

UK Sustainability Disclosure Technical Advisory Committee  
Financial Reporting Council  
125 London Wall  
London  
EC2Y 5AS

9<sup>th</sup> October 2023

Response submitted by email to: [UKSustainabilityTAC@frc.org.uk](mailto:UKSustainabilityTAC@frc.org.uk)

Dear Sir/Madam,

### **IUA Response to FRC Call for Evidence on UK Endorsement of IFRS S1 and IFRS S2**

The IUA appreciates the opportunity that the Financial Reporting Council (FRC) has provided to contribute to the discussion over the UK endorsement of IFRS S1 and IFRS S2 and would be pleased to discuss any part of this response with the FRC.

The International Underwriting Association of London (IUA) represents international and wholesale insurance and reinsurance companies operating in or through London. It exists to promote and enhance the business environment for its members. The IUA's London Company Market Statistics Report shows that overall premium income for the company market in 2022 was £44.071bn. Gross premium written in London totalled £37.626bn while a further £6.444bn was identified as written in other locations but overseen by London operations.

For further information about our organisation and membership, please visit our web site, [www.iua.co.uk](http://www.iua.co.uk), under the section "About the IUA".

#### **Question 1: Overall views on the standards**

Overall, members welcomed the proposals and the benefits that such proposals could deliver. Members emphasised the importance of understanding that firms are at different levels of maturity and that there should be assistance and guidance as to how to embed the standards as business as usual. Members welcomed standards which extend company considerations beyond climate to wider sustainability issues and which should encourage firms to embed these considerations into risk management and governance.

*How easy or difficult is it to interpret the requirements described in IFRS S1 and IFRS S2?*

Members agreed that while interpretation is not difficult, it is the application of the requirements that could prove challenging. It was added that, given that the standards call for quite high-level information, this could reduce comparability between firms and industries. Members would like clarity on whether the intention is to improve the ability of firms to compare their own reports

between different years or whether the aim is to provide third parties with information to enable comparisons between different firms.

*To what extent will the requirements in the standards improve upon existing reporting in the context of the UK?*

Members commented that the standards are an improvement on existing reporting in that they broaden the scope of mandatory disclosure beyond climate risks, and in particular the depth of transition reporting and sustainability topics.

*To what extent do you think that application of the standards in the UK is technically feasible?*

It was considered that the proposed standards are flexible enough in scope that firms should be able to start considering the standards and progress towards embedding climate and sustainability metrics and may be able to provide quantitative data. Members commented that the application of the standards is generally technically feasible but also highlighted that firms will be at different levels of maturity, there will inevitably be variation in the amount and type of information available to them and there will be various levels of sophistication in reporting.

*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?*

It was noted that the disclosures would allow investors and companies to gauge the maturity of a company in respect of sustainability and climate and would hopefully allow for better comparability of companies in these areas. Members cautioned that while the proposals allow for flexibility, the selection of different metrics to report by firms and /or industries may not facilitate direct comparison. If the ultimate aim is to enable firms from different industries to be assessed on these criteria, the flexibility allowed in choosing which metrics to use may mean that direct comparisons cannot be made. Members also noted the importance of ensuring that disclosure information is easily accessible to investors and companies.

## **Question 2: Identifying sustainability-related risks and opportunities**

As a general comment, members raised that while the standards address the main topics, in respect of sustainability they could be much broader and could better highlight how sustainability-related risks interact with broader social risks.

*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.*

Members identified resource availability in addition to climate and sustainability knowledge gaps as major challenges for UK companies. Members noted the difficulties present in identifying risks and

opportunities in respect of sustainability, where such risks and opportunities are less obvious and more intangible than with climate risk.

Turning to the general insurance industry, it was identified that the time horizons used in insurance, which are usually year-long policy periods, do not easily align with the longer time horizons used in climate and sustainability assessments. The annual nature of general insurance allows for regular periods of review and adjustment to pricing and product coverage and is not easily aligned with the longer periods often used in assessing climate and sustainability risks. While the alignment is not directly compatible, this does mean that the general insurance industry can be more agile in response to developments and changing risk. Another significant challenge identified was the quality and accessibility of sustainability data.

*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?*

Noting that we are responding as a trade association representing member companies, few members had used the sources of guidance and disclosure topics to identify sustainability-related and climate-related risks and opportunities. Particularly in respect of IFRS S2, we are aware of members who have looked at these metrics and do not consider them to be the most relevant to the insurance industry. Members added that if there were recommended sources of guidance, a compilation of what is useful for financial services and the insurance market would be helpful.

### **Question 3: Application of materiality**

*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.*

Members commented that, in theory, how the concept of materiality applies to the identification and disclosure of sustainability-related risks and opportunities is clear, but there is no specific definition or metric of what would constitute a material risks or opportunity. How this is applied will vary between firms and this may have an impact on the comparability of disclosures.

*How do investors identify sustainability-related information that is material in a company's annual report?*

Members observed that it is often difficult to find material information in annual reports and that there are often significant differences in the ways that different firms incorporate information in their annual reports. This can present a challenge in identifying where such information is detailed and comparisons with other firms can be overly complex.

### **Question 4: Reporting approach**

*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.*

Members noted that it would be challenging as sustainability strategies and processes are not always defined at an entity level. Often sustainability strategies are set at group level by the parent company and therefore comments specific to a particular entity cannot be provided at entity level. Furthermore, many sustainability topics do not lend themselves to entity level breakdowns. Members suggested that consolidated reporting would make more sense in this context.

*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?*

Members expressed that while there is sufficient guidance on how to identify the value chain, the ability to prepare and present information would depend on how advanced any particular entity in the value chain is and whether firms along the value chain can provide this information. It was highlighted that complying with this requirement would be challenging until disclosures on sustainability-related risks and opportunities become mandatory for all those throughout the value chain. It was added that guidance and examples on the types of risks and opportunities could be useful to firms in the value chain to assist with their own assessment.

#### **Question 5: Timing and location**

*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?*

Members commented that it was reasonable to report sustainability-related information at the same time and in the same location as general purpose financial reports for companies in the UK and that this would likely serve to support financial reporting. It was acknowledged that this would involve additional costs and resource in order to fulfil the requirements, however it was not easy to establish the additional costs at this time.

*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)?*

Members suggested that the information is presented in a distinct and separate section, using plain English standards and clearly labelled as IFRS disclosures. It was emphasised that the information should be substantive, transparent and meaningful and that if the reports were available online, that this should be clearly indicated on the relevant website.

#### **Question 6: Judgments, uncertainties and errors**

*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.*

Members commented that the requirements are clear but noted that, as it is undefined, there would likely be varying interpretations of the materiality threshold for errors between respondents.

*What, if any, further considerations are there in respect of disclosing revised comparative information when there are changes in estimates?*

Members noted that there is no requirement to specify the reason for a change in estimate and that it would be useful to understand the reasons why error corrections were made and that any corrections should be prominent and visible.

#### **Question 7: Financial impact and connectivity**

*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.*

Members commented that the requirements are fairly clear but that there is difficulty in actually calculating these effects both current and especially anticipated, given the inherent assumptions that have to be made and that the effects are often not quantifiable. It was suggested that these requirements should be expanded on when certain industries start to use them in particular ways.

*What, if any, are the challenges in preparing disclosures that connect sustainability-related information to the financial statements?*

It was highlighted that sustainability-related information is not always quantifiable, for example reputational risk, and therefore a direct link to financial metrics cannot always be made accurately.

#### **Question 8: Industry-based requirements**

*What, if any, are your estimates of the benefits and/or costs in preparing industry-based disclosures?*

It was agreed that it is necessary to prepare industry-based disclosures as each industry will have different risks and opportunities and it would allow for better comparability between firms in the same industry.

*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?*

Members commented that the standards should stipulate which industry-based topics and metrics need to be disclosed for the purpose of improving comparability.

#### **Question 9: Cross-industry metrics (IFRS S2 only)**

*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.*

Members agreed that the requirements are technically and practically feasible, especially in terms of using them for financed and insured emissions. Members highlighted the importance of mandatory reporting throughout the supply chain to ensure that firms can meet their own reporting obligations and that the resulting disclosures are of a good quality. It should be acknowledged that some entities in the value chain may sit outside the jurisdiction of the UK so obtaining this information may be particularly challenging and consideration should be given to these circumstances.

*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))?*

Members commented that all the metrics listed are important and that (e), (f) and (g) are quite specific. In respect of challenges, it was observed that (b), (c) and (d) require materiality assessment and therefore would require more of a process to determine. It was noted that, while some of the metrics are quite clear and tangible, others required a more in-depth assessment and required judgment as they were subjective.

#### **Question 10: Costs and benefits**

*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?*

Please see the benefits outlined in our response to question 1.

Members highlighted that they would receive the most benefit from the GHG emission disclosures, especially given that it is not currently a mandatory disclosure and not all firms are disclosing this information. If it were to become mandatory, this would benefit carbon accounting methods and improve transparency and comparability across the market.

*What are the anticipated drivers of costs when preparing and disclosing information required by IFRS S1 and IFRS S2?*

Members identified time and resource allocation in addition to the need for external data sources as the anticipated drivers of costs.

*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.*

This varies significantly across members. Some are using external organisations to gather and collate this information and others are doing this internally. There is no generally accepted standard and it depends on the specific topic under consideration.

*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*

The process will vary significantly depending on the size of the organisation and its sophistication in this area. There is a broad range of maturity across the market. Some firms may have to hire additional resources for assistance in gathering and preparation of the information. Members agreed that the most significant challenge is often resourcing.

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

Members agreed that overall the benefits of disclosure will outweigh the costs of reporting over time but emphasised that outcomes must be properly scrutinised and audited. It was observed that while the requirements are reasonably flexible, there exists mandatory reporting in certain areas, which is a positive development.

#### **Question 11: Applications of the requirements**

*How might the proportionality provisions\* ease reporting burdens or reduce challenges within reporting, if at all?*

Members commented that the proportionality provisions would allow firms to progressively meet requirements over time and provide for a phase in period, which is useful.

*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.*

Members commented that it was helpful to provide transitional relief, though raised concerns that long transition periods could delay effective reporting and hamper progress.

*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?*

Members did not identify any further challenges at this time.

#### **Question 12: Any further comments**

Members had no further comments.

We would be pleased to clarify or expand on any of the comments made and we hope that this feedback is helpful to the FRC in considering the UK endorsement of IFRS S1 and IFRS S2.

Yours faithfully,



Madeleine Fox  
Legal Services Executive