Secretariat
UK Sustainability Disclosure Technical
Advisory Committee



Lloyds Banking Group plc

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By Email to:UKSustainabilityTAC@frc.org.uk

<u>Call for evidence on the IFRS Sustainability Disclosure Standards (IFRS S1 General Requirements</u>
<u>for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related</u>
<u>Disclosures) and their prospective use in the UK</u>

Lloyds Banking Group (LBG) is pleased to comment on the call for evidence of the UK Sustainability Disclosures Technical Advisory Committee (TAC) to inform the proposed UK endorsement of IFRS S1 'General Requirements for Disclosure of Sustainability-related Financial Information' and IFRS S2 'Climate-related Disclosures' as issued by the International Sustainability Standards Board (ISSB).

LBG strongly supports the objective of the ISSB to develop a comprehensive global baseline of sustainability disclosures. LBG has been making progress against the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and enhancing climate-related financial disclosures since our 2018 Annual Report and Accounts. As the UK's largest financial services provider, we recognise the significant opportunity we have to support the UK's transition to net zero, supporting the aims of the 2015 Paris Agreement, the UK Government's net zero target, the Ten Point Plan for the Green Industrial Revolution and the recommendations of the TCFD.

LBG appreciates the ongoing dialogue with the TAC during their technical assessment of IFRS S1 and IFRS S2 to support UK endorsement, particularly with the focus on 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.

Sustainability and climate reporting capabilities are continuing to develop across all market participants, with many challenges still to overcome in the journey to provide consistent, complete, comparable, and verifiable sustainability-related financial information.

We have contributed to, and support, the response to the call for evidence from both UK Finance and the Association for Financial Markets in Europe (AFME).

There are a number of points that we would like to raise from the perspective of LBG, namely:

- The TAC should recommend that the Secretary of State for Business and Trade fully endorse the ISSB standards for use in the UK. Full endorsement and implementation should focus on international interoperability and encourage local regulatory alignment, supporting the UKs ambition to be a green finance hub and helping to maintain the UK's status as a preeminent global financial centre. While there are costs associated with implementation, these are outweighed by the benefits.
- We would like the Financial Reporting Council (FRC), Department for Business and Trade (DBT) and Financial Conduct Authority (FCA) to share a clear, public timeline for endorsement and

implementation of the ISSB standards in the UK. While the timeline set out in the March 2023 Green Finance Strategy offers an indication of intent, a detailed articulation of upcoming consultations, decisions and final application of reporting requirements will allow firms to prepare.

- We recognise the need for proportionality considerations. IFRS S1 and S2 implementation should be interpreted as a spectrum, that is, a firm can be compliant with the requirements, using reasonable and supportable information without undue cost or effort, whilst recognising that a number of areas are being developed and are still a work-in-progress. We support the relief measures set out by the ISSB, and would advocate that any relief measures adopted by the UK reflect the ISSB's pre-existing approaches or later application dates/phase-ins, rather than carveouts from the substance of the reporting requirements.
- We support the ISSB proposal for a company to disclose sustainability-related financial information as part of its general-purpose financial reporting to ensure that financial statement information and sustainability-related financial disclosures can be considered together, highlighting interrelationships between different types of risks and opportunities. Publishing sustainability-related financial disclosures at the same time as the financial statements would be beneficial to investors with a reduced risk of not disclosing material non-public information.
- Where consolidated reporting is prepared, we do not agree with the requirement to also present disclosures separately for subsidiaries, associates, joint ventures, unconsolidated subsidiaries or affiliates. Providing disclosures at a consolidated level aligns to the common business model in which sustainability risks and opportunities are usually managed, minimising the significant burden on firms, and also enabling streamlined, consistent reporting for individual firms. For climate-related disclosures, consolidated reporting should be considered to meet UK requirements for large/multinational institutions where this aligns to the management approach; with incremental disclosure only required where this supports business model variations and/or net zero commitments/pledges.
- Access to data and data quality remain key barriers to the reliability and comparability of disclosures, given the ability to gather and develop this data is dependent upon supply chains and customers. For firms in the banking sector, particularly but not exclusively those with international operations or lending exposures, a single set of comprehensive disclosure standards is critical in building the necessary data sets to facilitate better investment and financing decisions. However, real economy disclosure needs to mature, particularly in less developed sectors, in order for financial services firms' Scope 3 disclosures to improve fully. As the DBT and FCA look toward implementation of the endorsed standards, we also recommend the following:
 - ISSB-aligned disclosures should be mandatory for a wide set of non-financial firms. In line with best practice adopted for TCFD disclosure, disclosure requirements for financial and nonfinancial firms should align to improve data availability.
 - o Implementation timelines should be clearly set out in advance, and not be unduly delayed.
 - UK sustainability disclosure rules should be internally coherent: calibration will be needed to align other regulations, such as transition plan requirements and investment labelling rules, with the endorsed UK sustainability disclosure standards.

The Annex to this letter sets out our detailed views on the standards, in response to the questions posed by the TAC Secretariat. In conclusion, we are supportive of the UK endorsement and implementation of IFRS S1 and IFRS S2, preparing disclosures on a consolidated basis reflecting the business model in which sustainability risks and opportunities are managed, along with facilitating a consistent approach across the real economy to improve data availability.

We would welcome further discussion and would be happy to work with the TAC on these points.

Yours sincerely,

William Chalmers
Chief Financial Officer
Lloyds Banking Group

Annex: Responses to UK endorsement questions posed by the TAC Secretariat as relevant for LBG

Section 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?

We support the ISSB standards as they will help provide investors with decision-useful information on the risks and opportunities associated with sustainability matters. Financial services firms are both users and preparers of non-financial reporting, and therefore have a unique interest in getting the regime right. Drawing on the ISSB's own effects analysis, 1 we support the standards because they:

- promote transparent capital markets that better reflect the cost of sustainability-related risk, and support transition and adaptation efforts;
- contribute to long-term financial stability by revealing information that will enable informed decisionmaking and management of sustainability-related risks;
- avoid costs and reduce inefficiencies of manual data collection and analysis of sustainability disclosures, through greater consistency, comparability and verifiability of information; and
- help generate higher quality information from companies that are in the value chain of a reporting company, which in turn can have a positive effect on areas such as governance, strategy, access to capital, cost of capital, reputation, and employee and stakeholder engagement.

We are broadly satisfied with the interpretability of IFRS S1 and S2, and have flagged the need for greater guidance where support is needed (see Section 2). While disclosure against the standards will pose implementation challenges, including the need to ensure appropriate capacity and expertise in the business, we nevertheless see these costs as outweighed by the benefits of relevant, reliable and comparable sustainability information. Within the UK context, the expansion of reporting requirements beyond climate-related risks (under existing regulation) will support improved sustainability information availability for investors and lenders.

Whilst we have developed experience and capability with regard to delivering the recommended disclosures in accordance with the TCFD 2021 recommendations, the additional granularity as required by IFRS S2 will require further capability development. This is particularly concerning financial impacts and value chain reporting. Nevertheless, application of the standards is considered technically feasible on the basis this builds upon the existing structure and content of TCFD reporting. For smaller firms, implementation will be more challenging, and we therefore welcome the ISSB's suggested relief measures.

¹ https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/effects-analysis.pdf

Section 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 climaterelated risks and opportunities? Do you have any comments on their use?

We are building experience of identifying risks and opportunities, with industry best-practice swiftly evolving.

We welcome the implementation guidance already provided by the IFRS, including reference to existing international standards with which we are familiar with, such as those from the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), and the European Financial Reporting Advisory Group (EFRAG).

We would welcome further guidance and clarity in the following areas:

- Implementation of scenario analysis, particularly to ensure that firms are using consistent and reliable scenarios when identifying risks and opportunities. We note the work of the UK's Climate Financial Risk Forum (CFRF) in providing examples of good practice.
- Reporting on transition planning, to ensure that consistent language and approaches are used in reporting transition plans. We note the work of the Transition Plan Taskforce (TPT) in building examples of good practice and building upon ISSB and other international standards.
- Scope 3 emissions measurement, noting that while the GHG Protocol and Partnership for Carbon Accounting Financials (PCAF) has developed guidance in these areas, this work does not cover all sectors or financial sub-sectors. We support the use of standardized reporting approaches were available.
- Appropriate use of transition periods and safe harbours. UK authorities should consider providing clarity on the application of the ISSB's transition periods and the potential inclusion of safe harbours in any mandatory ISSB-aligned disclosure. Specifically, authorities should aim to apply the ISSB's first-year reliefs while considering additional measures to protect against liability. These reliefs encompass a one-year reporting exemption on comparative information, non-climate-related risks and opportunities, reporting alignment timing, Scope 3 emissions, and the use of GHG Protocol. These transitional reliefs are areas in which the ISSB, guided by industry feedback, identified that companies may require additional time to develop their reporting capabilities. UK authorities may wish to extend liability coverage to reporting within the specific sections that offer transition relief. These sections have already been recognised as particularly challenging, and providing liability coverage could be a valuable mechanism to facilitate disclosure compliance within these requirements.
- Detail on expectations for value chain reporting and the reporting boundary. We appreciate the ISSB's continued efforts to ensure interoperability with other standards by actively engaging at the international level, e.g. engagement with EFRAG as part of its plans to publish value chain guidance.
- A roadmap toward integrated reporting in the UK that takes account of a variety of elements, including ISSB-aligned reporting, future nature-related reporting, impact and UK Green Taxonomyaligned reporting. UK authorities should consult on this roadmap.

Access to data and data quality remain key barriers in presenting these disclosures, given the ability to gather and develop this data is dependent on supply chains and customers. Real economy disclosure needs to mature in order to properly identify, assess and disclose 'all' sustainability-related risks and opportunities. We encourage a transition period similar to European Corporate Sustainability Reporting Directive (CSRD) value chain requirements.

We would also welcome further guidance on definitions of materiality. We note that the ISSB has clarified its expectations on materiality by linking the definition to expectations of primary users of general-purpose financial reports. However, there was also a recognition that while financial materiality has a long history as an established concept in financial statements, there is still uncertainty about how materiality should be assessed in practice for sustainability issues.

Any guidance provided should ideally come from the ISSB, to maximise international regulatory coherence, rather than being produced by local regulators or standards-setters. We therefore recommend that the FRC and TAC focus on using their engagement with the ISSB to encourage this further guidance.

Section 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?

We welcome the ISSB's clarifications to the definition of materiality, including linkage to expectations of primary users of general-purpose financial reports, which represent an improvement on proposed definitions in the 2022 Exposure Drafts. We support the UK authorities applying materiality across all of the ISSB's disclosure requirements.

We would nevertheless welcome sharing of good-practice examples by the ISSB, to support companies in disclosing across the standards. As above, we recommend that the FRC and TAC focus on using their engagement with the ISSB to encourage this. Additionally, we recommend active engagement at the international level, e.g. working with EFRAG in its plans to publish guidance on materiality assessment, to maximise the interoperability of standards and definitions.

We note a potential discrepancy in the text of IFRS S1, between paragraphs 3 and 17: while paragraph 17 specifies that firms should use a materiality filter in reporting on risks and opportunities that could affect entities "prospects", paragraph 3 does not apply this filter. This needs to be clarified by the ISSB.

Section 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?

We recommend preparing sustainability-related disclosures for the same consolidated group or entity level at which the sustainability strategy is set and sustainability risks and opportunities are managed and governed, as this will aid in the identification of financially material information.

Where consolidated disclosures are prepared, we do not agree with the proposal to also present emissions separately for subsidiaries, associates, joint ventures, unconsolidated subsidiaries or affiliates. Providing

disclosures at a consolidated level aligns to the common business model in which sustainability risks and opportunities are usually managed, minimising the significant burden on firms, and also enabling streamlined, consistent reporting for individual firms. For climate-related disclosures, consolidated reporting should be considered to meet UK requirements for large/multinational institutions where this aligns to the management approach; with incremental disclosure only required where this supports business model variations and/or net zero commitments/pledges.

Further guidance is also needed on identifying the value chain, particularly where the reporting boundaries will be set with regard to the value chain. This should be undertaken at ISSB level. See Section 2.

Section 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 recommend that sustainability reporting should be encouraged in and at the same time as the annual report, to ensure that financial statement information and sustainability-related financial disclosures can be considered together, highlighting interrelationships and connections between different types of risks and opportunities. Publishing sustainability-related financial disclosures at the same time as the financial statements would be beneficial to investors with a reduced risk of not disclosing material non-public information. However, this should not be mandated for at least one year, to mirror the ISSB's transition relief allowing companies the ability to publish their sustainability-related financial disclosures after the related general purpose financial statements.

It's important to note that climate-related disclosures will be prepared using the most recent data available, which may result in a mismatch of current balance sheet data and most recent emissions data (which could be up to 12months in arrears). We welcome the ISSB's recognition of the data challenge and permission for entities to measure value chain emissions using information with different reporting periods own reporting period. We encourage UK authorities to retain this flexibility in the time-periods for emissions reporting, in accordance with IFRS S2 paragraph 29(a)-B19. This flexibility is crucial for firms disclosing Scope 3 emissions.

Reporting on purpose and impact on society and environment are already a key part of FRC requirements for the Strategic Report in the UK. Faithful implementation of ISSB standards should see firms enhance existing disclosures, in fair, balanced and understandable manner in line with existing Strategic report disclosures. The prominence of sustainability reporting should be determined as relevant for each organisation and sector.

The preparation and disclosure of sustainability disclosures has led to an increased need for the review of controls and reporting processes of non-financial information that has not traditionally received the same level of scrutiny as financial information. This has led to an increase in time, processes and capacity/resourcing demands for the firm to implement the controls and necessary processes to the same level as financial information to ensure consistency, accuracy and completeness of reporting. Embedding these new capabilities results in an increase in costs however relatively moderate alongside the continuous need to refresh and invigorate reporting processes.

Section 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?

We recommend that guidance on updates to estimates is enhanced to encourage firms to refresh estimates and disclosures as science and capabilities evolve. Due to climate science developing at a rapid rate, along with data and capabilities, updates to estimates should be permitted without the constraint of restating comparatives. This will encourage firms to adopt the new science, use the data as its available and refresh disclosures to remain relevant and at pace with industry progress. We support the recognition that restating a comparative period can be impracticable, the proposal to disclose that fact when data is not available to restate comparatives is considered sensible. However, removing the comparative period requirement would encourage a greater adoption of refreshed estimates and more relevant disclosures.

Section 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?

Sustainability reporting is an evolving practice and firms are iteratively building their experience and capabilities to identify and disclose the effects of sustainability-related information on their financial positions. Investors and users are expecting a fast-tracked evolution of reporting to levels that have taken decades to be achieved in financial reporting.

We support the ISSB's recognition of the need for further work on integration of sustainability-related information in reporting. The first steps towards connectivity have already taken place, with the establishment of the Integrated Reporting & Connectivity Council by the IFRS Foundation in late 2022; projects such as the Integrated Reporting Framework, which is the joint responsibility of the IASB and the ISSB; and information sharing between the two boards – for example, the IASB's new 2023 project on Climate-Related Risks in the Financial Statements using lessons from the ISSB's work on IFRS S1 and S2. The FRC and TAC should support this work, and draw on the outputs to inform UK endorsement and implementation of the ISSB standards. In the meantime, any additional guidance should be developed in conjunction with the ISSB and international partners.

Section 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 industrybased 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 generally support the ISSB leveraging the industry-based standards by SASB as the most well-established industry-based investor-focused reporting initiative. We also welcome that addressing international applicability of the SASB Standards will improve the global consideration of the measures (as traditionally a U.S. focus).

However, as the SASB standards are voluntary with firms able to disclose against industry-based requirements where they can, we recommend a similar approach in recognition of capability development and data constraints. We recommend firms should disclose what they can and what is relevant for their specific business, providing an explanation to support their position, enhancing their disclosures as capabilities develop and data improves. This would support the integrity of this industry-based information, and would be in line with the ISSB standard which establishes SASB industry-specific standards as guidance (see e.g. S1 para 55).

We support the use of standard or comparable reporting approaches wherever an appropriate methodology exists, to enhance comparability of the resulting disclosures. For example, we would welcome endorsement for PCAF-aligned financed emissions reporting where methodologies have been developed.

Section 9: Cross-industry metrics

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))?

Scope 3 emissions reporting remains a challenge across the economy, particularly for financial services firms which have complex financed emissions chains and wider value chains. Firms will expect to rely more heavily on estimates in the early years of compliance, although there will be improvements over time if data availability from other sectors increases. Robust and early reporting of Scope 1, 2 and 3 emissions by non-financial corporates will be needed to support financial services firms' disclosures.

Outstanding challenges include:

- the ability to collate high-quality emissions data for any firm and emissions in-scope;
- access to data from value chain companies, given lack of reporting particularly among smaller businesses and businesses in countries where reporting is less well advanced (e.g. emerging markets and developing economies); and
- lack of Scope 3 emissions calculation methodologies for some sectors and asset classes, including
 emissions associated with capital markets activities, invoice finance and asset-based lending, and
 facilitated emissions (for example PCAF methodologies explicitly state that they do not cover
 certain financial products); and

 that Scope 3 financed emissions calculation at the subsidiary level is complicated by the fact that data may only be available at the consolidated level of a counterparty.

We welcome the ISSB's relief measure, allowing a one-year transitional period before firms must disclose Scope 3 emissions data. Nevertheless, this may still be insufficient to resolve some of the outstanding challenges above. A few possible solutions may be to:

- Offer targeted and time-limited reliefs/phase-in periods for Scope 3 emissions reporting among asset classes where industry guidance is not yet in place, or comply or explain provisions to help firms adhere to reporting requirements in a flexible manner for a time-limited period;
- allow flexible reporting timelines for value chain GHG emissions in accordance with ISSB S2 paragraph 29(a)-B19. The ISSB standards grant entities permission to use information for reporting periods that are different from their own reporting period, if the entities in its value chains have misaligned reporting periods. The reporting flexibility outlined under this provision is crucial for firms disclosing Scope 3 emissions and we ask that it is fully adopted as part of any UK sustainability standard.

The FRC, TAC and DBT should have regard to the upcoming call for evidence on Scope 3 emissions reporting by the Department for Energy Security and Net Zero (DESNZ) in any decisions on Scope 3 reporting requirements.

Many non-emissions metrics needed for the assessment of both physical and transition climate-related risk will also be complex to collate. There is a need for further guidance to build a shared understanding of some metrics — for example, reporting on the amount or percentage of a firm's assets aligned with climate-related opportunities.

Section 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?

LBG's response to DBT's non-financial reporting call for evidence laid out some detail on costs and benefits associated with ISSB implementation. Overall, we reiterate our view that full endorsement and implementation of the ISSB standards in the UK would offer net savings relative to alternative UK approaches.

Given the breadth of discrete disclosures required to satisfy the non-financial reporting requirements, dedicated teams are required to manage, prepare and coordinate. This presents resource demands and challenges, with a direct cost impact, to ensure there is capability to deliver. In line with current requirements, annual reports are prepared utilising a mix of externally sourced and internally gathered data.

The increasing requirements of sustainability-related disclosures in accordance with recognised reporting standards, regulations and reporting guidance has led to an increased level of information being required for disclosure. This has in cases led to additional documents needing to be produced and published to satisfy stakeholder and regulatory requirements.

Some of the current reporting challenges include competing reporting requirements (e.g. I&D table requirements) as well as the volume and lack of alignment between requirements (e.g. environmental requirements).

Key drivers of cost to comply with sustainability reporting requirements are primarily centred around staff and time costs as well as external data sourcing:

- System and IT support and relevant costly software licences
- Supplier management, compliance and supplier assurance audits
- Staff/resource costs, content owners, governance
- Legal & audit review; and
- External design.

In particular, data sourcing and reliability is a key challenge with sustainability reporting requirements with associated costs to prepare and govern appropriately. Third party data providers are engaged to support climate reporting in accordance with the current TCFD recommendations.

Dedicated Reporting and Risk Management teams have been established over the past 3 years, primarily as a result of TCFD but to extending to ISSB, alongside specific data and scenario capability analysis build. These same teams and capability set will deliver ISSB compliant disclosures.

An important benefit of implementing the ISSB's standards in the UK with limited divergence from the global baseline would be delivery efficiency not only in regards to staff required to analyse and compare disclosure requirements, but also the ability to leverage consistent data, systems, internal and external assurance, senior management engagement and review across the entire organisation.

Section 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:

- How might the proportionality provisions* ease reporting burdens or reduce challenges within reporting, if at all?
- Do the reliefs provided in IFRS S1 and IFRS S2 give appropriate transitional relief as preparers develop their reporting in this area? Please explain your answer.
- Are there any further anticipated challenges in the application of IFRS S1 and IFRS S2 that are not considered or addressed in the standards and guidance?

*refer to the summary of proportionality mechanisms and temporary reliefs in the ISSB's Feedback Statement on IFRS S1 and IFRS S2

As a banking group whose customers are often small and medium-sized enterprises (SMEs), we welcome the ISSB's proportionality provisions.

If the UK seeks to offer additional reliefs for anticipated implementation challenges, these should ideally be in the form of extended transition/implementation periods, rather than substantive carve-outs, which risk limiting international interoperability of the disclosures.

Longer implementation timelines for smaller companies will have an impact on availability of sustainability information for firms higher up the value-chain — therefore any extension to transition periods should be reflected in timelines for those reliant on that data.

We note that there are some metrics where large swathes of the UK economy will already have substantial reporting experience — for example Scopes 1 and 2 emissions reporting through Streamlined Energy and Carbon Reporting (SECR). These should not benefit from transition/implementation reliefs.