UK FINANCE

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Finance for Europe

UK adoption of international sustainability disclosures

UK Sustainability Disclosures Technical Advisory Committee call for evidence

Joint response from the Association for Financial Markets in Europe (AFME) and UK Finance

October 2023

Introduction

UK Finance is the collective voice for the financial services industry. Representing around 300 firms, we act to enhance competitiveness, support customers, and facilitate innovation. The **Association for Financial Markets in Europe (AFME)** is the voice of Europe's wholesale financial markets, representing the leading global and European banks and other significant capital market players. AFME advocates for deep, integrated, and sustainable capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society.

We are pleased to comment on the call for evidence of the UK Sustainability Disclosures Technical Advisory Committee (TAC) to inform the proposed endorsement of the International Financial Reporting Standards' (IFRS) Sustainability Disclosure Standards (SDS).

As associations representing a large portion of the UK's financial services firms, including lenders, investors and payments firms both from the UK and overseas, we are united in our support for the International Sustainability Standards Board's (ISSB's) standards, and support their endorsement and implementation in the UK without any substantive change aside from certain targeted proportionality considerations. Our response sets out our detailed views on the standards, in response to the questions posed by the TAC Secretariat.

Key recommendations

- **Implementation and endorsement timelines:** We recommend that the Financial Reporting Council (FRC), Department for Business and Trade (DBT) and Financial Conduct Authority (FCA) share a clear, public timeline for endorsement and implementation of the ISSB standards in the UK as soon as possible. While the timeline set out in the March 2023 Green Finance Strategy offers an indication of intent, firms now need a detailed articulation of upcoming consultations, decisions and final application of reporting requirements, which will allow them to prepare. This would also enhance the leadership the UK has shown in this space. Such a timeline should be based on a realistic assessment of achievability, particularly in view of the impact of a likely General Election in 2024 on endorsement timings.

- **Full endorsement of ISSB standards in the UK**: The TAC should recommend that the Secretary of State for Business and Trade **fully endorse the ISSB standards for use in the UK without any substantive change**. Full endorsement – and ultimately implementation – will help maximise international interoperability, supporting the UK's ambition to be a green finance hub and helping to maintain the UK's status as a preeminent global financial centre. While there are costs associated with implementation, these are outweighed by the benefits.

- **Allowances for the nascent nature of sustainability reporting:** Certain types of sustainability reporting, particularly reporting beyond climate-related risks and opportunities, are nascent for most firms. We welcome the ISSB's allowance to refer to existing guidance such as the European Sustainability Reporting Standards (ESRS), Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) standards, and recognition that reporting quality will need to improve over time as data, methodologies and capabilities develop. The UK should embed such considerations into its endorsement and implementation.

- **Proportionality through phasing**: Given firms' differing experience and capabilities in sustainability reporting, as well as ongoing shortfalls in data and methodology availability, proportionality considerations are important. We support the **relief measures** set out by the ISSB and would advocate that any reliefs adopted by the UK reflect the ISSB's pre-existing approaches or later application dates/phase-ins, rather than carve-outs from the substance of the reporting requirements.

- **Exemptions for smaller companies**: Alongside some of the largest firms in the country, UK Finance and AFME also represent a large cohort of smaller companies and firms with customers who are smaller companies. We therefore recognise the need for **proportionality considerations specific to small firms**. For firms that do not currently fall within the scope of mandatory reporting under UK Taskforce on Climate-Related Financial Disclosure (TCFD), the new climate-related disclosure requirements in the Companies Act (section 414CA/CB) or Streamlined Energy and Carbon Reporting (SECR) requirements, or other firms that currently benefit from long-term reliefs from reporting requirements, we recommend re-affirming those exemptions for any future ISSB-aligned reporting.

- **Align entity scope with financial reporting**: We support the ISSB's requirement that an entity's sustainability-related financial disclosures shall be for the **same reporting entity as the related financial statements, or should be at the level at which strategy is set and sustainability risks and opportunities are managed and governed (e.g. at global group level)**. We also recommend that where consolidated financial statements are prepared, there should not be a requirement to also present local subsidiary disclosures on a standalone basis. This is important to minimise the reporting burden on firms and reduce the risk of "double counting" by users.

- **Equivalence of disclosure regimes in major jurisdictions**: Equivalence or substituted compliance arrangements should also be considered to allow multinational firms in all sectors to avoid repeated disclosures in different jurisdictions.

- **Linkage between financial and sustainability disclosures**: We support the ISSB proposal for a company to disclose sustainability-related financial information as part of its **general-purpose financial reporting**. This will help ensure that financial statement information and sustainability-related financial disclosures can be considered together, highlighting interrelationships between different types of risks and opportunities, where relevant. Publishing sustainability-related financial disclosures **at the same time** as the financial statements would be beneficial to investors and

reduce the risk of not disclosing material non-public information. Linking financial and sustainability disclosures remains a novel practice for most companies and their auditors. Given that the ISSB and International Accounting Standards Board (IASB) are currently working to enhance connectivity and compatibility between IFRS accounting standards and IFRS sustainability disclosure standards, we recommend that UK authorities adopt a pragmatic and flexible approach towards integrating financial and sustainability disclosure, granting entities the ability to adapt to evolving sustainability reporting practices and user feedback while striving for transparency in their reporting.

- **Guidance and clarity:** Any further guidance to fill gaps in or clarify the application of the ISSB standards should ideally be **developed with the ISSB and other international partners**, to maximise international interoperability. UK authorities should stress the need with these authorities to prepare guidance and good practice examples on:
    - Estimates and expected updates
    - Scenario analysis
    - Value chain reporting
    - Transition plans
    - Scope 3 emissions
    - Use of safe harbours
    - Materiality – via good practice examples

- **Recommendations for FCA and DBT during implementation**: As the DBT and the FCA look toward implementation of the endorsed standards, we also recommend the following:
    - ISSB-aligned disclosures should be **mandatory** for a wide set of non-financial firms. In this regard, we support DBT's leading role in adoption of the standards, since DBT's sponsorship is needed for implementation through the Companies Act; and encourage adoption for non-financial firms in a timely manner.
    - Sequencing: In line with best practice adopted for TCFD disclosure, disclosure requirements should be imposed for non-financial firms **before requirements for financial firms** where they create novel value chain implications (e.g. those not already covered under TCFD disclosure), to improve data availability.
    - Implementation **timelines** should be clearly set out in advance, and not be unduly delayed.
    - UK sustainability disclosure requirements should be **consistent with other related UK regulations**, such as transition plan requirements and investment labelling rules
    - **Build in flexibility for evolution and enhancements**: Approaches to sustainability disclosure will evolve over time and particularly in the early years of implementation. The UK's approach to embedding requirements, which requires Parliamentary time for many regulatory changes, may inhibit the rapid updates to disclosure rules required as approaches develop. We encourage UK authorities to consider ways to ensure that standards needing flexibility are not locked in through legislation.

Section 1: Overall views on the standards

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?

We support the ISSB standards as they will help provide investors with decision-useful information on the risks and opportunities associated with sustainability matters. Financial services firms are both users and preparers of non-financial reporting, and therefore have a unique interest in getting the regime right. Drawing on the ISSB's own effects analysis,[1] **we support the standards because they**:

- promote **transparent capital markets** that better reflect the cost of sustainability-related risk, and support transition and adaptation efforts;
- contribute to **long-term financial stability** by revealing information that will enable informed decision-making and management of sustainability-related risks;
- avoid costs and reduce inefficiencies of manual data collection and analysis of sustainability disclosures, through greater **consistency, comparability and verifiability** of information; and
- help generate **higher quality information** from companies that are in the value chain of a reporting company, which in turn can have a positive effect on areas such as governance, strategy, access to capital, cost of capital, reputation, and employee and stakeholder engagement.

We support **full endorsement of the standards**, which should involve applying all the IFRS reporting principles, alongside the core content disclosure, including transition reliefs and the principle of financial materiality as outlined in the standards. The ISSB standards cover nascent disclosure developments and their materiality assessment can offer important flexibility for companies to tailor the disclosure to their strategy and the information needs of their investors.

Our members are **broadly satisfied** with the interpretability of IFRS S1 and S2, and have flagged the need for greater guidance by ISSB where support is needed (see Section 2). While disclosure against the standards will pose implementation challenges, including the need to ensure appropriate capacity and expertise in the business as well as assurance providers where relevant, we nevertheless see these costs as outweighed by the benefits of relevant, reliable and comparable sustainability information.

The technical feasibility of implementing ISSB-aligned disclosures is affected by several factors and differs for different companies. Many of our member firms now have some – in some cases significant – experience of implementing climate reporting, and therefore judge that implementation of climate-

[1] https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/effects-analysis.pdf

related reporting will be **highly feasible**. The broader concept of reporting on sustainability-related risks and opportunities remains a novel concept for UK companies and could present implementation challenges, particularly as the standards offer more limited detail, guidance and expectations. The ISSB's materiality overlay will be important in helpful firms navigate this challenge. Moreover, for smaller firms, implementation across the board will be more challenging, and we therefore welcome the ISSB's suggested **relief measures**.

Section 2: Identifying sustainability-related risks and opportunities

2. Identifying sustainability-related risks and opportunities

> 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.
> - 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?

Firms are building experience of identifying risks and opportunities, and good practice is therefore swiftly evolving. We welcome the implementation guidance already provided by the ISSB, including reference to existing international standards with which many firms are familiar, such as those from the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), and the European Financial Reporting Advisory Group (EFRAG).

However, while these resources are useful, the challenge of implementing broad **sustainability-related disclosures** should not be underestimated. The requirement under IFRS S1 to determine sustainability-related risks and opportunities across the entity and value chain could result in lengthy disclosures, and will require companies to consider a broad range of topics beyond climate, with ample room for interpretation. Terms like sustainability-related "risk" or "opportunity" lack standardised definitions, making it challenging to establish clear boundaries and criteria for disclosure. The relative novelty of sustainability reporting in many industries means that companies have limited prior experience in identifying, evaluating, and transparently disclosing such risks and opportunities. This may necessitate the development of new internal processes, data collection methods, and reporting frameworks, all while grappling with the absence of well-defined industry norms.

We therefore welcome the ISSB's allowance to refer to **existing guidance**, and its recognition that **reporting quality will need to improve over time** as data, methodologies and capabilities develop. The UK should embed such considerations into its endorsement and implementation, allowing flexibility in the quality of reporting in the early years of implementation.

Access to data and data quality remain key barriers in collating and presenting sustainability disclosures, given that this data depends on reporting by customers and supply chain actors. Non-financial services sector disclosure needs to mature to enable financial services firms to properly identify, assess and disclose all sustainability-related risks and opportunities. As regulators think about implementation of the standards, embedding transition/phase-in periods for the implementation of value-chain reporting will be extremely important.

We would welcome **further guidance and clarity** in the following areas:

- Implementation of **scenario analysis**, building on the guidance in S2 Appendix B, particularly to ensure that firms are using consistent and reliable scenarios when identifying risks and opportunities. **We note the work of the UK's Climate Financial Risk Forum (CFRF) in providing examples of good practice**.
- Reporting on **transition planning**, adopting the ISSB's transition plan disclosure requirements, while maintaining flexibility for companies to employ various resources to fulfil the transition plan disclosure obligations under the standard. In doing so, UK authorities may consider providing additional guidance that clarifies its expectations around transition plan disclosure, referencing that there are a variety of resources companies can use when fulfilling the transition plan disclosure obligations. While we welcome the UK Transition Plan Taskforce (TPT) guidance as an example of good practice, companies should have the discretion to select from a range of resources to meet these requirements.
- **Scope 3 emissions** measurement, noting that while the GHG Protocol and Partnership for Carbon Accounting Financials (PCAF) develop guidance in these areas, this work does not cover all sectors or financial sub-sectors (see Section 9). We support the use of standardised reporting approaches where available.
- Proportionate use of **transition periods and safe harbours**. UK authorities should consider providing clarity on the application of the ISSB's transition periods and the potential inclusion of safe harbours in any mandatory ISSB-aligned disclosure. Specifically, authorities should aim to apply the ISSB's first-year reliefs while considering additional measures to protect against liability. These reliefs encompass a one-year reporting exemption on comparative information, non-climate-related risks and opportunities, reporting alignment timing, Scope 3 emissions, and the use of GHG Protocol. These transitional reliefs are areas in which the ISSB, guided by industry feedback, identified that companies may require additional time to develop their reporting capabilities. UK authorities may wish to extend liability coverage to reporting within the specific sections that offer transition relief. These sections have already been recognised as particularly challenging, and providing liability coverage could be a valuable mechanism to facilitate disclosure compliance within these requirements.[2]
- Detail on expectations for **value chain reporting** and the **reporting boundary**. We appreciate the ISSB's continued efforts to ensure interoperability with other standards by actively engaging at the international level, e.g. engagement with EFRAG as part of its plans to publish value chain guidance.
- A **roadmap toward integrated reporting in the UK** that takes account of a variety of elements, including ISSB-aligned reporting, future nature-related reporting, impact and UK Green Taxonomy-aligned reporting is recommended. UK authorities should consult on this roadmap.
- Additional materials and resources to guide companies in identifying **climate or sustainability "opportunities"**, recognising that inconsistency in definitions could result in incomparable disclosures. This should be provided at the international level/ISSB.

We would also welcome sharing of good practice on application of **materiality**. Firms noted that the ISSB has clarified its expectations on materiality by linking the definition to expectations of primary

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[2] Sustainability issues are complex, systemic issues which are difficult to measure at any level with absolute certainty. As such, estimates are expected, and these can be both retrospective and forward looking. IFRS disclosure requires the most significant of these estimates used in presenting the financial statements to be disclosed in the notes to the financial statements, which provides cautionary disclosure about the judgements and assumptions used. Extending safe harbour protection to all estimates (including forward looking and retrospective estimates), accompanied by appropriate cautionary disclosure, would be conducive to achieving the ISSB and UK authorities' objective of creating corporate disclosures that are understandable, relevant, reliable and comparable for investors, whilst also recognising the need for estimation.

users of general-purpose financial reports. However, there was also a recognition that while financial materiality has a long history as an established concept in financial statements, there is still uncertainty about how materiality should be assessed in practice for sustainability issues. Rather than issuing guidance, which the ISSB has indicated it does not plan to do and which in any case could exacerbate market fragmentation, one solution could be sharing of good practice.

Requirements in the EU, and the developing ISSB Digital Taxonomy, will mean sustainability data is submitted in a **machine-readable** template or format in addition to traditional (i.e. PDF) formats. This will help avoid costs and increase efficiencies in the use of sustainability disclosures. As we move toward implementation, we recommend that UK authorities consider a similar approach to that of the EU and ISSB Digital Taxonomy, for information that can be formatted in a comparable manner, similar to DBT's wider non-financial reporting work.

Any guidance provided should come from the ISSB, to maximise international regulatory coherence, rather than being produced by local regulators or standards-setters. **We therefore recommend that the FRC and TAC focus on using their engagement with the ISSB to encourage this further guidance.**

Section 3: Application of materiality

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?

The concept of materiality under IFRS S1 is generally clear and aligned with the IFRS Foundation's definition of financial materiality. We welcome the ISSB's clarifications to the definition of materiality, including linkage to expectations of primary users of general-purpose financial reports, which represent an improvement on proposed definitions in the 2022 Exposure Drafts. We support the UK authorities applying materiality across all of the ISSB's disclosure requirements.

We would nevertheless welcome sharing of good-practice examples by the ISSB, as set out in Section 2, to support companies in disclosing across the standards. As above, **we recommend that the FRC and TAC focus on using their engagement with the ISSB to encourage this.** Additionally, we recommend active engagement at the international level, e.g. working with EFRAG in its plans to publish guidance on materiality assessment, to maximise the interoperability of standards and definitions.

Firms noted a **potential discrepancy in the text of IFRS S1, between paragraphs 3 and 17:** while paragraph 17 specifies that firms should use a materiality filter in reporting on risks and opportunities that could affect entities' "prospects", paragraph 3 does not apply this filter. **This needs to be clarified by the ISSB.**

Section 4: Reporting approach

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 consider preparing sustainability-related disclosures at the **same entity level as for financial statements, or at which strategy is set and sustainability risks and opportunities are managed and governed,** to be the preferred option, as this will aid in the identification of financially material information.

We note the following caveats:

- Where consolidated disclosures are prepared, **we do not agree with the ISSB proposal to also present emissions separately for subsidiaries, associates, joint ventures, unconsolidated subsidiaries or affiliates**. Providing disclosures at the highest UK consolidated level will minimise the significant burden on firms, enable streamlined, consistent reporting for individual firms and reduce the risk of double or multiple counting. For climate-related disclosures, consolidated disclosures should meet local requirements for large/multinational institutions; with incremental disclosure only required where they support local supervisory objectives and Net Zero pledges.
- From a user perspective, **reporting at consolidated level can introduce risk of inaccuracy in some data points**. For example, for companies seeking to calculate their supplier-related Scope 3 emissions on the basis of reported consolidated data by their suppliers, emissions intensity calculations can vary significantly by business line and geography. Use of this data can introduce significant inaccuracies into calculation thereby make it difficult to compare the intensity of two suppliers, where one is UK-only and the other is a UK subsidiary of a large global company. Regulators and standard setters will need to consider carefully how to manage this risk.

Further guidance is needed on identifying the value chain, particularly the reporting boundaries. This should be undertaken at ISSB level. See Section 2.

Sustainability-related strategies, targets and metrics for large and multinational firms are typically set at group-level and in the case of non-UK groups, at a consolidated ultimate parent level. Therefore, isolated entity-level reporting may have limited value as it may not align with how the strategy is set and risks and opportunities are managed, monitored and governed within the organisation. Internal entity level targets and metrics may only represent that individual entity's contributions towards group-level targets; transition planning would not generally be undertaken on an individual entity basis and additionally present a reporting burden as well as potentially duplicative and/or diverging reporting. **We recommend permitting the UK entities to meet their reporting obligation by reference to consolidated reporting by their parent institution, including those that are non-UK headquartered.**

We recommend the allowance of an **equivalence or substituted compliance reporting arrangement** for companies reporting in multiple jurisdictions. Given most multinational firms expect to disclose under other sustainability disclosure regimes (e.g. CSRD ESRS, SEC), an equivalence reporting regime will help to reduce the burden faced by reporting institutions due to duplicative or divergent reporting requirements for non-UK headquartered financial institutions.

Section 5: Timing and location

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)?

In a previous submission to the Department for Business and Trade, in August 2023, UK Finance set out four use-cases for the adoption of the ISSB standards with survey-based data on cost savings associated with ISSB adoption. While reporting sustainability-related information in addition to general-purpose reporting will incur additional costs, we reiterate our view that **full endorsement and implementation of the ISSB standards in the UK would incur lower costs relative to alternative UK approaches**.

We recommend that **sustainability reporting should be encouraged at the same time as the annual report**, to ensure that financial statement information and sustainability-related financial disclosures can be considered together, highlighting interrelationships and connections between different types of risks and opportunities. By publishing sustainability-related financial disclosures at the same time as the financial statements there would be no risk of not disclosing material non-public information. However, this **should not be mandated** for at least one year, **to mirror the ISSB's transition relief** allowing companies the ability to publish their sustainability-related financial disclosures after the related general purpose financial statements.

It is important to note that disclosures will be prepared using the **most recent available data**, which may result in a mismatch of current balance sheet data and emissions data – which could be up to 12 months in arrears. We welcome the ISSB's recognition of the data challenge and permission for entities to measure value chain emissions using information with different reporting periods to their own reporting period. We encourage UK authorities to retain this flexibility in the time-periods for emissions reporting, in accordance with IFRS S2 paragraph 29(a)-B19. This flexibility is crucial for firms disclosing Scope 3 emissions.

Any mandated expectation to report sustainability information **in the same location as general-purpose financial reports** risks misaligning with existing FCA listing rules for TCFD disclosures. Current FCA listing rules give firms the flexibility to explain the rationale for placing information elsewhere if it is standalone or incorporated into a wider sustainability disclosure. We welcome the ISSB allowing for circumstances when information may be included in sustainability-related financial

disclosures by cross-reference to another report published by the entity. UK authorities should consider updating existing rules to ensure internal coherence when the ISSB standards are fully implemented.

Reporting on purpose and impact on society and environment are **already a key part of FRC requirements for the Strategic Report** and Companies Act (s172) requirements in the UK. Faithful implementation of ISSB standards should see firms enhance existing disclosures, in a fair, balanced and understandable manner in line with existing Strategic Report disclosures. The prominence of sustainability reporting should be determined as relevant by the board of directors of each organisation.

Non-financial and sustainability reporting is still developing, and the processes, systems and control frameworks are not as sophisticated or mature as financial reporting. This is also true of the assurance processes presently available in these areas. The preparation of sustainability disclosures generates an increased need for the review of controls and reporting processes of non-financial information that has not traditionally received the same level of scrutiny as financial information. This has led and will lead to an increase in time, processes and capacity/resourcing demands for firms to implement the controls and necessary processes to the same level as financial information to ensure consistency, accuracy and completeness of reporting. Embedding these new capabilities as well as meeting the required assurance requirements and expectations will result in higher costs.

Section 6: Judgements, uncertainties and errors

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?

Firms support the ISSB’s approach to judgements, uncertainties and errors.

We recommend that guidance on updates to estimates is enhanced by the ISSB to encourage firms to refresh estimates and disclosures as science and capabilities evolve. Due to climate science developing at a rapid rate, along with data and capabilities, updates to estimates should be permitted without the constraint of restating comparatives. This will encourage firms to adopt the new science, use the data as it becomes available and refresh disclosures to remain relevant and at pace with industry progress. We support the recognition that restating a comparative period can be impracticable, and the proposal to disclose that fact when data is not available to restate comparatives is sensible. However, **removing the comparative period requirement would encourage a greater adoption of refreshed estimates and more relevant disclosures**.

Section 7: Financial impact and connectivity

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?

Sustainability reporting is an evolving practice and firms are iteratively building their experience and capabilities to identify and disclose the effects of sustainability-related information on their financial positions. Investors and users are expecting a fast-tracked evolution of reporting to levels that have taken decades to be achieved in financial reporting.

We support the ISSB's recognition of the need for further work on integration of sustainability-related information in reporting. The first steps towards connectivity have already taken place, with the establishment of the Integrated Reporting & Connectivity Council by the IFRS Foundation in late 2022; projects such as the Integrated Reporting Framework, which is the joint responsibility of the IASB and the ISSB; and information sharing between the two boards – for example, the IASB's new 2023 project on Climate-Related Risks in the Financial Statements using lessons from the ISSB's work on IFRS S1 and S2. The FRC and TAC should support this work and draw on the outputs to inform UK endorsement and implementation of the ISSB standards. In the meantime, any **additional guidance should be developed in conjunction with and by the ISSB and international partners.**

Section 8: Industry-based requirements

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 generally support the ISSB leveraging the industry-based standards by the Sustainability Accounting Standards Board (SASB) as the best-established industry-based, investor-focused reporting initiative. ISSB plans to enhance the SASB standards for international use are welcome.

However, as the SASB standards are voluntary with firms able to disclose against industry-based requirements where they can, we recommend a similar approach in recognition of capability development and data constraints, and considering that not all businesses will sit comfortably and completely within the industry categories identified by SASB. We recommend firms should disclose what they can and what is relevant for their specific business, providing an explanation to support their position, enhancing their disclosures as capabilities develop and data improves. This would

support the integrity of this industry-based information, and would be in line with the ISSB standard which establishes SASB industry-specific standards as guidance (see e.g. S1 para 55).

We support the use of standard or comparable reporting approaches wherever an appropriate methodology exists, to enhance comparability of the resulting disclosures.

Section 9: Cross-industry metrics

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))?

Scope 3 emissions reporting remains a challenge across the economy, particularly for financial services firms which have complex financed emissions chains and wider value chains. Firms will expect to rely more heavily on estimates in the early years of compliance, although there will be improvements over time if data availability from other sectors increases. Robust and early reporting of Scope 1, 2 and 3 emissions by non-financial corporates will be needed to support financial services firms' disclosures.

Outstanding challenges include:

- the ability to collate high-quality emissions data for any firm and emissions scope;
- access to data from value chain companies, given lack of reporting particularly among smaller businesses and businesses in countries where reporting is less well advanced (e.g. emerging markets and developing economies);
- lack of Scope 3 emissions calculation methodologies for some sectors and asset classes, including emissions associated with capital markets activities, invoice finance and asset-based lending, and facilitated emissions (for example PCAF methodologies explicitly state that they do not cover certain financial products); and
- that Scope 3 financed emissions calculation at the subsidiary level is complicated by the fact that data may only be available at the consolidated level of a counterparty.

Reporting emissions associated with small- and medium-sized enterprises (SMEs) is a particularly acute challenge: banks are reliant on data from SMEs given their significant exposure to SMEs as customers, but SMEs are often faced with severe reporting constraints arising from limited capability and resourcing.

We welcome the ISSB's relief measure, allowing a one-year transitional period before firms must disclose Scope 3 emissions data. Nevertheless, this may still be insufficient to resolve some of the outstanding challenges above. A few possible solutions may be to:

- offer targeted and time-limited reliefs/phase-in periods for Scope 3 emissions reporting among asset classes where industry guidance is not yet in place, or comply or explain provisions to help firms adhere to reporting requirements in a flexible manner for a time-limited period;

- allow flexible reporting timelines for value chain GHG emissions in accordance with ISSB S2 paragraph 29(a)-B19. The ISSB standards grant entities permission to use information for reporting periods that are different from their own reporting period, if the entities in its value chains have misaligned reporting periods. The reporting flexibility outlined under this provision is crucial for firms disclosing Scope 3 emissions and we ask that it is fully adopted as part of any UK sustainability standard.

The FRC, TAC and DBT should have regard to the upcoming **call for evidence on Scope 3 emissions** reporting by the Department for Energy Security and Net Zero (DESNZ) in any decisions on Scope 3 reporting requirements.

Many **non-emissions metrics** needed for the assessment of both physical and transition climate-related risk will also be complex to collate. There is a need for further guidance to build a shared understanding of some metrics — for example, definitions of climate-aligned opportunities (see section 2) or measures for reporting on the amount or percentage of a firm's assets aligned with climate-related opportunities.

Section 10: Costs and benefits

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

The UK Finance response to DBT's non-financial reporting call for evidence laid out some survey-based data on costs and benefits associated with ISSB implementation. Overall, we reiterate our view that **full endorsement and implementation of the ISSB standards in the UK would incur lower costs relative to alternative UK approaches which are less interoperable with international equivalents**.

An important benefit of implementing the ISSB's standards in the UK with limited divergence from the global baseline would be reduced costs of not only staff required to analyse and compare the new requirements, but also of data, system changes, internal and external assurance, senior management engagement and review across the entire organisation.

We offer further detail to support the FRC and TAC in understanding the associated costs:

Given the breadth of discrete disclosures required to satisfy the non-financial reporting requirements, financial services firms require dedicated teams to manage, prepare and coordinate this work. This

presents resource demands and challenges, with a direct cost impact, to ensure there is capability to deliver. In line with current requirements, annual reports are frequently prepared utilising a mix of externally sourced and internally gathered data. The increasing requirements of sustainability-related disclosures in accordance with recognised reporting standards, regulations and reporting guidance has led to an increased level of information being required for disclosure. This has in cases led to additional documents being produced and published to satisfy stakeholder and regulatory requirements.

Some of the current reporting challenges include competing reporting requirements (e.g. diversity and inclusion table requirements) as well as the volume and lack of alignment between requirements (e.g. environmental reporting requirements).

Key drivers of cost to comply with sustainability reporting requirements are primarily centred around staff and time costs as well as external data sourcing, and include:

- system and IT support, and relevant costly software licences;
- supplier management, and compliance and supplier assurance audits;
- staff/resource costs, content owners and governance;
- legal and audit review; and
- external design.

In particular, data sourcing and reliability is a key challenge with sustainability reporting requirements having associated costs to prepare and govern appropriately. Many firms employ third-party data providers to support climate reporting in accordance with current TCFD recommendations. Many larger member firms estimate that their existing reporting teams will have the capabilities to absorb the requirements of ISSB disclosures.

It is worthwhile to note that headcount added for reporting will be headcount foregone elsewhere in companies' efforts to support the sustainable transition.

Section 11: Application of the requirements

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

As representatives of a wide range of firms, both large and small, as well as firms whose customers are often small and medium-sized enterprises (SMEs), we **welcome the ISSB's proportionality provisions**.

While we support full endorsement of the ISSB standards in the UK, the standards include reporting practices and requirements which are relatively untested for UK companies. Given UK firms' differing experience and capabilities in sustainability reporting, as well as ongoing shortfalls in data and methodology availability, some reliefs will be appropriate. If the UK seeks to offer additional reliefs for anticipated implementation challenges, these should ideally only be in the form of **extended transition/implementation periods**, rather than substantive carve-outs, which risk limiting international interoperability of the disclosures. Authorities should encourage voluntary disclosure during any transition period.

Longer implementation timelines for smaller companies will have an impact on availability of sustainability information for firms higher up the value-chain — therefore any extension to transition periods should be **reflected in timelines for those reliant on that data**.

We note that there are some metrics where large swathes of the UK economy will **already have substantial reporting experience** — for example Scopes 1 and 2 emissions reporting through Streamlined Energy and Carbon Reporting (SECR). These should not benefit from transition/implementation reliefs.

If you have any questions on this response, please reach out to:

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