THE
INVESTMENT
ASSOCIATION

IA response UK endorsement of IFRS S1 and IFRS S2: A Call for Evidence

About the Investment Association

The Investment Association champions UK investment management, supporting British savers, investors and businesses. Our 250 members manage £8.8 trillion of assets and the investment management industry supports 126,400 jobs across the UK.

Our mission is to make investment better. Better for clients, so they achieve their financial goals. Better for companies, so they get the capital they need to grow. And better for the economy, so everyone prospers.

Our purpose is to ensure investment managers are in the best possible position to:

- Build people's resilience to financial adversity
- Help people achieve their financial aspirations
- Enable people to maintain a decent standard of living as they grow older
- Contribute to economic growth through the efficient allocation of capital.

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks and shares ISAs.

The UK is the second largest investment management centre in the world, after the US and manages 37% of all assets managed in Europe.

Executive summary

The IA and its members welcome the opportunity to provide evidence to the Sustainability Disclosure Standards Technical Advisory Committee (TAC) on the value and feasibility of applying the ISSB's standards in the UK. The publication of the ISSB's standards in the summer marked a significant milestone in the arrival of globally harmonised sustainability disclosure standards that will result in disclosures that are understandable, relevant, reliable and comparable for investors. In today's global and interconnected world, where companies operate across borders, sustainability challenges and investments are not confined to national boundaries. Capital is international and it is important that company reporting facilitates consistent and comparable disclosures to better inform investment decision making.

Sustainable and Responsible Investment (SRI) continues to be a dominant theme for the investment management industry, regulators, and customers. As of the end of 2022, RI funds (the IA classification for sustainable and responsible funds) constituted 6.6% of total funds under management, with stronger net inflows than traditional funds in recent years. Regulators internationally are focusing on the sustainability and responsible investment space with an emphasis on higher disclosure standards. In the UK, the FCA has

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been progressing its Sustainable Disclosure Requirements (SDR) regime and labelling framework. We need decision-useful sustainability disclosures from companies if investors are to meet these expectations from savers and regulators.

For these standards to deliver a truly global baseline for reporting, it is critical that that the UK government does not seek to depart from the ISSB Standards unless there are very limited UK specific issues that require consideration. We would not be in favour of significant divergence from IFRS S1 and S2 because this risks regulatory fragmentation and will make it difficult for investors to effectively assess sustainability-related risks and opportunities globally.

We think it is important for investors to receive the information that they need to make informed investment and stewardship decisions and that ISSB standards are endorsed on a consistent basis globally. This will also aid reporting companies, who are often approached for additional data and information from a range of stakeholders, typically outside of the reporting cycle. A consistent standard for reporting will help to alleviate this burden as well as focus preparers on the provision of information that helps investors to accurately assess the impact of sustainability issues on the company's ability to create and preserve enterprise value.

Members recognise that there are several reviews currently underway from the competitiveness of the UK listing environment and non-financial reporting more generally which are considering 'smarter' and more efficient regulation, including the consolidation and removal of duplicative corporate reporting. To avoid fragmentation and the need to revisit sustainability-related disclosures so soon after their implementation, it is imperative for the Government to consider these issues now and how ISSB complements the existing non-financial disclosure requirements. For investors, it is important that government departments and regulators remain united in their efforts to deliver reporting which is focused on information which is decision-useful to investors in the company and predominately based on financial materiality.

The IA and its members are keen to share evidence in support of this effort and we highlight a few principal considerations for the TAC on the ISSB standards from our response below:

Feasible and Proportionate Standards: The IA and its members believe that the ISSB standards should be feasible and proportionate to implement for companies of all sizes and sectors. The standards have been built on the same structure as TCFD with its four pillars of governance, strategy, risk management and metrics and targets. UK companies are required to provide sustainability-related disclosures in this format and we have heard companies find this helpful. The IA and its members welcome the proportionality provisions and transitional relief in the ISSB standards, which ensure that the standards are adaptable to companies of different sizes and means and facilitate the development of their reporting capabilities.

Materiality and Connectivity: We welcome the focus in the standards on financially material sustainability disclosures that are relevant to a company's operating model and strategy. This will enable investors to understand how sustainability risks and opportunities affect a company's long-term value creation and risk management. It also tells investors how a company integrates sustainability into its business strategy and governance. Furthermore, the standards specify this information should be connected to the financial statements to reflect the impact of sustainability risks and opportunities on the company's financial position, performance and cash flows.

SASB and Industry-based Disclosures: The IA and its members value the industry-based requirements in the ISSB standards, primarily derived from the SASB standards. This serves to enhance the relevance and consistency of information within industries. This will enable investors to compare the sustainability performance of companies within the same industry more effectively, and to identify best practices and areas for improvement. We encourage the TAC to maintain sector-specific considerations in the UK's SDS.

1. Overall views on the standards:

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

How easy or difficult is it to interpret the requirements described in IFRS S1 and IFRS S2?

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

We believe that the application of the standards in the UK will be technically feasible, and it will be imperative that the government does not seek to implement the standards in a different way. We therefore support the government's intention to only depart from the global baseline for very UK specific matters (for example ratifying the Green House Gas Protocol)[1]. This will ensure that the standards form a truly global baseline which provide decision-useful, timely and financially material information to investors. This will also bring much needed consistency and comparability to corporate reporting, which recognises that capital is international, and that investment managers will often make investment decisions on a global basis. It will also be important to consider the outcomes of the government's review of the non-financial reporting regime, which will consider replacing several reporting requirements originally brought in as a result of the Non-financial Reporting Directive (NFRD). We note that it the government's intention to streamline and make corporate reporting "smarter" by removing any potential areas for duplication with the ISSB standards. Our overall judgment is that the benefits of substituting ISSB standards for the existing non-financial reporting regime are sufficiently compelling that these reviews should be pursued in parallel as far as possible.

IA members note that the requirements within IFRS S1 and S2 lend themselves to being interpreted relatively easily because they build upon existing sustainability-related disclosure requirements which UK companies have had to report on for several years. Specifically, the ISSB standards are structured consistently with TCFD with the four pillars of governance, strategy, risk management and metrics and targets. UK companies already have to provide sustainability-related disclosures in this format, and our conversations with UK companies suggest that they find this framework helpful in considering sustainability issues beyond climate. Disclosures on material sustainability issues are currently already contained within the Strategic Report and focus on issues which are pertinent to a company's operating model and business strategy. To this end, reporting under IFRS S1 and S2 will serve as a useful extension to existing reporting by providing more comprehensive disclosure on sustainability-related risks and opportunities and the impact that this is likely to have on the long-term value and performance of the company.

Various preparers and investors will also need to meet reporting requirements under sustainability reporting standards in other jurisdictions, for example in Europe. While we welcome that the ISSB and European standard setters such as EFRAG have considered the interoperability between the standards, there are some key divergences- for example in the treatment of materiality of sustainability-related risks and opportunities, where the European standards require companies to undertake a double materiality assessment to determine which of the sustainability reporting standards they must comply with. From an investor perspective, an increasing number of UK savers and pension funds have non-financial objectives and requirements which may extend beyond financial materiality, which may be captured as part of frameworks which diverge from the ISSB's baseline. As the UK implements its own Sustainable Disclosure Requirements, it will need to ensure alignment in materiality assessments between sustainability requirements for corporates and financial services firms, which we explore further in question 3.

[1] https://www.gov.uk/guidance/uk-sustainability-disclosure-standards

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?

Fundamentally, investors, companies and wider society stand to benefit from a greater understanding of the relationships between various sustainability risks and opportunities and long-term value creation as disclosures against the ISSB's standards are prepared, evaluated and engaged with. Investors and companies further stand to benefit from the information disclosed in accordance with IFRS S1 and IFRS S2 in several specific ways.

For investors, this information provides insights into the current and anticipated effects of sustainability-related risks and opportunities on the financial position, performance, and cash flows of the companies they invest in. This enables them to assess the long-term value creation potential of the companies, as well as their alignment with investors' own sustainability objectives and principles. As well as providing insights in the form of company-specific disclosures, reporting against the standards illuminates the company's perspective on significant macro considerations. These include economic trends, regulatory changes, and societal shifts. This comprehensive understanding forms the foundation for constructive engagement between companies and investors, guiding their approach to these considerations. Moreover, sustainability-related information disclosed under these standards will enable investors to assess the impact of sustainability-related risks and opportunities across issuers and how this is likely to affect the long-term value and performance of investee companies. This in turn contributes to investment and stewardship decisions.

On the other hand, for companies, a global baseline for sustainability reporting, as provided by IFRS S1 and S2, helps streamline their reporting processes. Currently, companies face multiple and diverse requests from various stakeholders, including asset managers and data service providers. These requests can be costly and inefficient to manage. However, the clarity provided by IFRS S1 and S2 reduces this burden, making the process more efficient.

Furthermore, these standards enable companies to establish relevant governance structures, internal processes, and controls for managing data. This not only improves their data management practices but also enhances their overall business operations. Thus, the information disclosed in accordance with IFRS S1 and IFRS S2 serves as a valuable tool for both investors and companies in their decision-making and business management processes.

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?

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?

We welcome that the ISSB framework will act as a baseline for the identification and disclosure of sustainability-related risks and opportunities. It is the role of the company board to design and deliver their strategy to enhance the value of the company and to define matters they consider material to that strategy, including sustainability matters.

Sustainability issues are now routinely factored into investment and stewardship decisions because they help to provide insight into the drivers of long-term value. IA members note that they will often require granular, qualitative data from companies as inputs to their internal models for valuation or risk management. To assess the performance of a company, investors will also require forward looking information to understand how a company's business model may be impacted over time, alongside comparative historical information to provide a time series analysis. Often, this data will also be used to demonstrate how investors seek to deliver long-term value for their clients. Indeed, as of the end of 2022,

RI funds (the IA classification for sustainable and responsible funds) constituted 6.6% of total funds under management, a rising share reflecting increased client demand for funds that incorporate sustainability considerations into investment strategies.

However, members note that there are currently challenges with the provision of industry-specific quantitative metrics in companies' sustainability disclosures given the variability in the quality of narrative information in existing corporate reporting. Companies and their investors are reliant on the symbiosis between reliable data and the material judgements made based on that data, including the impact on the company's finances, to inform decisions on, or views of, corporate strategy and capital allocation.

As set out within paragraph 55(a) in IFRS S1, members note that this issue can be remedied by specific reference to industry-specific metrics in the standards. A number of IA members value the sector/ industry specificity of the SASB standards given the focus on material sustainability factors that are most likely to impact a company's financial performance in a specific sector or industry and have already built proprietary systems around them.

Risks and opportunities can manifest in the short, medium and long-term and investors will want to understand how quickly a company is able to adapt to these changes and the impact on its future resilience. At a minimum investors will expect to see disclosures based on the ISSB standards from companies which: (i) are consistent over time and that the rationale for any changes is adequately disclosed; (ii) focus on the most material sustainability issues which are likely to have the most significant impact on liquidity, solvency, and operational matters; (iii) are reflective of timescales of risks and opportunities; (iv) provide detail on the impacts, changes to risk appetite, and mitigation of risk; and (v) contextualise risks and opportunities by reference to geography or operations .

3. Application of materiality:

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?

How do investors identify sustainability-related information that is material in a company's annual report?

The decision-usefulness of information can depend on an investee company's business model, including the sector it operates in. A financial materiality assessment, undertaken by the board, can serve as a useful tool in helping investors to identify the specific sustainability-related factors that are most likely to impact the financial performance of the company, as well as understand the rationale for those risks that have not been prioritised. This will help demonstrate: (i) whether omissions or lack of disclosure are driven by the materiality assessment; or (ii) these disclosures have not been provided due to a lack of available data. This is important to investors as it also provides insight and understanding into the development, performance, position and prospects of investee companies and can enable shareholders to assess how directors have tried to create and manage long-term value for their investors. We agree that a foundational standard must focus on enterprise value, to support investors as the primary users of financial reporting and, for preparers and users, to fully leverage the wider ecosystem of reporting practices, concepts and definitions necessary to take the standards' nascent benefits and realise them in the real-world. This common language is shared by preparers and investors and underpins constructive stewardship, the engagement between the two in pursuit of their shared interest: enhancing enterprise value.

The Strategic Report is an opportunity for companies to discuss their performance, governance and prospects in a way that is 'fair, balanced and understandable'. Members have generally found reporting as part of the Strategic Report as more decision-useful with boards generally focusing on those issues which they believe are important to communicate to shareholders. This comes in contrast to other reporting requirements as part of the directors' report which may not immediately relevant to a company's specific circumstances but are required because of societal expectations or governmental policy. We would urge the TAC to encourage the UK government to continue prioritising reporting on those issues which the

board considers financially material and could significantly impact their operating model and strategy. This may require further consideration as to whether the disclosures currently within the directors' report are still fit for purpose in providing decision-useful information for investors.

Members have previously noted the importance of sector or industry specific information, particularly for peer comparison. SASB's materiality map, for example, can help boards to identify the sustainability-related factors that are most likely to impact a company's financial performance in a specific industry. We support the prominent role that these standards play in the IFRS S1 and S2, which the TAC should encourage the UK government to prioritise, provided that they are effectively internationalised – which in our view will require a shift from their current rules-based form to a much more principles-based approach. We note that such a shift will more effectively work with the grain of UK regulation and reporting, as well as delivering the reporting that investors need and value.

While we agree that the standards should focus initially on financial materiality, an increasing number of UK savers and pension funds have non-financial objectives and requirements which may extend beyond financial materiality. 'Double materiality' aims to capture these externalities by accounting for the impact of the entity on the external environment and not only the risks (and opportunities) posed to the entity by the external environment. As the UK implements its own sustainable disclosure requirements, it will need to ensure alignment in materiality assessments between sustainability requirements for corporates and the information required for financial services firms to fulfil their own reporting obligations.

Experiences from other jurisdictions suggest that divergent requirements have created data gaps for investment management firms who are unable to access data from investee companies, as well as challenges in capturing accurate, transparent and comparable reporting across firms. The Government and regulators must assess any potential data gaps that could arise with the introduction of the FCA's Sustainability Disclosure Regulations (SDR), which will impose disclosure requirements on financial firms, in the light of the data available to investors from investee companies through the SDR.

4. 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?

Is there sufficient guidance on how to identify the value chain and on how to prepare and present information about sustainability-related risks and opportunities in the value chain?

Investment decisions take into consideration the whole entity as that is what is invested in. Furthermore, in today's global and interconnected world, where companies operate across borders, sustainability challenges and investments are not confined to national boundaries. Indeed, it is the largest multinationals that tend to be among the biggest emitters and the most exposed to sustainability risks and opportunities in general. These risks and opportunities may originate within particular locations or operations, but they are ultimately borne by the whole entity and affect the investment case of that entity. Investors therefore require reporting describing how sustainability issues are managed across the entity as a whole.

Paragraph B11 in IFRS S1 sets out the circumstances in which an entity should assess the scope of all affected sustainability-related risks within its value chain. We think this is useful as investors will want to understand how a significant change in circumstances within the value chain is likely to impact their assessment of long-term value creation. It is not clear, however, how often an entity should be required to reassess the scope of these risks and opportunities, and this is something on which further guidance should be provided.

We welcome the publication by the ISSB of further guidance on identifying the value chain and preparing related information. The ISSB's transitional reliefs reflect the primary challenge preparers will face at the outset. The relief that companies can address climate only in the first-year reporting against the standards is supported by a relief on reporting scope 3 emissions, in the first year, recognising preparers reliance on

other entities for their scope 3 reporting. Appropriate consideration should be given to reporting dependencies of this kind should the UK elect to layer value-chain disclosures for other sustainability topics on top of the ISSB's core standards.

5. 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?

If UK companies were to include this information in the Strategic Report, how will they be able to ensure that this information is presented in a manner such that it is clearly identifiable and is not obscured by other information?

We believe that integrating these disclosures into the Strategic Report would be a natural progression. This is because the Strategic Report already discloses information that is material to a company's operating model and strategy. The standards set by the ISSB aim to bring forth sustainability disclosures that are relevant to these strategies, including the management of risks and opportunities for long-term value creation.

By incorporating these disclosures into the Strategic Report, companies can streamline the information requests they receive from various stakeholders, often outside of the typical reporting cycle. This approach also addresses the issue of fragmented sustainability reporting by different teams within organisations, which can lead to disparate reporting and preparers failing to link reporting back to the strategic narrative the company is trying to deliver.

Currently, standalone reports (such as those on TCFD or transition plans) can result in siloed information. By housing material sustainability disclosures within the annual report, companies are encouraged to consider sustainability issues in a comprehensive and integrated manner, presenting a coherent narrative to investors. Cross-referencing between different reports and sustainability-related financial information in the financial statements, as suggested under Paragraph 63 of IFRS S1, can enhance this coherence. This approach promotes connectivity between different sections of the annual report and reduces duplication in reporting.

However, there are challenges associated with this approach. Sustainability risks like climate change are long-term and can materialise in broad and unpredictable ways, making them difficult to manage compared to more immediate risks.

Additionally, new data collection processes and reporting systems need to be developed for sustainability reporting. These systems may initially lack the confidence of their financial counterparts, which have evolved over time. Therefore, sustainability reporting needs to converge with financial reporting both procedurally and qualitatively to create 'connected information'. Public disclosure of sustainability information will facilitate sharing of sustainability risk management strategies. This will help mitigate challenges associated with their unpredictability and longer timescales. Over time, these processes will strengthen, leading to more effective management of sustainability risks.

6. Judgements, uncertainties, and errors:

How clear are the requirements in IFRS S1 paragraphs 74–86 regarding judgements, uncertainties, and errors? How easy or difficult is it to distinguish between a change of estimate and an error?

What further considerations are there in respect of disclosing revised comparative information when there are changes in estimates?

Our experiences from financial reporting show that clarity from preparers on judgements, uncertainties, and errors is essential to ensure consistent reporting and facilitate valid investor comparisons. Disclosures

about significant accounting judgements and sources of estimation or uncertainty provide important information about the financial accounts. These disclosures allow readers to assess how the accounting policies applied have been affected by the judgements taken by management. They facilitate a better understanding of assumptions made about the future and the extent to which changes to those assumptions may affect a company's future position. Members do not believe that there should be any difference in financial or non-financial reporting when it comes to the treatment of judgements, uncertainties and errors. Financial information is not perfectly infallible, but it is a reasonable aspiration that sustainability disclosures will approach a similar degree of confidence over time.

Given that sustainability-related financial reporting is still evolving, the challenge for investors and preparers primarily relates to the need for companies to set up internal systems and processes to capture input sustainability data. Members note that they would rather have access to this data, even if it is subject to uncertainties and estimates, but equally recognise that it has created an overreliance on third-party data providers to help plug data gaps. IAASB's present work on global assurance standards for sustainability information, supported by IOSCO, will be of great utility in this regard. This work will enable the market for assurance to develop, to apply the rigours of the assurance process to sustainability information and, by way of this feedback loop, accelerate the improvement of the input sustainability data. In turn, greater confidence in investors' own judgements on the sustainability of companies' business models would underpin more accurate company valuations and cost of capital.

Paragraph 70 of IFRS S1 notes that an entity should disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period. Investors will generally use comparative statements to compare current financial statements with prior period statements to assess how decisions taken by the board are likely to influence the company's long-term performance. Comparative information can enable users of accounts to gauge trends in a company's performance over time and would be particularly helpful given the longer time horizons and forward-looking information which IFRS S1 and S2 require. We agree that investors would also find it helpful for preparers to disclose a revised comparative amount for sustainability-related information that reflects any new information in relation to the estimated amount disclosed in the preceding period, provided that the differences in the revised comparative amount are disclosed and the reasons for revising are also clearly explained.

7. Financial impact and connectivity:

How easy or difficult is it to interpret the requirements for preparing and disclosing information about the current and anticipated effects of sustainability-related information on the financial position, financial performance, and cash flows?

What challenges exist in preparing disclosures that connect sustainability-related information to the financial statements?

Integration of connected disclosures is of considerable utility to investors, and we strongly supported this element of IFRS S1 and S2, which requires the entity *to disclose information about the financial impact of its sustainability-related risks and opportunities on its financial position, financial performance and cash flows* as well as relations to other aspects of its business, such as its strategy, governance, risk management and performance. Embedding connected disclosures should enable users to assess the connections between sustainability disclosures and the general-purpose financial statements. The successful incorporation of sustainability factors into the assessment of enterprise value is contingent on sustainability reporting that is supported by the general-purpose financial reporting. Members further note that if these risks can be reflected in the financials, this mitigates against the risk of green-washing and improves the quality and reliability of audited information reported to the market. This in turn enables investors to make more informed investment decisions.

Our members have expressed concern with the level of consistency between the Strategic Report and information presented in the financial statements. Embedding connected disclosures more closely within

the annual report will enable users to understand how sustainability-related matters translate into an entity's financial performance and impact its financial position for the relevant reporting period, as well as its future financial performance. This is particularly important from a climate perspective, where investors continue to call for greater connectivity between narrative reporting and climate-related assumptions and estimates in financial statements through the adoption of 'Paris aligned' assumptions and estimates in their accounts. For example, some commentators note that despite the rise in narrative reporting (for example on net-zero pledges or emissions reductions targets) the impact of these targets are not reflected in the financial accounts. Where companies fail to recognise liabilities or impair the value of their assets to reflect their net-zero commitments, investors can face challenges in managing portfolio risk.

The disclosures of some of the companies most exposed to systemic sustainability risks are of particular concern. Investors and other users have found oil and gas companies are failing to account for climate change in their financial statements, such as using unrealistic demand and price scenarios, underestimating stranded assets and decommissioning costs, and overstating reserves and resources. It is because of these companies' sustainability and financial disclosures that investors can demand that company auditors challenge the assumptions and disclosures of oil and gas companies, and to issue qualified or adverse opinions if they find material misstatements or omissions.

We are therefore pleased to see that standard setters are conducting further work in this area. The IASB has initiated a project to consider climate-related risks in the financial statements, which will evaluate the impact of the IASB's educational materials. We also welcome that the IFRS Foundation has reaffirmed the importance of the educational materials, which have been updated to help companies better identify the situations in which they need to consider the effects of climate-related matters in their financial statements. The UK Endorsement Board has also published research on some of the aforementioned issues regarding connectivity between sustainability and financial reporting in UK listed companies, which will feed into the IASB's work. We would urge the TAC to consider these concerns as it makes its recommendations to the government.

8. Industry-based requirements:

What are your estimates of the benefits and/or costs in preparing industry-based disclosures?

Should the standards stipulate which guidance and industry-based topics and metrics a company should disclose, and why? What other sources of guidance are currently used by UK companies?

The IA believes in the benefits of industry-based disclosures, which enhance the relevance and consistency of information within industries. The industry-based requirements set out specific disclosure topics for each industry that are relevant to users of general-purpose financial reports. The ISSB built their standards on the industry-based requirements of the SASB standards, which offers a framework for assessing the materiality of sustainability-related risks and opportunities for each industry. This helps investors to compare material sustainability information more accurately across peer companies within the same industry.

Members are supportive of the SASB standards and the present efforts by the IFRS to remove the US-specific aspects of the standards to make them internationally applicable. With the removal of those US specifications, it will be important that the SASB standards are reoriented around consistent, globally applicable principles so they continue to yield comparable disclosures to investors.

Current guidance used by UK companies, including the Climate Disclosure Project (CDP) and Transition Pathway Initiative (TPI), should also be considered by preparers to the extent that they do not conflict with IFRS S1 and S2. SASB's materiality map can further assist in identifying pertinent sustainability-related factors. We encourage the TAC to maintain these sector-specific considerations in the UK's SDS.

9. Cross-industry metrics (IFRS S2 only):

Are the requirements for greenhouse gas reporting, including on financed emissions, technically and practically feasible?

What challenges exist in preparing and disclosing information about the cross-industry metrics other than greenhouse gas emissions?

We welcome that the ISSB has addressed financed and facilitated emissions in their standards and guidance for a select number of industry groups, including asset managers. These requirements are related to the climate related risk and opportunities associated with transition risk and are a useful way of quantifying greenhouse gas emissions and demonstrating the carbon footprint of a firm's investments. This can help to improve financial institutions understanding of their exposure to climate-related risks and in turn how they assess the risks to portfolio companies.

Several of our members will use the Partnership for Carbon Accounting Financials (PCAF) to calculate financed emissions, which is aligned with the Green House Gas Protocol's (GHG) requirements for Corporate Value Chain (Scope 3) Accounting and Reporting Standard for Category 15: Investments.

PCAF's methodologies for calculating financed emissions are dependent on the asset class of the investment, the level of client-specific emissions and financial data available to financial institutions. With regards to asset classes, PCAF's methodology does not yet capture a broad range of asset classes (such as real estate or green bonds). Until further guidance is issued on these, it will limit the financed emissions disclosures that investment firms are able to make. Members also note that the lack of accurately reported data on GHG emissions at the entity level has been problematic, especially if it is unlikely to be publicly available or where there are inconsistencies in systems and processes. Due to these concerns, some members have had to rely on sector-level data to estimate their portfolio's emissions which can limit the ability to make entity specific decisions on financed emissions. Members also recognise limitations in data availability particularly for Scope 3 emissions and we welcome that PCAF has phased this reporting by sector, with Scope 3 emissions for all sectors required from 2026.

Paragraph 29 of IFRS S2 sets out additional cross-industry metrics in addition to GHG's. 29(g) requires a description of whether and how climate-related considerations are factored into executive remuneration. Since 2020, the IA has set out the evolving investor expectations on the integration of ESG-linked metrics into executive remuneration structures. Namely, where a company's long-term strategy includes the management of material Environmental, Social and Governance risks and/or opportunities, remuneration committees should consider incorporating these issues into variable remuneration structures. In response to these emerging investor expectations, there has been a marked increase in the number of companies that have incorporated an ESG metric into their variable remuneration. This is particularly the case where companies have made net-zero commitments or within those sectors where ESG risks are material.

As noted in the IA's response FCA Discussion Paper 23/1, we would continue to emphasise the need for companies to only incorporate ESG metrics where they are material, linked to the business strategy, quantifiable and can be simply measured and disclosed. Without consideration of the above there is a risk of greenwashing, larger payouts against these performance metrics, and companies potentially achieving these targets at the expense of long-term performance. In applying the ISSB standards, the TAC should ensure that it is not mandating disclosure in every circumstance as this would be too prescriptive and, as discussed, lead to unintended consequences.

10. Costs and benefits:

What are the anticipated benefits of preparing and disclosing information required by IFRS S1 and IFRS S2, and which elements of the standards will provide the greatest benefits?

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

We anticipate preparing and disclosing information required by IFRS S1 and IFRS S2 will have substantial benefits for both investors and companies described in more detail above and summarised here.

For investors:

- Better Decision-Making: More comprehensive and standardised information enables investors to make better informed investment decisions and efficiently price sustainability risks and opportunities.
- Enhanced Stewardship: The availability of detailed sustainability data allows investors to better oversee their investments, ensuring alignment with their investment principles and clients' long-term goals.
- Reduced Information Asymmetry: Standardised reporting levels the playing field, ensuring all investors have access to better quality and more comprehensive sustainability information, reducing the knowledge gap with investee companies.
- Increased Confidence and Trust: Consistent and transparent reporting fosters a deeper trust between companies and their investors, leading to more stable and long-term investment relationships.

Benefits for companies:

- Improved Risk Management: With standardised reporting, companies can better identify and mitigate potential risks, ensuring long-term stability and growth.
- Enhanced Reputation: Companies adhering to IFRS S1 and IFRS S2 standards can foster and then promote their strengths on transparency and sustainability, enhancing reputation and goodwill.
- Increased Access to Capital: Such disclosures will make it easier to attract investment, as companies are viewed as more trustworthy and forward-thinking.
- Reduced Reporting Burden: By focusing on material information that is universally applicable, companies can streamline their reporting processes, making them more efficient and reducing redundancies. This is especially beneficial for multinational corporations, as the standards are designed to be interoperable across various jurisdictions.

The cost implications of the new standards involve several key areas. Firstly, data management is a significant aspect, encompassing the collection, verification, and analysis of data to ensure the accuracy and relevance of the information being reported. Secondly, there may be a need for investment in reporting systems to accommodate the new data requirements. This could also necessitate a revamp of reporting processes to align with the new standards. Lastly, to guarantee the credibility of the disclosed information, companies might need to invest in external assurance services.

In addition to these cost implications, there are several compliance steps that companies need to undertake. They must align their reporting boundaries for consistency and assess the financial impact of their sustainability initiatives. It's also crucial for them to integrate this data with their financial statements and disclose metrics that are relevant both within their industry and across different industries. Lastly, any comparative information must be revised to ensure it aligns with the new standards.

The benefits of disclosure will outweigh the costs over time, as companies and investors will gain from improved sustainability performance, risk management, valuation, engagement, and trust. To the extent the ISSB differs from the UK approach to non-financial reporting it stands to supersede, the associated

costs adapting processes and reporting by UK companies will likely be outweighed by the wider utility of a global baseline of comparable reporting. By contrast, selective divergence by the UK from the ISSB's global baseline would have the opposite implications.

11. Application of the requirements:

How might the proportionality provisions ease reporting burdens or reduce challenges within reporting?

Do the reliefs provided in IFRS S1 and IFRS S2 give appropriate transitional relief as preparers develop their reporting in this area?

The proportionality provisions are a welcome addition, ensuring that the standards are adaptable to companies of different sizes and sectors. The standards include an appropriately broad proportionality provision that an entity should use all reasonable and supportable information that is available without *undue cost or effort*. This serves to ease reporting burdens by allowing companies to apply the requirements in a way that reflects their size, complexity, industry, and sustainability impact.

On financed emissions, the ISSB acknowledges that preparers will rely on disclosures from other entities to report scope 3 and financed emissions. Therefore, in the initial year, preparers are required to report only their scope 1 and 2 emissions. This approach facilitates the reporting of scope 3 emissions in the subsequent year, as they will incorporate the emissions disclosed by other entities in the previous year. This dovetails with the second principle transitional relief, that companies may report against the standards in respect of climate only in the first year, which serves to familiarise preparers with the standards and their requirements, as well as reflecting the need for scope 1 and 2 emission disclosures as prerequisites of scope 3 thereafter.

12. Any further comments:

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

The IA strongly supports the UK's initiative to assess the IFRS Sustainability Disclosure Standards for endorsement. We believe that with the right guidance and support, these standards can significantly enhance sustainability reporting in the UK.