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 <u>the call</u> for evidence.

Stakeholder type	□ Individual □ Investor □ Shareholder □ Academic □ Business □ Representative Body □ Other (please specify)	
	Click or tap here to enter text.	
Individual/Organisation name	M&G plc	
Organisation size (number of employees)	~7000	
Contact email address		
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.

We welcome the opportunity to respond to the call for evidence on the UK Endorsement of IFRS S1 and IFRS S2. We are supportive of the ISSB framework for sustainability-related reporting in the UK, and the UK's endorsement of these standards will strengthen the framework's position as a global baseline, allowing for much improved consistency and comparability of sustainability-related reporting across jurisdictions.

IFRS S1 and IFRS S2 are comprehensive, principles-based reporting standards similar in language to IFRS financial reporting standards that are well used in the UK including by entities such as ourselves. We are broadly supportive of the adoption of these standards but believe further guidance and/or clarity is required around the following specific topic areas to allow for better consistency between preparers:

- Materiality There has been much industry discussion around the concept of materiality and differences between the ISSB definition and that of other reporting frameworks (notably CSRD). Our interpretation of the ISSB definition is that it should include 'inside-out' impacts to the extent that these affect the decisions of investors, however this needs to be clarified to ensure consistency in practice. Further, disclosure of information which is not decision-useful for investors will lead to longer reports that are more difficult to digest. Guidance should explicitly encourage entities to not report on areas which are not material to the business.
- Value chain the value chain differs significantly between industries and is a complex area to
 define. Guidance is needed on what this looks like for financial services companies such as ours,
 including defining reasonable boundaries to ensure both feasibility and comparability.
- Judgements, estimates and errors these have sensibly been defined by the ISSB consistent with IFRS financial reporting standards definitions. However, there needs to be recognition of the differences between well-established financial reporting processes where areas of judgement are also well established, and errors/restatements are irregular and sustainability reporting processes which continue to develop reflecting changes in reporting requirements, and sustainability data management. Due to the challenges with availability of robust sustainability data, the lack of developed processes and methodology, and the infancy of the requirements, it is anticipated that there will be a number of judgements and estimations used initially which may reduce over time, and also that restatements make take place in the early years of adoption. Further guidance on proportionate, decision-useful disclosures on changes in judgements and estimates, and/or errors is needed.
- Scope of the disclosures the ISSB have identified the reporting entity to be consistent with the IFRS definition and therefore for groups, to include in the reporting entity all controlled entities under the IFRS 10 definition. It is common for groups in our industry to consolidate structured entities (such as OEICs and unit trusts) where we have rights to variable returns, and the ability to affect those returns through our power over the structured entities. This is a financial view of control used for financial reporting which doesn't transfer well to sustainability reporting where an operational view of control is more relevant. Further specific guidance on scope is needed to ensure that only proportionate, decision useful information is reported.

In addition to the specific topics above, the general nature of IFRS S1 will mean that there is likely to be disparity in reporting on general sustainability topics between entities in the initial years of adoption. The objective of consistency can only be achieved once additional topic level ISSB standards are developed and endorsed. We believe the priority of the ISSB should be on

implementation of IFRS S1 and IFRS S2 and therefore it may be some time before additional ISSB topic level standards are available. Despite this, we believe reporting under IFRS S1 and IFRS S2 is a good step in the right direction towards consistent and comparable sustainability-related disclosures.

The non-financial, sustainability-related reporting landscape in the UK is becoming complex, with a number of competing requirements being issued by government bodies, including the FRC and regulators. Whilst we are broadly supportive of the endorsement of these standards for use in the UK, their use needs to be coordinated across the wide range of legal and regulatory requirements which UK entities are subject to. This includes a coordinated approach to remove requirements which will become obsolete through the adoption of these standards, for example the existing requirements around TCFD reporting.

Further, as part of this coordination we would expect the UK to continue to encourage the ISSB to push for interoperability with other sustainability reporting frameworks such as CSRD in the EU with a view to achieving equivalence. This is imperative to ensure entities such as ours are not required to report under divergent frameworks which would be burdensome and without clear benefit to stakeholders.

Sustainability strategy, risk management policies and targets are commonly set at a group level, with differing levels of interaction between parent company and subsidiary level governance on their on-going management. Other than the provision of decision-useful information to regulators (which needs to be carefully considered as to what is decision-useful), we do not expect that subsidiary level reporting against IFRS S1 and IFRS S2 for entities under group control would provide useful information for stakeholders, with the costs of disclosure at this level outweighing the benefits. Any mandatory adoption of IFRS S1 and IFRS S2, which are designed to meet the disclosure requirements of investors, should be limited to UK parent companies, albeit to cover all operating entities within the group.

Thank you for the opportunity to engage and we look forward to further engagement as this complex and fast-changing reporting landscape develops.