

Summary of the Sustainability Working Group meeting held on 29 June 2023 from 14:00pm to 17:00pm

In attendance	
Name	Designation
Seema Jamil-O'Neill	Chair
Anna Korneeva	SWG Member
Chris Smith	SWG Member
Deepa Raval	SWG Member
Fiona Donnelly	SWG Member (alternate)
George Richards	SWG Member
Henry Biddle	SWG Member
Kylee Dickie	SWG Member
Mark Randall	SWG Member
Maria Kingston	SWG Member (alternate)
Peter Leadbetter	SWG Member
Ronita Ram	SWG Member
Sabrina Curry	SWG Member
Carlos Martin Tornero	Observer (FCA)

Debbie Crawshawe	Observer (DBT)
Robert Harvey	Observer (FRC)

Apologies: James Sawyer
Joshua Davies
Nicole Carter
Yannis Tsalavoutas

Relevant UKEB secretariat team members were also present.

Welcome and Objectives

1. The Chair welcomed the UKEB’s Sustainability Working Group (SWG) to its third meeting, on 29 June 2023.
2. The Chair confirmed that the primary objective of the meeting was to collect feedback on the UKEB’s Draft Comment Letter (DCL), published on 23 June 2023, in response to the International Sustainability Standards Board’s (ISSB) Request for Information (RfI) on its Agenda for the next two years.

Background

3. The Chair set out the framework being established by the UK Government to endorse IF Sustainability Disclosure Standards, which consists of two separate committees advising the Secretary of State on the decision to endorse the standards for use in the UK. It was confirmed that a UKEB Board Member would be a member of the Technical Advisory Committee (TAC) and the UKEB would also have a seat on the Policy Implementation Committee (PIC). Both Committees would advise the Secretary of State, who retains the responsibility for the ultimate endorsement.
4. The DBT observer advised that the PIC would be responsible for considering policy implications, including considering the likely dual track of implementation through the FCA’s Listing Rules and the Companies Act to ensure consistency.
5. The UKEB Secretariat presented slides from the recent IFRS Foundation Conference which summarised ISSB Standards IFRS S1 and IFRS S2. The Secretariat provided a brief description of the final standards and key differences from the Exposure Drafts.

UKEB Draft Comment Letter in response to ISSB Request for Information

6. The UKEB Secretariat highlighted that they were seeking detailed views on each topic covered in the UKEB's DCL to the ISSB so that it could inform the Final Comment Letter.
7. Feedback from the UKEB's other advisory groups (AGs) had indicated the importance of the ISSB:
 - consolidating achievements to date, and delivering the globally accepted baseline mandatory standards;
 - supporting strong due process and stakeholder engagement;
 - prioritising the implementation of IFRS S1 and IFRS S2 (this had received almost unanimous support from the members of the all the advisory groups); and,
 - a long-term roadmap / conceptual framework.

Topic 1: Strategic direction and balance

8. The members made the following comments:
 - They generally agreed with the content in the UKEB's DCL.
 - It was clear that a lot of help would be needed across the spectrum of industries, including for the large, listed companies, to understand the requirements and to implement them.
 - Connectivity between the IASB and ISSB is not a matter of aligning processes but should be a strategic priority for both boards, including collaboration on projects.
 - 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, the reporting entity concepts differed.
 - 'Alignment' was critical, it was more than a simple lack of conflict, the reporting should be aligned to limit differences that otherwise needed to be explained.
9. The Secretariat invited comments regarding prioritising a roadmap and/or conceptual framework, and members made the following comments:
 - The members agreed with the call from other UK stakeholders who had asked the ISSB to set out a roadmap incorporating the rationale for determining the projects it would undertake, their scope, and the expected timelines attached to those projects.
 - In the short term, it was considered necessary to understand the type and scope of potential future standards and the overall architecture.

- The conceptual framework could be part of the long-term roadmap as, it might help to inform prioritisation. However, it needed to be developed in parallel with other standard setting and implementation projects so that the concepts could be road tested before their finalisation.
- Companies struggled to understand the long-term interoperability of the standards with those of other standard setters (European Union Sustainability Reporting Standards (ESRS), in particular) and it would be worth ensuring their roadmaps were aligned.

Topic 2: ISSB's criteria for assessing new projects

10. The Secretariat advised that the UKEB's Preparer Advisory Group (PAG) had agreed with the SWG suggestion that the capacity of the ISSB and stakeholders to progress standard development be considered, together with the capacity of preparers, investors, regulators and others to deal with the resultant implementation of standards.
11. A member commented that cost was missing from the criteria and was an important consideration. The Chair advised that costs/benefits analysis would also have to be carried out as part of the jurisdictional adoption.
12. Members made the following comments:
 - Considering that sustainability reporting was challenged by a lack of available and reliable data, a roadmap would make it easier to note whether deficiencies related to assessment of reporting.
 - Each standard would have to go through a local endorsement process and, local differences could make it too onerous to achieve a global baseline.
 - In terms of cost, it was sometimes harder to put a figure on compliance before companies commenced their implementation exercises.

Topic 3: New research and standard-setting projects

13. The Secretariat advised that as the UKEB's remit was connectivity, it would not be providing extensive feedback on the specific projects suggested. However, the UKEB had considered new ISSB research and standard-setting projects as being low priorities given the agenda consultation only covered a two year period, rather than the normal IASB consultation for a five year workplan.
14. The SWG was advised, however, that other UKEB working and advisory groups had noted that some research on some of these areas was important, in particular in relation to biodiversity and human capital. There was no support for a project on human rights at this moment. Some UKEB AG members considered that while

research was important the immediate priority for the ISSB was implementation and not new research projects.

15. Members made the following points:

- Low priority did not mean the ISSB should not commence work.
- Given the breadth of IFRS S1, it was not certain whether many entities would adopt it early. It was hoped that a consensus would develop as entities began to consider the material issues.
- As the EU ESRS consists of 12 standards, the ISSB should work to produce more standards to establish the global baseline.
- It was important not to suggest that company boards deprioritise these topics, given the shift in mindset and conversation trying to be achieved in the boardroom.

Topic 4: Integration in reporting

16. The Secretariat advised that the fourth research project proposed by the ISSB related to integration in reporting, but specifically with regard to the IASB's draft management commentary statement. Members were reminded that the management commentary statement had not been adopted for use in most jurisdictions.

17. The UKEB's DCL set out that the ISSB should work with the IASB, to ensure connectivity was effectively reported and explicitly communicated, as part of the core business, rather than a new research project.

18. Members made the following comments:

- Financial and sustainability reporting needed to be connected but management commentary may create another unnecessary layer of reporting, sitting over the top.
- Wider corporate reporting frameworks were decided by local governments, in countries, such as the UK, where the framework is set out in law. ISSB should not be redirecting resources to providing guidance in an area that it currently has no remit.
- Logistically, linking financials with sustainability reporting, was quite challenging.

Topic 5: Due process and conceptual framework

19. The Secretariat that the UKEB would continue to reiterate the importance of the ISSB adhering to the IFRS Foundation's due process as this was central to developing credible global standards that are accepted by stakeholders and can be implemented on a mandatory basis.

20. Members made the following comments:

- While speed may be seen as essential, a lack of due process put pressure on local endorsement boards to remedy elements of the standards which were not fit for local purposes.
 - Some stakeholders felt they had not had the opportunity to engage or that engagement had been so rushed that they had not had time to digest and reflect on the implications of those changes.
 - Elements of the final standards had been a surprise, even to those who listened to all the ISSB's meetings, as stakeholders were not consulted on the text during the ballot process (as is the case for IASB standards).
 - Some of the guidance presented in the EDs for S1 and S2 now appeared to be integral to the standards without any recourse to stakeholders about this significant change.
 - There had been no impact assessments or field testing of the standards ahead of their publication.
21. The UKEB Secretariat asked for views on the relative importance of a conceptual framework for sustainability and the members advised that:
- A conceptual framework would set the foundation as to what standards were being developed, to see how it was working and get on with the job of identifying users, scope and other similar areas.
 - It was unclear how the framework could now be disentangled, given some of it appeared to have been incorporated into IFRS S1 and might have to be "unembedded".
 - There was a risk of confusion if companies were required to adhere to standards developed following two separate conceptual frameworks in the same set of accounts.
 - Some jurisdictions might not adopt IFRS S1 on the grounds it embedded a conceptual framework which had not gone through due process.
 - The financial statement information had to map to the sustainability data, to the extent relevant. Whatever framework was adopted, it all had to "hang together".
22. The Chair reminded members that in the UK the IASB's conceptual framework had not been adopted, as it was not adopted in the EU. Therefore, if IFRS S1 were to be adopted, there would be a difference from IASB adoption in the UK which added a layer of complexity.

Next Steps

23. The SWG were advised that the ISSB consultation period was still open and encouraged members to submit formal responses.

24. The UKEB would convene a special virtual meeting on 2 August 2023 to discuss and agree the Final Comment Letter to be sent to the ISSB.
25. The Chair noted that the SWG had been convened to consider draft IFRS S1 and S2. She advised that as the UKEB had a role in the UK endorsement process for ISSB standards therefore the group's role would be raised with the Board and members would be updated on the Board's views in due course.