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techUK's submission to the Financial Reporting Council's call for evidence to inform the proposed endorsement of the IFRS Sustainability Disclosure Standards in the UK

About techUK

techUK is a membership organisation launched in 2013 to champion the technology sector and prepare and empower the UK for what comes next, delivering a better future for people, society, the economy, and the planet.

It is the UK's leading technology membership organisation, with more than 1000 members spread across the UK. We are a network that enables our members to learn from each other and grow in a way which contributes to the country both socially and economically.

By working collaboratively with government and others, we provide expert guidance and insight for our members and stakeholders about how to prepare for the future, anticipate change and realise the positive potential of technology in a fast-moving world.

Opening remarks

techUK would like to thank the Sustainability Disclosure Technical Advisory Committee for the opportunity to inform the proposed endorsement of the IFRS Sustainability Disclosure Standards in the UK. Reforms are necessary to adapt to the new global regime for non-financial/sustainability reporting, and that consolidation and centralisation is the right approach to take to reduce burden on companies, as well as if non-financial reporting be extended to include SMEs.

techUK urges the Committee to implement the standards in a way that fully harmonises with global standards to reduce the compliance burden that could result from unnecessary divergence and fragmentation from reporting internationally aligned regimes. Implementing the IFRS S 1 and S 2 standards in the UK as closely as possible to the original text would support this, reduce compliance burden for companies and see the UK as a leader in reporting.

techUK is are keen to provide high-level responses to this call for evidence, given that our industry is presented with unique supply risks and sustainability challenges which must be considered if the UK is to remain a tech leader.

Finally, we would like to state our commitment as a sector to addressing the carbon, human rights, and resource impact of our activities.



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The Value of Non-Financial Information to the Sector

The provision of non-financial information is highly important for our sector. As stated by a member during our evidence gathering exercises "what you can't measure, you can't manage". Reporting provides regulators, customers, and investors transparent information and can give assurances that a firm is well run and investable.

Existing requirements have driven a greater awareness of the social issues that pervade the sector, predominantly in the upstream supply chain. The incentive to gather and disclose sustainability-related information is driving improvements in supply chain transparency, and as a result companies can leverage their business relationships to improve working conditions for firms who are not included in scope. This not only improves supply chain performance on ESG for UK companies, but also for companies operating out of other jurisdictions, a sign of UK leadership on sustainability issues.

Existing requirements also support companies to address workplace culture and the wellbeing and opportunities of their staff in the UK. As a sector, we endorse the principles which underpin the provision of non-financial information. Historically, holding ourselves and our competitors to account on a level playing field has proved material to improving the prospects of workers, UK PLC, and the environment.

Value to Users of Non-Financial Information

Standardised non-financial information disclosed in Annual Reports would provide investors with increased ability to evaluate potential investment decisions by providing a standard basis of comparison across companies. A standardised approach to non-financial reporting would also drive greater outcome for companies looking to examine their supply chain relationships. For example, carbon disclosures are useful for companies who are making efforts to quantify their scope 3 GHG emissions. Consistency in carbon reporting would make the carbon footprint of a business more transparent, however, it should be recognised that all provided information contains a degree of uncertainty, which should be reflected in any future provisions around liability.

Challenges and Costs of implementing ISSB in the UK

The main challenge is the sheer volume of new requirements, largely coming out of the European Union, and other key markets such as the USA. Large multi-national enterprises (MNEs) may be able to handle most of the additional compliance burden under fragmented reporting regimes, but additional resource costs may act as a barrier to new firms who are either growing into compliance scope or attempting to bridge the gap from UK to other jurisdictions, or vice versa. Interoperability with other jurisdictions will assist SMEs with moving into foreign markets.

The other key challenge is the cascading of requirements. The standards are too complex to follow, and would require additional staff or expensive consultancy to implement for firms.



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While the ISSB didn't envision all firms being required to adopt it, there's a high chance that tech firms will be required in order to win business, investment or as part of another businesses supply chain. Until they can be understood and adopted by non-specialists, the impacts will be reduced.

Staff availability and training are a key cost for companies, and this resource demand often means sustainability teams are focused on reporting as opposed to action. As reporting requirements grow in complexity and the scope of businesses expands, there is likely to be a skills gap in compliance professionals with the appropriate expertise to deliver effective reports, which in turn crates additional consultancy costs. This will of course drive up the cost of compliance and make it harder for smaller businesses to comply once they find themselves in scope.

In short interoperability with the EU CSRD requirements and with international standards such as IFRS S1 and S2, would reduce duplicative reporting, costs, and fragmentation, all of which add costs to business if unaddressed.

However, this needs to be balanced as we recognise that one size does not fit all – companies should be focusing on the most financially material issues to their business and not required to report where it is not relevant.

Linking the implementation ISSB to the NFR Regime

Broadly speaking, techUK supports increased flexibility around the timing and format of providing annual sustainability/non-financial reporting requirements. As the UK looks to update its non-financial reporting requirements, we urge changes should eliminate existing duplication and provide options for consolidation. For example, there are already overlaps between S172, SECR and UK MCD disclosure requirements. Ahead of a formal consultation on the adoption of ISSB into UK Law, we note that any deviation from ISSB standards should be done with careful consideration of the business impacts and interoperability between different reporting regimes.

For some firms, yearly, consolidated non-financial information including detailed disclosures currently found in the several other reports listed would be of greater value to the procurement and ESG teams of firms, both in examining their suppliers and in preparing their own reports. For others, additional flexibility to report different elements of non-financial reporting requirements at different times of the year may help them to align to reporting requirements in other jurisdictions or internal data collection processes.

The committee should consider the additional burdens that industry-specific disclosures would place on tech firms. Many firms and multinational companies participate in multiple industries. In those circumstances, industry-based disclosure requirements may not necessarily result in disclosures that are substantially more relevant or comparable than relying solely on cross industry metrics. For companies in multiple industries, applying multiple, overlapping, industry-based standards may create more confusion and less comparability. Disclosures should be based on financial materiality, consistent with the



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approach of IFRS S1. SMEs would be particularly burdened with multiple industry requirements, which would drive up costs and strain resourcing, without adding additional insight to investors.

Scope of IFRS S1 and S2

Many of techUK's largest firms work with clients and small businesses which are out of scope of existing NFR requirements. From this experience, techUK recommends that implementation of the standards be carefully considered for the impact on small businesses, especially with the current economic pressures.

techUK also recommends the standards are of whether disclosure is appropriate for certain types of business. For example publicly accountable entities have more experience with financial reporting, determining financial materiality, and are better resourced, making them well positioned to lead in the transition. However, tech SMEs run relatively small ships and their business impact is largely influenced by supplier relationships which they have little control over.

For many companies, reporting at a parent level and consolidation options can be both reducing costs and administrative burden and provide more meaningful disclosures. The reporting level best for financial reporting may not always be the most appropriate level at which to report sustainability-related information, such as carbon emissions.

Companies should be able to consolidate sustainability-related information at the level which provides maximum comparability and useful information and avoids the double counting of emissions or other data from the parent company and country-level subsidiaries.

The UK should provide flexibility for companies to consolidate non-financial information in light of their materiality determinations and evaluate the reporting level which gives the most decision-relevant sustainability information to the primary users of their financial reporting. Such flexibility could be achieved through:

- Subsidiary exemption: whereby a UK subsidiary is exempt from disclosures so long as their parent company is reporting on an equivalent basis. These exist in the EU and are being proposed in Singapore in relation to their ISSB reporting proposals.
- Consolidation: Permitting one UK report for all subsidiaries of the same non-UK parent company. This would reduce reporting burden and provide meaningful sustainability related information.

Additionally techUK supports the disclosure of Scope 3 emissions, as required by IFRS S2, in many cases suitable data regarding Scope 3 emissions is unlikely to be available and disclosure therefore often relies on estimates and assumptions that involve inherent uncertainty. Scope 3 data are often coarse, based on industry averages, reliant on companies sharing sensitive data, or in some cases not available. Particularly for SME's quality data from indirect suppliers remains difficult to obtain and companies are often not in a position to independently verify the information they are supplied regarding their Scope 3 emissions.



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An exemption from liability for both the third parties that provide emissions data and the companies that rely on and report that data is critical to encourage reporting without over-extending liability, since by definition these emissions are generated from sources that are neither owned nor controlled by the reporting company.

Final Comments

techUK would like to thank the TAC once again for taking the time to consider the views of the techUK membership. We hope that the comments here provide an overview of the benefits of non-financial reporting and the improvements that can be made as the commission considers endorsement of IFRS S1 and S2.