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Dear Sirs and Mesdames

UK Endorsement of IFRS S1 & IFRS S2

We welcome the opportunity to comment on the proposed UK endorsement of IFRS S1 and IFRS S2

We respond to the specific queries within the consultation document below.

Question 1: Overall views on the standards

This topic specifically refers to IFRS S1 and IFRS S2 as a whole.

Specific matters to consider in your response:

- 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?

The UK is viewed as a leading country in reporting sustainability-related information, since mandating the Task Force on Climate-related Financial Disclosures ('TCFD') recommendations and it is likely that for the largest UK entities IFRS S1 and IFRS S2 would improve the existing reporting of sustainability-related disclosures.

The requirements in IFRS S1 and IFRS S2 are relatively easy to interpret. The foundations set out in IFRS S1 are similar to those in the Conceptual Framework of IFRS hence there is already a level of understanding of how to interpret this standard. The four elements of core content – Governance, Strategy, Risk Management and Metrics and Targets are also well understood through the TCFD and provide a framework on which to build specific additional standards as well as providing a global baseline.

Both standards are comprehensive, specific and can be easily supplemented for additional sustainability topics. However, the requirement for entities to provide information in accordance with all disclosure requirements for all significant sustainability-related risks and opportunities immediately is substantial. This expectation and the 'all-or-nothing' nature of the standards (as set out in IFRS S1 paragraph 72) means that it is likely to discourage SMEs to attempt to adopt.

If the standards were 'comply or explain' this might facilitate greater widespread support so that entities could at least work towards compliance. In the meantime, smaller entities will still need to adopt the Streamlined Energy and Carbon Reporting Requirements ('SECR') and/or the Corporate Sustainability Reporting Directive Requirements ('CSRD') and therefore IFRS S1 and IFRS S2 will do little to simplify the patchwork of reporting standards.

Similarly, for larger entities the application of these standards will be technically feasible however as above, the proposed disclosure requirements are substantial and some of these will be challenging, time consuming and expensive for companies to achieve compliance.

It will be relatively straightforward to define the entities who should comply with the standards for example, those already required to adopt the TCFD and these entities are likely to have systems in place and mechanisms for capturing the data and some history of sustainability reporting however some of the smaller entities (subject to industry) may struggle with adoption especially in the first year of adoption.

The information disclosed in accordance with IFRS S1 such as the additional governance requirements should encourage better quality information for the users including investors e.g. paragraph 27 a helps provide insight and an understanding into how the body and its committees "*are informed about sustainability-related risks and opportunities"* which will encourage companies to formalise the governance processes in this area. Paragraph 29 c focuses on information that would enable investors to understand the effects of significant sustainability-related risks and opportunities on the company's strategy and decision-making which in turn should help investors with their own decision-making.

Question 2: Identifying sustainability-related risks and opportunities

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).

Specific matters to consider in your response:

- 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?

For entities that are more advanced and mature in their sustainability-disclosure, these requirements pose less of a challenge as this should already be part of their risk management processes however, we foresee it being a challenge for assurance providers and regulators alike to determine the completeness of disclosures and whether the company has adequately disclosed information about all its significant sustainability-related risks and opportunities to which it is exposed.

This could also be more challenging when specific sustainability-related matters are not covered by a specific IFRS Sustainability Disclosure Standard as any assurance provider will need to understand from management how they have addressed all known significant risks and opportunities, in a way that allows them to understand whether there are any material omissions. To support the assessment of completeness we believe it would be helpful to include further requirements to disclose judgements and assumptions used to help determine which sustainability-related risks and opportunities are deemed 'significant' in the risk management section.

Specifically, the requirements of IFRS S1 paragraphs 54 and 55 and IFRS S2 paragraph 12 could be difficult to apply in practice and we believe require further clarification. For example, the industry-based guidance referred to in IFRS S2 paragraph 12 would be useful to those entities who are less well-advanced in their reporting journey and will assist the process of risk identification, however, it is not clear whether the references to the SASB standards referred to in IFRS S1 and the industry-based guidance referred to in IFRS S2 is mandatory or simply non-mandatory guidance. In addition, there is a risk that by including the reference to the industry- based implementation guidance and the source of information referred to in IFRS S1, 55 b iii *"the sustainability-related risks and opportunities identified by entities that operate in the same industry(s) or geographical region(s)"* that this will encourage boilerplate disclosure with a set of standard risks for some industries. This is unlikely to provide the unique and meaningful information that investors are seeking.

The inclusion of the wording "without undue cost or effort" in IFRS S2 11 is helpful, it is likely that first time adoption will necessarily involve significant cost and effort and this will need to be balanced with the requirement to comply with all aspects of the standard in IFRS S1 paragraph72.

Question 3: Application of materiality

This topic specifically refers to the requirements in IFRS S1 (paragraphs 17–19 and B13–B28). Specific matters to consider in your response:

- 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?

The materiality concept referred to in IFRS S1, 17-19 is consistent with that in the Conceptual Framework of IFRS and is reasonably well-understood however it would be helpful to include disclosure requirements around the judgements and assumptions used when assessing materiality in the context of sustainability-related matters. This will also help the primary users, assurance providers and regulators to determine whether there are any material omissions and whether the entity has fully complied with IFRS S1.

The concept of "primary users" is key to the materiality judgement and whilst a business cannot be expected to consider the needs of every user of their accounts the list given in IFRSS S1 paragraph B14 and in the definition is solely focussed on investors and finance-providers. This is consistent with the objective of IFRS S1 which is to provide information to primary users that is useful in making decisions relating to providing resources to the entity.

Given the broad remit of sustainability reporting it seems likely that there would be other primary users of financial statements and sustainability information for example, suppliers, customers, and employees. Again, this narrow definition has considered only the largest and listed entities and therefore does not consider how this may be applied to the smaller entity. Large private companies may choose to give sustainability-related information to demonstrate their sustainability credentials to potential clients and therefore what may be material in this context may be different to an investor focussed primarily on financial returns.

There is a risk businesses could try to second guess what is material to the users of the financial statements although through dialogue with investors and key stakeholders a better understanding of what is material may be achieved.

Question 4: Reporting approach

This topic specifically refers to the requirements in IFRS S1 (paragraphs 20, B38, and B11–B12) and IFRS S2 (paragraphs B32–B54).

Specific matters to consider in your response:

- 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?

It makes sense for the sustainability-related disclosures to be for the same reporting entity as the related financial statements. The obvious issue is collecting the data across components in multiple jurisdictions but a set of internationally adopted sustainability standards should ease the preparation of this information. It would be essential for governance structures to be in place which facilitate the amalgamation of the information which is likely to be a positive impact of the standards.

In relation to guidance on how to identify the value chain S1 helpfully recognises the need to include information related to other parties within the value chain and to reassess risks when there are changes in the value chain but does not explain how an entity should deal with instances where third parties who may need to provide the information relevant to company's assessment is not itself required to comply with IFRS Sustainability Disclosure Standards. In addition, the guidance should extend within S1 to explain that whilst sustainability-related financial information will normally align with the financial reporting there may be some instances where this information goes beyond the scope of financial statements and that this should be disclosed.

We believe there is sufficient guidance on how to identify the value chain and prepare and present information, however the requirements of IFRS S2 will be onerous for some businesses as it will require them to engage with stakeholders across their entire value chain. In addition, it will also require them to work together to ensure that proper systems and controls are in place to support the disclosures and comply with this requirement and that this could be particularly challenging as we have noted in our response to question 9 with regards to Scope 3 emission targets.

Question 5: Timing and location

This topic specifically refers to the requirements in IFRS S1 (paragraphs 60–63, B27, B45–48, 64–69) and IFRS S2 (paragraphs B19).

Specific matters to consider in your response:

- 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)?

We have not carried out a cost benefit analysis so it is difficult to specify what the benefits or costs will be, but the likelihood is that subject to the industry, the smaller the entity, the greater the relative cost and effort due to less sophisticated methods of data collection. Smaller entities with more involved value chains will require greater investment up front to be able to implement or strengthen reporting systems and internal controls for the collection and production of relevant data to comply with the standards first time. The cost for larger entities will also be significantly affected by their complex value and supply chains and the need to collect data from third-party sources.

It is unclear what the benefits will be of such detailed disclosure, however having this information in the same location as general purpose financial reports will result in it commanding a greater level of rigour, precision and potentially assurance from external auditors. Over the longer term it will provide a global baseline for consistent and comparable reporting, supporting capital markets however the FRC should be mindful of proportionality and scalability for example it could be considered that high level information about strategy and scenario-planning may be of more benefit than detailed lists of metrics and targets such as internal carbon prices.

We do not believe that the issue is much how the sustainability-related information can be clearly identifiable and obscured by other information as companies would easily be able to present the information in a separate report that, together with other reports such as section 172 reporting, would form the Strategic Report. The issue is whether the Annual Report is the appropriate place for this information to be reported or whether it would be better to separate this information and disclosure into a separate report and/or document(s). The length of an Annual Report is becoming excessive, and it takes a sophisticated user to be able to navigate to the information that they may need.

It may be time for a different approach in order for information to not be obscured purely by volume and repetition. There is likely to be overlap between the sustainability-related information and other areas of the Annual Report for example the governance section may overlap with certain elements of the Corporate Governance Report or the S172 reporting. Principal risks and uncertainties to be reported in the Strategic Report will overlap with the sustainability-related risks. The remuneration targets within IFRS S2, paragraph 29g will invariably overlap with information within the Directors' Remuneration Report and there will necessarily be repetition or a series of cross references which again make reading and understanding the Annual Report difficult.

Question 6: Judgements, uncertainties and errors

This topic specifically refers to the requirements in IFRS S1 (paragraphs 70–71, 74–86 and B49–B59).

Specific matters to consider in your response:

- 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?

As with other elements of IFRS S1 the requirements relating to judgements, uncertainties and errors are likely to be easy to apply because they are consistent with concepts that already exist within IFRS (IAS 1 and IAS 8). and it is easy to understand where the concepts have been adapted for the IFRS Sustainability Disclosure Standards.

However, the proposed requirements on comparative information appear to go beyond those required in IAS 1 and IAS 8 as set out in IFRS S1, B50 seems to suggest that entities are expected to provide retrospective restatements for all changes in metrics which were based upon estimated amounts. This is likely to be practically challenging since sustainability-related data is often reliant on estimation given it is subject to greater external uncertainties e.g. value chain which are outside the entities direct control. Therefore whilst it makes sense to require restatement of comparatives when estimations are updated to demonstrate trends, this might not be practicable and may prove to be a further burden on the entity.

We would agree, however, with the requirements in S1 paragraph B52 relating to metrics that have been refined or replaced as this will likely discourage entities from persistently re-defining metrics in order to present a better result.

Question 7: Financial impact and connectivity

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).

Specific matters to consider in your response:

- 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?

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 are relatively straight forward to understand. However, given the nature of various sustainability-related risks and opportunities, how they connect to financial statements can be complex and challenging and it may not be possible to use the same data and assumptions to prepare sustainability-related information that is used for financial reporting purposes.

Links between sustainability scenario-analysis and key performance indicators are easy to make but the connectivity between sustainability-related risks and opportunities will be repetitive to disclose, recognising the disclosure requirements within S1 and S2 (governance, strategy, risk management, and metrics and targets), and the information about the risks and opportunities elsewhere in the financial report.

Whilst there will inevitably be connections between the sustainability-related information and other elements of the financial statements there is a risk that financial information within the Annual Report becomes obscured by sustainability-related information. Businesses should be able to tell their story unencumbered and we question whether there is benefit in requiring entities to describe the connections especially when these are complicated as it may present an unnecessary burden and risk that the Annual Report becomes a series of cross references. It may be better for entities to explain how the processes used for sustainability-related financial reporting, including strategy and risk management processes, feed into each other and into the financial reporting processes and articulated as a principle rather than a reporting requirement.

Question 8: Industry-based requirements

This topic specifically refers to the requirements in IFRS S1 (paragraphs 54–59) and IFRS S2 (paragraphs 12 and 32).

Specific matters to consider in your response:

- 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?

We understand the benefit of industry-specific requirements to enable primary users to understand specific industry matters and be able to compare entities with similar characteristics. However, it needs to be clear whether the industry-based requirements are mandatory or just guidance as IFRS S1 paragraph 55 suggests that the use of the industry-based standards is a requirement, rather than application guidance. We believe it should be for a company to determine what key metrics and targets are important to the users of the financial statements otherwise this goes against the spirit of the standards and therefore we consider that this should be guidance-only.

These metrics and targets would add significantly to the list of disclosures and there is a danger of this becoming a tick-box exercise without the company-specific information that investors might desire. We recognise, however, that mandating topics and metrics would make it easier to monitor compliance and for regulators to report against, but this does not necessarily lead to quality of information. It would therefore be more beneficial for businesses to have some flexibility and be encouraged to identify what is material and to conduct their own assessment to identify the significant climate-related risks and opportunities they are exposed to and which metrics are most important and relevant to their business.

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

This topic specifically refers to the requirements in IFRS S2 (paragraphs 29, B19–B65). Specific matters to consider in your response:

- 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))?

We welcome the requirements on financed emissions as included in the GHG Protocol Corporate Standard on energy use as these are well understood and widely used by applicable sectors. Energy use and GHG emissions are inextricably linked, and data on energy usage would inform the adoption of energy efficiency measures, lower energy costs and help mitigate GHG emissions. However, given the complexities associated with Scope 3 emissions disclosure, particularly in relation to data availability and quality, the completeness of the data could be particularly challenging for some entities. Entities should be encouraged to describe and justify their approach to calculating Scope 3 emissions, in addition to providing insight into the quality of the data, and where and why it may be incomplete.

These metrics are likely to be more technically and practically feasible for larger businesses as they are likely producing much of this information currently and may have the resources to develop this in-house or through external consultants. For smaller entities this information will be difficult to produce and the cost of producing it may be a disincentive for them to attempt adoption of the standards.

Question 10: Costs and benefits

Specific matters to consider in your response:

- 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?

The utmost benefit of IFRS S1 and IFRS S2 is the introduction of a global standard which provides a baseline for sustainability reporting. Depending upon the breadth of adoption across the world it should aid comparability and encourage businesses to place a high level of importance on sustainability-related matters with metrics and targets against which they will be assessed. The identification of sustainability risks and opportunities will probably be of greatest benefit as this should allow primary users to understand the potential for both upside and downside.

There is a danger, however, that the lengthy specific disclosures relating to metrics and targets which incorporate industry-specific information as well could become onerous as more standards are added and detract from the overall objective of the standards which are to provide information that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.

Based upon the nature of our client base we consider it likely that in most cases external support would be required to meet the requirements of these standards. Smaller listed and large private companies are unlikely to have the in-house expertise to interpret the requirements of the standards as well as prepare the data required for these disclosures. Hence, we believe that the cost impact would be proportionately more expensive for smaller entities. Over time the costs are likely to ease as systems and processes are developed although this would depend upon the release of additional standards over time and the impact that each has on each business.

Question 11: Application of the requirements

This topic specifically refers to the requirements in IFRS S1 (paragraphs E3–E6) and IFRS S2 (paragraphs C3–C5).

Specific matters to consider in your response:

1. How might the proportionality provisions* ease reporting burdens or reduce challenges within reporting, if at all?
2. 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.
3. 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

The proportionality mechanisms do not go far enough. While it seems reasonable to provide relief for entities when disclosing comparative data in year one, as the requirements in S1 and S2 are substantial these will be challenging and costly for reporting entities to comply with in the first year of reporting including the requirement to disclose a qualitative and quantitative analysis of resilience for all significant sustainability-related risks and opportunities. We expect this to be highly complex, and therefore entities could also be relieved from disclosing this information in the first year.

As explained in response to the questions above, the requirement in IFRS S1, paragraph 72 for an entity to only describe something as complying with IFRS Sustainability Disclosure Standards if they have complied with all the requirements makes the proportionality mechanisms difficult to adopt in practice. We recommend further clarification over whether the use of an undue cost or effort mechanism constitutes an area of non-compliance. It would be hoped that if endorsed for use in the UK there would be a staggered adoption mechanism to allow sufficient time for businesses to prepare themselves for what would be significant new requirements for those not currently reporting under TCFD.

Question 12: Any further comments

Please provide any other comments on the requirements in IFRS S1 and IFRS S2 and their potential application in the UK.

Generally, this is a good framework based upon well-understood and grounded concepts which are recognisable from IFRS and TCFD. It is helpful to see how the framework of IFRS S1 feeds into the specific requirements of IFRS S2. Depending upon how many sustainability standards will be produced the disclosure requirements could become repetitive as information about all four core concepts will be required for every sustainability standard/topic.

We believe that IFRS S1 should only deal with holistic and common disclosure requirements, removing duplication and leaving topic-specific requirements to the specific disclosure topic standards. Although IFRS S1 highlights that in some cases there will be common items of information which do not need to be duplicated for every sustainability-related matter, the broader architecture and principles of the IFRS Sustainability Disclosure Standards should be considered and whether it is necessary to repeat disclosure requirements. For example, rather than repeating requirements for governance and risk management disclosures, which cut across all topics, future standards should only refer to the requirements in IFRS S1 and add topic-specific elements where appropriate and instead leave topic-specific requirements to the specific standards S2, S3, S4 etc in due course.

Most of the specific comments above raise concerns about the applicability of the standards to smaller entities. The fact that these standards are GAAP-agnostic suggest that there is a desire to allow these to be utilised by smaller companies and non-listed entities. However, there is little consideration of scalability and there are many barriers to smaller entities being able to adopt these standards: the sheer volume of metrics and targets, the all or nothing approach to adoption and the consideration of primary users being solely investors or finance providers.

If you have any queries, or would like to discuss our comments in more detail, please do not hesitate to contact myself, [redacted]

Yours faithfully

[redacted]

Donna Caira
Partner

For and on behalf of Saffery LLP

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DD:
M:
[redacted]