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By email

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UKSIF response to Primary Market Technical Note TN / 803.1
UK SRS sustainability disclosures for listed companies

On behalf of the UK Sustainable Investment and Finance Association, thank you for the opportunity to provide feedback on the Primary Market Technical Note on UK SRS. We're also grateful that Alicia Kedzierski was able to answer questions about the proposed guidance at UKSIF's Good Money Week conference in September.

Robust disclosures play in a valuable role in helping to assess investment risk. In our response to the FCA's original consultation, UKSIF shared our support for a gradual pathway towards mandatory reporting for in-scope listed companies. This is because we believe this is a proportional way of ensuring investors receive consistent, decision-useful information from issuers, which is essential to ensuring investors can incorporate the full range of sustainability-related factors into their investment decisions and accurately assess investment risk. This is also the best mechanism for avoiding confusion or ambiguity in requirements on issuers.

However, noting that the consultation on TN 803.1 does not present the option of mandatory reporting, we have some reflections on ways the FCA can tighten the *comply or explain* approach to ensure the UK SRS does not become effectively a voluntary regime and to minimise confusion or ambiguity amongst issuers on their requirements.

A *comply or explain* approach will only provide this information if issuers *comply*. We therefore urge the FCA to set clear limits on the circumstances around which an issuer can choose to *explain* and implement a mechanism to monitor and enforce this. It should be clear, for example, that a company that has decided it does not wish to disclose or has not established the processes necessary to disclose are insufficient reasons to avoid compliance, particularly across more than one reporting cycle. To ensure a consistent approach to reporting, it should also be made clear that reports against other frameworks (eg the European Sustainability Reporting Standards) should not be treated as compliant unless they align with UK SRS.

We would like to see the FCA to set out its expectation that most companies should be planning to *comply* and that to *explain* is the exception rather than the rule. This should be further backed up by the FCA stating in the guidance that the UK SRS already contains materiality and proportionality provisions designed to ensure that compliance is not overly burdensome, and that these provisions should be considered carefully by issuers before they choose to *explain*. Where an issuer does *explain*, the FCA should expect the explanation to set out the reasons for non-compliance, the steps being taken to address it, and a timeline for reaching compliance, so that explaining is exceptional and transitional rather than open-ended.

The illustrative examples in the draft Technical Note will carry significant weight, as preparers are likely to treat them as a template for what an acceptable explanation looks like. Several examples risk signalling that disclosure is optional if the company chooses to *explain*:

- Example 2 implies that Scope 3 can be deferred until 2029, although the UK SRS already allows companies to *comply* if estimates and reasonable and supportable information is used where data is limited.

- Example 3 accepts non-disclosure of identified risks without a clear reason or timeline.
- Example 4 treats the absence of a requirement in an issuer's home jurisdiction as sufficient reason to *explain*.

The decision to adopt *comply or explain* for all UK SRS disclosures should be kept under review. The FCA should therefore undertake regular reviews on the numbers of issuers choosing to *explain*, and the reasons they cite for doing this, to ensure the regime operates in a way that delivers investors the information they need. Details of the review findings should be shared with investors, who should be asked for regular feedback on whether they are receiving the information they need.

These steps would help ensure that the UK remains a trusted and competitive international centre for sustainable finance.

We would welcome the opportunity to discuss this response further.

Yours sincerely,

James Alexander
Chief Executive