

Mr Emmanuel Faber
Chairman
International Sustainability Standards Board
IFRS Foundation
Opernplatz 14
60313 Frankfurt am Main
Germany

11 August 2023

Dear Mr Faber

Request for Information: *ISSB Consultation on Agenda Priorities*

1. The UK Endorsement Board (the UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations.
2. The UK Government has announced the establishment of a formal assessment mechanism for ISSB issued standards¹ (see Appendix B for further information). In addition to submitting its own response, the UK Government has asked relevant UK organisations, including the UKEB, to respond to the ISSB on its agenda priorities according to their respective regulatory objectives and functions. The UKEB is responsible for considering the overlap between IASB and ISSB issued standards.
3. This letter is intended to contribute to the IFRS Foundation's due process. The views expressed by the UK Endorsement Board (UKEB) in this letter are separate from, and will not necessarily affect the conclusions of, any activities undertaken by the UKEB.
4. There are currently approximately 1,500 entities with equity listed on the London Stock Exchange, that prepare their financial statements in accordance with IFRS Accounting Standards. In addition, UK law allows unlisted companies the option to use IFRS Accounting Standards and approximately 14,000 UK registered entities take up this option. Legislation applicable to financial years beginning on or after 6 April 2022, requires all large companies (listed and private²) with a turnover in

¹ More detail and the latest information can be founded on the UK Government's "UK Sustainability Disclosure Standards" page at <https://www.gov.uk/guidance/uk-sustainability-disclosure-standards>.

² <https://www.legislation.gov.uk/ukdsi/2021/9780348228519/contents>

excess of £500 Million and more than 500 employees; and, traded or banking LLPs³ with over 500 employees to disclose climate-related financial information on a mandatory basis – in line with recommendations from the Task Force on Climate-Related Financial Disclosures.⁴ The UK companies required to use UK-adopted ISSB standards will be decided by UK Government in due course.

5. In developing this letter, we performed desk-based research, outreach with our stakeholders including preparers, accounting firms and institutes, users of accounts, capital market regulators and other national standard setters and published a draft of this comment letter for feedback from our stakeholders. Our comments on the ISSB's Request for Information (RfI) summarise that work and outreach. For detailed responses to the questions in the RfI please see Appendix 1 to this letter.
6. In light of the UKEB remit, we only make limited comments on the proposed specific research projects on nature and biodiversity, human capital or human rights.

Support for IFRS Sustainability Disclosure Standards

7. The UKEB is very supportive of the ISSB's objective to develop standards in the public interest that will result in a high-quality, comprehensive baseline of sustainability disclosures focused on the needs of investors and the financial markets.

The path to global adoption

8. From our work in developing this comment letter and outreach with stakeholders, it is clear that there are two fundamentally different views on the path to a global baseline for sustainability standards.
 - a) One approach, supported by most of our stakeholders, focuses on building a solid foundation of mandatory climate-related disclosures that are successfully implemented by a large number of significant jurisdictions. This approach considers that widespread adoption of the initial standards will help ensure that future standards developed by the ISSB have global acceptance from the outset. Under this view, a rapid development of a wider range of standards will risk hampering jurisdictional acceptance.
 - b) The alternative view, put forward by some stakeholders, is that the ISSB must offer a comprehensive suite of sustainability disclosure standards before it can be adopted widely. Those stakeholders consider that, if the ISSB does not offer this solution quickly, it risks being overtaken by other jurisdictional or regional standards.

³ <https://www.legislation.gov.uk/ukxi/2022/46/contents/made>

⁴ [UK to enshrine mandatory climate disclosures for largest companies in law - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/uk-to-enshrine-mandatory-climate-disclosures-for-largest-companies-in-law)

9. We believe that the goal of a global **baseline** supports the former approach. At this stage, sustainability standards differ from accounting standards, in that there is not yet widespread, global knowledge and understanding of the issues or the disclosure practices. This means that, unlike for the climate-related disclosure standard which has been greatly helped by the Paris Accord, there is likely to be a need to more clearly articulate the need for, and advantages of, disclosure standards in other areas e.g. nature, etc. Jurisdictions can address areas that are perceived as missing in the short term and the ISSB can benefit from observing various approaches, incorporating the best elements of each as it continues to develop the global baseline.

Leveraging the IFRS Foundation

10. The UKEB, like a number of other international stakeholders, was keen for the ISSB to be housed within the IFRS Foundation as it gave the ISSB a stable, international platform from which to develop global standards for sustainability disclosures that maintained close alignment and connectivity with financial reporting standards.
11. The two-year time horizon for this Agenda Consultation is relatively short in global standard setting terms. The ISSB, and global acceptance of Sustainability Standards, are both still in their infancy. While the ISSB has achieved a lot in a short period of time, it is important that in the next two years these achievements are consolidated so that its mission is globally understood and accepted, and that the first two standards are embedded, mandatorily adopted by jurisdictions and implemented appropriately.
12. In future we look forward to the ISSB consulting on five-year agendas, consistent with the approach taken by its sister Board, the IASB. This will provide the opportunity for larger projects and more comprehensive activities to be assessed.

Governance and due process that supports mandatory international standards

13. The stable platform provided by the IFRS Foundation allows the ISSB access to an established due process that has stood the test of time, an understanding of the steps necessary to develop mandatory standards that gain global acceptance, and access to a set of engaged and interested stakeholders with expertise in this area.
14. The speed of the set-up of the ISSB as well as the development of the IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and S2 *Climate-related Disclosures* is a testament to the work of the IFRS Foundation, the ISSB and its staff. However, we believe that global acceptance of those standards on a mandatory basis must be prioritised and is now dependent on the ongoing engagement with the IFRS Foundation's existing stakeholder community, including national standard setters and governments. To achieve this objective, the ISSB must now consolidate its achievements to-date to

deliver on the promise of globally accepted, mandatory baseline sustainability disclosure standards, supported by strong adherence to due process and greater engagement with stakeholders with a direct interest and understanding of mandatory standards.

15. We urge the ISSB to learn from the experience of the IFRS Foundation and its sister Board, the IASB, when it comes to developing international standards. It requires time for stakeholders and jurisdictions to engage with the standard setting process.
16. The need to develop and implement climate standards rapidly has meant that the ISSB has moved quickly through its due process steps. Unfortunately, this, coupled with the size of those changes, means that some informed and knowledgeable stakeholders in the UK (including investors) feel they have not had the opportunity to fully engage with the ISSB's process or, when they did engage, they did not feel listened to nor that their concerns were addressed. Other stakeholders highlighted that they felt there was a lack of transparency around changes made in finalising the text of the standards during the redeliberation phase. It should be noted that this concern, whilst common, was not universal across the stakeholders we engaged with.
17. We recommend that the ISSB continues to explain its due process and ensures there is adequate time for stakeholders to engage with its processes. This may mean allowing more time than the minimum required by IFRS Due Process, particularly while stakeholders are developing both their understanding of sustainability reporting, and their own processes to engage with the ISSB.
18. The history of the set up and global acceptance of the IASB's standards shows that any attempt to implement standards (whether new or adapted from pre-existing frameworks) without appropriate, extensive, and reflective due process risks derailing the objective of globally accepted and consistent standards.
19. We note that major jurisdictions, when considering the adoption of IFRS S1 and S2 on a mandatory basis, are already considering (significant) modifications to the requirements, which may undermine the global baseline status of the ISSB standards. We recommend that the ISSB continue to adapt its approach to engagement with jurisdictions to ensure it addresses their concerns around mandatory adoption of the standards.
20. We urge the ISSB to consider the important role of due process as well as the benefits of engaging with stakeholders with a direct interest in globally accepted and mandatory standards.

Connectivity with the IASB

21. It is clear from our connectivity work that for sustainability and financial information to provide investors with high-quality, comparable, and decision-useful information the ISSB and the IASB must work together to deliver standards and guidance that produce connected information, where appropriate.
22. We note that the Rfl lists connectivity as a core activity. Stakeholders agree that the IASB and ISSB should deliver “a coherent and comprehensive system of general purpose financial reporting that includes sustainability related financial information and financial statements” (connectivity) but they expect more than “compatibility and avoid[ing] potential inconsistencies and conflicts” (Rfl page 16). Stakeholders also noted concerns about recent statements by the two Boards that seemed to be redefining connectivity as a focus on the processes rather than on the information presented to investors.
23. We do not believe that focusing on process alone will deliver the connected information that investors require. We suggest this is addressed as a priority and that the focus should be redirected towards the two Boards working together to ensure that the standards lead to connected information for use by investors.
24. Feedback from UK stakeholders, as well as the UKEB’s own research⁵, indicate that close alignment and connectivity between financial and sustainability reporting should be a priority for both Boards and they do not consider that this is yet complete. It must be prioritised if the Standards are to be adopted on a mandatory basis by jurisdictions and lead to decision-useful connected information that investors need to make their investment decisions.

Consultation on ISSB’s Agenda Priorities

25. Our high-level views on the ISSB’s agenda priorities are set out below. These are based on our outreach with stakeholders in the UK, who told us that they have significant concerns about the focus of proposals in the Rfl and that it may lead to the resources of the ISSB being prioritised in less urgent areas, over the coming two years. We note that similar concerns have been raised during meetings of the ISSB Sustainability Consultative Committee and the IFRS Advisory Council.
26. It is important that the ISSB continue to develop processes to allow them to engage with a range of stakeholders, and to consider and respond to their views to ensure they retain stakeholder support. These stakeholders should include finance departments of UK listed companies which are now increasingly taking the lead on reporting on sustainability matters.

⁵ [Connectivity Projects | UK Endorsement Board \(endorsement-board.uk\)](https://www.endorsement-board.uk)

Strategic direction and balance of the ISSB’s activities (Rfl Question 1)

27. **High Priority: Focus on supporting the implementation of IFRS S1 and S2:** The UKEB’s advisory groups, representing a wide range of participants in the UK capital markets and corporate reporting framework, along with stakeholders we spoke to during outreach on this letter and the comment letters we received, were almost unanimous in their support for the ISSB focusing on this area. Without this as their primary focus, ISSB Disclosure Standards risk not being accepted as mandatory, losing much of the impetus for the establishment of the ISSB, and potentially mean that preparers fail to adequately engage with and implement the standards.
28. **High Priority: Close cooperation with the IASB and connectivity with IFRS Accounting Standards:** UK stakeholders have very clearly articulated that they want interconnected sustainability and accounting standards delivered. They recognise the benefits that will come from the ISSB “work[ing] in close cooperation with the IASB, ensuring connectivity and compatibility between IFRS Accounting Standards and the ISSB’s standards—IFRS Sustainability Disclosure Standards”⁶.
29. **High Priority: Developing a long-term road map:** Given the ISSB’s Rfl focuses on a two-year time horizon, UK stakeholders have requested that the ISSB take this time to set out a long-term roadmap, which clearly sets out the rationale for why any specific project is included on the workplan. It should also clearly articulate the scope of sustainability disclosures, and outline the process for deciding whether and how existing frameworks (such as SASB and Integrated Reporting) should be consolidated within the ISSB.
30. **Low Priority: Beginning new research and standard setting projects:** The UKEB recognises that undertaking research and standard setting is an important element of the ISSB’s work. We also understand that due to resource constraints, not all activities can be given a high priority. We therefore suggest that the ISSB prioritise delivering climate reporting and a clear long-term road map. New research projects should only be added to the pipeline of projects as and when resources become available. The majority of UKEB stakeholders considered that when the ISSB is ready to undertake new research and standard setting, its initial focus should be on developing a standard on nature and biodiversity that is consistent with the work being undertaken by the Taskforce on Nature-related Financial Disclosures (TNFD).
31. **No Priority: Targeted enhancements to ISSB Standards and Enhancing SASB Standards:** Given that IFRS S1 and S2 are yet to be implemented, it seems premature to be considering enhancements to the ISSB Standards, especially of the nature described in the Rfl. Stakeholders consider that getting climate disclosures right first must be the main priority. They are concerned that

⁶ [IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements](#) (03 November 2021)

introducing disclosures on climate-adjacent risks and opportunities related to nature or 'Just Transition' to a lower-carbon economy, via this route, may lead to an expansion of scope for these standards. Those stakeholders felt that in reality these represent new standard setting activities and should be treated as such.

32. In addition, the majority of stakeholders in the UK do not support a focus on enhancing the Sustainability Accounting Standards Board (SASB) Standards as described in the Rfl. Though some stakeholders support the inclusion of industry specific requirements in ISSB Standards, they stress the importance of incorporating them after careful development and following a comprehensive due process at the international level.
33. The ISSB should also be conscious of the risk that this approach is inconsistent with the general approach to development of IFRS Accounting Standards, which tend to be thematic, and so potentially could lead to an increase in the disconnect between the two sets of standards.
34. We therefore recommend that, in the first instance, it would be helpful if the ISSB sets out a clear rationale why industry specific standards or requirements are necessary. This could be done as part of the articulation of the roadmap (see above). Where industry specific standards are relevant, they should be developed with consideration of the wider international context and utilise the usual due process steps applied to IFRS Standards

Criteria for assessing sustainability reporting matters that could be added to the ISSB's work plan (Question 2)

35. We note that the criteria set out in the Rfl are consistent with those used by the IASB and also seem suitable for the consideration of ISSB standards. However, we would suggest the addition of a consideration of interaction with IASB standard setting projects, to ensure the resulting information for investors is connected and consistent, where appropriate. The IFRS Foundation should also seek to ensure that a process is in place for the IASB to consider ISSB projects as it develops accounting standards.
36. We also suggest that, in addition to the consideration of the ISSB's capacity to progress a project, there should also be an emphasis on the capacity of stakeholders to pro-actively engage with the development and subsequent implementation of a new standard that results from that project. This is another area where the two Boards are likely to need to work together as timing of the issuance of the standards should take into consideration that the two Boards are engaging with the same set of companies, investors, auditors, etc.

37. Stakeholders have also asked for clarity on how the ISSB will assess the relative costs and benefits during the development of future standards. The IASB is required to make this assessment as part of the development of a new IFRS Accounting Standard, as articulated in the Conceptual Framework. In the absence of a conceptual framework for sustainability disclosure standards, and its absence from IFRS S1, UKEB stakeholders have suggested that this should form an explicit part of the criteria for assessing sustainability reporting matters that could be added to the ISSB's work plan.

Integration in Reporting (Question 7)

38. Stakeholders support further work on connectivity between financial statements and sustainability reporting and, as noted, consider this should happen as part of the strategic direction and balance of the ISSB's activities. We agree that the ISSB should, with the IASB, "ensure that connections between financial and sustainability performance are explicitly, efficiently and effectively communicated in a manner that is more easily understood by an entity's investors."⁷
39. While this may require further research on enhancing this connectivity, it should not be premised on introducing a new framework (Integrated Reporting) and should be considered at a standard level, not on the basis of the IASB's draft *Management Commentary* Practice Statement that does not form part of the mandatory standards (and is not directly implemented by most jurisdictions that use its standards).
40. Our stakeholders are also concerned that introducing the Integrated Reporting framework may add an unnecessary layer to financial reporting, leading to undue burden for stakeholders without a clearly articulated benefit.

Conclusion

41. The UKEB supports the ISSB and its objectives. It also believes that the next two-year period will be crucial to establishing the credibility and success of the ISSB global baseline. However, to achieve this the ISSB needs to focus on consolidating its significant achievements to date. This will require prioritising the smooth adoption and implementation of IFRS S1 and S2 and working with the IASB to deliver standards and guidance that produce connected information. Sustainability and financial reporting must provide investors with high-quality, comparable, and decision-useful information. Without this investors' expectations of a clear understanding of the impact of sustainability-related risks and opportunities on the financial statements may not be achieved.

⁷ RfI para 41.

If you have any questions about this response, please contact the project team at UKEndorsementBoard@endorsement-board.uk.

Yours sincerely

Pauline Wallace
Chair
UK Endorsement Board

Appendix A Questions on the ISSB's Request for Information

Appendix B UK Legislative Framework for Sustainability Reporting

Appendix A: Questions on the ISSB's Request for Information

Question 1 – Strategic direction and balance of the ISSB's activities

Paragraphs 18–22 and Table 1 provide an overview of activities within the scope of the ISSB's work.

- (a) From highest to lowest priority, how would you rank the following activities?
- (i) beginning new research and standard-setting projects
 - (ii) supporting the implementation of ISSB Standards IFRS S1 and IFRS S2
 - (iii) researching targeted enhancements to the ISSB Standards
 - (iv) enhancing the Sustainability Accounting Standards Board (SASB) Standards
- (b) Please explain the reasons for your ranking order and specify the types of work the ISSB should prioritise within each activity.
- (c) Should any other activities be included within the scope of the ISSB's work? If so, please describe these activities and explain why they are necessary.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.

- A1. From our work in developing this comment letter and outreach with stakeholders, it is clear that there are two fundamentally different views on the path to a global baseline for sustainability standards.
- a) One approach, supported by most of our stakeholders, focuses on building a solid foundation of mandatory climate-related disclosures that are successfully implemented by a large number of significant jurisdictions. This approach considers that widespread adoption of the initial standards will help ensure that future standards developed by the ISSB, have global acceptance from the outset. Under this view, a rapid development of a wider range of standards will risk hampering jurisdictional acceptance.
 - b) The alternative view, put forward by some stakeholders, is that the ISSB must offer a comprehensive suite of sustainability disclosure standards

before it can be adopted widely. Those stakeholders consider that, if the ISSB does not offer this solution quickly, it risks being overtaken by other jurisdictional or regional standards.

- A2. We believe that the goal of a global baseline supports the former approach. At this stage, sustainability standards differ from accounting standards, in that there is not yet widespread, global knowledge and understanding of the issues or the disclosure practices. This means that, unlike for the climate-related disclosure standard which has been greatly helped by the Paris Accord, there is likely to be a need to more clearly articulate the need for, and advantages of, disclosure standards in other areas e.g. nature, etc. Jurisdictions can address areas that are perceived as missing in the short term and the ISSB can benefit from observing various approaches, incorporating the best elements of each as it continues to develop the global baseline.

Beginning new research and standard-setting projects – (a)(i), (b)

- A3. Low priority: The UKEB recognises that undertaking research and standard setting is an important element of the ISSB's work. We also understand that due to resource constraints, not all activities can be given a high priority. New research projects should only be added to its pipeline of projects as and when resources become available. The majority of UKEB stakeholders considered that when the ISSB is ready to undertake new research and standard setting, its initial focus should be on developing a standard on nature and biodiversity that is consistent with the work being undertaken by the Taskforce on Nature-related Financial Disclosures (TNFD).
- A4. The two-year time horizon for this Agenda Consultation is relatively short in global standard setting terms. The ISSB, and global acceptance of Sustainability Standards, are both still in their infancy. While the ISSB has achieved a lot in a short period of time, it is important that in the next two years these achievements are consolidated so that its mission is globally understood and accepted, and that the first two standards are embedded, mandatorily adopted by jurisdictions and implemented appropriately.
- A5. This is not to imply that undertaking research is an unimportant element of the ISSB's work. The UKEB and stakeholders can see the benefit in beginning some new research and standard-setting projects if only because these have a long lead time especially when appropriate consultation and due process are factored into the process. However, until the ISSB is able to demonstrate that the initial goal regarding climate has been achieved and it has a long-term road map in place, research projects should not be a high priority.

Supporting the implementation of ISSB Standards IFRS S1 and IFRS S2 - (a)(ii), (b)

- A6. High Priority: The UKEB's advisory groups, representing a wide range of participants in the UK capital markets and corporate reporting framework, along with stakeholders we spoke to during outreach on this letter and the comment letters we received, were almost unanimous in their support for the ISSB focusing on this area. Without this as their primary focus, ISSB Disclosure Standards risk not being accepted as mandatory, losing much of the impetus for the establishment of the ISSB, and potentially mean that preparers fail to adequately engage with and implement the standards.
- A7. The establishment of a transition resource group and integrated reporting council by the ISSB are important steps. However, until they have the standards and the output from the standards to work with, it is hard to know what issues will arise in practice and the extent to which the expected connectivity will materialise.
- A8. While the ISSB has allowed for proportionality and made initial exceptions in relation to the application of IFRS S1 and S2, preparers remain concerned that the effort required to implement those standards remains significant and their level of preparedness is limited. In particular, smaller entities are under-prepared and under-resourced and the extent to which stakeholders will see the benefits are yet to be determined. In addition, the extent of mandatory adoption of ISSB in jurisdictions around the world is yet to be seen.
- A9. The UKEB strongly recommends that the ISSB focus its resources on supporting the implementation of ISSB standards IFRS S1 and IFRS S2. This activity needs to go beyond simply the mechanics of implementation of S1 and S2, which may well be supported by the IFRS - Partnership Framework for capacity building. It also needs to address connectivity with IFRS Accounting Standards and advocate for mandatory acceptance around the world.
- A10. Without this support and focus ISSB standards risk not being accepted as mandatory. Stakeholders are concerned there seems to have been a shifting of the goalposts, with the terminology around ISSB standards moving from being mandatory to being "available" (in the same way that TCFD, SASB, GRI are also "available"). This would lose much of the impetus for the establishment of the ISSB, and potentially mean that preparers fail to adequately engage with and implement the standards.

Researching targeted enhancements to the ISSB Standards and Enhancing the Sustainability Accounting Standards Board (SASB) Standards – (a)(iii) and (iv), (b)

- A11. No priority: Given that IFRS S1 and S2 are yet to be implemented, it seems premature to be considering enhancements to the ISSB Standards, especially of the nature described in the Rfl. Stakeholders consider that getting climate disclosures right first must be the main priority. They are concerned that introducing disclosures on climate-adjacent risks and opportunities related to nature or 'Just Transition' to a lower-carbon economy, via this route, may lead to an expansion of scope for these standards. Those stakeholders felt that in reality these represent new standard setting activities and should be treated as such.
- A12. In addition, the majority of stakeholders in the UK do not support a focus on enhancing the Sustainability Accounting Standards Board (SASB) Standards as described in the Rfl. Though some stakeholders support the inclusion of industry specific requirements in ISSB Standards, they stress the importance of incorporating them after careful development and following a comprehensive due process at the international level.
- A13. The ISSB should also be conscious of the risk that this approach is inconsistent with the general approach to development of IFRS Accounting Standards, which tend to be thematic, and so potentially could lead to an increase in the disconnect between the two sets of standards.
- A14. We therefore recommend that, in the first instance, it would be helpful if the ISSB sets out a clear rationale why industry specific standards or requirements are necessary. This could be done as part of the articulation of the roadmap (see above). Where industry specific standards are relevant, they should be developed with consideration of the wider international context and utilise the usual due process steps applied to IFRS Standards

Other activities – Close cooperation with the IASB and connectivity with IFRS Accounting Standards - (c)

- A15. High Priority: UK stakeholders have very clearly articulated that they want interconnected sustainability and accounting standards delivered. They recognise the benefits that will come from the ISSB “work[ing] in close cooperation with the IASB, ensuring connectivity and compatibility between IFRS Accounting Standards and the ISSB’s standards—IFRS Sustainability Disclosure Standards”⁸.

⁸ [IFRS - IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements](#)

- A16. It is clear from our connectivity work that for sustainability and financial information to provide investors with high-quality, comparable, and decision-useful information requires the two Boards, the ISSB and the IASB, to work together to deliver standards and guidance that produce connected information, where appropriate.
- A17. We note that the Rfl lists connectivity as a core activity. Stakeholders agree that the IASB and ISSB should deliver “a coherent and comprehensive system of general purpose financial reporting that includes sustainability related financial information and financial statements” (connectivity) but they expect more than “compatibility and avoid[ing] potential inconsistencies and conflicts” (Rfl page 16).
- A18. A key benefit of bringing Sustainability Disclosure Standards into the IFRS Foundation was expected to be enhanced linkages between the two Boards (as well as leveraging the due process that already existed).
- A19. At a strategic level, we recommend that the ISSB allocates adequate resource to ensure that it retains sufficient flexibility in its workplan to address the interaction between IFRS Sustainability Disclosure Standards and IFRS Accounting Standards. As a minimum, we consider this will need to include co-ordination with the IASB.
- A20. Stakeholders tell us they are looking for connectivity between the IASB’s International Accounting Standards and the ISSB’s Sustainability Disclosure Standards to be embedded into both sets of standards. This is supported by extensive research undertaken by the UKEB that connectivity must be the key focus at this point in time.
- A21. Stakeholders expected the Boards would work together to ensure the requirements of IFRS Accounting Standards and IFRS Sustainability Disclosure Standards communicate the connections between financial and sustainability performance, explicitly, efficiently and effectively in a manner that is more easily understood by an entity’s investors.
- A22. In addition to IFRS S1 and S2, stakeholders have continued to raise questions about the role of materiality, especially the extent to which it is given the same meaning under ISSB and IASB standards. They suggest significant joint work needs to be done to ensure a consistent understanding of how materiality judgements are applied during the application of IFRS sustainability disclosure standards and accounting standards. There is concern that the differences in the time horizons over which sustainability and financial reporting risks and opportunities emerge may lead to an inconsistent application or understanding of the materiality definition.
- A23. Stakeholders also noted that the principles underlying the IASB and ISSB Standards needed to be closely aligned to avoid conflicts between the financial statements and sustainability reports and other unintended consequences. For example, they suggested that the reporting entity concepts appear to differ.

- A24. The UKEB has already identified a range of areas where stakeholders have concerns about the connectivity between the standards through discussions with their various advisory groups. Please refer to the UKEB’s Connectivity between sustainability and accounting standards project⁹.

Other activities – Developing a long-term road map – (c)

- A25. High Priority: Given the ISSB’s RfI focuses on a two-year time horizon, UK stakeholders have requested that the ISSB take this time to set out a long-term roadmap, which clearly sets out the rationale for why any specific project is included on the workplan. It should also clearly articulate the scope of sustainability disclosures, and outline the process for deciding whether and how existing frameworks (such as SASB and Integrated Reporting) should be consolidated within the ISSB.
- A26. Once climate standards are delivered and embedded, stakeholders believe there is an opportunity to understand the bigger picture of sustainability disclosure standards before committing to a range of specific further projects.
- A27. The need for climate standards was clearly understood, responding to an urgent demand from investors for information on this topic. They also provide an opportunity to test the operation of investor focused sustainability disclosure standards, and their connectivity with IFRS Accounting Standards.
- A28. During the next phase of the ISSB’s work, stakeholders are looking for a long-term vision for how a complete set of standards would fit together, possibly underpinned by a conceptual framework to guide the standard setting process.
- A29. The current approach risks being perceived as piecemeal and hasty. Appropriate integration of extant standards also needs to be considered.
- A30. A clear roadmap would help jurisdictions understand the areas the ISSB will be focusing on and support adoption more widely. It may also allow jurisdictions to consider their own circumstances and additional sustainability disclosure requirements they may wish to consider independently.

Question 2– Criteria for assessing sustainability reporting matters that could be added to the ISSB’s work plan

Paragraphs 23–26 discuss the criteria the ISSB proposes to use when prioritising sustainability-related reporting issues that could be added to its work plan.

(a) Do you think the ISSB has identified the appropriate criteria?

(b) Should the ISSB consider any other criteria? If so what criteria and why?

⁹ [Connectivity Projects | UK Endorsement Board \(endorsement-board.uk\)](https://www.endorsement-board.uk)

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.

- A31. We note that the criteria set out in the RfI are consistent with those used by the IASB and also seem suitable for the consideration of ISSB's standards. However, we would suggest that, in addition, there should be consideration of interaction with IASB standard setting projects, to ensure the resulting information for investors is connected and consistent, where appropriate. The IFRS Foundation should also seek to ensure that a process is in place for the IASB to consider ISSB projects as it develops accounting standards.
- A32. We also suggest that, in addition to consideration of the ISSB's capacity to progress a project, there should also be an emphasis on the capacity of stakeholders to pro-actively engage with the development and subsequent implementation of a new standard that results from that project. This is another area where the two Boards are likely to need to work together as timing of the issuance of the standards should take into consideration that the two Boards are engaging with the same set of companies, investors, auditors, etc.
- A33. Stakeholders have also asked for clarity on how the ISSB will assess the relative costs and benefits during the development of future standards. The IASB is required to make this assessment as part of the development of a new IFRS Accounting Standard, as articulated in the Conceptual Framework. In the absence of a conceptual framework for sustainability disclosure standards, and its absence from IFRS S1, UKEB stakeholders have suggested that this should form an explicit part of the criteria for assessing sustainability reporting matters that could be added to the ISSB's work plan.
- A34. We also recommend that two of the ISSB's criteria are redrafted:
- a) There is a risk that application issues are captured by the second criterion: '*whether there are any deficiencies in the way companies disclose information on the matter.*' We do not consider that this is the ISSB's intention. We recommend that this criterion is redrafted as '*whether there are any deficiencies in the way companies disclose information on the matter and whether that deficiency can be remedied through standard setting.*'
 - b) The third criterion considers: '*the type of companies the matter is likely to affect, including whether the matter is more prevalent in some industries and jurisdictions than in others.*' This suggests that some industries and jurisdictions will be prioritised over others. Our view is that prevalence should be considered across all industries and jurisdictions. We therefore recommend that this criterion is redrafted as '*the extent to which the matter is prevalent across jurisdictions and sectors.*'

Question 3—New research and standard-setting projects that could be added to the ISSB’s work plan

Paragraphs 27–38 provide an overview of the ISSB’s approach to identifying sustainability-related research and standard setting projects. Appendix A describes each of the proposed projects that could be added to the ISSB’s work plan.

(a) Taking into account the ISSB’s limited capacity for new projects in its new two-year work plan, should the ISSB prioritise a single project in a concentrated effort to make significant progress on that, or should the ISSB work on more than one project and make more incremental progress on each of them?

(i) If a single project, which one should be prioritised? You may select from the four proposed projects in Appendix A or suggest another project.

(ii) If more than one project, which projects should be prioritised and what is the relative level of priority from highest to lowest priority? You may select from the four proposed projects in Appendix A or suggest another project (or projects).

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.

- A35. Given the short time frame, limited resource of the ISSB and the risk of moving too quickly into additional standard setting, the UKEB would recommend the ISSB limit its standard setting research projects to only the most pressing areas and activities as identified by stakeholders.
- A36. The UK Government has asked relevant UK organisations, including the UKEB, to respond to the ISSB on its agenda priorities according to their respective regulatory objectives and functions. The UKEB is responsible for considering the overlap between IASB and ISSB issued standards. We have not focused on the specific research topics and standard setting that the ISSB should undertake next. However, stakeholders have provided views on this to the UKEB through our various outreach activities and we include a brief summary of the views heard below in response to Questions 4, 5 and 6.

Question 4— New research and standard-setting projects that could be added to the ISSB’s work plan: Biodiversity, ecosystems and ecosystem services

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.

- A37. The majority of the UKEB stakeholders who commented considered that when the ISSB is ready to undertake new research, its initial focus should be on developing

a standard on nature and biodiversity. This was both because they saw it as a matter of some urgency, and also because the work of the Taskforce on Nature-related Financial Disclosures (TNFD) provided a good starting point for developing standards.

Question 5— New research and standard-setting projects that could be added to the ISSB’s work plan: Human capital

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.

- A38. Our outreach did not identify much support for treating human capital as a priority area for further research at this stage. While many stakeholders acknowledge the importance of this area, they indicated that nature was a more urgent matter from a global perspective.

Question 6—New research and standard-setting projects that could be added to the ISSB’s work plan: Human rights

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.

- A39. Our outreach did not identify any support for this as a priority area for further research at this stage. There were concerns that at this point in time any project would probably require significant resources and might risk delaying adoption of the global baseline.

Question 7—New research and standard-setting projects that could be added to the ISSB’s work plan: Integration in reporting

The research project on integration in reporting is described in paragraphs A38–A51 of Appendix A. Please respond to the following questions:

(a) The integration in reporting project could be intensive on the ISSB’s resources. While this means it could hinder the pace at which the topical development standards are developed, it could also help realise the full value of the IFRS Foundation’s suite of materials. How would you prioritise advancing the integration in reporting project in relation to the three sustainability-related topics (proposed projects on biodiversity, ecosystems and ecosystem services; human capital; and human rights) as part of the ISSB’s new two-year work plan?

(b) In light of the coordination efforts required, if you think the integration in reporting project should be considered a priority, do you think that it should be advanced as a

formal joint project with the IASB, or pursued as an ISSB project (which could still draw on input from the IASB as needed without being a formal joint project)?

(i) If you prefer a formal joint project, please explain how you think this should be conducted and why.

(ii) If you prefer an ISSB project, please explain how you think this should be conducted and why.

(c) In pursuing the project on integration in reporting, do you think the ISSB should build on and incorporate concepts from:

(i) the IASB's Exposure Draft Management Commentary? If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.

(ii) the Integrated Reporting Framework? If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.

(iii) other sources? If you agree, please describe the source(s) and any particular concepts that you think the ISSB should incorporate in its work.

(d) Do you have any other suggestions for the ISSB if it pursues the project?

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.

- A40. Stakeholders support further work on connectivity between financial statements and sustainability reporting and, consider this should happen as part of the strategic direction and balance of the ISSB's activities. We agree that the ISSB should, with the IASB, "ensure that connections between financial and sustainability performance are explicitly, efficiently and effectively communicated in a manner that is more easily understood by an entity's investors." (RfI, paragraph 41)
- A41. While this may require further research on enhancing this connectivity, it should not be premised on introducing a new framework (Integrated Reporting) and should be considered at a standard level, not on the basis of the IASB's draft *Management Commentary* Practice Statement that does not form part of the mandatory standards (and is not recognised by most jurisdictions that use its standards).

- A42. Our stakeholders are also concerned that introducing the Integrated Reporting framework would add an unnecessary layer to financial reporting, leading to undue burden for stakeholders without a clearly articulated benefit.

Question 8—Other comments

Do you have any other comments on the ISSB's activities and work plan?

- A43. The stable platform provided by the IFRS Foundation allows the ISSB access to an established due process that has stood the test of time, an understanding of the steps necessary to develop mandatory standards that gain global acceptance, and access to a set of engaged and interested stakeholders with expertise in this area.
- A44. The speed of the set-up of the ISSB as well as the development of the IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and S2 *Climate-related Disclosures* is a testament to the work of the IFRS Foundation, the ISSB and its staff. However, we believe that global acceptance of those standards on a mandatory basis must be prioritised and is now dependent on the ongoing engagement with the IFRS Foundation's existing stakeholder community including national standard setters and governments. To achieve this objective, the ISSB must now consolidate its achievements to-date to deliver on the promise of globally accepted, mandatory baseline sustainability disclosure standards, supported by strong adherence to due process and greater engagement with stakeholders with a direct interest and understanding of mandatory standards.
- A45. We urge the ISSB to learn from the experience of the IFRS Foundation and its sister Board, the IASB, when it comes to developing international standards. It requires time for stakeholders and jurisdictions to engage with the standard setting process.
- A46. The need to develop and implement climate standards rapidly has meant that the ISSB has moved quickly through its due process steps. Unfortunately this, coupled with the size of those changes, means that some informed and knowledgeable stakeholders in the UK (including investors) feel they have not had the opportunity to fully engage with the ISSB's process or, when they did engage, they did not feel listened to nor that their concerns were addressed. Other stakeholders highlighted that they felt there was a lack of transparency around changes made in finalising the text of the standards during the redeliberation phase. Though it should be noted that this concern, whilst common, was not universal across the stakeholders we engaged with.
- A47. We recommend that the ISSB continues to explain its due process, and ensures there is adequate time for stakeholders to engage with its processes. This may mean allowing more time than the minimum required by IFRS Due Process,

particularly while stakeholders are developing both their understanding of sustainability reporting, and their own processes to engage with the ISSB.

- A48. The history of the set up and global acceptance of the IASB's standards shows that any attempt to implement standards (whether new or adapted from pre-existing frameworks) without appropriate, extensive, and reflective due process risks derailing the objective of globally accepted and consistent standards.
- A49. We note that major jurisdictions, when considering the adoption of IFRS S1 and S2 on a mandatory basis, are already considering (significant) modifications to the requirements, which may undermine the global baseline status of the ISSB standards. We recommend that the ISSB continue to adapt its approach to engagement with jurisdictions to ensure it addresses their concerns around mandatory adoption of the standards.
- A50. We urge the ISSB to consider the important role of due process as well as the benefits of engaging with stakeholders with a direct interest in globally accepted and mandatory standards.

Appendix B: UK Legislative Framework for Sustainability Reporting

- B1. The Department for Business and Trade (DBT) sets the reporting requirements, both financial and non-financial (Environmental, Social and Governance (ESG) matters) for UK registered entities under Company Law, the Companies Act 2006. The Financial Conduct Authority (FCA) sets Listing Rules for companies listed on the UK market.
- B2. Since 1 January 2021 the FCA's Listing Rules have required companies within scope to report against the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD), on a comply or explain basis. The Companies' Act has required mandatory disclosures for companies within the scope for financial periods commencing on or after 6 April 2022.
- B3. In addition, with the Mobilising Green Investment: 2023 Green Finance Strategy¹⁰, the Government committed to establish a formal assessment mechanism for ISSB issued standards. The assessment mechanism will ensure that standards endorsed by the Government are suitable for use by UK companies.
- B4. The decision to endorse a standard for use in the UK will be made by the Secretary of State (SoS). A further decision will be made on whether to make reporting under the standard mandatory for certain companies. This may be under Companies Act requirements or via the FCA's Listing Rules. More detail and the latest information can be found on the UK Government's "UK Sustainability Disclosure Standards" page at <https://www.gov.uk/guidance/uk-sustainability-disclosure-standards>.
- B5. The UKEB, as the UK body responsible for adopting and endorsing IFRS accounting standards for use in the UK, will provide information on areas of overlap and connectivity issues, between IASB and ISSB issued standards, to assist DBT in preparing recommendations to the SoS.
- B6. Therefore, the content of this letter is provided from the perspective of the UK's National Standard Setter for IASB issued accounting standards and takes into consideration their connectivity with ISSB issued standards.

¹⁰ [Mobilising Green Investment: 2023 Green Finance Strategy](#), March 2023