Appendix to the UK Endorsement of IFRS S1 & IFRS S2: Call for Evidence

The template below may be used to prepare and structure your response to the call for evidence.

Stakeholder type	☐Individual ☐Investor ☐Shareholder ☒Academic ☒Business ☐Representative Body ☐Other (please specify) Click or tap here to enter text.
Individual/Organisation name	Risilience and Cambridge Centre for Risk Studies
Organisation size (number of employees)	64 (Risilience)
Contact email address	[redacted]
Is this response confidential?	☐Yes ☒No

Views on the potential application of IFRS S1 and IFRS S2 in the UK
Please provide your views on whether the disclosures required by the IFRS Sustainability Disclosure Standards, in the context of the UK:

- will result in disclosures that are understandable, relevant, reliable and comparable for investors;
- are technically feasible to prepare;
- can be prepared on a timely basis and at the same time as general purpose financial reports; and
- are expected to generate benefits that are proportionate to the costs that are likely to be incurred.

Respondents are asked to provide opinions and evidence pertaining to specific topics in these two standards. In particular, respondents are asked to provide insight into any challenges and benefits that might arise when preparing and disclosing information in compliance with the two standards, including the scale of the challenge and any solutions you are able to propose.

In preparing your response, you may consider the topics outlined in the call for evidence. Please note, you are not required to limit your response to the suggested topics, nor are you expected to respond to all topics or questions. In your response, you are encouraged to comment on any aspect of the IFRS Sustainability Disclosure Standards. When providing your comments, please clearly state the requirement(s) that the comment relates to so that these can be effectively captured.

Overall views on the Standards

This response to the Call for Evidence is jointly submitted by Risilience on behalf of Risilience and the Cambridge Centre for Risk Studies.

Risilience supports global companies in quantifying, understanding and addressing their exposure to risk, notably climate and sustainability risks, through data, analytics and modelling approaches which apply the risk research frameworks pioneered by the Centre for Risk Studies at the University of Cambridge Judge Business School. We have an in-depth understanding of the practical application of climate- and sustainability-reporting standards and work hand-in-hand with our clients to assist them in meeting their reporting obligations and objectives, as well as providing them with the data and tools they need to decarbonise.

Cambridge Centre for Risk Studies (CCRS) is the world's leading research institute for the business and wider impacts of systemic risks, via quantified scenario analysis. Founded in 2009 and hosted at the University of Cambridge, Judge Business School, CCRS produces risk taxonomies that it populates with in-depth catastrophe scenarios. Those scenarios synthesise precedent events and wells of scientific knowledge; scenarios are stress tests for businesses and society, and include impact metrics such as "GDP@risk" to assess economic loss. CCRS publications have been widely taken up, e.g, to understand enterprise impacts of a pandemic (2015 scenario) or cyber threat.

The Intergovernmental Panel on Climate Change in its Sixth Assessment Report outlines the inextricable nexus between climate, nature and biodiversity. In this light, the work of the IFRS and the process to establish a global baseline of sustainability disclosure standards is strongly welcomed, as is the UK Government's consistent commitment to implementing the IFRS Sustainability Disclosure Standards into UK reporting requirements. In the same vein as the roll-out of the Taskforce on Climate-related Financial Disclosure (TCFD) reporting has provided businesses and investors, particularly those working multi-nationally, with the tools and information they need to understand and address climate-related risks, so too will a global sustainability baseline assist with addressing broader sustainability-related risk and opportunities.

As we have seen with TCFD reporting, companies are increasingly confident in both the objectives and process of climate-related disclosures, and investors are increasingly conversant in using climate-related disclosures to inform their investment decisions (TCFD 2022 Status Report). By basing the structure of the IFRS Sustainability Disclosure Standards on the four pillars of TCFD (Governance, Strategy, Risk and Metrics), the IFRS Standards are already talking the language of UK-based companies and investors which will greatly help to facilitate their adoption.

As the IFRS Sustainability Disclosure Standards are incorporated into UK Sustainability Disclosure Standards, the requirements set out by the IFRS must be implemented in full as a minimum, to provide consistent, comparable information for investors. In our response to this Call for Evidence, we have sought to outline where we consider the IFRS Sustainability Disclosure Standards to provide the requisite level of information to achieve its objectives, and where we consider there to be gaps. We have focused our responses on those areas where we specialise.

As an emerging set of standards, there are areas where the IFRS Sustainability Disclosure Standards are not fully comprehensive in the topics they cover. This will change in time, as more Standards are developed, however it is not yet clear from the process outlined by HMG how the implementation of the UK Sustainability Disclosure Standards will provide for the future inclusion of additional IFRS Sustainability Disclosure Standards. As we note in our response to 'Identifying sustainability-related risks and opportunities' below, the flexibility to use and report against alternative, comprehensive reporting standards whilst achieving *compliance against UK regulatory reporting requirements is essential given existing gaps and to reduce regulatory reporting burdens for UK companies.*

Identifying sustainability-related risks and opportunities

The process of identifying sustainability-related risks and opportunities is core to the objectives and purpose of the IFRS Sustainability Reporting Standards. It is this step that will provide businesses and investors with the information required to understand the risks and opportunities inherent in a business' strategy and business model. Comprehensively identifying the full range of potential risks and opportunities will be critical to assessing the scope of potential sustainability impacts. We note in our response to 'Application of materiality' below how the application of materiality as defined may not identify all relevant risks and opportunities.

As noted, there are areas where the IFRS Sustainability Disclosure Standards are not fully comprehensive in the topics they cover. Paragraphs C1-C3 within IFRS S1 provide flexibility to use alternative reporting standards, notably the Global Reporting Initiative Standards (GRI) and the European Sustainability Reporting Standards (ESRS), and subject to compliance with the IFRS Sustainability Disclosure Standards and a statement to that effect. This is particularly beneficial to multinational companies, who face a reduced reporting burden as a result whilst still adhering to the principles and objectives of the IFRS Sustainability Disclosure Standards, in particular where the IFRS Sustainability Disclosure Standard is not fully comprehensive. This flexibility should be retained with the UK Sustainability Disclosure Standards, to reduce the reporting burden on UK companies, avoid duplicative reporting processes, ensure the comprehensiveness of disclosures and provide guidance to companies in the absence of an IFRS Sustainability Disclosure Standard.

Recommendation: Retain flexibility with alternative reporting standards and provide guidance to companies in the absence of an IFRS Sustainability Disclosure Standard.

Application of materiality

The definition of materiality outlined in paragraphs 17-19 of IFRS S1 is clear and consistent with IFRS accounting principles. Paragraph B27 provides welcome guidance on the communication of information to avoid obscurement, which will be beneficial to users of a company's annual report, including investors.

It is noted that, during the development of the Standards, the IFRS explored the introduction of 'Double Materiality', as applied in the European Sustainability Reporting Directive, but decided against doing so. This will likely facilitate the implementation of the Standards amongst businesses who will not have to grasp this concept, however the Double Materiality approach does have significant benefits in surfacing both a company's dependencies on external factors such as climate and nature, but also its impacts on these factors. We consider that this is a missed opportunity to broaden the scope of reporting, such that the full extent of sustainability risks and opportunities will not be identified and addressed. Further, companies seeking to report under the Corporate Sustainability Reporting Directive (CSRD) and the ESRS, will already be applying this approach and so will need to take two approaches for different jurisdictions.

Recommendation: Include reporting double materiality as a condition of reporting against the IFRS, including an organisation's impact on the environment.

Reporting approach

The extensive guidance on value chain definitions and scope is welcomed. The additional clarity provided in S2 Paragraph B34 will be beneficial to reporting entities in removing doubt as to when reassessment of impacts is required following changes in an entity's value chain.

Timing and location

As noted above in response to 'Application of materiality', Paragraph B27 provides welcome guidance on the communication of information to avoid obscurement within the Strategic Report or other reporting location, which will be beneficial to users of a company's annual report, including investors.

Judgements, uncertainties and errors

The importance of accurate information and metrics is essential. However, it is important to note that forward-looking assessments of potential impacts used both in forecasting risk and in scenario analysis are likely based on models which by their very nature require, in part, a series of informed assumptions. The provision at S1 paragraph B51 for revising forward-looking estimates is sensible and reflects this uncertainty.

Whilst guidance in S1 paragraphs 83-86 outlines the approach to the correction of errors and inaccurate estimates, neither of these paragraphs nor the guidance in S1 B49-59 clarify how these will, in practice, differ in presentation other than contextually.

Recommendation: provide further information and guidance on distinguishing between the process for addressing errors and revising estimates.

Financial impacts and connectivity

Whilst 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 broad, the information outlined in S1 and S2 (paragraphs 15-21 and B65 in particular) is clear, concise and comprehensive.

We note below, in response to 'Application of the requirements', our concerns regarding the requirement to only provide qualitative information where the reporting entity lacks the skills, capabilities or resources to provide quantitative information. This broadly drawn provision is fundamentally at odds with the principle of comparability, given the lack of requirement to move over time towards the provision of quantitative data if applying this provision.

Recommendation: in line with our recommendation below in 'Application of the requirements', we suggest that this provision should be narrowed, such that it only applies to those small reporting entities; alternatively, that the provision should be phased out over time to require the provision of quantitative information.

Industry-based requirements

Requiring industry-based disclosures strengthens the comparability of information across sectors and provides meaningful insights to investors. Stipulating the appropriate guidance which should be adhered to, where IFRS Sustainability Disclosure Standards do not exist, maintains this comparability.

Recommendation: that the UK Sustainability Disclosure Standards incorporate industry-based disclosure requirements and endorses the relevant signposted guidance within the IFRS Sustainability Disclosure Standards.

Cross-industry metrics in relation to S2 only

Calculating greenhouse gas emissions is an established practice where extensive guidance already exists. Although it represents a data challenge for companies, it is not an insurmountable one and many companies already disclose their emissions footprint either voluntarily or to meet reporting requirements. It is critical to understanding an organisation's *impact and to establish its exposure to risks and opportunities. Reporting these emissions and the resulting impacts, risks and opportunities is a core part of climate- and sustainability-reporting.*

The metrics outlined at S2 29(b)-(g) also present a data challenge to companies. Not only in developing a true understanding of all aspects of the value chain and its impacts, but in how resulting risks may manifest. Crucially, the tools and models to understand these risks already exist. Further, this data gathering, analysis and disclosure process will provide businesses and investors with the information and tools needed to ensure their business strategy and governance is future-proofed for the decarbonisation challenge.

An area of concern which is sometimes raised is that a requirement to disclose the details of an entity's internal carbon pricing scheme (S2 29(f)) may reduce the willingness of companies to implement such a scheme, as details of the scheme may be perceived to be commercially sensitive. We strongly believe that publishing this information is beneficial not only to help guide investors and ratings agencies with a full view of a company's strategy and activities, but also for the business itself to understand how its peers are approaching their carbon pricing strategy, and to improve the quality and ambition of the implemented carbon pricing scheme. Weakening this requirement would also reduce comparability on an international level, with both the adopted ESRS at European-level and the current draft of the forthcoming US SEC Climate Disclosure Rule requiring reporting of this metric.

Recommendation: we recommend that the metrics outlined at S2 29(b)-(g) are incorporated into the UK Sustainability Disclosure Standards, including the requirement to disclose the details of an entity's internal carbon pricing scheme.

Costs and benefits

This section is best informed by the needs of investors and the responses of business seeking to comply with the standards. We wish to articulate our strongly held view that data-focused and insightful sustainability reporting is not simply beneficial to investors, but that it fundamentally helps a company to adapt and shift its practices to be more environmentally sustainable, more focused on the changing needs of consumers and more resilient in the face of physical and transitional climate and sustainability risks. Implementing comprehensive sustainability requirements at a national level is a welcome step towards levelling the playing field for those businesses who are already seeking to do the right thing.

Application of the requirements

The transitional relief elements which provide that, in the first annual reporting period, a company is permitted to disclose information on only climate-related risks and opportunities and provide information on the other requirements of S1 and S2 only as they relate to the disclosure of climate-related risks and opportunities will assist in reporting entities getting to grips with the reporting requirements of the IFRS Sustainability Disclosure Standards. These provisions should be incorporated into UK Sustainability Disclosure Standards. A similar approach has been adopted with the ESRS phase-in provisions, which lessens the immediate reporting burden for in-scope companies and enables them sufficient time to overhaul reporting structures and data gathering to be able to develop comprehensive, quantified and accurate sustainability disclosures.

However, whilst these provisions will ease the initial reporting burden, it is important that, once fully implemented, the reporting requirements of IFRS S1 and S2 are incorporated into the UK Sustainability Disclosure Standards in full. One challenge that will remain is the flexibility granted to an entity to report only qualitative information where it determines that it 'does not have the skills, capabilities or resources to provide quantitative information'. As currently outlined, this provision is too broadly worded. It is not a temporary provision obliging the reporting entity to take steps to address its knowledge gaps for future reports, rather it risks *undermining the objective of the Standards which is to ensure that investors are presented with comparable, financial data upon which decisions can be made.*

Recommendation: incorporate transitional relief elements into the UK Sustainability Disclosure Standards, as adjusted for the UK's implementation timeline.

Recommendation: we suggest that this provision should be narrowed, such that it only applies to those small reporting entities; alternatively, that the provision should be phased out over time to require the provision of quantitative information.

Further comments

We wish to reiterate our support for comparable, cross-jurisdiction approaches to sustainability reporting. This is a dynamic area, and one that will require continued interaction from HMG, as the IFRS develops further standards to address broader sustainability issues. This Call for Evidence and the commitment that has been shown from the outset by HMG on implementing the IFRS Sustainability Disclosure Standards is welcomed for the certainty and clarity it provides businesses here in the UK.