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)
	Click or tap here to enter text.
Individual/Organisation name	Mimi Ajibade
Organisation size (number of employees)	Click or tap here to enter text.
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.

This response delves into the strategic governance perspective, considering both the direct and indirect impacts of ISSB standards IFRS S1 and S2 on the well-established UK corporate governance framework. It sheds light on the evolving dynamics of corporate responsibilities and reporting practices within relevant UK companies.

Problematic is the allocation of responsibility for sustainability reporting, as suggested by the standards and reiterated by Emmanuel Faber*, places a central role on the finance function, with the Chief Financial Officer (CFO) or Finance Director taking the lead. This approach, which underscores the integration of qualitative and narrative ISSB Standards into general-purpose financial statements, aims to achieve coherence and comparability between financial and sustainability data. (*In his keynote speech at the IFRS Sustainability Symposium in 2023.)

However, this CFO-centered approach may confront specific challenges in jurisdictions where corporate governance responsibilities traditionally fall under the jurisdiction of the Company Secretary. This scenario could necessitate an enhancement of the skill set within finance functions to effectively manage non-financial, qualitative governance-based reporting.

Furthermore, this shift in responsibility could encourage boards to reevaluate the composition and expertise of audit committees, which have often been dominated by finance professionals. The implications of this transition raise questions about the ideal makeup of audit committees, particularly concerning the incorporation of a more governance-focused perspective. Additionally, it may be perceived as favoring finance professionals over governance experts, potentially leading to the underrepresentation of crucial governance aspects in sustainability reporting. This aspect holds particular relevance in the UK, where company secretaries have historically overseen corporate governance.

In addressing these challenges and promoting effective collaboration between finance, governance, and sustainability functions, several strategies may be considered:

Role Definitions and Clarity

It is essential to provide distinct and clear role definitions within the evolving sustainability reporting framework. These definitions should delineate the precise responsibilities of the finance, governance, and sustainability functions in the reporting process. These roles should align with the policies and procedures required for adherence to ISSB Standards. Clarity in role definitions ensures that each function comprehends its duties and collaborates harmoniously.

Collaborative Cross-Functionality

The development of ISSB-compliant reports should not operate as an isolated venture within a solitary function. Instead, fostering collaboration across finance, governance, and sustainability functions is essential. Effective collaboration is pivotal in ensuring that the reporting process is holistic, encompassing financial, qualitative, and governance-related aspects. This strategy acknowledges that sustainability reporting extends beyond financial figures and encompasses broader corporate obligations.

Resource Allocation and Skill Enhancement

Acknowledging the likelihood of heightened time and financial expenditures linked to establishing the required resources and capabilities for ISSB-compliant reporting, organisations should strategically allocate resources. This should include investments in training and enhancing the skills of finance and governance professionals to competently handle non-financial reporting. The objective is to ensure the comprehensiveness of the reporting process and to guarantee the availability of pertinent expertise.

Diverse Proficiencies within Audit Committees

Governing bodies should contemplate diversifying the competencies within audit committees. Rather than being overwhelmingly composed of finance professionals, audit committees can gain from the inclusion of individuals with expertise in governance, sustainability, and risk management. This approach encourages a more well-rounded perspective when appraising sustainability disclosures, recognising the multifaceted nature of reporting.

Acknowledgment of Governance Expertise

While the CFO or Finance Director may lead the reporting process, it is pivotal to acknowledge the significance of governance expertise in this framework. Governance professionals play a critical role in ensuring that sustainability disclosures adhere to best practices and legal requisites. Their input is indispensable for the credibility of the reporting process.

Views on Actual Application of IFRS S1 and IFRS S2

The ultimate outcome of these strategies, whether they result in disclosures that are comprehensible, pertinent, reliable, and comparable for investors, will depend on the capacity of companies to assemble the right teams. If not, the disclosures may reflect the underlying disarray caused by the absence of sufficient expertise in non-financial reporting.

The technical feasibility of preparing these disclosures, which appears attainable but may require a financial investment in recruiting and upskilling. Timeliness in preparing these reports alongside general-purpose financial reports hinges on the collaborative efficiency of the involved functions. Furthermore, assessing whether the benefits outweigh the incurred costs is a judgment best made following the initial reporting cycle.

Finally, I hope the above provides alternative valuable insights into the evolving dynamics of corporate governance and reporting in the UK, considering the changing landscape of sustainability reporting standards. It underscores the need for adaptability, collaboration, and the recognition of governance expertise in this evolving context.

Thank you.