

The Financial Reporting Council
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To whom it may concern,

The Association of British Insurers is the voice of the UK's world-leading insurance and long-term savings industry. A productive and inclusive sector, our industry supports towns and cities across Britain in building back a balanced and innovative economy, employing over 350,000 individuals in high-skilled, lifelong careers, two-thirds of whom are outside of London.

Our members manage investments of £1.6 trillion, pay over £17.2 billion in taxes to the Government and support communities and businesses across the UK by enabling trade, risk-taking, investment and innovation. We are also a global success story, the largest in Europe and the fourth largest in the world.

The ABI represents over 200 member companies, including most household names and specialist providers, giving peace of mind to customers across the UK.

We welcome the opportunity to provide our input into the *UK endorsement of IFRS S1 and S2: Call for Evidence*. In this letter, we provide holistic feedback on the UK's uptake of IFRS' Sustainable Disclosure Standards reflecting the views of insurers. We also provide detailed responses regarding the aims of the consultation below.

UK endorsement of IFRS S1 and IFRS S2: Call for evidence

Overall views on the standards.

1. Fundamentally, we are supportive of the endorsement of the IFRS Sustainability Standards for use in the UK. We recognise the importance of a consistent and comparable global standard, capable of responding to the demands of investors and other stakeholders for fit for purpose sustainability information in company reports.
2. However, along with several benefits which we highlight in our response, the implementation of a global baseline for sustainability related disclosures does create additional risk. One of these risks is the potential lack of a standardized methodology across insurance companies. This will make the interpretation of guidance difficult and may result in inconsistent metrics and methodologies. Flawed methodologies could also increase the risk of "greenwashing". Another material risk is that market expectations for disclosure exceed regulatory requirements, creating an expectation gap. We urge the Technical Advisory Committee (TAC) to consider these in the endorsement, however we feel they are manageable if properly addressed.
3. It will be important for implementation timelines to be communicated early so that firms are able to plan and assess the required resources and budget needed to properly implement the requirements of the standards. Additionally, a pragmatic and balanced approach should be taken to what is expected by way of narratives and data.
4. Successful implementation by firms following the endorsement of the standards for use in the UK will depend on several elements such as Board and senior leadership support, employee engagement and

education across departments on the new disclosure standards. Additionally, as seen from the ISSB’s recent consultation on its agenda priorities, focusing on supporting the implementation of IFRS S1 and S2 should have a high priority.

5. While this call for evidence does not cover enforcement of the standards, we suggest that consideration of the thresholds for companies falling within scope of the standards be proportionate and balanced. The value and broader merits of bringing into scope UK subsidiaries of overseas entities that report under similar/equivalent standards need to be considered from a cost/benefit perspective.

Interoperability with Other Sustainability Standards

6. Interoperability with standards such as the European Sustainability Reporting Standards (ESRS) and U.S. Securities and Exchange Commission (SEC) climate related disclosures is critical to enable comparability across jurisdictions and ensure that information provided to investors and other stakeholders is meaningful and decision useful. Understanding the interactions between the standards will be important and should be supported with clearly segmented and mapped reporting requirements to other key jurisdictions.

Reporting Approach

7. There may be challenges in preparing sustainability-related disclosures at the same entity level used in the preparation of financial statements. This could be the case especially where there are multiple entities within a group which will be required to incorporate climate-related disclosures within their financial statements. In many instances, the governance and key targets reported in the financial statements is undertaken at group level and not broken down to entity level. Additionally, firms may face further challenges in preparing and presenting information about sustainability-related risks and opportunities in the value chain. This is due to anticipated issues that will be encountered when trying to look through the value chain to obtain the required data.
8. Firms have identified duplication in the requirements of IFRS S2 and The Companies Act 2006 414CB(2A). The reporting requirements appear to overlap given that they are both based on the TCFD regulations. It would be beneficial for the TAC to clarify whether either of these requirements will supersede the other or if they will need to be considered together. A comparison of the requirements which seem to overlap, creating duplication, is illustrated in the below table:

IFRS S2	The Companies Act 2006 s.414CB
Requires an entity to disclose:	Required disclosures are:
governance processes, controls and procedures the entity uses to monitor, manage and oversee climate-related risks and opportunities	(a) a description of the company’s governance arrangements in relation to assessing and managing climate-related risks and opportunities
the entity’s strategy for managing climate-related risks and opportunities	(b) a description of how the company identifies, assesses, and manages climate-related risks and opportunities;
the processes the entity uses to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity’s overall risk management process	(c) a description of how processes for identifying, assessing, and managing climate-related risks are integrated into the company’s overall risk management process

the entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.

(g) a description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets; and
(h) a description of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based.

Timing and Location

9. It is anticipated that the reporting requirements introduced by IFRS S1 and IFRS S2 will significantly increase the burden on firms given that statutory reporting is an area in which firms feel a significant reporting burden. This will have an impact on resourcing requirements and costs and this should be considered.

Judgements, uncertainties, and errors

10. The disclosure of sustainability-related risks and opportunities will be a relatively new area of reporting for many firms. Unlike accounting reporting standards which are well established and widely available, sustainability reporting standards are not yet at this point. Coupled with the availability (or lack thereof) and variability of data and the pace of technological advancements in sustainability reporting systems and processes, it is expected that these disclosures will involve a large amount of judgement from both management and assurance providers. It is expected, given the above, that restatements of the disclosures will be more common as these requirements are embedded and as data becomes more available and processes and systems develop.
11. There is a concern that the burden arising from the anticipated restatements or revised comparative information as a result of changes in estimates will be high, with little benefit to firms. Given it may take time for firms to establish reliable datasets and embed processes with regards to sustainability and climate to the same standard as accounting data, restatements will be expected within the earlier years of applying the standards. Firms will then need to provide more disclosure on these restatements which will increase the reporting burden. As datasets mature and processes and systems are established, this will become less of an issue and burden to firms.

Financial impact and connectivity

12. We recognise the work the IASB and ISSB have jointly performed on the area of integrated reporting and connectivity to date and that there is still much work to do on this topic. There is acknowledgement from both the ISSB and IASB that there is a need for simplification of the reporting landscape that will benefit both preparers and users of annual accounts. Given the ISSB disclosures are expected to be prepared for the same reporting entity and reporting period as the related financial statements and provided at the same time as the financial statements and as part of the general-purpose financial reports, there will be a large amount of additional work required. Teams which prepare financial statements will be expected to be increasingly involved with the preparation of sustainability-related disclosures and would benefit from standards that work together.
13. It is helpful that the ISSB standards have been developed from the IFRS Accounting Standards. This consistency specifically with regards to definitions, may help firms to more easily understand and apply

the ISSB standards where knowledge and experience cross over from applying IFRS Accounting standards.

14. However, it is important to note that sustainability reporting is a new/developing process for many companies within the UK. Companies will require sufficient time to develop a mature and robust sustainability reporting capability and this should be taken into consideration. We believe that reporting against these standards will initially be a work in progress as companies develop the required capabilities. Ensuring that sustainability-related disclosures reach the desired level of preparation will be challenging for these companies, however, we believe that disclosure capabilities will improve over time to achieve the desired quality as expected by the standard setters and other stakeholders.
15. We note that reporting on sustainability matters can also be a complex area for consideration by reporting professionals and will require the build-up of new expertise. It will be important for firms to bring together subject matter experts on sustainability reporting matters with experts in external reporting with the latter set of professionals having existing experience in translating complex topics into meaningful disclosure. Ensuring these experts work together coherently may take some time.

Industry based requirements

16. It is important that the standards stipulate industry-based requirements so that expectations of different companies within different industries are made clear. It is important for there to be minimal duplication in preparing the annual reports as well as any regulatory reports required. We acknowledge IFRS S1 does allow for cross-referencing of information subject to certain conditions which may benefit firms in potentially reducing duplication.

Costs and benefits

17. As there has been a recent increase in global climate and sustainability reporting regulation, we urge the TAC to consider that differences in these reporting standards will result in an increase in costs for entities which operate across different jurisdictions. The cost of implementing these standards should not outweigh the benefits. It is expected that firms will have an additional cost outlay from the implementation of these standards. This will include costs for maintaining new processes and systems (including system changes), increase in assurance services to be provided over sustainability-related information disclosed and costs associated with training/upskilling staff or hiring additional staff with the necessary expertise.
18. Additionally, as the level of and scope of assurance over sustainability related information increases, so will the costs. Over recent years, many companies have moved from 'limited' to 'reasonable' levels of assurance to ensure this data is as robust as financial data (in particular the climate-related financial metrics) and is genuinely decision-useful. This comes at additional cost but assists with any perceived 'greenwashing' risks.
19. At this stage, firms may find it hard to quantify the potential benefits arising from the implementation of these standards. Firms are however able to identify the potential benefits of implementing the disclosure standards. This includes the fact that the IFRS Sustainability Disclosure standards provides a global baseline for measurement of sustainability-related risks and opportunities. This measurement is crucial for organisations that are committed to sustainable development. These standards provide a framework for tracking progress, identifying areas for improvement and demonstrating accountability and transparency. Users of reporting information (such as investors) are increasingly calling for a more consistent and standardized approach to sustainability measurement. These standards achieve this.

20. We are aware of a number of jurisdictions (including Canada, Japan, Nigeria) have already expressed their commitment to endorsing and implementing IFRS S1 and S2 and further international support has been expressed through the International Organization of Securities Commissions' (IOSCO) endorsement of the standards. To aid with the alignment of international frameworks and reduce the costs for UK firms, the UK should use its influence to limit differences in adoption across jurisdictions to avoid the case of double reporting for preparers and ensure that these become truly globally comparable standards.

Application of the requirements

21. Although we support the implementation of S1 and S2, we believe proportionality is key. The UK should not go further with additional requirements beyond those within IFRS S1 and S2. Time requirements for the implementation of these standards should be reasonable and take into account the points raised within our letter. Firms are supportive of the temporary reliefs which the standards provide, specifically the exemption to provide comparative data in year 1.
22. Further to this, we believe that the endorsement and mandating of the standards should be considered separately. As we mention above, we would suggest that consideration of the thresholds for companies falling within scope of the standards be sensible and balanced. The value and broader merits of bringing into scope UK subsidiaries of overseas entities that report under similar/equivalent standards need to be considered in respect of cost/benefit.

Challenges around Data and Controls and Assurance

23. It is important to consider that preparing sustainability and climate-related analysis for these disclosures requires data that would not have been captured in the normal course of business. It will take time for companies to develop the processes necessary to capture and analyse this data. Additionally, producing high-quality data presents several challenges for companies which may include challenges around modelling using historical data, data validation, data standardisation and taxonomies, data provided by clients and customers, and data timeliness. Another consideration around data is the availability of the required data (specifically emissions data) and data dependencies which include the costs associated with obtaining third party data.
24. Further to this, disclosure must be supported by the appropriate system architecture and infrastructure to support the collection of data, its measurement, processing and reporting. This generally will require new data attributes, new databases, and new system functionality. It is important to note that there is no existing system or general ledger for these metrics. Systems and processes have to be designed and built from the ground up, at significant financial cost and personnel commitment
25. At the same time, control standards related to those systems, processes and data must be implemented. These control standards would need to be in line with those mandated for financial disclosures and a consideration should be given to setting the control standard at a level commensurate with the evolution and level of maturity of the disclosures. We would encourage DBT or its delegate to provide guidance regarding its expectations for control standards over these disclosures. This is very important as the effort to build systems and appropriate control environments will require significant time and investment over many years and ensure a level playing field for UK insurers domestically and internationally.

Yours sincerely,

The ABI.