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Sent: [redacted]
To: UK Sustainability TAC
Cc: [redacted]
Subject: UK Endorsement of IFRS S1 and IFRS S2

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To whom it may concern

I am pleased to send you our comments on the UK Endorsement of IFRS S1 and IFRS S2 Call for Evidence.

Accenture is a global professional services company with 733,000 people serving clients in more than 120 countries. We help businesses become more sustainable, which includes helping them target, manage, measure and report sustainability performance. Our comments are as follows:

1. **Overall Views on Standards**

To what extent will the requirements in the standards improve upon existing reporting in the context of the UK?

In general, we felt that IFRS S2 did not significantly improve climate risk reporting by large companies in the UK, given the regulatory and legislative requirements for TCFD disclosures since 2022. However, we welcomed the increased focus on adaptation. This is a key area for businesses, and they should disclose their plans in this important area. Additionally, there are more specific requirements around disclosures on resource allocation, which should improve transparency on performance and likely future progress.

To what extent do you think that application of the standards in the UK is technically feasible?

Scenario analyses in risk management places a significant technical burden on companies and are often omitted in voluntary disclosures. Currently, the required skillsets tend to be held by external experts rather than held in-house. Therefore, we foresee that the requirement to disclose whether or not scenario analysis has been undertaken will result in the analysis being omitted by many entities.

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?

The sharper focus on metrics in IFRS S2 will support investors by improving comparability. This focus is also likely to increase pressure on auditors for evidence of the underlying datasets and computations.
Alternatively, comparability, especially in climate scenario selection, could funnel companies towards narrowly scoped analysis and miss opportunities to explore more niche or non-mainstream sensitivity to stress-test the company's business model with a level of depth specific to only their business.

2. **Identifying sustainability – related risks and opportunities**

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.

A significant proportion of large entities in the UK are familiar with identifying the climate related risks and opportunities in IFRS S2, as they are in scope of mandatory TCFD disclosures. The transition to IFRS S1 should be relatively straightforward for these entities, as they can use existing processes and procedures. However, smaller entities may now be brought into scope to identify both sustainability and climate related risks and opportunities. Smaller entities and their advisors may currently lack the skillsets needed in the short term. We are concerned that there may be insufficient capacity to deliver (both report preparation and auditing). This could lead to a delay in the time it takes for companies to report.

Any future decisions about the scope of mandatory reporting against UK-endorsed versions of IFRS S1 and S2 should consider the reporting burden placed on smaller firms and their auditors and a phased approach may be appropriate to allow for a period of preparation.

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 climate-related risks and opportunities? Do you have any comments on their use?

Large entities and their advisers may already be reporting under standards such as SASB and CDSB standards and these are appropriate to help identify sustainability risks and opportunities. However, smaller entities may not currently be familiar with these standards.

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.

It is very important for entities to conduct regular materiality assessments on their specific sustainability risks and opportunities.

IFRS SI requirements for identifying materiality are narrower than for the Corporate Sustainability Directive (CSRD), which requires a double materiality assessment. There will be UK entities required to report under both IFRS S1 and CSRD, and there a risk of extra effort from separate materiality assessments or confusion over different requirements. However, the entity will determine what is material so there should be reciprocity in disclosing sustainability related risks and opportunities under the two regimes.

3. Reporting approach

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.

It may be a challenge in the short-term to obtaining the additional information required in IFRS S1 and IFRS S2 from overseas subsidiaries, particularly in relation to their value chains. This will add to time and cost to financial reporting.

4. Timing and Location

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?

Generally, we see no trend in the financial estimations of impact in TCFD-aligned disclosures being reflected in general purpose financial reports. There is uncertainty involved in financial impact calculations due to the uncertainty within climate projections, datasets and computation models. In addition, the longer-term nature of climate modelling compared to financial statements poses a challenge to companies. There is limited guidance on how this is done and limited market examples of doing so.

Currently we see companies being encouraged by auditors to make reactive rather than proactive disclosures. However, the emergence of transition plans, financial planning for long term investment in decarbonisation strategies, and measures for climate mitigation and adaptation mean that proactive disclosures will become easier, though this is still in its infancy. This also highlights the business need for short-term scenarios to be able to model short-term volatility. This is emerging, although in a qualitative form rather than the quantitative requirement asked for in S2.

8. Cross industry Metrics (IFRS S2 only)

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.

The guidance is aligned to the GHG Protocol, which is standard within the market, so this alignment is reasonable. Additionally, there is a growing trend for science-based target setting. Therefore, a maturing understanding of Scope 1-3 calculations reduces the burden on entities to collect and report their emissions. In B57, the guidance on impracticability differs from the SBTi’s more rigid approach in recent years, which focuses more on the material impact of emission sources, as opposed to how difficult something is to measure. To be aligned with best practice, materiality should be considered as an additional indicator with impracticability.

To assess and disclose GHG emissions associated with financial activities, PCAF alignment for financed emissions be considered for inclusion in B58-B60.

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))?

These are high-level enough to not be overly prescriptive for companies to track and report. However, it should be noted that the internal carbon pricing mechanism is not always a useful tool to change behaviour in some industries. In practice, we see internal carbon prices being more useful in 'heavier' industries, where carbon-intensive capital decisions are made, compared to 'lighter' industries such as professional services, where an additional fee for carbon for activities such as travel do not influence the underlying behaviour due to business culture. An internal carbon price would need to be highly inflated to have significant influence in these industries.

9. **Costs and benefits**

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?

There is likely to be limited additional benefit to disclosing in line with S2 in the UK, given most large companies are already doing so due to TCFD-aligned regulation. Therefore, the greatest additional benefit will be disclosures aligned to IFRS S1.

Through IFRS S1, entities in the UK will be required to disclose publicly their financial risks and opportunities related to sustainability. In time, this will become a natural part of entities' risk management and strategic planning processes. In addition, there is evidence that investors and other stakeholders increasingly require consistent and accurate sustainability related financial information to price and compare an entity's risks and opportunities. Most mandatory sustainability reporting is at country level. However, IFRS S1 and IFRS S2 are global reporting frameworks, allowing comparison and streamlining across borders and regions.

What are the anticipated drivers of costs when preparing and disclosing information required by IFRS S1 and IFRS S2?

There is likely a high reporting burden to collect information, monitor metrics and increase auditor scrutiny. We are concerned how this will affect smaller companies. Any future decisions about the scope of mandatory reporting against UK-endorsed versions of IFRS S1 and S2 should consider the reporting burden placed on smaller firms and a phased approach may be appropriate to allow for a period of preparation.

How far do you agree or disagree that the benefits of disclosure will outweigh the costs of reporting over time?

Despite high implementation costs in the short-term, consistency in requirements in the medium term should deliver a strong return. Over time, companies will implement effective governance processes and systems to handle the required data for monitoring and reporting and therefore the administrative burden will reduce.

A phased approach to implementing IFRS S1 and S2 in full should be considered to reduce the burden in the short term.

10. **Application of requirements**

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.

Scenario analysis and particularly financial impact calculations are a big immediate ask for a company who had not done any prior climate risk work. It requires buy-in and education for multiple stakeholders across a business to ensure the exercise is of strategic value. Therefore, it is recommended that there is a transitional approach to requirements on scenario analysis.

11. **Any further comments**

Please provide any other comments on the requirements in IFRS S1 and IFRS S2 and their potential application in the UK.

We believe the requirement 'whether the entity used, among its scenarios, a climate-related scenario aligned with the **latest international agreement on climate change;'** is ambiguous as this could be interpreted in many ways, such as Paris Agreement (1.5C or well-below 2C?) or nationally determined contributions or national pledges.

I trust that our comments provide value. If you require any further information, please do not hesitate to contact me.

Kind regards

Alison

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