

Invitation to Comment

Call for comments on the ISSB's Request for Information

Deadline for completion of this Invitation to Comment:

23 July 2023

Please submit to:

UKEndorsementBoard@endorsement-board.uk

Introduction

The objective of this Invitation to Comment is to obtain input from stakeholders on the Request for Information (Rfi) published by the International Sustainability Standards Board (ISSB) in March 2023. The UKEB's comment period ends on 23 July 2023.

UK endorsement and adoption process

The UK Endorsement Board (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 (Foundation) on the development of new standards, amendments and interpretations. This letter is intended to contribute to the IASB's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

The UK Government has committed to establishing a formal assessment mechanism for ISSB issued standards. While this process is being finalised (see Appendix B of the Draft Comment Letter for further information) the UK Government has asked relevant 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.

Who should respond to this Invitation to Comment?

Stakeholders with an interest in the quality of accounts prepared in accordance with international accounting standards. Also those with an interest in the future of ISSB Sustainability Disclosures and their connection with IFRS Accounting Standards.

How to respond to this Invitation to Comment

Please download this document, answer any questions on which you would like to provide views, and return it together with the 'Your Details' form to UKEndorsementBoard@endorsement-board.uk by 23 July 2023.

Brief responses providing views on individual questions are welcome, as well as comprehensive responses to all questions.

Privacy and other policies

The data collected through responses to this document will be stored and processed by the UKEB. By submitting this document, you consent to the UKEB processing your data for the purposes of influencing the development of and adopting IFRS for use in the UK. For further information, please see our Privacy Statements and Notices and other Policies (e.g. Consultation Responses Policy and Data Protection Policy)¹.

The UKEB's policy is to publish on its website all responses to formal consultations issued by the UKEB unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. If you do not wish your signature to be published, please provide the UKEB with an unsigned version of your submission. The UKEB prefers to publish responses that do not include a personal signature. Other than the name of the organisation/individual responding, information contained in the "Your Details" document will not be published. The UKEB does not edit personal information (such as telephone numbers, postal or e-mail addresses) from any other response document submitted; therefore, only information that you wish to be published should be submitted in such responses.

¹ These policies can be accessed from the footer in the UKEB website here: <https://www.endorsement-board.uk>

Questions

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

1. The UKEB’s draft comment letter concludes that the ISSB should place a high priority on supporting the implementation of S1 and S2, and it should be their primary focus. Do you agree with this? Please explain why or why not.

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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Please include any comments you may have in response to question 1:

Financial disclosures

In line with the UK’s Net Zero Strategy, the UK became the first G20 country to adopt the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) with effective dates rolling out for different organisations between 2021 and 2025.

Connectivity of financial disclosures with non-financial sustainability information by large companies

On 6 April 2022, the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations (the Company Regulations) came into force. The Company Regulations amended the Companies Act 2006 to require all large UK companies with over 500 employees and £500 million in turnover, as part of their strategic reporting, to provide information in accordance with the TCFD Recommendations for accounting periods starting on or after 6 April 2022. Both climate-related reporting and the scope thresholds apply at the group level. Companies are required to disclose the sustainability-related information outlined in the Company Regulations in the non-financial information statement portion of their strategic reports. Guidance published by the UK Department for Business, Energy and Industrial Strategy (BEIS) in February 2022 provides additional detail on the expected disclosures for companies within the scope of the Company Regulations.

National and international corporate reporting expectations

Many prepares are concerned about clarifying national jurisdiction’s specific legal reporting requirements and for standard setters to elaborate on whether there is divergence in reporting expectations in the short to medium term.

Use of Limited Assurance statements and legal Disclaimers

In addition, they seek more guidance on the use of:

(1) Limited assurance and/or verification statements; and

(2) Legal Disclaimers.

In the transition period, it may only be possible to obtain a limited level of independent assurance or verification that the firm has done what they claim.

Second, more detailed guidance is also sought regarding the legal ‘disclaimers’ statements in the accounting and narrative reporting made in good faith.

Disclosure of key assumptions used in generating ‘scenarios’

Preparers are keen to include disclaimers in their annual reports that address the assumptions made in light of a disorderly rather than orderly transition based on the scenarios they use to identify risks, targets and focus their decisions strategic and disclosure statements.

A key concern, is what if their risk and target scenarios do not roll out as envisaged?

Standard setters and corporate regulators could cooperate to explain how legal ‘disclaimers’ will operate in an accounting and corporate reporting context, provide guidance as to their suggested wording and placement and comment on legal effectiveness.

Such disclaimers will be increasingly important as climate events become uninsurable and aspects of Directors and Officers Insurance coverage considerations emerge. The risk of regulatory action arising from ESG-related issues is a key concern for company directors who sign off the corporate annual report.

2. The UKEB’s draft comment letter concludes that the ISSB should add as an activity, and place a high priority on, close cooperation with the IASB and connectivity with IFRS Accounting Standards, with a view to “ensuring connectivity and compatibility between IFRS Accounting Standards and the ISSB’s standards”. Do you agree with this? Please explain why or why not.

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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Please include any comments you may have in response to question 2:

In addition to ensuring connectivity and compatibility between IFRS Accounting Standards and ISSB’s standards, preparers would find it helpful to also include reference to connectivity the United Nations Sustainable Development Goals 2030 programme as many disclosures will likely be linked to progress with one or more SDGs.

Further, in terms of connectivity will IASB, IFRS and ISSB standards many preparers will need to know their specific national jurisdiction’s legal requirements going forward.

Please clarify how such standards will be impacted by nation states who sign the following international agreements:

(1) Historic, landmark United Nations BBNJ Treaty reached by delegates of the Intergovernmental Conference on Marine Biodiversity of Areas Beyond National Jurisdiction, better known by its acronym BBNJ, was the culmination of UN-facilitated talks that began in 2004. It is part of the global conservation and sustainable use of marine biological diversity response to climate change. See <https://www.un.org/bbnj>

(2) proposed ‘Global Pact of the Environment’, a new draft international treaty. This draft Treaty aims to recognize a new generation of fundamental rights and duties related to the protection of the environment, and in particular, the right to a health environment. See [www. https://globalpactenvironment.org/en/](https://globalpactenvironment.org/en/) While many States support its adoption, several States are strongly opposed to it. There will need to be clarity as to whether each country’s accounting standards are impacted by the above especially for international reporting purposes.

This is needed by preparers in order to adequately address climate risks and to make decisions regarding future allocation of resources to exploring opportunities.

3. The UKEB’s draft comment letter concludes that the ISSB should add as an activity, and place a medium priority on, developing a long-term road map for its standards. Do you agree with this? Please explain why or why not.

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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Please include any comments you may have in response to question 3:

Yes, the development of a comprehensive Roadmap would be very helpful for preparers in planning their transition programmes to address issues identified above as well as to enhance the points of comparison as preparers publishing their annual reports and traditional financial statements.

4. The UKEB’s draft comment letter concludes that the ISSB should place a low priority on new research. Do you agree with this? Please explain why or why not.

Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
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Please include any comments you may have in response to question 4:

I disagree with the UKEB’s draft comment letter concluding that the ISSB should place a low priority on new research. There is no rational reason why new research cannot be commissioned and used to inform policy formulation and the identification of actions that should be taken, alongside existing objectives.

It is imperative to discover, research and navigate a transition to a sustainable future underpinned by rigorous and robust research the connections between traditional accounting and sustainability transitions. Undertaking directly relevant research into accounting for sustainability will expand what we know about corporate reporting and is intrinsically sensible and useful for tracking progress. We are at a crucial juncture in history where the urgency of accurate and comprehensive corporate reporting is developing a paradigm shift in standard setting processes.

The approach advocated here is to make the accounting for sustainability corporate reporting research, from the outset, directly relevant to policy formulation. I suggest focussing on which priority actions which should be taken by the largest companies (who make the greatest environmental impact) in their corporate reporting.

New approach to corporate reporting could emerge, for example, in relation to reporting complex technology with capacity to more easily link key projects and products to level of commercialisation and improved capacity to tag using specific Technology Readiness Levels 1-9 terminology when using XRBL digitised annual reports. See J. Denoncourt, Part III, Shaping Intellectual Property Financing for Sustainable Innovation, Chapter 15 ‘Seeking and hiding: Corporate disclosure norms, non-financial technology information and the Technology Readiness Level (TRL) System’ In: Mahonen and Pihlajarrine (eds) *Rethinking the Role of intellectual Property Rights in the Post Pandemic World: An Integrated Framework of Sustainability, Innovation and Global Justice* (Edward Elgar, forthcoming autumn 2023)

5. The UKEB’s draft comment letter concludes that the ISSB should place no priority on targeted enhancements to ISSB Standards and enhancing SASB Standards. Do you agree with this? Please explain why or why not.

Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
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Please include any comments you may have in response to question 5:

Targeted enhancements could form part of a scheduled Review in the longer-term and be noted as a milestone on the proposed Roadmap development for the ISSB standards through to 2030.

Proposed enhancements could potentially introduce greater alignment same with the UN Sustainability Development Goals and international treaty obligations and other regulatory developments.

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

6. The UKEB’s draft comment letter concludes that the ISSB should include two additional criteria: interaction with IASB projects and capacity of stakeholders to implement the outcome of standard setting. We also suggest minor wording changes to two of the criteria. Do you agree with this? Please explain why or why not.

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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Please include any comments you may have in response to question 6:

However, note that the most onerous compliance obligations fall on the largest companies. These large firms have the most capacity to implement the outcomes of standard setting. Large firms are mostly well-resourced and in a strong position to ensure transparency and disclosures especially in the medium term once they have a better understanding of the accounting for sustainability framework and system that how to adapt their internal management systems to produce and report the new style of information.

The additional ‘reduced financial capacity to implement outcomes’ of standard setting could be more focussed on SMEs.

Integration in reporting (Rfi Question 7)

7. The UKEB’s draft comment letter concludes that the ISSB should be focused on connectivity as part of its ongoing activities. It also indicates that the UKEB has not heard substantial support for the ISSB looking at Integrated Reporting or Management Commentary. Do you agree with this? Please explain why or why not

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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Please include any comments you may have in response to question 7:

There is ample research that indicates that the main limitation of integrated reporting (IR) is that it doesn’t provide sufficiently detailed information. In particular, it has not been well-suited for reporting on various key types of intangibles (especially intellectual property rights such as patents, trade marks, copyright etc).

Thus, generally speaking the disadvantages are that IP is complex, lacks clarity and there is a lack of consensus as to how to present an integrated annual report using agreed terminology (reducing comparability). Further, there is currently a lack of accepted standards embedded in the International Integrated Reporting Council (IIRC)’s framework.

In my view, shareholders, regulators and stakeholders need more explicit disclosures using precise language and signposting in annual reporting to ensure clear linkage of expenditure to specific key intangibles, rather than an integrated approach which has the potential to obscure and obfuscate across the whole annual report (J. Denoncourt 2016, 2018).

Other disadvantages include: (1) the IIRC still needs to be tested in a comprehensive research study; (2) there are few case studies to illustrate best practices in a sustainability context and (3) the relationship with other forms of reporting such as statutory narrative reports, sustainability reports and digital reporting using XRBL is not clear.

Indeed, the majority of the largest firms currently devote significant words/space to narrative disclosures highlighting investment/expenditure on intangible assets using specific headings. These signposted disclosures explain to shareholders how corporate investment in intangibles assets and sustainability strategy delivers value. In the future this will be more useful when using XRBL machine language for annual reports as specific terms will need to be adopted for tagging purposes (see Garcia, Denoncourt and Quagli, 2023 *Accounting in Europe*, forthcoming). Integrated reporting will likely be more difficult for use in the XRBL digital reporting environment until a coherent, consistent terminology for its six ‘capitals’ is produced.

The IASB, IFRS and ISSB have clearly indicated that connectivity entails express linkage to both financial and sustainability reporting.

However, it should be born in mind the EU Non-financial Reporting Directive is closely aligned with the principles of Integrated Reporting, although IR is not mandatory.

The UK could adapt the principles for use in UK corporate reporting with an eye to pragmatism and clearer labelling/tagging.

Other Comments

8. Do you have any other comments you would like to add?

I wish to draw the UKEB's attention to the Transition Taskforce (see <https://transitiontaskforce.net/>) and the need to collaborate with in in relation to accounting standards and corporate reporting.

The Transition Plan Taskforce (TPT) was launched by HM Treasury in April 2022 to develop the gold standard for private sector climate transition plans.

The TPT is informing and building on international disclosure standards.

The UK Government and the Financial Conduct Authority are actively involved and will draw on the TPT's outputs to strengthen disclosure requirements across the UK economy.

Thank you for completing this Invitation to Comment

Please submit this document

by 23 July 2023 to:

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