

**UK Sustainability Disclosure Technical Advisory Committee (TAC)**

**UKSIF**  
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**11 October 2023**

Dear all,

**RE: UK endorsement of IFRS S1 and IFRS S2: Call for evidence**

We are pleased to respond to the UK Sustainability Disclosure Technical Advisory Committee's (TAC's) call for evidence on the UK's endorsement of the International Sustainability Standard Board's (ISSB's) IFRS S1 and IFRS S2 standards.<sup>1</sup>

Since the formation of the ISSB at COP26 in Glasgow, the UK Sustainable Investment and Finance Association (UKSIF) and our membership, which collectively manages more than £19trn in global assets under management (AUM), have been strongly supportive of the ISSB's crucial work to establish a high-quality, comparable, and decision-useful baseline of sustainability disclosure standards.

Following the ISSB's recent publication of its finalised disclosures standards, we have reiterated that the UK government, and regulatory authorities from across other jurisdictions, consult with the market and wider stakeholders, as soon as possible, on the full implementation of both sets of standards across the wider economy.

As a global leader already on climate-related disclosures, the full, swift adoption by government of the IFRS S1 and IFRS S2 standards would represent a natural, next step in the UK's climate leadership. For our members, it would help provide them with the sustainability information required to better support growth opportunities and help drive the global transition to net-zero carbon emissions.

We, along with many in the investment community, are reassured by the recent signals provided by policymakers in regards to the UK's envisaged endorsement process of the IFRS S1 and IFRS S2; in particular, recent confirmation that the UK-endorsed standards will only diverge from the ISSB's baseline "if absolutely necessary for UK specific matters." We look

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<sup>1</sup>UKSIF's response is informed by our membership, though this does not necessarily reflect the views and perspectives of our entire membership, either individually or collectively.

forward to supporting the Technical Advisory Committee's upcoming work to undertake a technical assessment of the standards, and we hope to see the Committee's work progress at pace over the coming months to ensure the UK can deliver on its objective to adopt the IFRS S1 and IFRS S2 in the next several years. Along with our members, UKSIF stands ready to assist the TAC's important work.

In our response to the TAC's call for evidence, we restate our and investors' support for the UK to move ahead in its endorsement process for the IFRS S1 and IFRS S2, as well as clarifying the legal adoption mechanism for their delivery, the envisaged implementation timelines, and interaction with the UK's economy-wide Sustainable Disclosure Requirements (SDRs) and other upcoming reporting requirements.

We highlight our latest perspectives on a number of aspects of the IFRS S1 and IFRS S2, including on some of the challenges for preparers and investors in identifying sustainability-related risks; the application of materiality; the reporting approach by preparers, including guidance on disclosures across the value chain; the timing and location for sustainability-related reporting; the connectivity of companies' sustainability-related information to financial statements; the anticipated costs and benefits of reporting against the IFRS S1 and IFRS S2; and finally the application of the requirements to preparers.

### **About UKSIF**

The UK Sustainable Investment and Finance Association (UKSIF) is the UK's leading membership organisation for sustainable finance, committed to promoting a financial system that works for the benefit of the environment, society, and us all.

UKSIF represents a diverse range of financial services institutions and investors committed to these aims, and our more than 320 members-representing over £19trn of global assets under management (AUM)- include investment managers, pension funds, banks, financial advisers, law firms, ESG data and research providers, NGOs, among others.

UKSIF and our membership have played a prominent role to embed sustainability in the UK's public policy and regulatory frameworks, and across the financial system, over recent years and find ways to overcome barriers to the growth of sustainability in the UK. We are a representative on a number of advisory taskforces to policymakers and industry providing guidance on delivery of a number of sustainable finance initiatives, including the UK's 'green taxonomy,' the Sustainability Disclosure Requirements (SDRs), voting disclosures, and the integration of social issues in the UK's pensions industry.<sup>2</sup>

### **1. Overall views on IFRS S1 and IFRS S2**

Alongside many of our members, UKSIF continues to recommend that the UK provides clearer signals to industry, and wider stakeholders, in the coming months on a comprehensive roadmap for the full, mandatory adoption of the ISSB's standards, with envisaged implementation timeframes outlined for different parts of the economy.

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<sup>2</sup>For more information, please visit [www.uksif.org](http://www.uksif.org).

In our recent response to the Department for Business and Trade's Non-Financial Reporting Review, we stated that the UK should seriously consider recent calls from a number of organisations to implement the standards on an economy-wide basis by 2025, with a phase-in of certain requirements for smaller companies beyond this timeframe if necessary.<sup>3</sup>

At the international level, we believe that should significant progress be made by regulatory authorities in the UK and across the world in converging towards the ISSB's common baseline, this will go some way to facilitate the investment community's efforts to address emerging sustainability-related risks, promote efficient flows of capital, and help support the global transition to net-zero emissions. We want to see the UK actively assist in the widespread global adoption of the standards, which may face a number of hurdles including interoperability with standards from other jurisdictions, such as the European Union.

More specifically for issuers, convergence towards the ISSB's disclosure standards could help UK-based issuers to attract investment from abroad, with our members increasingly seeking to allocate capital to companies that have transparent and comparable disclosures in place, including in regards to their carbon emissions and transition plans.

High-quality disclosures can provide investors with the necessary information to understand their long-term investment risks, giving positive incentives to invest in those companies providing this information, and there is substantial evidence from academia, and elsewhere, pointing to the economic value of non-financial reporting for many issuers.<sup>4</sup>

With many of our members invested in companies and assets across the world and very reliant on non-financial reporting from non-UK headquartered companies, the ISSB's baseline of standards remains absolutely critical to facilitate our members' efforts to efficiently allocate capital and price risks across the economy on behalf of their clients.

In a letter co-signed by the CEOs and senior leadership of UKSIF and other finance industry associations in February of this year, we recommended that government commit to the following steps in regards to the ISSB's standards:

- To consult with the market and stakeholders, at the earliest opportunity, on full implementation of the ISSB's sustainability-related and climate-related standards across the UK's economy.
- To provide appropriate sequencing of corporate and financial sector disclosures and regulatory requirements, which would promote the effective and consistent application of the ISSB's standards across the economy. Good corporate disclosures continue to be critical in facilitating our members' ability to evaluate holdings to

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<sup>3</sup>[UKSIF response](#), Department for Business and Trade, Non-Financial Reporting Review Call for Evidence, August 2023.

<sup>4</sup>Further details can be found in UKSIF's response to the Non-Financial Reporting Review, p.2-3.

deliver positive outcomes for clients, comply with their own disclosures and requirements, and reduce greenwashing risks across their value chains.

- To ensure clarification on the legal adoption mechanism for delivery of these standards, including the extent to which this will be through the UK's upcoming, economy-wide Sustainability Disclosure Requirements (SDR) regime. Alongside this, envisaged implementation timeframes should be explicitly outlined. Ahead of a mandatory roll-out across different parts of the economy, the UK and other jurisdictions should seek to encourage companies, particularly larger companies, to voluntarily adopt the standards and begin the implementation process as soon as possible.<sup>5</sup>

In the coming months, it is crucial that the UK continues to take active steps towards convergence, which will maximise the prospect of increased international acceptance of a common baseline of disclosures. We look forward to seeing the UK progress at pace with the full adoption of the IFRS1 and IFRS S2 standards, and - where necessary - consider delayed implementation and other proportionate relief measures for smaller companies.

## **2. Identifying sustainability-related risks and opportunities**

We expect there will be a number of challenges for UK-based companies in identifying and disclosing sustainability-related risks and opportunities based upon the ISSB's requirements. With that said, broadly speaking we very much believe that these challenges can be overcome, particularly through additional ongoing support and guidance from the ISSB, and other groups, in the coming months.

Alongside countries' regulatory authorities, global standard-setting institutions, such as IOSCO, and wider stakeholders, the ISSB should continue to actively assist preparers in reporting against its standards, as well as preparers considering disclosures in the near future. This includes through 'best practice' reporting examples from preparers to support companies' understanding of the standards and demonstrate their feasibility.

In our recent response to the ISSB's consultation on its agenda priorities, we emphasised that as a priority the ISSB should focus in the immediate term on supporting both issuers and regulatory authorities in implementation of the standards and facilitating a more coherent reporting environment for all companies that can reduce compliance costs in the process.<sup>6</sup>

We highlighted that the ISSB's work should encompass ongoing guidance for all issuers to navigate both sets of standards, particularly for SMEs. This could, for example, evaluate where any over-laps in requirements may lie for those issuers that are already reporting, or looking to shortly, against existing or upcoming disclosure frameworks. Additional support may be needed for some issuers in order to practically transition from currently reporting

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<sup>5</sup>[Letter](#) from UKSIF and UK financial services organisations to government: UK's approach to sustainability disclosures, February, 2023.

<sup>6</sup>[UKSIF response](#), International Sustainability Standards Board (ISSB) consultation on agenda priorities, September 2023.

against the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) to reporting against the ISSB's standards.

In terms of support for policymakers, the ISSB should seek to assist regulatory authorities, where necessary, in setting out clear envisaged implementation timeframes and legal adoption mechanisms for delivery of the standards on an economy-wide basis.

Finally, we continue to stress the need for appropriate sequencing of corporate and financial sector sustainability disclosure requirements, which would promote the more effective and consistent flow of sustainability disclosures across the economy. This would critically allow the UK to avoid the sequencing issues of other jurisdictions, such as the EU, that has caused implementation challenges for many financial market participants and led to greenwashing risks in the marketplace.

### **3. & 4. Application of materiality and reporting approach**

We expect that one of the most common implementation challenges for preparers reporting against the IFRS S1 and IFRS S2 will relate to reporting on sustainability factors in companies' value chains.

Further ongoing guidance and, where appropriate, reliefs from the ISSB may be necessary to support preparers' in their upcoming reporting processes and frameworks, alongside fresh clarity on the definition, and interpretation of, materiality under the ISSB's standards to ensure that the most material and relevant disclosures are being published by issuers to investors.

In terms of investors' efforts to identify sustainability-related information that is material in a company's annual report, generally speaking, non-financial information outlined in annual reports is relied on significantly by investors and our members at large.

One reason for this is the level of rigor involved in the preparation of annual reports and accounts, while another factor is the verification processes involved with these reports. High-quality verification and assurance processes can provide confidence to our members of the robustness of the disclosures published.

Generally, one single source of non-financial disclosure-publicly accessible to all stakeholders- is extremely beneficial for the investment community, by bringing together disparate types of disclosures and sources of ESG information. Should all relevant non-financial disclosures be included in a company's annual report, this can facilitate investor decision-making and approaches to stewardship and engagement, enabling firms to better hold companies to account on a range of material issues.

### **5. Timing and location**

On the estimates of the benefits or costs of reporting sustainability-related information in the same location as general purpose financial reporting by companies, as previously highlighted in our response we see considerable value of having one 'single source of truth' for these disclosures that are publicly accessible, verified, and transparent to investors.

Going forward, we would like to see a greater standard develop in terms of how material sustainability factors are incorporated with company financial statements, including under requirements within the International Accounting Standards Board (IASB) standards.

Wider work will be required across different countries' regimes to better integrate financial and non-financial reporting by companies, particularly with our members increasingly attaching value to non-financial disclosures in capital allocation.

## **7. Financial impact and connectivity**

In terms of the challenges in preparing disclosures connecting sustainability-related information to the financial statements, UKSIF and our membership continue to identify considerable gaps in how climate and sustainability-related risks are incorporated in many companies' financial reports and audits.

We would like to see non-financial reporting seamlessly integrated and linked to companies' annual reports and accounts, which will be critical in providing clarity for investors on companies' financial health and long-term value.

We want to see this addressed collectively as a priority by policymakers, regulators, and other actors, and for these groups to more actively encourage companies in explaining the interlinkages between these different sets of disclosure requirements.<sup>7</sup> In 2021, Carbon Tracker published an assessment showing that the world's largest corporate emitters and their audit firms are still, largely, not fully considering climate-related issues in the auditing and preparation of their financial statements.<sup>8</sup>

Going forward, investors will want to see far greater visibility over how companies' financial prospects and position are being scrutinised by their auditors, and how they could be impacted by the global transition to net-zero by the middle of this century. Without such vital detail, our members will be unable to truly judge the long-term value of their investee companies, impacting their investment decision-making and risk appetite.

We very strongly welcome the ISSB's direct recognition of the importance of integrating sustainability-related disclosures alongside general purpose financial reporting, and we believe that should an integrated approach to reporting be followed by issuers, this will drive value for the company with their investors and shareholders going forward.

Going forward, we would like to see clarity over government's approach to introducing assurance requirements for certain companies in future, which will go some way to providing greater confidence among investors and wider stakeholders in the information disclosed by companies.

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<sup>7</sup>In their reporting on non-financial factors, we would like to see all issuers in time have the objective to adopt a more holistic, strategic approach, using the opportunity in their upcoming approaches to sustainability disclosures to outline how this information is directly linked to their broader corporate strategy and mainstream financial reporting.

<sup>8</sup>Carbon Tracker, [Flying blind](#): The glaring absence of climate risks in financial reporting, September 2021.

More specifically, we want to see government engage closely with the proposed International Standard on Sustainability Assurance (ISSA) 5000, considering how this could be applied in the UK and build further confidence in financial and non-financial reporting. This is reflected in a survey from PwC in 2021 of more than 300 global investors that found that around 80% of investors surveyed indicated their trust in reported sustainability information increased when this information had been assured.<sup>9</sup>

## **10. Costs and benefits**

We believe that the short-term, upfront costs incurred by issuers in reporting on non-financial issues can be considerably outweighed by the tangible economic benefits facilitated by reporting against the IFRS S1 and IFRS S2.

We continue to emphasise the need for a proportionate approach to implementation which, we believe, should not involve a significant divergence from the ISSB's standards that represent a valuable minimum baseline set of standards for jurisdictions to build from in their regimes.

This view is reflected by the relatively narrow set of ESG data points and metrics included within the IFRS S1 and IFRS S2 standards, particularly in comparison to the broader set of ESG data points covered under the EU's Corporate Sustainability Reporting Directive (CRSD), as well as existing non-financial reporting standards that some international companies will already be reporting against.

In recent years, this includes the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) or voluntary frameworks such as the Carbon Disclosure Project (CDP), with more and more companies seeing disclosure of non-financial information as a business norm.<sup>10</sup> This is the direction of travel globally, as many jurisdictions- from the G7 to some emerging markets- are delivering mandatory corporate disclosure regimes across their economies, including requirements to report against TCFD, while other mandatory requirements are set to take effect in the next several years in many countries.<sup>11</sup>

We would acknowledge some of the upfront costs for businesses, and a proportionate, phased approach will continue to be needed for disclosures from small and medium-sized enterprises in particular.

For most large preparers, our expectation is that the IFRS S1 and IFRS S2 should not present too much of a reporting burden for this group, while greater harmonisation of disclosure standards, we expect, will bring considerable economic benefits to issuers and

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<sup>9</sup>PwC's [Global Investor Survey](#), The economic realities of ESG, December 2021.

<sup>10</sup>In 2022, almost 20,000 organizations disclosed through CDP-a 38% increase since 2021. 18,700+ companies, representing half of global market capitalisation, along with more than 1,100 cities, states and regions disclosed data through CDP on climate change, deforestation and water security. <https://www.cdp.net/en/articles/media/nearly-20-000-organizations-disclose-environmental-data-in-record-year-as-world-prepares-for-mandatory-disclosure>

<sup>11</sup>More and more listed companies are reporting in line with the TCFD's main pillars. According to its 2020 update report, TCFD noted that more than 60% of the world's 100 largest publicly traded companies support the TCFD, while financial institutions expressing support for its reporting protocol manage assets of around \$150 trillion. TCFD, [2020 Status Report](#), October 2020.

investors, saving costs for both groups, while markedly increasing the availability and quality of information in financial markets.

We expect that costs of can be reduced to an extent for many issuers, particularly for larger companies as many are already reporting on non-financial information and metrics included under both sets of standards, or will shortly be starting the process.

Finally, we would anticipate that the standards will better support companies to consistently disclose financial and non-financial reporting information to the market, and in a much more efficient way over time, for example unifying different sets of sustainability disclosures and sources. This includes data provided by third-party questionnaires to companies and data provider requests.

## **11. Application of the requirements**

As previously highlighted in our response, while the relief measures confirmed by the ISSB to date will be beneficial for preparers, particularly for SMEs, we would very much welcome further consideration by UK policymakers to address potential reporting challenges for preparers.

One specific recommendation is for the DBT, FRC, and other government departments and regulators to engage in ongoing mapping exercises with the aim of addressing overlaps in corporate and investor reporting on non-financial information, as well as guidance illustrating the degree of alignment between the UK's disclosures regime and other disclosure regimes across different jurisdictions.

This guidance from policymakers could note areas of notable divergence across countries' regimes, while more broadly we want to see global standard-setting institutions and authorities, such as IOSCO and the European Commission, conduct mapping exercises across disclosure standards with the objective of promoting as much global interoperability of standards as is possible.

In our recent response to the DBT's non-financial reporting review, we stated that further research should be undertaken, including by the Financial Reporting Council (FRC) to explore additional ways to alleviate the reporting burden on SMEs under the ISSB's disclosure standards.<sup>12</sup>

Finally, we would acknowledge that investors should be proportionate in their requests for the most decision-useful disclosures from their investee companies to minimise any reporting burden.

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<sup>12</sup>As part of this, a joined-up approach across government and financial regulators will be beneficial, for example with the DBT and FRC closely coordinating with the Department for Energy Security & Net Zero (DESNZ) backed initiative Project Perseus, which is considering consistent emissions reporting for the UK's SMEs and supported by a number of our members.

## **Conclusion**

We look forward to seeing the UK take forward at pace the IFRS Sustainability Disclosure Standards, which will result in more reliable, consistent, and actionable sustainability disclosures across the wider economy that can better inform investors' decision-making and investment strategies, while bringing economic benefits we expect in time for preparers reporting against these standards.

UKSIF and our members look forward to seeing the Department for Business Trade, Financial Reporting Council, UK Sustainability Disclosure Technical Advisory Committee (TAC), and other groups continue to promote the full endorsement of the IFRS disclosure standards across the UK's economy, which will ensure the UK can maintain a globally-leading sustainability disclosures framework for private-sector businesses over the coming years.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'JA', written in a cursive style.

**James Alexander**  
**Chief Executive**