

# UK Endorsement Board FEEDBACK STATEMENT

*IFRS S1 General Requirements for Disclosure of  
Sustainability-related Financial Information and  
IFRS S2 Climate-related Disclosures*

July 2022

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# Foreword



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The UK Endorsement Board (UKEB) welcomes the opportunity to respond to the ISSB EDs IFRS S1 and S2 and contribute to the development of international sustainability disclosure standards.

Our response to the ISSB's consultation reflects the imperative to remain relevant in the face of these significant sustainability challenges for reporting entities around the world and to influence the development of robust standards that can be adopted globally.

The UKEB welcomed significant engagement with stakeholders during the outreach phase of the project. This included engaging with over 200 stakeholders representing over 90 organisations. This constructive and insightful feedback has been incorporated into the final comment letter to the ISSB.

We look forward to continuing to engage with ISSB as it redeliberates responses received and seeks to finalise proposals by the end of 2022.

# Context and remit

- The UKEB is responsible for endorsement and adoption of IFRS accounting standards 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 (Foundation) on the development of new accounting standards, amendments and interpretations.
- In November 2021, the Foundation announced the formation of a new International Sustainability Standards Board (ISSB) to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. In March 2022, the ISSB issued its first exposure drafts: [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and [draft] IFRS S2 *Climate Related Disclosures*.
- The Department for Business, Energy and Industrial Strategy (BEIS) sets the reporting requirements, both financial and non-financial (ESG matters) for UK registered entities under Company Law. BEIS requested that the UKEB assist the UK Government by carrying out work to consider the overlap or impact of the proposed ISSB disclosure standards with accounting standards issued by the International Accounting Standards Board (IASB).

# Purpose of Feedback Statement

The ISSB requested comments on [draft] IFRS S1 and [draft] IFRS S2 in March 2022 with a comment deadline of 29 July 2022. Their stated objective in undertaking the consultation was to obtain stakeholder feedback to shape the development and publication of final sustainability standards by December 2022.

**[draft] IFRS S1** *General Requirements for Disclosure of Sustainability-related Financial Information*  
Requires a company to disclose information that enables investors to assess the effect of significant sustainability-related risks and opportunities on its enterprise value.

**[draft] IFRS S2** *Climate-related Disclosures*  
Establishes disclosure requirements specific to climate-related risks and opportunities.

This feedback statement represents a summary of the views of UK stakeholders during the UKEB's outreach activities during May to July 2022. It also seeks to provide an explanation for the key changes between the initial views expressed in the UKEB draft and the final comment letters.

# Outreach approach

All stakeholder feedback was considered in reaching the UKEB's final comment letter on the proposed standards.

Stakeholder submissions received on the Draft Comment Letter (DCL) were made public on the project website.

During the consultation period, the UKEB and its Secretariat promoted awareness of the DCL and encouraged stakeholders to respond through News Alerts, a specific outreach event, outreach meetings and advertising.

More than 200 stakeholders representing over 90 organisations.

Activities included:

- Multiple one to one engagements with stakeholders and stakeholder representative groups
- Hosting a webinar with the ISSB, FCA, preparers and users of financial statements to discuss the draft comment letter
- Observing a series of World Economic Forum and FRC hosted roundtables
- Discussions with other national standard setters
- Promotion through UKEB and stakeholder representative groups social media platforms

Stakeholder type	Stakeholders engaged	Organisations represented
Users of accounts	15	11
Representative bodies and industry groups <sup>1</sup>	60	5
Preparers of accounts	19	8
Accounting firms	11	4
Regulatory Bodies	5	2
UKEB webinar	95	64 <sup>2</sup>

1. The representative bodies/industry groups have multiple members often representing a variety of stakeholder types.
2. This number is an estimate based on the total number of people who registered for the event and their organisation disclosure at registration.

# Executive Summary – [draft] IFRS S1

	Area	UKEB tentative assessment	Stakeholder views	UKEB final assessment
1	Definitions and scope implications	<p><b>Definitions:</b> A number of definitions including “sustainability”, “significant” and material had not been defined or required further clarification.</p> <p><b>Scope:</b> Reference to third party documents (“shall consider”) in para 51 of [draft] IFRS S1 creates a mandatory requirement to consider broad range of external sources, resulting in comparability and consistency challenges.</p>	<p><b>Definitions:</b> Stakeholders mostly agreed that these terms should be defined or clarified and brought further terms to our attention that should be included in this point. Further clarity was needed in the drafting of the requirement to restate comparative information as stakeholders were interpreting these requirements in different ways.</p> <p><b>Scope:</b> Most stakeholders agreed the external documents referenced in the S1 framework proposals should be guidance not mandatory. If the list were to remain mandatory some stakeholders said that the list should be shorter, and therefore more manageable.</p> <p>Some preparers highlighted concerns regarding the proposed disclosures related to associates.</p>	<p><b>Definitions:</b> The list of terms requiring definition or further clarity was expanded to include terms such as “enterprise value”, “neutral”, “significant”. Required clarifications to the comparative restatement requirements were explained.</p> <p><b>Scope:</b> Maintained our position regarding changing this requirement to guidance status in S1, but acknowledged that relevant, requirements from the external documents may be treated as mandatory in subject specific standards such as S2, following appropriate due process. The suggestion to shorten this list of external documents if this requirement remains mandatory was included.</p> <p>Previous text on associates was expanded to include the areas of concern raised by stakeholders.</p>
2	Connectivity within annual reports	<p>Inconsistencies noted with IFRS accounting standards were highlighted to emphasise areas where extra effort may be required to articulate the connection between sustainability disclosures and the financial statements.</p>	<p>Stakeholders mostly agreed with the inconsistencies identified, but noted there was no expectation that sustainability standards and accounting standards should be identical.</p> <p>Many stakeholders also questioned whether group relief from these disclosures may be available.</p> <p>A few stakeholders raised the idea of using a Level 1/2/3 hierarchy similar to that used in IFRS 13 <i>Fair Value Measurement</i> to reflect the levels of certainty in the sustainability disclosures.</p>	<p>The wording was clarified to make it clear that the rules are not expected to be the same, but these are areas highlighted as extra effort may be required to assist understandability/connectivity between the sustainability disclosures and financial statements.</p> <p>A new section discussing the potential for group relief was added to the letter.</p> <p>The idea of the Level 1/2/3 hierarchy was included and examples provided.</p>

# Executive Summary – [draft] IFRS S1

	Area	UKEB tentative assessment	Stakeholder views	UKEB final assessment
3	Global baseline	Questioned whether the high bar set in these proposals by ISSB was a baseline or a complete set of (material) proposals.	Stakeholders supported ambitious standards but agreed the scope was too broad. They agreed that transition provisions were important to ensure this high standard did not become a barrier to widespread adoption.	<p>Wording was refined to note the current drafting was too broad to be considered a baseline, but if recommendations on scope and definitions were implemented this would become a workable, but ambitious, baseline.</p> <p>The importance of transition measures which are proportionate and encourage prompt adoption was emphasised. A number of pragmatic suggestions as to how this could be achieved were described in the letter.</p>
4	Pace of change	<p>To ensure high-quality standards and a realistic effective date the ISSB should consider conducting field testing across entities of different sizes and jurisdictions.</p> <p>The pace of change should recognise that most jurisdictions will not have an endorsement mechanism for several years which will be key dependency on companies' ability to design and implement these proposals.</p>	<p>Preparers supported field testing, but also emphasised this should not delay the standard setting process excessively. Some stakeholders observed that field testing was likely to be of more value for ED S1, as the implementation of the TCFD climate disclosures had provided some learnings for the UK.</p> <p>Preparers who commented on lead time considered they would need at least two reporting cycles to meet the new requirements. It was acknowledged smaller companies, with fewer resources, may require more lead time.</p>	<p>Considering the market push towards sustainability disclosures and current progress of the companies, minimum lead time of up to two years (early adoption permitted) would enable large companies to implement these standards, particularly on the topic of climate. We suggest the ISSB consider proportionality and transition provisions for smaller companies and less advanced economies to facilitate endorsement. A number of pragmatic suggestions for transition were described in the letter.</p>
5	Frequency of reporting	<p>The requirement to report sustainability information at the same time and for the same period as financial statements was supported.</p> <p>Disclosures related to value chain, and the restatement of comparatives may potentially cause delays to publishing the financial statements.</p>	<p>Stakeholders supported the concept of having sustainability information available at the same time and for the same period as the financial statements. Users noted the comfort gained from auditor consistency checks when published together with the financial statements. Concerns were expressed about the operational challenges that this timing presents, and acknowledged the lead time for certain requirements would be more demanding. A regulated firm highlighted concerns about timing misalignment with relevant regulatory returns.</p>	<p>The letter was updated to include discussion of necessary lead times, potential transition provisions to assist with the challenges, and to highlight the issue in relation to regulated firms.</p>



# Executive Summary – [draft] IFRS S2

	Area	UKEB tentative assessment	Stakeholder views	UKEB final assessment
1	Scope and Definitions	Climate-related risks and opportunities should be defined or further guidance provided to ensure consistent application.	Stakeholders supported a definition or further guidance on the term 'climate-related risks and opportunities' and users requested more guidance for 'short, medium and long' terms in relation to climate matters to achieve consistency and transparency.	Maintained recommendation for the ISSB to consider using or adapting an existing definition for climate risks and opportunities and also to provide more guidance regarding 'short, medium and long' terms with specific examples provided by users.
2	Duplication	Not commented on in the Draft Comment Letter.	Stakeholders commented that there was unnecessary duplication from [draft] IFRS S1 in the exposure draft.	Letter updated to include a recommendation to use cross reference to [draft] IFRS S1 where appropriate for both the proposed climate and future thematic standards.
3	Due Process	Noted the low level of stakeholder readiness and multiple jurisdictions issuing climate standards in tandem. Risk that stakeholders may need more time to fully digest and respond.	<p>Large preparers who had already started reporting under TCFD felt relatively comfortable with most of the proposed requirements but saw some areas as a 'step change'. However, smaller preparers indicated they would require significant time and education to comply.</p> <p>Stakeholders supported enterprise value focussed industry metrics (SASB Standards) but considered that comprehensive due process was required before they could be considered as a mandatory part of the standard.</p>	<p>Recommendation maintained that the effective date should be assessed in the context of insight gained from field testing with a range of preparers and jurisdictions.</p> <p>Letter updated to recommend that SASB Standards should be initially included as guidance and not mandatory until the IFRS Foundation has concluded its full due process.</p>

# Executive Summary – [draft] IFRS S2

	Area	UKEB tentative assessment	Stakeholder views	UKEB final assessment
4	<b>Effective Date</b>	<p>Effective date should take into consideration the outcome of field testing. Phasing some of the more challenging new disclosures may need to be considered to promote wide adoption.</p> <p>Suggested that the effective date for the ED could be earlier than that of IFRS S1, due to familiarity with TCFD disclosures in the UK.</p>	<p>For larger preparers, a two year lead time was generally considered sufficient due to extensions to the TCFD scope and wider scope under [draft] IFRS S1. In contrast, smaller entities were likely to require a longer preparation time.</p> <p>Most users considered that, despite some entities having been reporting under TCFD in the UK for several years the scope and quality of reporting still needed to improve significantly.</p>	<p>Letter updated to reflect an indicative two year lead time for larger companies but longer preparation time and transition measures for SMEs and entities with immature climate reporting capabilities.</p> <p>Field testing recommendation to maintained to inform interim requirements.</p> <p>User views on the current scope and quality of TCFD reporting noted.</p>
5	<b>Cost v Benefits</b>	<p>Limited assessment due to short consultation timeframe.</p>	<p>Larger preparers who had robust system in place for TCFD anticipated limited cost or benefits. Smaller entities who had yet to start reporting anticipated significant costs.</p> <p>Most users considered the benefits of reducing greenwashing and better informed decisions regarding the allocation of capital would outweigh the costs.</p>	<p>Noted the potential significant cost impacts on smaller companies and positive view on benefits from users.</p>
6	<b>Global baseline</b>	<p>Strong support for a minimum global baseline for climate that jurisdictions can build upon.</p>	<p>Users noted that some aspects of the exposure draft may be considered too aspirational and that some jurisdictions or smaller entities may feel the requirements were unachievable.</p>	<p>Recommendation added that the ISSB consider indicating an initial minimum level of climate disclosures, phased implementation dates (early adoption permitted) or safe-harbour provisions, which recognise that measurement methodologies for climate were still evolving.</p>

# Disclaimer

This feedback statement has been produced in order to set out the UKEB's response to stakeholder comments received on the ISSB's IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* and should not be relied upon for any other purpose.

The views expressed in this feedback statement are those of the UKEB at the point of publication. Any sentiment or opinion expressed within this feedback statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.

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