

11 October 2023

Bloomberg response to UK Sustainability Disclosure TAC Call for Evidence on UK Endorsement of IFRS S1 & IFRS S2.

Overall views of the standards

Bloomberg welcomes and supports the UK Government's announcement to create UK Sustainability Disclosure Standards (SDS), building on IFRS S1 and IFRS S2, by June 2024. Through widespread implementation of the UK SDS, sustainability- and climate-related risks and opportunities will become a natural part of companies' risk management and strategic planning processes. As this occurs, companies' and investors' understanding of the implications associated with climate change and wider sustainability issues will grow, information will become more useful for decision making, and risks and opportunities will be more accurately priced, allowing for the more efficient allocation of capital and contributing to a more orderly transition to a sustainable economy.

On IFRS S1, Bloomberg would make the following observations and recommendations:

- Bloomberg acknowledges that UK authorities may take a step-by-step approach in implementing the UK SDS before having mandatory obligations in place. With that, it would be helpful to have clear guidance on how the authorities plan to implement disclosure rules over time, including expected timeline towards mandatory requirements, as well as in relation to company size (turnover/balance sheet) as the regime evolves.
- We also recommend providing further clarification on the definition of materiality as it pertains to financial materiality vs. impact materiality. Specifically, it is important to have a clear distinction between the two concepts in terms of requested disclosure items and topics.
- The IFRS S1 framework includes relief in the use of GHG Protocol categories and scope 3 GHG emissions reporting. Bloomberg recommends that disclosure standards are as precise as possible to ensure comparability across reporting entities, at least within sectors.
- IFRS S1 refers to value chain-related disclosure requirements and disclosures for joint ventures, associates and investments. Bloomberg recommends a more specific definition for required disclosures on "indirect operational activities" to ensure data consistency and comparability across reporting entities.

Disclosure of a company's emissions, targets, and climate-related risks and opportunities provides crucial information to investors and stakeholders, and Bloomberg welcomes that such disclosures are increasingly part of disclosure requirements in the UK through implementation of the TCFD framework. As the UK considers implementing IFRS S2, Bloomberg would make the following observations and recommendations:

- Bloomberg recommends that companies report 'gross emissions' (those excluding offsets), in addition to net emissions. To increase the transparency around a firm's carbon footprint, Bloomberg recommends that disclosure requirements ask for a breakdown of GHG emissions by the type of greenhouse gas. An omission of this breakdown could result in misleading disclosures, as two companies with the same emissions could report different aggregate amounts due to differences in assumptions about the conversion of their GHGs in terms of CO2 equivalent.
- For disclosure requirements that are open-ended, it will aid comparability of responses if there are pre-determined categorical answers to choose from. For example, for IFRS S2 disclosure requirement 6a (ii), "how and how often the body(s) or individual(s) is informed about climate-related risks and opportunities," categorical answers could be:
 - At least once per month
 - At least once per 3 months
 - At least once per 6 months
 - At least once per year

- Other
 - For quantitative reporting requirements, it aids comparability if information about the unit of reporting is provided. For example, for IFRS S2 disclosure requirement 29e, “capital deployment—the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities,” disclosures would benefit from guidance on whether this should be expressed as a monetary value, a percentage of revenues, or categorically (e.g. “high,” “medium” or low).
 - In terms of scenario analysis, we recommend setting out certain parameters that companies should follow, and to include explanations where the company decides to diverge from those parameters. Specifically, the disclosure requirements could specify that:
 - At least one “Paris Aligned” scenario (<2°C global warming) and one “Hot House World” scenario (>2°C global warming) should be considered;
 - The following time horizons should be considered: short term (<5 years), medium term (5 to 15 years), and long term (>15 years);
 - The metric(s) used to measure the results of the scenario analysis should be clearly indicated;
 - The scope of the analysis (e.g. which physical assets, business units or supply chain partners are in scope) should be indicated;
 - When results are presented in a qualitative way, they provide a sense of whether the measured risk is low/ medium/high, along with an interpretation of those classifications.

In order to ensure further alignment with ISSB, we would like to highlight the following recommendations:

- Bloomberg recommends consolidated level reporting for the entire report. The UK SDS regime should mandate companies to disclose sustainability-related information of the same scope of entity as its financial statement to avoid the misleading information due to a different scope of business activities covered in the reporting.
- Comparability of information with preceding periods should be ensured. As the ISSB states, information is useful to users when it is comparable with previous periods and other entities’ data. The UK SDS should require entities to disclose quantitative information for both current and preceding period to ensure the comparability of data.
- As advised by the ISSB, when there is a material error made in the prior period, the UK SDS should require an entity to clearly state the restated value in the report to allow the comparability of data over multiple periods.

Finally, it is important to note that, according to Bloomberg data, approximately 80% of UK companies will fall into scope of the EU’s Corporate Sustainability Reporting Directive (CSRD) and thus will be required to report against the European Sustainability Reporting Standards (ESRS). Therefore, we strongly encourage UK authorities to work closely with the European Commission, the European Financial Reporting Advisory Group (EFRAG), and other EU authorities to promote convergence between the UK and EU regimes for climate and sustainability disclosures, given the close proximity of the two markets.

Application of materiality

As mentioned above, Bloomberg recommends further clarification on the definition of materiality as it pertains to financial materiality vs. impact materiality. Specifically, it is important to have a clear distinction between the two concepts in terms of requested disclosure items and topics.

Timing and location

If companies were to include this information in the Strategic Report, Bloomberg would recommend that companies also include a link to the Strategic Report in their annual report to better ensure accessibility and transparency on the information being disclosed. In addition, it is important that disclosures are

delivered in a consistent location across companies and contain machine-readable information that is common and comparable, in addition to binary or metrics-based answers. This will improve the quantity and value of quantitative information which is key in assessing companies' considerations of sustainability-related and climate-related risks.