UK Sustainability Disclosure Technical Advisory Committee
c/o Financial Reporting Council
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10 October 2023

Dear Sir/Madam

Call for evidence - UK endorsement of IFRS S1 & IFRS S2

Thank you for the opportunity to respond to the call for evidence in relation to the UK endorsement of the ISSB's sustainability reporting standards, IFRS S1 and IFRS S2. Our detailed responses to the specific questions raised in the call for evidence are set out in Appendix A to this letter.

We continue to support the ISSB standards as the global baseline for sustainability reporting and we also support the UK Government's commitment to implementing the standards as part of the UK Sustainability Disclosure Requirements ('SDRs').

Given the UK's current regulatory framework already requires consideration of non-financial matters, stakeholder engagement and, more recently, the impact of climate risk, we believe UK entities might be better placed than those in some other jurisdictions for the introduction of sustainability reporting standards through the SDRs. In particular, UK entities should be relatively well-prepared for the introduction of IFRS S2 as it is broadly consistent with the recommendations and related guidance of the Task Force on Climate-Related Financial Disclosures ('TCFD'), which has already been brought into the UK's regulatory framework. However, some challenges remain in practice, including quantifying the financial impact of climate risk and reporting on greenhouse gas ('GHG') emissions along a company's value chain. In our experience entities also have frequent questions about the balance to be struck between climate risk reporting in the 'front half' of a company's annual report and the, usually much less extensive, disclosures in the financial statements. Each of these issues should be addressed as part of drawing up the UK SDR framework and any accompanying implementation guidance.

In our view the most significant challenges for many entities will be faced in implementing IFRS S1. This broadens sustainability reporting to a range of topics, many of which are currently less mature than climate risk in terms of systems, processes and available data. In the roll out of the SDRs we think it is important that the Government emphasises they are based on the use of judgement about what is material to report even, as the standard explains, when a list of potential disclosure 'requirements' is set out. This will ensure that entities focus on the right issues. Transparency about the judgements that have been made will be vital for this to operate successfully, and will in effect be the basis for the statement of compliance with the standards that IFRS S1 requires.

One of the key strengths of the standards in our view is their focus on information about "*sustainability-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity*" (IFRS S1 paragraph 1). This aligns with IFRS accounting standards, and should also align with the focus of UK

strategic reports. However, we recognise that there are also other stakeholders with different interests, and that entities often want to demonstrate their commitment to the wider sustainability agenda as well as their responsibility to investors. We have, therefore, repeated in this response the suggestion we first made in the Department for Business and Trade's call for evidence *"Smarter regulation non-financial reporting review"* ('DBT call for evidence') that UK entities should, as well as reporting on strategically material sustainability matters in their strategic report, prepare a separate sustainability report, either on a standalone basis or as part of the annual report outside the strategic report. See Appendix B for the relevant extracts from our response.

The ISSB already provides useful guidance in the Appendices to the standards, which will help entities in applying them. We understand the ISSB intends to publish further illustrative guidance and educational material in due course. Notwithstanding, we encourage the Government to consider what additional non-binding implementation guidance - similar in scope and authority to that issued to support implementation of Streamlined Energy and Carbon Reporting[1] and the climate-related financial disclosures[2] - may be helpful to respond to some of the challenges raised in our response, which reflect the more advanced status of sustainability-related disclosures in the UK relative to other jurisdictions. As an illustration of an approach that might be taken, the Transition Plan Taskforce recently published its disclosure framework[3], which includes a series of recommendations that *"an entity may wish to consider as an additional source of guidance"* in applying IFRS S2.

There are also a number of policy-related matters identified in our response that we believe should be considered as the content of the SDRs is drafted although we acknowledge that they might not all be in the direct remit of the TAC. These include:

> *Endorsement*: The TAC and the UK Sustainability Disclosure Policy and Implementation Committee ('PIC') together will play an important role in the endorsement of the ISSB standards. To the extent that other reporting frameworks (such as Sustainability Accounting Standards Board ('SASB') standards or the GHG Protocol Corporate Standard ('GHG Protocol')) are integrated within ISSB standards, we believe it is critical that the principle of legal certainty is upheld and that a similar endorsement considerations should apply to them.
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> *Equivalence*: 'Equivalence' between the ISSB standards and reporting under European Sustainability Reporting Standards ('ESRS') and the Corporate Sustainability Reporting Directive ('CSRD') framework will be important for many UK groups so that they are not subject to two, or more, different reporting regimes in the future. We recognise that the mechanism for determining equivalence is still uncertain, but departing from the baseline of ISSB standards in the process of UK implementation would potentially create significant additional sustainability reporting requirements for UK entities and groups.
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> *Population to which the SDRs are applied*: We favour a simple approach to determining which entities will be subject to SDRs. Consistent with the suggestions we first made in our response to the DBT call for evidence, it is our view that Government should seek to determine a single definition for public interest entities ('PIEs') who would be required to implement the full standards/SDRs, alongside certain other entities exceeding a range of non-financial thresholds and/or conditions.

Finally, we call upon the Government and regulators to work together to avoid overlap and duplication between requirements, such as that which exists today between the Listing Rules and

[1] https://assets.publishing.service.gov.uk/media/5de6acc4e5274a65dc12a33a/Env-reporting-guidance_inc_SECR_31March.pdf

[2] https://assets.publishing.service.gov.uk/media/62138625d3bf7f4f05879a21/mandatory-climate-related-financial-disclosures-publicly-quoted-private-cos-llps.pdf

[3] https://transitiontaskforce.net/wp-content/uploads/2023/10/TPT_Disclosure-framework-2023.pdf

Companies Act in relation to climate risk reporting, and also to avoid mandating sustainability disclosures by wholly-owned subsidiaries and intermediate parent entities. Requirements of this kind risk undermining the value of the important topics they address and rarely create information of value to any stakeholder.

We hope you find our comments and suggestions useful. If you have any questions or would like to discuss any of them, please contact

Yours faithfully

PricewaterhouseCoopers LLP

Appendix A

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

We support the concept of the ISSB standards as the global baseline for sustainability reporting and we also support the proposals by the UK Government to implement the standards as part of UK SDRs, subject to the comments in our responses below.

Implementing ISSB standards in the UK - IFRS S1 will be challenging

There has been significant focus on how the detailed requirements of IFRS S2 relate to the TCFD framework, the extent to which the scope of IFRS S2 might be broader, and what entities will need to do differently. The details around this are important, but in fact there will be many more challenges for entities to deal with in implementing IFRS S1, given that it is (appropriately) high level and general so that it applies to many different sustainability issues.

Entities will need to make judgements based on the criteria for materiality in IFRS S1. We support this approach. The standard points to the SASB framework as something that entities "*shall refer to and consider",* and also mentions a number of other relevant sources, including the Global Reporting Initiative ('GRI'), that entities 'may' consider when applying judgement on what to disclose, but this is a relatively vague instruction, and it would be helpful for entities to understand which aspects of these supplementary frameworks they will be expected to follow and to what extent.

In practice, many entities have limited information on aspects of sustainability other than climate risk in their annual reports - PwC's recent paper on tackling nature-related reporting and the TNFD[4] shows it to be much less mature than climate reporting. Therefore, until such times as the rest of the ISSB framework is available, entities are likely to need further guidance on what is required to apply IFRS S1 to topics outside of climate risk.

What does 'compliance' mean?

IFRS S1 paragraphs 72-73 call for entities to make a statement of compliance with the standards confirming that "*they comply with all the requirements of IFRS Sustainability Disclosure Standards*".

It is clear that the standard includes scope for entities to make judgements about the materiality of topics in their particular circumstances (IFRS S1 paragraph 18 and the related application guidance); and so making these judgements and disclosing them must be an integral part of complying with the standard.

Equally, the opening paragraphs of IFRS S1 explain that it is based around reporting on the risks and opportunities arising from sustainability related matters. By their nature, risks and opportunities are forward-looking and, again, subject to significant levels of judgement. The supporting information and disclosures relating to these risks and opportunities will also change over time and, generally, longer term matters will be subject to a lower level of confidence than those that are shorter term. In order to comply with the ISSB standards, entities need to 'present fairly' information about the risks and opportunities to which they are subject, based on what should be an ongoing (and evidenced) assessment process.

[4] https://www.pwc.co.uk/services/audit/insights/tackling-nature-related-reporting-tnfd.html

Some aspects of sustainability reporting are similar to financial reporting, in particular reporting on metrics and targets, which are matters of fact. However, the choice of those metrics and targets, and how those choices might change over time, are again subject to significant judgement. Further, entities might not be in a position to obtain all the necessary information immediately after the importance of a metric or target is identified. In such circumstances, compliance will represent the timely identification and disclosure of the company's position. The importance of this point is emphasised further by the need for entities to consider the relevance of their value chain when dealing with a particular risk or opportunity. It is widely recognised that visibility of the value chain is currently limited in many cases, with information hard to obtain or to obtain promptly. Many entities are working hard to address this, but as yet few will have all the information that they will ultimately want or need to gather.

Disclosing the financial impact of sustainability matters, both qualitative and quantitative, is a key part of the strategy section of IFRS S1. Again, the relevance of this will be driven by the nature of the underlying subject matter. For instance, where an organisation is dependent on decisions by third parties (often governments) to be able to 'price up' a risk or opportunity, it might not be in a position to quantify (and ultimately account for) it at a particular point in time. We believe presenting this situation fairly - potentially on the basis of only qualitative information in the short-term - will represent compliance in such circumstances.

It would be counterproductive if entities were forced to claim compliance to an unrealistic extent - the aim must be to generate disclosures that are transparent. Equally, of course, this should not result in a lowering of the bar in terms of expectations, and entities should still be held to account for the progress they are making.

In our view, it will be vital that the matters outlined above are appropriately reflected in the SDRs and/or guidance for effective UK implementation of the ISSB standards.

Sustainability reporting v strategic reporting

Unlike the EU CSRD framework, which is focused on the concept of double materiality, the ISSB standards ask an entity to "*disclose information about its sustainability-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity*" (IFRS S1 paragraph 1). The information provided should therefore be through a shareholder or investor lens (and therefore a financial one), as opposed to focusing to the same extent on the priorities of a range of other stakeholder groups. This means that the ISSB framework should adapt well to the UK strategic report, which has a similar focus (based on Section 172 Companies Act 2006) and basis for materiality.

However, organisations might also wish to provide more information than is legally required in the strategic report. To address this, we suggested in our response to the DBT call for evidence that organisations should prepare a separate sustainability report (either as part of, or outside) the annual report. This approach would not only allow additional information to be provided, it would do so without obscuring the key messages of the strategic report, and help to improve the quality and focus of that report. We recommend that the TAC also considers this proposal as part of its work.

Policy matters, including endorsement mechanism

We recognise that the TAC is not responsible for policy aspects of the implementation of the ISSB standards, but some of these aspects will need to be considered when deciding on the content of

reporting (for instance, whether scalability of standards is sufficient for the whole population that might potentially be in scope).

We are aware that there has already been significant debate about the use of the phrase "*shall refer to and consider"* in IFRS S1 in relation to the SASB standards. We observe that IFRS S2 similarly states that entities *"shall"* measure their GHG emissions in accordance with the GHG Protocol. References to other guidance are not a new and unique phenomenon - endorsed accounting standards also make reference to material that is not, in a strict sense, subject to formal endorsement, such as the illustrative examples that accompany individual standards and the conceptual framework as a whole. For example, paragraph 11 of IAS 8 requires that, in developing an accounting policy in an area not covered explicitly by an accounting standard, an entity *"shall"* consider, inter alia, the conceptual framework's definitions, recognition criteria and measurement concepts. References such as this have not been considered a barrier to endorsement, possibly because the referenced material is subject to the IFRS Foundation's governance and due process (in this respect, we note that changes to SASB standards will also now fall within the IFRS Foundation's purview), and subsequent amendments are typically highlighted in an appendix to a standard and so subject to the same scrutiny. We therefore believe that the issues presented by references from endorsed standards to other frameworks (such as SASB standards or the GHG Protocol) can be navigated. However, we believe it is critical that the principle of legal certainty is upheld and that similar endorsement considerations should apply to any referenced material the use of which is mandated. The TAC could play a role in reviewing extant referenced guidance when providing advice on endorsement, drawing attention to implementation issues that might arise. The TAC should then review any subsequent changes to that referenced guidance - important since revisions to both the SASB standards and the GHG Protocol are currently subject to consultation.

The ISSB's standards are at an early stage in their development and the requirement to bring them in wholesale via a statutory instrument limits the ability for the requirements to flex, at speed, when changes are made by the ISSB. It will therefore be important to have a sufficiently robust process that is both flexible and focused, and encourage the Government to be open to future changes in the endorsement process, including consideration of an approach similar to that used for international accounting standards.

In principle, amendments as part of the endorsement process to what is intended to be a global baseline should be limited. 'Equivalence' between the ISSB standards and ESRS will also be important in future for many UK groups if they are not to be subject to two, or more, different reporting regimes. We recognise that the mechanism for determining equivalence is still uncertain, but departing from the baseline of ISSB standards in the process of UK implementation could threaten this and create significant additional sustainability reporting requirements for UK entities and groups.

In terms of applicability of the standards in the UK, we favour a simple approach, as set out in our response to the DBT call for evidence: all PIEs (based on a single definition of PIEs), plus others exceeding a range of non-financial thresholds and/or conditions should be required to implement the SDRs. See our responses to Questions 3 and 4 and Appendix B for more details on this.

Responses to the specific matters to consider raised by the TAC:

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

The standards are clear and well written. The challenge will be in applying the standards - particularly IFRS S1 - to individual entities' circumstances, given that the subject matter is so different from that addressed by accounting standards. However, we strongly support the underlying characteristics of

the standards such as the primary user lens and the scope for materiality to be applied, and would not wish to see the standards become more prescriptive.

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

In general, we believe UK entities should be relatively well-prepared for the introduction of sustainability reporting standards through the SDRs (see our response to Question 2 below). In particular, IFRS S2 is broadly consistent with the content of the TCFD framework and its related guidance, which UK listed entities have already been applying and and a number of other large businesses will be applying from this year through the Companies Act's climate-related financial disclosure requirements. Some challenges remain in practice, including disclosing transition plans, quantifying the financial impact of climate risk, identifying appropriate metrics and targets, and reporting on GHG emissions along a company's value chain. The emphasis on these and other aspects in IFRS S2 over and above the TCFD framework can only help improve the overall quality of reporting over time.

Further, the application of the general principles of IFRS S1 has the potential to positively impact entities' consideration of sustainability-related risks and opportunities beyond the issue of climate risk. However, as we note in our response to Question 2 below, challenges will arise for some entities when applying these general principles to their circumstances across the whole spectrum of sustainability topics without specific standards that are fully embedded in the ISSB framework.

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

Most of the content of the standards is feasible to implement. The primary user lens and the focus on materiality integrate well with current UK reporting principles.

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 entities for the management of the business?

If the information generated by the standards is guided by the relevant lens and strategic materiality it should be useful to, and used by, both investors and management. Indeed, the introduction of the ISSB standards should ultimately provide a more systematic framework for the disclosure of the related issues - they should already be discussed in a UK strategic report if they are strategically material - that will aid comparability and decision-making.

Question 2:

Identifying sustainability-related risks and opportunities

What challenges, if any, are there for UK entities in identifying and disclosing all sustainability-related risks and opportunities based upon the requirements? Please explain your response.

The language of the question here focuses on the requirement in IFRS S1 paragraph 3 to disclose "*all sustainability-related risks and opportunities*", when in fact the overall requirement of the standard is to focus on those risks and opportunities that are useful to primary users and meet the criteria for materiality set out in various parts of the standard, including paragraphs 17 and B25. When the overall requirement is considered, we believe that the challenge for any company (including a UK one) is a reasonable one.

UK entities are not starting with a blank slate in this regard. The process of identifying sustainability-related risks and opportunities is similar to how all other principal risks are identified, while other non-financial reporting requirements, such as TCFD reporting and the Section 172 statement, have required entities to identify risks and opportunities associated with climate risk as well as to disclose how directors have regard for the impact of the company's operations on the community and the environment.

To this extent, UK entities might be better placed than those in some other jurisdictions. But there will still be challenges, for instance around the availability and quality of information, as follows:

- The systems and processes relating to sustainability matters, and the governance over them, vary in their maturity within entities, which will affect their ability to provide reliable information about risks and opportunities and how they are managed. Ultimately this could affect a company's ability to report compliance with the standards. See our comments in response to Question 1 under 'What does 'compliance' mean?.
- This will be particularly relevant in some cases to information about a company's value chain, where the systems and processes are less developed, even in a relatively mature area such as climate risk.

Perhaps the most significant challenge will be in relation to the breadth of the subject matter that will potentially need to be addressed by IFRS S1. There has been significant focus on climate risk reporting in the UK in recent years, with the introduction of reporting requirements in both the Listing Rules and Companies Act, but there has been much less focus generally on other areas of sustainability. Although some (maybe most) entities and groups will have material risks or opportunities associated with only a relatively small number of sustainability topics outside of climate risk, doing the work to arrive at this conclusion will be new for many.

Above all, there will be the challenge of having to make judgements about relevance and materiality. We are aware that there have already been frequent calls for additional guidance or a more detailed and prescriptive approach to the disclosure requirements in the standards, but we urge all those responsible in the UK not to challenge the ISSB's relatively non-prescriptive and judgement based approach. Some entities will worry that this makes it more difficult for them to report rather than easier, because they do not have a prescribed set of 'boxes to tick' but, in our view, additional implementation guidance is the right approach.

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?

See comments in the response to Question 1 about the role of these sources of guidance within the overall ISSB framework, and about the need for them to be properly scrutinised in the UK before implementation. Guidance is useful as long as its status is clear.

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.

The basis for, and role of, materiality should be clear from the language of the standard (including IFRS S1 paragraphs B19-28) but, given the fact that the nature of the subject matter of IFRS S1 is very different from other IFRS standards, and taking into account how important it is that materiality is applied appropriately, it would be helpful if worked examples and/or other implementation guidance could be available to support the UK implementation process. In particular, entities should be reminded that immaterial information is not to be reported (as per IFRS S1 paragraph B25 and IAS 1 paragraphs 30A and 31).

At the same time, we recognise that entities might wish to (and currently often do) report additional sustainability information to satisfy a wider range of interested parties than the primary users identified in ISSB standards. For this reason, we advocate that entities should be required to produce a separate sustainability report (as part of, or separate from, the annual report), in addition to their strategic report. This report could contain a full set of sustainability-related information, including that which is considered relevant for inclusion in the strategic report, but also including information that is provided - based on the judgement of the directors - for other purposes and/or audiences. This proposal was developed further in our response to the recent DBT call for evidence and extracts are included in Appendix B to this response. As we note in our response to Question 1, we encourage the TAC to consider this proposal as a means to satisfy the needs of the various audiences for different aspects of sustainability reporting.

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

No response given as this is an investor question.

Question 4:

Reporting approach

We set out in our response to the recent DBT call for evidence proposals for a potential approach to UK sustainability reporting that focuses on avoiding including excessive information in the strategic report, but also provides a channel that entities can use to address the needs of their many stakeholder groups. We have included extracts from these proposals in Appendix B to this letter as they are also relevant to the matters being considered here.

Responses to the specific matters to consider raised by the TAC:

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.

On the basis that UK implementation of the ISSB standards follows the pattern set in relation to climate risk, organisations will be expecting to report on the risks and opportunities at a group level.

This is usually relatively straightforward where the ultimate parent is based in the UK - group sustainability reporting will match group financial reporting. But, where a UK sub-group forms part of a global group, it will often be challenging to report meaningfully on the sustainability-risks and opportunities of the UK sub-group alone because such matters are often addressed for the global group as a whole. This means that it is important to consider how appropriate exemptions can be allowed for UK subsidiaries (including for intermediate parents) that form part of a wider group which also reports against the ISSB (or equivalent) framework.

The aim of the ISSB framework is appropriate reporting on the sustainability risks and opportunities that are material to the primary users of a report, and UK implementation should focus on achieving this, while avoiding creating reporting responsibilities for entities that will not be in a position to address them meaningfully. This does not mean that sustainability risk assessment cannot be carried out on a business by business level and bottom-up through a group. If this is the most appropriate approach to a particular area of sustainability it should of course be used.

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 believe that entities are becoming increasingly aware of where there are significant risks and opportunities within their value chains. However, significant challenges remain with the availability and quality of information necessary to monitor and manage them, and these will need to be addressed where material. The key reporting challenge will be to apply the overall principles of the ISSB framework in the context of the value chain: in this regard, it will be important for entities to remember that only matters that are material to the primary users need to be reported. It would be helpful as part of the UK implementation process to provide implementation guidance to support entities in reporting on this basis.

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?

No response given as this is an entity-focused question.

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)?

When approached with the right mindset (one focused on what is strategically material, and structured with explicit alignment to strategy, clear signposting/cross-referencing and minimal repetition) then we believe that information derived from the ISSB standards should be clearly identifiable and not obscured.

In our experience, however, it is often unclear how much of the information currently included in entities' strategic reports is strategically material. This was one of the drivers behind our proposal in response to the DBT call for evidence for a separate sustainability report, either on a standalone basis or as part of the annual report, and greater focus on the quality of the strategic report, as set out in the Appendix B to this letter (and discussed in our response to Questions 3 and 4 above).

This approach has the potential to reduce the volume of information reported, improve the overall quality of those reports and potentially address the challenge of providing potentially large amounts of sustainability information to the same timetable as financial reporting.

However, key to all of this is a comprehensive and robust materiality assessment - one that identifies the most material sustainability-related risks and opportunities - and sufficient, practical guidance on how to perform such an assessment and disclose the relevant information. This will be critical to disclosing the right level of information and avoiding clutter.

Question 6:

Judgements, 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.

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

The nascent characteristics of the sustainability reporting agenda mean that, in the short-term, there are likely to be a significant number of changes in estimation (as more information or data becomes available), while other changes may be driven by errors in data collected from third-party providers or sources in the value chain.

We believe that IFRS S1 paragraphs 74-86 are sufficiently clear in communicating the general disclosure requirements regarding judgements, uncertainties and errors in sustainability reporting.

The principles for distinguishing between a change of estimate and error are similar to financial reporting. Therefore, we believe entities will generally be able to make these judgements based on the guidance provided. However, in those challenging circumstances where the change in estimate is driven by errors elsewhere in the value chain, more guidance may be needed to determine how it is defined. It is also unclear how an entity should deal with and disclose the impact of a change in methodology.

We support the view that if entities are permitted to change a prior period estimate, the change should be disclosed and explained with a similar level of detail as a prior period error. Updating a prior period estimation may give better comparability for users, but we agree it should not be done without the explanation and disclosure required by IFRS S1 paragraphs B50 and B51.

There will be areas where preparers encounter challenges in addressing the disclosure requirements due to limited guidance, which will potentially result in the development of 'sustainability policies' where entities explain the approach that they have chosen to take in a particular area. This is not explicitly addressed in IFRS S1 and, although we believe that there is adequate guidance around changes in estimates in IFRS S1 paragraphs B50 to B51 to ensure entities disclose their policies and changes to them, this is an area that should be kept under review as practice develops.

We acknowledge that some parts of IFRS S1 refer to thresholds in terms other than 'material' - for example, the requirement to disclose judgements that have a *"significant effect"* (IFRS S1 paragraph 74) and disclosures are required for items with a *"high level of measurement uncertainty"* (IFRS S1 paragraph 78). It is currently unclear how these terms are to be defined, however we think this will evolve over time and this again illustrates the importance of entities being willing to apply appropriate judgement.

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.

We acknowledge that different time horizons might be relevant to IFRS financial reporting as opposed to sustainability reporting. Sustainability-related risks and opportunities are often long term in nature, but with some exceptions financial reporting standards are not primarily geared towards longer term risks.

In the near term, there can be challenges in understanding and quantifying with confidence the financial effects of sustainability-related risks on the financial position, financial performance and cash flows without significant judgements and estimates. IFRS S1 and IFRS S2 recognise this issue for sustainability reporting and allow entities not to make financial disclosures if, *"the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful" (*IFRS S2 paragraphs 19b, 21c and IFRS S1 paragraph 38). IFRS S1 paragraph 39 also removes the requirement for quantitative information about the anticipated financial effects of a sustainability-related risk or opportunity if *"the entity does not have the skills, capabilities or resources to provide that quantitative information."* In both scenarios entities are required to make qualitative disclosures instead. We agree this approach is appropriate in the early years of sustainability reporting and we expect many entities to initially focus on qualitative information. As time goes on, entities should be in a better position to move towards more quantitative disclosures, which should also reduce the risk of qualitative disclosures becoming standardised and boilerplate.

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

Entities are frequently challenged over a perceived lack of balance or consistency. There are often voluminous front-half disclosures that might imply a particular sustainability risk/opportunity is material and little discussion of that same risk/opportunity in the financial statements.

Entities are required to use the same financial data and assumptions for sustainability reporting purposes as are used for financial reporting purposes to the extent that this is possible and considering the applicable financial reporting principles. However, there might be scenarios where assumptions used for financial and sustainability reporting do not align - for example, the time frame considered for, or confidence over, estimates/forecasts in entities scenario analysis might not satisfy thresholds required by certain financial reporting frameworks. As a result, the assumptions used for financial and sustainability reporting could be different.

Therefore, if quantitative sustainability-related risk disclosures are included in the front half of a company's annual report it will be important for those disclosures to be consistent with disclosures presented in the financial statements, or for differences to be clearly disclosed and explained (whether relating to different time periods or other factors).

Question 8:

Industry-based requirements

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

No response given as this is an entity-focused question.

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?

The standards implemented in the UK should not go any further than the global approach in stipulating the consideration of 'external' guidance or frameworks.

We are aware that there has already been significant debate about the use of the phrase "*shall refer to and consider"* in relation to the SASB standards in IFRS S1. As noted in our response to Question 1, where such guidance or frameworks are in effect made part of the ISSB framework (and PwC has responded separately to the ISSB's Exposure Draft[5] relating to the methodology for updating the SASB standards) they should be subject to the same UK endorsement and implementation mechanisms as the ISSB standards themselves.

There is, however, no question that industry-specific guidance can be helpful to entities in dealing with their sustainability-related risks and opportunities (especially in the absence of specific ISSB standards in many areas of sustainability reporting) and we encourage the best sources to be highlighted as part of the implementation process.

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.

For those entities that are reporting in accordance with the TCFD framework under the Listing Rules, Scope 3 emissions continue to be a significant area of challenge and often a reason given for why their disclosures are not fully consistent with the TCFD framework. It is therefore helpful that the ISSB standards include a number of transitional arrangements and proportionality provisions and, in paragraph B57 of IFRS S2, reference to the potential for it to be impractical to collect the relevant data.

Currently, related data can be provided through a range of channels, which can make it difficult to draw the overall position together. Our recommendation for a single sustainability report could help with this issue in the longer term. This aligns with the recommendation by the Transition Plan

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https://ifrs-springapps-comment-letter-api-1.azuremicroservices.io/v2/download-file?path=625_66977_PricewaterhouseCoopers-International-Limited_0_Exposure-Draft-Methodology-for-Enhancing-the-International-Applicability-of-the-SASB-Standards-and-SASB-Standards-Taxonomy-Updates-PwC.pdf

Taskforce on disclosing material information related to the transition plan in general purpose financial reporting, and further details in a separate report that sits alongside the annual financial report.

Measurement methods

The IFRS S2 requires that emissions are measured in accordance with the GHG Protocol, but does provide some relief from this if a jurisdiction requires a company to use a different approach to measurement. The GHG Protocol itself outlines two approaches for determining organisational boundaries: the equity share approach and the control approach (with control determined based on either financial or operational control). These approaches are intended to provide flexibility so a reporting entity may use the methodology it believes is most appropriate given its circumstances and types of emissions. However, ESRS and the proposed U.S. Securities and Exchange Commission climate disclosure rules are more prescriptive.

As a result there is a potential lack of comparability already built into the reporting framework. Within our response to the ISSB consultation on the Draft IFRS S2 Climate-related Disclosures[6], we recommended consistency as much as possible with other global standard setters and with the financial statements. Accordingly, we encouraged the use of the financial control approach for entities that are controlled (as defined in IFRS) and the equity approach for associates and joint ventures when reporting GHG emissions. We believe one methodology, applied consistently across the globe, should be the desired outcome.

Last year the World Resources Institutes ('WRI') initiated a process to determine the need for additional guidance or updates to the GHG accounting and reporting standards. Earlier this year, we provided responses to a series of surveys on proposed updates to the GHG Protocol[7]. Meanwhile, this year the UK Government announced its intention to launch a call for evidence on scope 3 emissions reporting. With this area under continued scrutiny and liable to possible change, we would encourage the UK Government to monitor these developments and ensure close collaboration between the call for evidence and the work of the TAC to ensure an outcome that has the ambition of landing on one methodology with, at its core, the principles of relevance, consistency and comparability.

Financed emissions

Financed emissions are among the most challenging aspects of emissions reporting for the financial services sector. The quality of the data used to determine financed emissions is variable across the various channels where this information is currently obtained: (a) financial institutions do not have mature infrastructure to capture relevant data when providing a loan or making an investment; (b) data provided by the borrower / investee is not complete or correct or sufficiently detailed on how it has been compiled; (c) third party data aggregators / index providers are not sufficiently transparent on how they have determined the data points they provide that are used in the calculations. Similar challenges exist with some of the other Scope 3 emissions categories. The overall outcome is that those preparing the same Scope 3 emissions metrics can use widely different underlying data, thereby impacting comparability. It therefore becomes critical that entities provide sufficient transparency over the underlying methodology, judgements and estimates around scope 3 emissions, including financed emissions.

We believe that specific industry guidance will be vital to ensure a consistent and meaningful approach to reporting. The publications on emissions accounting and reporting from the Partnership

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[6] https://ifrs-springapps-comment-letter-api-1.azuremicroservices.io/v2/download-file?path=611_65964_pricewaterhousecoopers-international-limited-pwc-response-to-issb-ed2022s2--final-.pdf

[7] https://viewpoint.pwc.com/dt/us/en/pwc/response_letters/response_letters/pwcresponseletters/ghgprotocolstandards.html

for Carbon Accounting Financials ('PCAF') are well-regarded and useful (including in relation to the quality of emissions data) and reference to these, and other appropriate sources, should be included in any guidance produced to support implementation.

Most of these points are resolvable over time, emphasising again the importance of having the option to explain where a company is on its overall journey rather than being expected to claim full compliance as soon as the SDRs come into force.

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))?

Generally the data supporting metrics other than GHG emissions are not particularly mature: there are entities that are expanding their metrics beyond GHG emissions, but this is not common. Again, this should resolve itself with time, but we believe that metrics other than emissions are often useful - and in fact operational metrics can be a good starting point until such financial metrics become more feasible - with appropriate accompanying information.

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?

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?

No response given as this is an entity-focused set of questions.

Question 11:

Application of the requirements

How might the proportionality provisions[8] ease reporting burdens or reduce challenges within reporting, if at all?

In relation to this question, much depends on the population to which the standards will be applied in the UK. The extent to which FTSE 350 entities, for instance, would need to utilise the proportionality provisions should be limited, given the overall focus of the standards on what is strategically material to informed primary users of reporting. FTSE 350 organisations, as well as a number of PIEs, should be expected generally to be in a good position to report meaningfully on all such matters (though there might still be some instances where proportionate reporting will be appropriate due to immature systems or shortcomings in information through the value chain).

If the population to which the standards are applied is relatively wide in the UK, it could be that further proportionality provisions would be justified for entities that would not be caught elsewhere. This is consistent with our comments in response to the DBT call for evidence.

The use of proportionality provisions, even by a wider population of entities, should be expected to reduce as time goes on and systems, processes and information improve.

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.

The transitional reliefs set out in the standards are clearly designed to give entities more time to prepare for the required disclosures. Although the standards are not planned to be reported on in the UK until 2025 year ends[9], it feels appropriate to continue to include these reliefs for UK adopters (especially if the in-scope population is relatively broad).

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?

The role of regulators is not directly part of this call for evidence process, but it is likely that the DBT, FCA and FRC will have a key role in scrutinising how entities are applying the principles discussed above around the interests of users, materiality and judgement. These principles should not be abused but, equally, entities should not be penalised for using them.

We also urge the DBT, FCA and FRC to avoid cross-over and duplication between the SDRs and other sources of requirements such as that which exists today between the Listing Rules and Companies Act in relation to climate-related financial disclosures.

Finally, the international nature of many UK entities means a significant challenge for them will be how the UK SDRs will interact with other emerging non-financial regulatory frameworks. Equivalence between the ISSB standards and the EU's CSRD framework will be important for many UK groups to

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[8] refer to the summary of proportionality mechanisms and temporary reliefs in the ISSB's Feedback Statement on IFRS S1 and IFRS S2 in the links below:
https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/feedback-statement.pdf#page=7
https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/feedback-statement.pdf#page=24

[9] https://www.fca.org.uk/publications/newsletters/primary-market-bulletin-45

ensure they are not subject to two, or more, different reporting regimes in the future. We are encouraged by the progress made internationally to more closely align these two reporting frameworks, but recognise there is some way to go before equivalency is determined. In the meantime we encourage careful consideration of any departure from the global baseline of ISSB standards (in order to avoid any unnecessary additional sustainability reporting requirements for UK entities), and for the TAC to consider, to the extent feasible, whether an entity complying with, for example, ESRS would be deemed compliant with UK SDRs.

Appendix B

Extracts relating to the proposal for a separate sustainability report from the PwC response to the DBT in relation to the Call for evidence - Smarter regulation non-financial reporting review

Separate sustainability report

The existing annual report is addressed to the members of the company, but is increasingly expected also to be of relevance to a range of different audiences. The basic concept, set out in the FRC's *Future of corporate reporting*[10] discussion paper, of breaking down the 'unitary' annual report, has considerable value in this context as an alternative approach.

[...]

Our proposals for the sustainability report are as follows.

Structure: The sustainability report would be a separate report, which could either be included in, or be outside, the annual report, but which would be published at the same time. This approach should make it easier for entities to cater for the range of sustainability reporting requirements to which they might become subject, including UK Sustainability Disclosure Standards ('UK SDSs') based on the ISSB's standards, and potentially reporting under the Corporate Sustainability Reporting Directive ('CSRD') and European Sustainability Reporting Standards ('ESRS'), which would otherwise be difficult to incorporate in the strategic report. TCFD reporting has shown, in practice, that content of this nature risks being siloed regardless of where it sits in the annual report.

Applicability: It does not follow that the materiality of the content in a separate sustainability report should be driven by the size of the reporting entity. In our view, the criteria for having to produce a sustainability report should be based on non-financial / sustainability metrics. For example, a sustainability report might be required where the business exceeds, say, three out of five thresholds related to a set of sustainability-related metrics, and also where the business is a PIE. It might be appropriate to require all PIEs to produce a sustainability report, regardless of whether the other criteria are met.

[...]

We propose that subsidiaries should be able to claim exemption from sustainability reporting if they are reflected appropriately in the publicly-available sustainability report of a parent company prepared under the same, or a similar, framework. This should include parent entities domiciled outside of the UK. The current exemptions, which effectively require all subsidiaries of overseas parents to produce a Non-financial & Sustainability Information Statement (NF&SIS), often result in reports of limited informational value. We acknowledge that there would be a need for a mechanism to determine 'equivalence' between the UK and other frameworks, but this would not necessarily need to be applied on a company-by-company basis if a suitable determination is made about the equivalence of the reporting requirements between the UK and relevant territories. In practice, the significance of this proposed exemption would also depend on the thresholds that are put in place. The intention is that these should be high enough to exclude all but the largest subsidiary businesses.

[10] https://media.frc.org.uk/documents/A_matter_of_principles_The_Future_of_Corporate_Reporting__.pdf

Whilst this proposal would add new thresholds for entities to consider, we believe that, as long as they lead to reasonable outcomes, non-financial thresholds for non-financial information would be understood and accepted. Our proposal maintains the focus on a business's 'impact' but using more appropriate metrics.

Content and materiality: The required sustainability content would ultimately be based on UK SDSs, where entities fall into scope for those standards, covering a range of potential topics and disclosures related to the criteria that brought the company into scope.

If a separate report was introduced before the UK SDSs are available, the most appropriate starting point for content would be the NF&SIS, SECR, diversity data, and reporting on stakeholder engagement.

[...]

Materiality would need to be determined in a way that reflects what many well-prepared entities already do. Alongside calculating financial materiality, they carry out an assessment of the materiality of non-financial matters, taking into account the views of and impact on a range of external factors and stakeholders. This would sit well with the concept of 'double materiality', which is part of the EU CSRD framework, and could see an entity report on the material issues relevant to a broad stakeholder group in the sustainability report, and apply an investor materiality to identify a select group of strategically relevant sustainability matters for reporting in the strategic report.

We recommend that guidance is issued on these matters, and that directors are required to disclose how the concept of materiality has been applied. [...]

The overall principle is that the sustainability report should address the areas of interest to a range of stakeholder groups without itself having to focus on financial impact or shareholder/investor concerns. This will allow entities to present a far simpler and focused strategic report which provides a holistic and meaningful picture of the business and ultimately reflects the purpose and characteristics of good reporting set out by the FRC in its *Guidance on the Strategic Report*[11]. Applying the existing legal requirements and FRC guidance would mean that all strategically material aspects of the sustainability information would be reflected in the strategic report too, but in the context of its financial significance and importance for shareholders/investors.

[11] https://www.frc.org.uk/getattachment/343656e8-d9f5-4dc3-aa8e-97507bb4f2ee/Strategic-Report-Guidance_2022.pdf