity operates.” [IFRS S1.2] An understanding of sustainability-related risks and opportunities is intrinsically

linked with the long-term prospects of a company and therefore the information obtained from applying the ISSB standards will be of benefit to management in driving long-term, sustainable value creation.

As discussed in our [response to the DBT's call for evidence on the UK's non-financial reporting framework](#), with appropriate integration and streamlining of existing requirements we believe adoption of the ISSB standards seems clearly technically feasible. The standards will operate effectively within the existing reporting framework, including the strategic report and UK Corporate Governance Code requirements and principles, and result in greater specificity of reporting on sustainability matters that are relevant to a company's strategy, business model and prospects. Accordingly, we consider that application of the ISSB standards in the UK should enhance consistency and comparability in reporting to meet the needs of primary users.

We believe that the ISSB standards should be brought into the UK legal framework in a way that recognises both the need for the global standards to be implemented without modification to maintain the global baseline and the anticipated rapid evolution of sustainability standards. The ISSB has stated its intention to add further guidance, topical standards and requirements that will mean frequent updates to the UK framework will be needed in response. The UK government should seek to avoid the use of a mechanism that results in requirements that cannot be easily or swiftly changed and legislation becoming dated. In this regard, we believe that writing the standards directly into legislation should be avoided and we strongly encourage the UK government to consider whether there is a feasible alternative approach within the confines of the UK legal system and reporting framework.

2. Identifying sustainability-related risks and opportunities

(IFRS S1 (paragraphs 54–55, B6–B7, B11–B12 and C1–C3) and IFRS S2 (paragraphs 10–12))

[This topic specifically refers to the requirements in IFRS S1 (paragraphs 54–55, B6–B7, B11–B12 and C1–C3) and IFRS S2 (paragraphs 10–12)].

Specific matters to consider in your response:

- *What challenges, if any, are there for UK companies in identifying and disclosing all sustainability-related risks and opportunities based upon the requirements? Please explain your response.*

The approach outlined by IFRS S1 and S2 for identifying sustainability-related risks and opportunities builds on existing requirements in the UK legal and regulatory framework. In particular, the ISSB standards explicitly incorporate and build on the TCFD recommendations, which many UK companies have been applying for some time now and with which they are familiar. The approach, terminology and definitions in IFRS S2 regarding climate-related risks and opportunities (e.g. chronic and acute physical risks and transition risks) are therefore well understood by those UK companies already subject to TCFD reporting requirements. This is also the case for AIM companies, large companies and LLPs in scope of the Climate-related Financial Disclosure (CFD) requirements under the Companies and the Limited Liability Partnerships Regulations 2022, which use the same pillars and approach to climate-related risks and opportunities as TCFD.

As mentioned in our response to question 1, we see clear synergies between the requirements under strategic report and the IFRS S1 requirements, particularly in relation to identifying and disclosing principal risks and uncertainties as well as opportunities, which include all aspects of sustainability and are not limited to climate.

Although IFRS S1 refers to the identification and disclosure of “all” sustainability-related risks and opportunities, we observe that the standards contain a clear and well established definition of materiality (see response to 3) to be applied in disclosing sustainability-related risks and opportunities that is consistent with the UK’s existing approach. The standards also provide that entities need not undertake an exhaustive search for information (IFRS S1:B10). IFRS S1 gives examples of what reasonable and supportable information looks like in the context of identifying sustainability-related risks and opportunities (see IFRS S1:B8 and B9). We believe these provisions act as clear and understandable parameters for preparers in identifying and disclosing sustainability-related risks and opportunities, whilst allowing entities to apply the appropriate level of judgement for their specific context. As such, we do not expect that identifying sustainability-related risks and opportunities in accordance with IFRS S1 and S2 would prove significantly more challenging than under existing UK requirements.

We observe that the IFRS Foundation has published a comparison between IFRS S2 and the TCFD recommendations. This outlines areas where IFRS S2 requires a greater level of detail or additional information compared to the TCFD disclosure recommendations and will aid both preparers and users who are accustomed to the TCFD requirements.

• Have you used, or do you plan to use, the sources of guidance in IFRS S1 paragraph 54–55 and the disclosure topics in IFRS S2 paragraph 12 to identify sustainability-related and climate-related risks and opportunities? Do you have any comments on their use?]

We agree with the FCA and the FRC that an industry-based approach to identifying relevant sustainability-related risks and opportunities is highly valued by investors, who often compare and benchmark companies within a given sector. We recognise that the requirement to consider the Sustainability Accounting Standards Board (SASB) standards may be problematic from a legislative standpoint. However, we believe that the SASB standards provide relevant guidance and support consistency in industry-specific approaches when applying IFRS S1 and S2. It is also in line with pronouncements made by the FRC and FCA over a number of years: for example, in PS21/23 the FCA encouraged listed companies to consider the SASB metrics for climate and suggested the SASB metrics for other sustainability topics.

Many UK companies are already considering the SASB standards to support their identification of industry specific risks and opportunities. The FRC SASB snapshot from 2021 showed the UK to be the third highest adopter of the SASB standards, a rate that has grown 200% since 2020, something also highlighted in the FRC’s climate-related thematic reviews from July 2022 and 2023. We also note the International Organization of Securities Commission’s (IOSCO’s) assessment that IFRS S1 and S2 standards are clear that an entity may conclude that the SASB Standards are not applicable in their circumstances, although further illustrative examples to support consistent application of the requirement and facilitate assurance or compliance review could be helpful in future. We note that the Basis for Conclusions to IFRS S1 (BC132) states “although an entity is required to consider the SASB standards, it is not required to apply the SASB standards” which we believe appropriately balances reducing the diversity of industry specific disclosures whilst allowing entities to apply their own judgement to their specific context.

We discuss the SASB standards in relation to industry-specific metrics in more detail in our response to 8.

3: Application of materiality

[This topic specifically refers to the requirements in IFRS S1 (paragraphs 17–19 and B13–B28).

Specific matters to consider in your response:

- *Is it clear how the concept of materiality (IFRS S1 paragraphs 17–19) applies to the identification and disclosure of sustainability-related risks and opportunities? Please explain your response.*
- *How do investors identify sustainability-related information that is material in a company's annual report?]*

We believe the concept of materiality under IFRS S1 is clear and appropriate and provides primary users with confidence that all the information provided is material and not obscured by immaterial information. In the absence of reporting standards, determining what information is material and warrants inclusion in the annual report has been challenging for preparers. The adoption of IFRS S1, with its clear definition of materiality will bring much-needed clarity to the process of identifying material information for inclusion in the annual report.

We note that the definition:

- Aligns with financial statement materiality which preparers and users are already accustomed to.
- Is consistent with the requirements of TCFD, the strategic report and s172 that are already integral to the UK reporting landscape.
- Has been through a thorough due process, with over 700 responses to the consultation, including substantial feedback from and engagement with UK stakeholders.
- Has been considered in detail by the FCA in its role co-leading the IOSCO assessment which concluded that the ISSB standards serve as an effective and proportionate global framework of investor-focused disclosures in relation to climate-related matters (IFRS S2) and sustainability-related information (IFRS S1).

We also note that the standards provide helpful guidance on applying the concept of materiality, including guidance on meeting primary users' information needs, determining the scope of the value chain and identifying the sustainability-related risks and opportunities that could reasonably be expected to affect a company's prospects. In its summary of planned adoption guidance, the ISSB also notes that it plans to issue further guidance to help entities conduct materiality assessments.

4: Reporting approach

[This topic specifically refers to the requirements in IFRS S1 (paragraphs 20, B38, and B11–B12) and IFRS S2 (paragraphs B32–B54).

Specific matters to consider in your response:

- *What, if any, are the challenges in preparing sustainability-related disclosures at the same entity level used in the preparation of financial statements (e.g., consolidated reporting or entity-level reporting)? Please explain your response.*
- *Is there sufficient guidance on how to identify the value chain and on how to prepare and present information about sustainability-related risks and opportunities in the value chain? If not, what would you need to be able to comply with this requirement?]*

We do not foresee any specific challenges in requiring companies to prepare sustainability-related disclosures at the same entity level used in the preparation of financial statements. UK company law already follows this approach: a group annual report comprises financial and non-financial information

about the group, being a parent company and all of its subsidiaries, while an individual annual report addresses the entity only in both financial and non-financial reporting.

We believe it is extremely important that sustainability-related disclosures are prepared at the same entity level as that used in preparing the financial statements. This promotes connectivity and comparability and ensures a clear link between financial and non-financial information which together set out a cohesive picture for primary users in understanding the drivers of risk, value creation and long-term prospects and how a company manages those matters through governance, strategy, risk management, and metrics and targets.

Quoted companies are required to present their business model, strategy and objectives in the strategic report and doing so requires inherent understanding of and information about the value chain; disclosures made in line with the TCFD recommendations and the CFD regulations also necessitate this consideration. The ISSB standards include a clear definition of the term “value chain” together with guidance for companies to consider. Where there are some application difficulties, the UK should firstly work with the ISSB to help shape the education guidance programme and help them develop guidance for use globally. The UK could then consider further education materials that address issues raised by UK preparers and users to the extent that these supplement the ISSB’s own educational and interpretative guidance.

5: Timing and location

[This topic specifically refers to the requirements in IFRS S1 (paragraphs 60–63, B27, B45–48, 64–69) and IFRS S2 (paragraphs B19)].

Specific matters to consider in your response:

- *What are your estimates of the benefits or costs in relation to reporting sustainability-related information at the same time and in the same location as general-purpose financial reports for companies in the UK?*
- *If UK companies were to include this information in the Strategic Report, how will they be able to ensure that this information is presented in a manner such that it is clearly identifiable and is not obscured by other information (IFRS S1 paragraph 62)?]*

It is essential that primary users have access to financial and non-financial information relating to a reporting period at the same time if they are to have a complete set of information that provides a holistic, connected and integrated view of the company’s position and performance. We consider that, generally, the preparation of sustainability-related information at the same time as the financial information should not be a significant challenge; UK companies are used to the need to prepare non-financial information to the same timeframe as financial information as part of the annual report and those in scope of TCFD and the CFD regulations are already doing this for certain climate-related disclosures.

We consider it critical that the annual report contains all material information; that is, information which could reasonably be expected to influence decisions of primary users, whether financial or non-financial in nature. The materiality lens described in IFRS S1 is consistent with that used for the strategic report and financial reporting. We therefore consider that the risk that material information may be obscured by virtue of including the sustainability-related disclosures set out in IFRS S1 and S2 in the annual report is low as, by definition, all information included in the strategic report and financial statements, including that disclosed under IFRS S1 and S2, should be information that is material.

Therefore, to the extent that disclosures set out in IFRS S1 and S2 are considered material, these should be included in the annual report and, specifically, in the strategic report. Where information is considered immaterial to primary users and is excluded from the annual report as a result, but is deemed relevant to other stakeholders, consideration could be given as to whether this information may alternatively be provided as a supplement to the annual report, as a separate report, or on the company's website.

There is a wider question as to whether certain disclosures currently required in the annual report regardless of materiality may be better placed elsewhere; in our [response to the DBT's call for evidence on the UK's non-financial reporting framework](#), we set out a number of recommendations in this respect.

6: Judgements, uncertainties and errors

[This topic specifically refers to the requirements in IFRS S1 (paragraphs 70–71, 74–86 and B49–B59).

Specific matters to consider in your response:

- *How clear, if at all, are the requirements in IFRS S1 paragraphs 74–86 regarding judgements, uncertainties and errors? How easy or difficult is it to distinguish between a change of estimate and an error? Please explain your response.*
- *What, if any, further considerations are there in respect of disclosing revised comparative information when there are changes in estimates?]*

We consider that the objectives and disclosure requirements in IFRS S1 related to judgements, uncertainties and errors are appropriate and proportionate. The concepts are already familiar to preparers and primary users in respect of the financial statements, where similar information must be provided.

Where there are differences in approach to judgements, uncertainties and errors between accounting and sustainability standards, we consider these are appropriate for the reasons outlined in the Basis for Conclusions to IFRS S1, i.e. that sustainability-related metrics frequently require significant estimations, that changes to sustainability information do not affect reported equity and that requiring retrospective restatement provides users with better information about trends.

7: Financial impact and connectivity

[This topic specifically refers to the requirements in IFRS S1 (paragraphs 21–24, 34–40 and B39–B44) and IFRS S2 (paragraphs 15–21 and B65).

Specific matters to consider in your response:

- *How easy or difficult is it to interpret the requirements for preparing and disclosing information about the current and anticipated effects of sustainability-related information on the financial position, financial performance and cash flows? Please explain your response.*
- *What, if any, are the challenges in preparing disclosures that connect sustainability-related information to the financial statements?]*

We observe that it can be a matter of significant judgement to determine what proportion of a risk or opportunity could be attributed to any one sustainability-related matter (e.g. what proportion of a flooding risk could be attributed to climate change) and therefore to assess the precise financial effects.

We therefore welcome that the ISSB standards allow for entities to provide estimates and ranges in their disclosures, and for the provision of qualitative information when entities are unable to provide quantitative information. Where such judgements are material, they will be disclosed as required by IFRS S1.

Investors and the UK regulators have frequently stated that connectivity between non-financial information and the financial statements is not always clear in companies' reporting; non-financial information, both qualitative and quantitative, is given in the strategic report, but its impact on the financial statements may not be fully explained. In our view, this further supports the adoption of the ISSB standards, as they explicitly require entities to provide connected information. The ISSB standards also benefit by virtue of being part of the same overall framework as IFRS accounting standards which offers further opportunities to enhance connectivity and connected thinking in corporate reporting.

8: Industry-based requirements

[This topic specifically refers to the requirements in IFRS S1 (paragraphs 54–59) and IFRS S2 (paragraphs 12 and 32)].

Specific matters to consider in your response:

- *What, if any, are your estimates of the benefits and/or costs in preparing industry based disclosures?*
- *Should the standards stipulate which guidance and industry-based topics and metrics a company should disclose, and why? What, if any, are the other sources of guidance that are currently used by UK companies?]*

We consider industry-specific considerations to be an integral part of reporting on sustainability-related risks and opportunities. Investors, in particular, have emphasised the importance of understanding sustainability-related risks and opportunities in the context of industry activities, which they view as enhancing both the relevance and the comparability of disclosures. Industry-specific disclosure requirements help meet those information needs. We do not envisage there to be significant additional costs to industry-based disclosures and believe the benefit of providing such disclosures outweighs the cost in any case.

Primary users expect companies to provide industry-specific metrics that are consistent and comparable with industry peers. For this reason, it is appropriate that IFRS S1 refers directly to industry-specific standards such as the SASB standards to promote consistency and reduce the diversity of sustainability-related metrics disclosed within industries. IFRS S2 also includes accompanying industry-based guidance which contains industry-specific metrics derived from the SASB standards.

We also agree with the approach in IFRS S1 to asking companies to consider the SASB metrics without mandating their use, as we believe each organisation should consider its own materiality and wider circumstances when deciding on the metrics to disclose. We note that the Basis for Conclusions to IFRS S1 (BC132) states “although an entity is required to consider the SASB standards, it is not required to apply the SASB standards” which we believe appropriately balances reducing the diversity of industry specific disclosures whilst allowing entities to apply their own judgement to their specific context.

9: Cross-industry metrics (IFRS S2 only)

[This topic specifically refers to the requirements in IFRS S2 (paragraphs 29, B19–B65)].

Specific matters to consider in your response:

- *Are the requirements for greenhouse gas reporting, including on financed emissions, technically and practically feasible? If not, please explain the reasons for this. You might want to consider resource, infrastructure, measurement methods (including the GHG Protocol Corporate Standard) or other challenges.*
- *What, if any, are the challenges in preparing and disclosing information about the cross-industry metrics other than greenhouse gas emissions (IFRS S2 paragraph 29(b)–(g))?*

We agree with the seven cross-industry metric categories required by IFRS S2 and note that these categories are already considered relevant by many users of climate-related reporting based on TCFD surveys and consultations. These categories are applicable to most entities and facilitate enhanced comparability across industries and business models.

We also note that the cross-industry metrics required by IFRS S2 broadly align with the requirements of the TCFD recommendations and CFD regulations and will therefore be familiar to many UK companies. Where IFRS S2 requires greater specificity of information, we believe these requirements are proportionate and reflect the needs of primary users. For example, we welcome the requirement to include separate disclosures of Scope 1 and 2 emissions for associates, joint ventures, unconsolidated subsidiaries and affiliates not included in the consolidated accounting group. We also agree with the approach taken by the ISSB in providing proportionate reliefs as measurement methodologies and the availability and quality of underlying data evolve over time.

TCFD, CFD and the Streamlined Energy and Carbon Reporting Regulations (SECR) already require UK companies to disclose certain greenhouse gas (GHG) emissions, so many UK companies will already have systems and processes in place to capture this information. Many have plans in place to improve their GHG emissions data quality and management as a result of increased desire for information for internal decision making, investor demand and UK regulatory expectations.

To ensure consistency and comparability in the calculation of GHG emissions, we believe entities should be required to use the GHG Protocol to define and measure 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, and both the TCFD recommendations and the environmental reporting guidelines supporting 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 Scope 3 disclosures. We further note that other jurisdictions are proposing or mandating aspects of the GHG Protocol. For example, the US Securities and Exchange Commission (SEC) climate-related proposals would require use of the GHG Protocol, and the European Sustainability Reporting Standards require use of concepts such as scope 1, 2 and 3 and operational control from the GHG Protocol even though the GHG Protocol itself is not mandated.

We support the requirement to disclose Scope 3 emissions in IFRS S2 including category 15 (investments). Scope 3 emissions are an important component of investment risk analysis because, 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 reporting evaluate the degree to which an entity is making a transition to lower-carbon business models and products and services. Thus, the measurement and disclosure of Scope 3 GHG emissions enables an entity and its investors to identify the most significant GHG reduction opportunities across the entire value chain, thereby informing strategic and operational decisions as well as an entity's risk assessment.

We note that TCFD recommends that companies should consider disclosing Scope 3 GHG emissions. As set out in its July 2022 TCFD thematic review, the FRC has also expected companies to:

- Undertake an assessment to determine the materiality of Scope 3 emissions to users of the financial statements and report emissions where required, clearly identifying which categories are included.
- Consider the impact on their TCFD compliance statement if Scope 3 emissions are relevant but not reported. This was reiterated in the [July 2023 thematic](#) on metrics and targets in the context of financed emissions for banks and asset managers.

These FRC's expectations are in line with the requirements of IFRS S1 and S2 and reflect the expectations of primary users.

We also support the disclosure requirements and application guidance for industries with particular exposure to Scope 3 category 15 (investments), i.e., asset management, banking and insurance. This is in line with existing TCFD supplemental guidance and FRC expectations.

We acknowledge the challenges in measuring Scope 3, including category 15, which include difficulties in obtaining data, and methodologies for calculating these emissions using estimates which can be inherently uncertain. However, we believe IFRS S1 and S2 include sufficient provisions and transition relief that support preparers, for example, with guidance on estimation uncertainty and the Scope 3 measurement framework. We observe that the UK government, in its 2023 [Green Finance Strategy](#), signalled its intention to launch a call for evidence exploring how it can support Scope 3 reporting, including looking at reducing the burden of generating this data and supporting the data generation and reporting process for small and medium-sized enterprises in particular. We are supportive of this approach.

Regarding cross-industry metrics other than GHG emissions, we believe that if data is material and therefore useful to decision making (both internally and externally), then entities should be reporting on that information, and many will already be doing so. Application of the ISSB standards will aid entities in identifying those metrics that are material and, while there may be initial challenges and costs to facilitate collection of data, we consider that the benefit of capturing material sustainability-related metrics will outweigh those costs.

10: Costs and benefits

[Specific matters to consider in your response:

- *What are the anticipated benefits of preparing and disclosing information required by IFRS S1 and IFRS S2 (for both companies and investors), and which elements of the standards will provide the greatest benefits?*
- *What are the anticipated drivers of costs when preparing and disclosing information required by IFRS S1 and IFRS S2?*
- *What is the current process used by preparers to gather the relevant sustainability-related information required for reporting purposes? Please include information on the sources (where data is gathered), the frequency and associated costs.*
- *Please outline the additional steps your company would need to undergo to comply with the requirements of IFRS S1 and IFRS S2? Please consider staff, time, production, IT and any other costs associated with compliance. Which of these steps is the most costly/challenging steps, and why?*

n• How far do you agree or disagree that the benefits of disclosure will outweigh the costs of reporting over time?]

The requirements introduced in the UK over the last few years for listed companies to report in line with the TCFD recommendations and for further companies and LLPs to make climate-related financial disclosures under the CFD Regulations have served to set up UK businesses well along the path towards enhanced sustainability reporting. Adoption of the ISSB standards will build on this reporting already undertaken by many UK businesses while adding much called for consistency, clarity and comparability for both users and preparers. As such, we would expect it to be unlikely to lead to significant cost increases for many preparers.

Accordingly, we consider that the costs of implementation will not outweigh the significant benefits of having a single cohesive reporting framework providing primary users with comparable, decision-useful information, with a globally recognised set of standards forming the bedrock of UK sustainability reporting. A swift endorsement decision prior to mandatory application will also give companies the opportunity to become familiar with the standards and for the UK government and the FRC to conduct outreach and engagement regarding implementation and consider the timing of mandatory application for different UK businesses.

As well as the benefits to primary users and providers of capital, there are likely to be broader societal benefits as the improved information enables better systemic monitoring and decision making.

We strongly encourage the UK government to work proactively towards seeking appropriate sustainability reporting equivalence decisions from other jurisdictions while ensuring that the needs of the UK capital markets are fully addressed and the global baseline of ISSB standards is preserved. This will help facilitate growth by reducing the need to apply multiple reporting requirements, minimising regulatory burdens on businesses operating across jurisdictions and maximising efficient flow of capital.

11: Application of the requirements

[This topic specifically refers to the requirements in IFRS S1 (paragraphs E3–E6) and IFRS S2 (paragraphs C3–C5).

Specific matters to consider in your response:

- How might the proportionality provisions* ease reporting burdens or reduce challenges within reporting, if at all?*
- Do the reliefs provided in IFRS S1 and IFRS S2 give appropriate transitional relief as preparers develop their reporting in this area? Please explain your answer.*
- Are there any further anticipated challenges in the application of IFRS S1 and IFRS S2 that are not considered or addressed in the standards and guidance?*

**refer to the summary of proportionality mechanisms and temporary reliefs in the ISSB's Feedback Statement on IFRS S1 and IFRS S2.]*

We are supportive of the transition reliefs included in the ISSB standards which we consider to be appropriate and proportionate. As such, we do not see a particular need for the introduction of additional reliefs. Where companies have previously reported under an existing set of requirements such as the Listing Rule on TCFD or the CFD regulations, we believe such entities should provide comparative

information to the extent possible, drawing on the disclosures made under the previous reporting framework to minimise any information gap.

As noted in our [response to the DBT's call for evidence on the UK's non-financial reporting framework](#), we suggest the UK government considers whether it would be beneficial to support the development of a simplified standard that better reflects the resources, capabilities and user needs of smaller companies with less complex business models. Such a standard would allow for reduced disclosures compared to the full standards. This could be developed at UK level by the UK standard setter (for example, 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 UK government and FRC/ARGA could encourage the ISSB to develop a standard for SMEs.

12: Any further comments

We have no further comments.