

**UKELA (UK ENVIRONMENTAL LAW ASSOCIATION) RESPONSE TO THE
CALL FOR EVIDENCE BY THE FINANCIAL REPORTING COUNCIL ON THE
UK ENDORSEMENT OF ISSB SUSTAINABILITY DISCLOSURE STANDARDS**

INTRODUCTION

1. UKELA (UK Environmental Law Association) comprises over 2,000 academics, barristers, solicitors and consultants, in both the public and private sectors, involved in the practice, study and formulation of environmental law. Its primary purpose is to make better law for the environment.
2. UKELA prepares advice to government with the help of its specialist working parties, covering a range of environmental law and policy topics. This response is to the call for evidence by the Financial Reporting Council (FRC) on the UK adoption of ISSB Sustainability Disclosure Standards. It seeks views on whether the disclosures required by the IFRS Sustainability Disclosure Standards (SDS) will enable disclosures in a UK context that:
 1. Are understandable, relevant, reliable, and comparable for investors.
 2. Are technically feasible to prepare.
 3. Can be prepared on a timely basis alongside general purpose financial reports.
 4. Are expected to generate benefits proportionate to the costs likely to be incurred.
3. It has been prepared by UKELA's Climate Change & Energy Working Party which sought input from other UKELA specialist working parties. It does not necessarily, and is not intended to, represent the views and opinions of all UKELA members but has been drawn together from a range of its members.
4. The table below highlights the questions in the call for evidence for which UKELA is well-placed to provide a response.

Q.	Question	UKELA comments
1	<p>Overall views on the standards</p> <p>Specific matters to consider in your response:</p> <ul style="list-style-type: none"> • 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? 	<p>The requirements described in IFRS S1 and IFRS S2 are more clearly articulated than comparable standards specifically on expectations regarding the substance of processes, systems and controls monitoring sustainability topics. The focus is on ESG as opposed to the more holistic concept of sustainability i.e. value-driven focus (cash flow, access to finance, cost of capital). That being said, there is still substantial room for interpretation in several areas. One example is the definition of materiality. Whereas one section refers to the “nature” and “magnitude” of an ESG topic as the core defining aspects of materiality; “likelihood” is also noted in a separate section. Similarly, IFRS 1 introduces the concept of “resilience”, which will be a new reference point for sustainability disclosures. Clear definitions are, however, provided on topics such as “bias” and “commercial sensitivity”, which are to be welcomed.</p> <p>The existing UK director and strategic annual reporting requirements for public and private companies are pegged to financial materiality and so the lift on certain aspects of reporting under IFRS S1 and S2 will be lighter. That being said, the climate-related disclosure requirements of S2 are substantially more demanding than existing climate reporting requirements which both listed and registered companies are still getting to grips with (e.g. required Scope 3 and financed emissions reporting). The ISSB have sought to mitigate this step change in requirements through various transitional provisions. We have commented in response to question 11 on these reliefs.</p> <p>The application of the standards in terms of their feasibility will be contingent upon the development of sector-specific guidance to accompany the Standards, together with appropriate exemptions to the more demanding aspects of the reporting requirements where these are not relevant to the sector, jurisdiction, asset class, business model, risk tolerance of the relevant company vis-à-vis particular ESG factors.</p> <p>The utility of the information for investors and corporate decision-makers alike will be dependent on the qualifications and assumptions disclosed on sourcing, scope and quality of data. The FRC should reflect on whether UK companies or asset managers have sufficient access to resource and expertise to meet the full breadth of the disclosure requirements, particularly across IFRS S2, which goes substantially beyond existing UK reporting requirements on climate (including but not limited to, resilience). This may be a factor for enforcement</p>

		agencies to take account of in the early years following adoption as in-scope entities get used to reporting in this detail. A lighter touch enforcement policy in the early years will encourage overall compliance by in-scope entities.
2	<p>Identifying sustainability-related risks and opportunities</p> <p>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).</p> <p>Specific matters to consider in your response:</p> <ul style="list-style-type: none"> • 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? 	<p>IFRS S1 would benefit from more guidance on how materiality assessments could and should be conducted. This could draw from the basic guidance under the EU Sustainability Reporting Standards (ESRS). It will also be challenging for UK companies using the IFRS S1 requirements where they have not conducted similar materiality assessments due to an absence of an EU footprint and so the FRC should reflect on what additional guidance could be useful in enabling such businesses to reflect on the full gamut of ESG risks and opportunities in scope of the disclosure requirements. The EU sources of guidance and disclosure topics can be used by such businesses for the purposes of facilitating this disclosure however first hand guidance developed by the UK regulator would provide more impetus to companies caught within scope to move forwards in the right direction.</p> <p>Those disclosing under the ESRS will also be considering actively ESG “<i>impacts</i>”, which is less well-developed in the IFRS standards but could potentially have financial impacts (as acknowledged under the ESRS).</p>
3	<p>Application of materiality</p> <p>This topic specifically refers to the requirements in IFRS S1 (paragraphs 17–19 and B13– B28).</p> <p>Specific matters to consider in your response:</p> <ul style="list-style-type: none"> • 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? 	<p>There are challenges which we have already identified in respect of the definition of materiality (see our response to question 1 above). It is also not clear if the typical thresholds used to conduct materiality assessments in respect of Business & Human Rights matters (scale, scope, remediability) will apply based on the rules set out in the IFRS standards.</p>
4	<p>Reporting approach</p> <p>This topic specifically refers to the requirements in IFRS S1 (paragraphs</p>	<p>Potential challenges in preparing sustainability-related disclosures at the same entity level used in the preparation of financial statements include:</p>

	<p>20, B38, and B11–B12) and IFRS S2 (paragraphs B32–B54).</p> <p>Specific matters to consider in your response:</p> <ul style="list-style-type: none"> • 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? 	<ul style="list-style-type: none"> - Sustainability matters impacting certain parts of the group, but not the consolidated reporting entity; - Data sitting with leadership in different parts of the corporate group which make collection and aggregation challenging, particularly when disclosure deadlines are not aligned. <p>The definition of “value chain” is broader than that currently put forward for the CSRD and CSDDD, which will create substantial challenges in scoping and preparing disclosures. A potential solution could be a more commercially scoped version of the definition of “value chain” used in the Corporate Sustainability Reporting Directive regime, which enables an end point in the chain to be defined, based on issuer/disclosure data limitations and/or influence.</p>
<p>5</p>	<p>Timing and location</p> <p>This topic specifically refers to the requirements in IFRS S1 (paragraphs 60–63, B27, B45–48, 64–69) and IFRS S2 (paragraphs B19).</p> <p>Specific matters to consider in your response:</p> <ul style="list-style-type: none"> • 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)? 	<p>The benefit of consolidating all sustainability-related information in general purpose financial reports is that it enables conduct of one information-gathering exercise to one timetable, provided those inputs will realistically be available before they finalise the reports. Where audit is required, it enables wholesale assurance at the same time, reducing cost and enabling efficiencies. Regulators/audit bodies like the FRC will also only need to review one report. The downside is that it focusses scrutiny (also a benefit for investors, but a downside for issuer/disclosers) potentially in respect of data which is less secure or reliable (e.g. Scope 3, financed emissions data).</p> <p>Ensuring that this data is clearly presented and not obscured could be achieved through making sure that this data is presented in a standalone section with appropriate signposting.</p>
<p>6</p>	<p>Judgements, uncertainties and errors</p> <p>This topic specifically refers to the requirements in IFRS S1 (paragraphs 70–71, 74–86 and B49–B59).</p> <p>Specific matters to consider in your response:</p> <ul style="list-style-type: none"> • How clear, if at all, are the requirements in IFRS S1 paragraphs 74–86 regarding 	<p>The guidance / requirements on judgements, uncertainties and errors are relatively clear and enable users and issuer/disclosers to account for a range of different limitations in their ability to compile, disclose and present relevant data.</p> <p>Additional considerations in respect of disclosing revised comparative information when there are changes in estimates should include express permission for re-</p>

	<p>judgements, uncertainties and errors? How easy or difficult is it to distinguish between a change of estimate and an error? Please explain your response.</p> <ul style="list-style-type: none"> • What, if any, further considerations are there in respect of disclosing revised comparative information when there are changes in estimates? 	<p>baselining emissions where necessary, due to evolving standards on carbon accounting.</p>
<p>7</p>	<p>Financial impact and connectivity</p> <p>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).</p> <p>Specific matters to consider in your response:</p> <ul style="list-style-type: none"> • 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? 	<p>Currently, the IFRS S1 and S2 are heavily reliant on existing knowledge and expertise of users and issuer/disclosers when preparing information about the current and anticipated effects of sustainability-related information on the financial position, financial performance and cash flow impacts of sustainability risks and opportunities. This is because, the financial impacts are called out, without corresponding guidance on how these impacts are determined, or examples of effects.</p> <p>One of the key challenges in preparing disclosures that connect sustainability-related information to the financial statements is tying particular sustainability impacts to particular line items in the financial statements, as called out by the standards. Whilst this may be possible in respect of catastrophic events (e.g. remedial works, unforeseen regulatory compliance spend) sustainability matters are often not such as to be pegged to specific FS items and can span multiple different streams of operational and capital expenditure.</p>
<p>8</p>	<p>Industry-based requirements</p> <p>This topic specifically refers to the requirements in IFRS S1 (paragraphs 54–59) and IFRS S2 (paragraphs 12 and 32).</p> <p>Specific matters to consider in your response:</p> <ul style="list-style-type: none"> • 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? 	<p>The benefits of preparing industry-based disclosures are that they enable comparability, facilitate scrutiny which accounts for industry-specific challenges and opportunities and brings each member of a particular sector to the same starting point. The costs are associated with the more detailed, analytical application of a more sophisticated standard.</p> <p>UKELA Members have worked with UK companies and asset managers that have used SASB, which some now consider to be too detailed. The UK should learn from the hunger for greater flexibility in the choice of material ESG topics.</p>

<p>9</p>	<p>Cross-industry metrics (IFRS S2 only)</p> <p>This topic specifically refers to the requirements in IFRS S2 (paragraphs 29, B19–B65).</p> <p>Specific matters to consider in your response:</p> <ul style="list-style-type: none"> • 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))? 	<p>No UKELA response.</p>
<p>10</p>	<p>Costs and benefits</p> <p>Specific matters to consider in your response:</p> <ul style="list-style-type: none"> • 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 	<p>The most decision-useful information for investors typically connects to (i) strategy, (ii) governance and (iii) targets. On metrics and targets, it will be critical that such commitments in disclosures are given sufficient legal protection to enable issuer/disclosers to withdraw where these disclosures are not technically accurate in the future for different reasons (e.g. change in technical guidance, re-baselining, or changing data).</p> <p>As noted above, the drivers of costs when preparing and disclosing information required by IFRS S1 and IFRS S2 will be the fees charged for audit, the availability of quality data, the location of that data within the organisation and the willingness of leadership to scrutinise and dig into the underlying assumptions and qualifications to ensure that what is rendered in disclosures is robust, verified, understandable.</p> <p>Preparers currently use a variety of processes to gather sustainability data for reporting including surveys to external counsel, internal and external databases, annual surveys to investee companies, and centralised sustainability functions.</p> <p>Given the granularity of expectations in respect of IFRS S2 in particular, firms would need to hire either internal or external support on climate mitigation and resilience assessments.</p>

	<p>costs associated with compliance. Which of these steps is the most costly/challenging steps, and why?</p> <ul style="list-style-type: none"> • How far do you agree or disagree that the benefits of disclosure will outweigh the costs of reporting over time? 	<p>Provided that sufficiently clear definitions on the application of materiality assessments and scoping rules on the business operations which will be captured by the reporting requirements exist, the benefits could outweigh the costs, however this is likely to take some time to achieve.</p>
<p>11</p>	<p>Application of the requirements</p> <p>This topic specifically refers to the requirements in IFRS S1 (paragraphs E3–E6) and IFRS S2 (paragraphs C3–C5).</p> <p>Specific matters to consider in your response:</p> <ul style="list-style-type: none"> • 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 	<p>The first critical point to make on application is the timespan between publication of the UK requirements and application. The FCA ESG Sourcebook applied one month after it was published, which created a great deal of anxiety amongst asset managers and private equity firms alike.</p> <p>Whilst the proportionality provisions embedded in IFRS S1 will ease reporting burdens and reduce challenges in principle, there needs to be a clearer connection between these provisions and the substance of the disclosure obligations in the main body.</p> <p>Whilst the reliefs on the first AR period and interim general reports are noted, there will still be a lot of ground to cover in Year 2, where climate is only in focus for Year 1. A better ramp-up period will be necessary to enable systems to develop smoothly.</p> <p>Express reliefs for SMEs will be required and, above all, the requirements should dovetail with existing requirements wherever possible to reduce reporting burdens. The standard to which disclosures are held should be commensurate with the skills, capabilities and resources of the preparer.</p>
<p>12</p>	<p>Any further comments</p> <p>Possible areas of comment include:</p> <ul style="list-style-type: none"> • Interoperability with other international frameworks and existing UK non-financial reporting requirements. 	<p>The UK has an opportunity to forge a disclosure regime which is inter-operable as between the ESRS and ISSB. The feedback from the European Commission on the UK Sustainability Disclosure Requirements (albeit unofficial) was very positive, indicating that the UK has the ability to shape the international ESG disclosure rules based on its principles-oriented approach.</p> <p>Additional items include:</p> <ul style="list-style-type: none"> • Members are also concerned about the lack of clarity over which disclosures are mandatory. For example, Members note that, while climate resilience reports are being carried out, entities may have only considered worst-case scenarios instead of all a 'diverse range' of scenarios as specified under paragraph 22(b)(i)(2). We recommend that the

		<p>Standards enable greater flexibility in terms of what must be disclosed.</p> <ul style="list-style-type: none">• Paragraph 22(b)(i)(4) requires disclosure on whether an entity used a climate-related scenario aligned with the latest international agreement on climate change. We recommend that greater clarity is given on whether an entity is required to use inputs that assume that international climate commitments will not be met (for example, that temperatures will rise to above two degrees Celsius).• On metrics and targets, no definition is provided on what it means to be “vulnerable to” risks, or “aligned with” opportunities.
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Co-convenors

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