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> <u>for evidence</u>.

Stakeholder type	□Individual	
	□Investor	
	□Shareholder	
	□Academic	
	□Business	
	☐ Representative Body	
	⊠Other (please specify)	
	Accounting and auditing firm	1
	Accounting and additing initi	
Individual/Organisation name	BDO LLP	
marvidua, organisation name		
Organisation size	7,500	
(number of employees)		
Contact email address		
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 support the UK Government's framework to create the UK Sustainability Disclosure Standards (UK SDS) by assessing and endorsing the global corporate reporting baseline of IFRS Sustainability Disclosure Standards (IFRS S1 & S2).

The IFRS S1 & S2 standards can be applied to any reporting entity, and do not depend on any existing accounting requirements. Designed to create a global baseline for sustainability reporting, the standards will facilitate consistent understanding and evaluation of sustainability factors by investors and other stakeholders, ensuring high level of comparability.

High level of alignment between IFRS S2 standards with TCFD framework will allow UK sustainability reporting practice to evolve further, while building on the current foundations familiar to entities currently required to provide climate-related disclosures either through FCA Listing Rules or the Companies Act Climate-related Financial Disclosure Regulations 2022. In this context, we also agree that the temporary reliefs provide sufficient flexibility in application of the standards to ensure feasibility of reporting.

Adoption of International Sustainability Standards in the UK can be an opportunity to replace different sources of requirements for preparing non-financial information with one baseline set of standards. It will allow the government to:

- simplify Non-Financial and Sustainability information requirements: The adoption of IFRS
 Sustainability Standards should be an opportunity to eliminate incremental differences in
 climate-related disclosure requirements that apply through the FCA Listing rules versus UK
 Sustainability Reporting Regulations 2022, and also provide a baseline for other
 sustainability topics.
- simplify what 'compliance' means: we note that the current requirements to provide TCFD disclosures are applied on 'comply or explain' basis by FCA Listing rules, and on a 'comply' basis by UK Sustainability Reporting Regulations 2022. Although the requirements are broadly aligned, they are not exactly the same, and at a detailed disclosure level the extent of compliance with these 2 different regulations makes the assessment of compliance unnecessarily complex for entities that fall in scope of both regulations. In this context, we support FCA's considerations of adopting IFRS S1 and S2 on a 'comply' basis if a consistent basis applies through both FCA Listing rules for premium and standard listed companies, and through DBT adoption process for other UK companies this will allow the elimination of the unnecessary complexity of assessing the compliance with the rules.

Identifying sustainability-related risks and opportunities

To clarify the question raised in the call for evidence, we do not consider there is a need to identify all sustainability-related risks and opportunities but only those that could reasonably be expected to affect the entity's prospects. Furthermore, there is no requirement to disclose all such risks if the information is not material as only material information is required. While it would have been helpful if some reference to materiality was made in the scoping paragraph 3 of IFRS S1, the requirement to provide only material information is made clear elsewhere in the standard.

Within this narrower effective scope, we do not consider the challenges of identifying such risks and disclosing them where material to be excessive. Consideration of such risks is necessary for those charged with governance in determining the resilience of the entity's business model and strategy.

The sources provided are useful references to aid the identification of relevant risks and will be helpful. While a preparer is required to consider the SASB standards, it is not mandatory to include the topics included therein. We consider this strikes an appropriate balance between

additional guidance, encouragement towards comparability and flexibility for preparers to reflect their own circumstances.

Application of materiality

We believe that the alignment of materiality definition in IFRS S1 with the definition in IFRS Accounting Standards is helpful as the same concept of what is material applies to the whole set of financial statements and sustainability reporting disclosures. Further practical guidance on materiality and interconnectivity with other sustainability reporting frameworks from ISSB would be helpful to further support the application.

Timing and location

We agree with the timing and location of the disclosures, and note that temporary relief that allow companies to report their sustainability-related disclosures later than their financial statements provides additional flexibility to make the adoption feasible in the first year of reporting.

Judgements, uncertainties and errors

While it can sometimes require care to distinguish between errors and changes in estimates, preparers do have extensive experience of this in the application of IFRS and UK Accounting standards. We note that the approach to revise comparative numbers for changes in estimates under paragraphs B50 and B51 would commonly be inconsistent with IAS 8 and is therefore novel, we do accept that the steep learning curve and accelerated developments in sustainability metrics warrants revisions under the restricted conditions of B51.

Financial impact and connectivity

Paragraphs 34 – 40 of IFRS S1 are fundamental to the overall objectives of these standards – ie the provision of information that is relevant to the economic decisions of the primary users. We believe the requirements are understandable and that the quality of reporting against these requirements will develop and improve over time through experience.

Similarly, we expect clarity on the interconnectivity of the financial and sustainability information in the annual report will improve over time. We do not consider the requirements need to be made any clearer or revised, only that the quality of disclosures will likely improve as best practice develops and guidance is issued. We note that the IASB project on climate-related risks in the financial statements has been set up to provide further clarifications and educational materials.

Application of the requirements

We agree with the proportionality and temporary relief provisions as set out in the Feedback Statement referenced in the consultation document.

These should be further supplemented if the government were to apply a phased approach to adoption, allowing extra time for those companies not yet in scope of any sustainability reporting requirements to develop the necessary skills and capabilities in their finance and reporting teams.

We note that the quality of data is one of the key concerns from reporting perspective. The state of control processes around ESG data collection, management and reporting of ESG data is generally immature with varying levels of sophistication.

The current level of readiness of preparers should not be a barrier for the adoption of the standards, especially as they incorporate some transitional reliefs. Instead, the process of implementation and monitoring of compliance should reflect the learning curve many preparers will need to overcome.

Additional comments

We believe that the IFRS Sustainability reporting standards should be adopted without any significant changes, and any minor changes should only be made if absolutely necessary for UK adoption.

While we would rather the new standards were not hard-wired into UK legislation, as it may undermine that ability to respond to future changes in the IFRS SDSs, we understand that this may be unavoidable. Such an approach may require minor changes to be made for consistency with the legal framework – this may be a necessary compromise to ensure swift adoption. However, we strongly urge that such changes be kept to an absolute minimum – any changes will undermine the attainment of a common global baseline and inevitably create additional cost and complexity for groups with global reporting requirements.