

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:

We at the Emerging Technologies Sustainability Taskforce broadly agree with this statement, but with a caveat that the standards themselves are vital. Bearing this in mind, we firmly believe that the implementation of S1 and S2 should be a high priority. However, we do not agree that implementation should be the primary focus. We believe that developing a long-term roadmap and conducting ongoing research to support evidence-based standards should be done concurrently and with equal priority.

To elaborate on the implementation priority, we wish to draw attention to the idea that any standards should be auditable, decision-useful, and, particularly for sustainability standards, capable of reflecting meaningful and comparable change or action by the reporting entities. Reporting entities may become adept at sustainability disclosure, but this alone may not signify that meaningful action has been taken to address sustainability priorities. Again, while the standards themselves are crucial, how they are implemented, monitored, and used to drive true change is also critical.

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:

The connectivity between the ISSB’s reporting guidance and that of the IASB is indeed an important priority. Having said that, we believe the ISSB could be the best suited of the two to respond to these growing reporting needs - but crucially, in order to do so effectively, they must engage closely with those with proven expertise in sustainability metrics across varying types of industries and business activities.

IFRS standards are also notable for their disciplined and clear due process. This enhances their credibility. However, the length of time it can take to move from initial research / proposal stage to final standards. A slow response time to final standards would not be helpful for the current and ongoing pressing sustainability reporting needs.

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

We disagree with considering this element as only a medium priority. Although sustainability reporting is relatively new to the financial reporting community, numerous reputable organisations have been working on developing metrics and guidance in this area for a long time.

As a result, the development of a long-term plan (which remains open to modification as new issues arise) should be a **high** priority, and those who have already been working on these reporting issues for a long time should have key seats at the table. The work of the FRC’s Financial Reporting Lab and the UKEB’s Sustainability Working Group are also noteworthy because they encompass all stakeholders in an holistic manner and seek evidence-based solutions to reporting needs within the UK.

We acknowledge that the ISSB, IASB, and UKEB take into account lobbying efforts by specific organisations or entities, but we would like to remind that while it is important to have key voices at the table, it is equally important to have methods in place for differentiating between advocacy and education versus lobbying for a solely self-interested outcome.

An important follow-on point from this is that a long-term roadmap is not solely for or about the ISSB (or any standard-setter or regulator). Roadmaps and clear timelines (that are also flexible to new reporting needs) give a clear indication to all stakeholders about when and how they need to get involved. People and industries can then align their resources appropriately, enabling the standards to develop and be implemented as effectively and efficiently as possible. As with all standards, it is best to bring all market participants along on the journey in the most clear, transparent and organised manner as possible.

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:

We disagree with considering this element only a low priority. It should have a **higher** priority than this - at least 'medium' if not 'high'. This is because sustainability is a fast-moving agenda, with best-practise requirements continually tightening.

We believe the ISSB should follow the well-respected and established route that the IASB has done with regards to research and evidence-based standard setting. In particular as the S1 and S2 standards relate to areas that are relatively new for the field (and the world), it could be critical to have good research partners alongside who can respond to requests around ESG - how to measure, what to measure, etc, as well as how any metrics can be effectively monitored and controlled.

This research should be applied research, rather than primary research, and there are several universities globally who can assist ISSB with this type of work. We would be glad to assist with those connections, if needed.

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:

We disagree with the conclusion of no priority to targeted enhancements to ISSB standards or to enhancing SASB standards for several reasons.

Firstly, the ISSB has stated that SASB standards are a good place to start for companies seeking guidance on reporting metrics. As long as the ISSB is making this recommendation, then it should place a **high priority** on ensuring that those metrics and standards are as effective as possible. We believe that the ISSB should provide enhanced recommendations for methods of measurement that can be used and replicated to ensure that industries can effectively use the SASB standards consistently and comparably.

Secondly, the SASB standards are industry-specific, and if an industry is not already included in their list of available industry guides, it may not be clear which metrics to report or which industry’s guidance to follow. For example, if one searches for ‘blockchain’ using the SASB’s search functionality, the list of companies and their associated ‘suggested’ industry guidance varies – ranging from Mining to Beverages. This suggests that in the case of a missing or emerging industry, the existing SASB industry-specific standards and guides may not be suitable, and therefore, enhancements are necessary.

Thirdly, building on the above point, there is currently no clear existing industry guide that would be effective for companies with material blockchain or distributed ledger operations. Although this is a specific use case, we believe that the SASB industry

guides for current and emerging technologies more broadly may not be as effective as they could be. Considering the future reliance on more (not less) technological innovations, we recommend a deep and sustained focus by all standard setters and regulators on gathering additional expertise in technology and its future innovations.

This additional expertise would enable improved reporting for technology and technology-based industries. The nature and manner in which different technologies are used will become critical for auditing, and therefore robust standards would need to be in place to help companies navigate this complex arena. For example, cloud computing, the Internet of Things, 5G Private and Public Networks and the gathering and use of data in complex Data Supply Chains for Artificial Intelligence (AI) will all require improved guidance from the SASB. The role that technology is playing within a corporation when using these types of technologies is fundamentally different from previous generations of technologies, where many companies had full ownership of the technical estate. In the era of highly distributed or decentralised technologies, understanding how to measure them comparably is complex and is even more complex when it comes to sustainability.

In our view, the existing industries or industry guidance within the SASB list are neither comprehensive nor targeted enough to adequately address the sustainability reporting needs of the emerging technologies. Traditional accounting methods may not translate well into these technological areas as there are often distributed technical architectures associated with them. As a result, the accounting and reporting profession will need suitable guidance on how to measure these effectively and comparably between one another. Moreover, investors will need to be able to compare and contrast information between annual reports to identify greenwashing and other reporting distortions.

We believe that an understanding of the following terms and definitions is key to developing appropriate sustainability reporting metrics for current and emerging technologies and for technology-centric industries and use cases:

- General Purpose Technology (GPT) - General-purpose technologies (GPTs) are technologies that can affect an entire economy. GPTs have the potential to drastically alter societies through their impact on pre-existing economic and social structures. Blockchain, DLT, AI and 5G are all examples of digital GPTs.
- Web3: is often proposed as the next evolution of the internet that introduces concepts such as decentralised technologies, blockchain and semantic web. Unlike the current internet (Web2), where private companies control data and services, Web3 plans to empower users with greater control over their data and interactions. It can rely on blockchain technologies to enable transparent transactions and decentralised applications.
- Blockchain: Blockchain is a secure, decentralised digital ledger that records transactions across a network, ensuring transparency and immutability. It eliminates the need for intermediaries, providing greater trust and data integrity.
- Distributed Ledger Technology: DLT, or Distributed Ledger Technology, is a secure and decentralised system that records and shares information across

multiple participants, ensuring transparency and trust without the need for a central authority.

- Artificial Intelligence (AI) - Artificial intelligence (AI) is the ability of a computer or a robot controlled by a computer to do tasks that are usually done by humans because they require human intelligence and discernment. Although no AI can perform the wide variety of tasks an ordinary human can do, some AI can match humans in specific tasks.
- Data Supply Chain (DSC) - A data supply chain represents the technological steps and human-involved processes supporting the flow of data through an organisation (or economy), from its raw state, through transformation and integration, all the way through to the point of consumption or analysis.
- Internet of Things (IoT) - The Internet of things describes physical objects with sensors, processing ability, software and other technologies that connect and exchange data with other devices and systems over the Internet or other communications networks.
- 5G Private Networks - A private 5G network is a local area network (LAN) that will use 5G technologies to create a dedicated network with unified connectivity, optimised services and a secure means of communication within a specific area. It will deliver the speed, latency and other benefits promised by 5G to support next-generation applications.
- 5G Public Networks - A public 5G Network is one that provides 5G coverage through a Mobile Network Operator (MNO) in a similar way to 4G networks.

Criteria for assessing sustainability reporting matters that could be added to the ISSB’s work plan (Rfi 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:

We agree with the additional two criteria.

1. Interacting with the IASB projects is crucial to avoid confusion about which standards/approaches to follow and when (there is already existing confusion that should be cleared up quickly, in our opinion). In the spirit of the ISSB and IASB being responsible stewards of their own sustainability, it is also important for both organisations to **not** inadvertently create duplicative workstreams,

staff and buildings that add to their respective carbon and other footprints in the name of improved sustainability reporting by other reporting entities.

2. The capacity of stakeholders is a critical criterion in our opinion. This also is consistent with our suggestion that giving a high priority to developing a long-term roadmap is essential. Implementation and execution are always the most challenging aspects of any standard-setting process, and sustainability reporting is no exception. It is important to ensure that required reporting and the underlying drive for change and action in sustainability matters are both measurable and effective for all stakeholders.

In short, ISSB and IASB both need access to high-quality inputs from the technology sector and the sustainability sector to develop appropriate standards - we believe that this is currently missing, or requires further augmentation.

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:

We agree that the ISSB should focus on connectivity with Management Commentary, in particular, even if there is not currently substantial support for this during the UKEB’s outreach. Specifically, the ISSB and UKEB should be concerned about and weigh in on what sustainability information is reported in the Management Commentary versus the financial statements and their related notes.

Questions and concerns about the connectivity between the Management Commentary and the financial statements and related notes is a longstanding issue that predates sustainability reporting. Many stakeholders rely on the Management Commentary sections of annual reports without necessarily understanding that this section of an annual report is not subject to a full audit in many jurisdictions. As a result, sustainability disclosure may be provided there that appears to be more substantiated than perhaps it actually is.

We believe that the importance of the new ISSB reporting standards provides a golden opportunity for standard-setters to very actively think about educating stakeholders about the role of Management Commentary, and to provide improved guidance and oversight over this area of annual reports so that its connectivity and reliability can be enhanced.

Other Comments

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

In our assessment, the existing industries or industry guidance listed in SASB fall short of adequately addressing the sustainability reporting needs of evolving technologies. Traditional accounting methods may not be well-suited for these technological areas due to their distributed technical architectures. Therefore, the accounting profession requires suitable guidance on effectively and comparably measuring these technologies. Ensuring measurable and effective reporting for all stakeholders is crucial.

Both ISSB and IASB must access high-quality inputs from the technology and sustainability sectors to develop appropriate standards, as we believe this is currently lacking or needs further improvement. The Emerging Technologies Sustainability

Taskforce (ETST) was specifically established to address this gap, composed of experts in sustainability and technology with a strong commitment to positive change.

The ETST recognises the need for evidence-based, expert sustainability support to integrate the needs of current and emerging technologies into effective guidance. Having contributed to sector-specific guidance and led World Economic Forum (WEF) guidance, we believe there is a significant opportunity for us to contribute to such discussions and debates within the ISSB, UKEB, and IFRS Foundation. Conversely, not including the emerging technologies sector poses risks, given its exponential growth, making it imperative to include this sector in guidance now.

Thank you for completing this Invitation to Comment

Please submit this document

by 23 July 2023 to:

UKEndorsementBoard@endorsement-board.uk