ISSB Exposure Drafts *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures*: Draft Comment Letter

Executive Summary

Project Type	Influencing
Project Scope	Significant
Purpose of the paper	
The purpose of this paper is to obtain Board feedback and approval for publication of the Draft Comment Letter (DCL), and the accompanying invitation to comment questions, on the International Sustainability Standards Board (ISSB)'s exposure drafts (EDs) IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ("IFRS S1") and IFRS S2 *Climate Related Disclosures* ("IFRS S2").	
Summary of the Issue	
The newly formed ISSB issued its first two EDs, seeking comments by 29 July 2022. The UKEB Regulatory Strategy for 2022-23 set out its workplan in relation to Influencing Projects[1], including a consideration of the overlap between IFRS and the ISSB EDs at the request of the Department for Business, Energy, and industrial Strategy (BEIS). The project encompasses both EDs due to the close alignment of their content and comment deadlines. A single DCL incorporating views on both ISSB EDs has been produced and will underpin the on-going stakeholder consultation over the coming months. The DCL welcomes the first ISSB issued standards, congratulating the ISSB on their timely production. It includes detailed suggestions for improvement as well as recommending that field testing is undertaken to address any implementation issues. A final Comment Letter will be tabled at the UKEB meeting in July 2022.	
Questions for the Board	
1. Does the Board have any comments or suggestions regarding the proposed DCL? 2. Does the Board have any comments regarding the proposed Invitation to Comment questions?	
Decisions for the Board	
The Board is asked to approve for stakeholder consultation: 1. the draft comment letter, and 2. invitation to comment questions.	
Recommendation	
The Secretariat recommend that the Board approves the draft comment letter and invitation to comment questions.	
Appendices	
Appendix 1 Draft Comment Letter – IFRS S1 & IFRS S2	

[1] UKEB Regulatory Strategy '#26 IFRS and International Sustainability Standards Board's (ISSB) standards – overlap

Background

1. In November 2021, in response to calls from the G20, IOSCSO, and others, the IFRS Foundation announced the formation of a new International Sustainability Standards Board (ISSB)[2] at COP 26. The purpose of the ISSB is to develop, in the public interest, a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs.

2. There are currently over 400 voluntary frameworks available for companies to use when reporting their Environmental, Social and Governance ("ESG") information but there is no single framework covering the full range of issues which fall under the heading of Sustainability.

UK Framework

3. In the UK, the Companies Act 2006 requires UK registered entities to report on ESG matters within their annual reports. As most other jurisdictions do not require such disclosures, the UK is several reporting cycles ahead and considered to be a global leader on reporting on ESG matters. However, even here the introduction of mandatory reporting under ISSB issued standards will require a significant step change.

4. The UK legislative landscape and corporate reporting framework is likely to need to change to enable UK companies to use these standards in a consistent and comparable way. We expect these changes to the landscape to continue during the course of our work on this project, and we will be monitoring to ensure that they reflect the needs of our stakeholders.

5. 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. Changes to both the primary and secondary legislation may be required for UK registered entities to be required to report under them.

6. Currently, no single UK organisation has been delegated a statutory function to consider and adopt these standards for use in the UK. BEIS has committed to carrying out the associated public consultation on any proposals in relation to the adoption mechanism for ISSB issued standards, as well as the scope and location of disclosures.

7. The UKEB is the UK's standard setter for international accounting standards[3]. The UKEB's mission, set out in the UKEB Regulatory Strategy[4], is to serve the UK public good by leading in the development and synthesis of UK views on financial reporting and representing them in the international arena. The UKEB is also required, by its

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2 IFRS Foundation announces formation of new Sustainability Standards Board

3 Para 5(b) of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 (2019/685) provides the Secretary of State for BEIS with the responsibility for "*participating in and contributing to the development of a single set of international accounting standards*". This responsibility was delegated to the UKEB under The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021 (2021/609)

4 UKEB 2022-2023 Regulatory Strategy - '#26 IFRS and International Sustainability Standards Board's (ISSB) standards – overlap'

Terms of Reference[5], to influence the development of IFRS, consult with stakeholders to obtain their views, and highlight concerns to the IASB.

8. Following a request from BEIS, the Board agreed to assist the Government by carrying out work in this area to consider the suitability of these standards for use in the UK.

9. At its 21 April 2022 meeting, the Board agreed the Project Implementation Plan (PIP) for work to commence to look at the overlap between IASB and ISSB issued standards, develop a communications strategy, and actively engage with UK stakeholders (including government departments and regulators) and other national standard setters.

The ISSB Exposure Drafts

10. The ISSB currently consists of a Chair and Vice Chair. Recruitment for the other Board members is underway and will be completed in phases, with six new Board members expected to be appointed by the end of July 2022. It is proposed that the full Board of 14 members is in place by the third quarter of 2022[6].

11. In March 2022, the International Sustainability Standards Board (ISSB) issued two Exposure Drafts ("EDs"), IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*[7] ("IFRS S1") and IFRS S2 *Climate Related Disclosures*[8] ("IFRS S2"). These are the first EDs published by the ISSB.

12. The IFRS Foundation Trustees granted special powers to the ISSB Chair and Vice Chair to enable the publication of the EDs before the ISSB Board was quorate. Their aim was to balance the need to advance the urgent work of the ISSB with the requirement to obtain stakeholder views. The Trustees noted that this was a transitional measure and provided for under the IFRS Foundation's *Constitution*, published in November 2021. The EDs will be redeliberated following the appointment of the additional six Board members.

13. The EDs are based on the prototypes developed by the IFRS Foundation's Technical Readiness Working Group[9] (TRWG). Those prototypes were developed with reference to the IASB frameworks and standards, recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD) and incorporated the industry-based

5 Terms of Reference para 3.1 (a) Roles and Responsibilities 'Influencing the development of IFRS, including, but not limited to, following, and contributing to debates on the IASB's projects, having oversight of consultations with UK stakeholders to obtain their views, and highlighting concerns to the IASB, as and when appropriate, including the development of the IASB's agenda and post-implementation reviews

6 IFRS Foundation Update on appointment to the inaugural ISSB.

7 IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

8 IFRS S2 Climate Related Disclosures

9 IFRS Foundation Technical Readiness Working Group

standards of the Sustainability Accounting Standards Board (SASB)[10]. The prototypes were released publicly at the COP 26[11] conference in November 2021.

14. The comment period has been set for 120 days, concluding on 29 July 2022. The ISSB will then review the feedback in the second half of 2022 and intends to issue the final standards by the end of the year. The IFRS Foundation's Due Process Oversight Committee was consulted on the approach[12] and raised no objections.

15. It is intended that the standards will apply prospectively, and that entities will have relief from disclosing comparatives in the first year of application. An effective date will be set when the standards are finalised.

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

16. IFRS S1 sets out the proposed general reporting requirements for the disclosure of sustainability-related financial information[13]. The information is intended to enable primary users of the entity's general purpose financial reporting to assess the entity's enterprise value to determine whether to provide resources to it. The ED has been adapted from IAS 1 *Presentation of Financial Statements*[14] and is intended to perform a similar function for ISSB Standards. That is, IFRS S1 requirements are not limited to climate-related matters and are intended to provide a framework for all future ISSB issued standards.

Interaction with IASB Standards

17. We note that the Basis for Conclusions for IFRS S1 states[15] that the sustainability-related disclosure requirements are intended to complement the information currently disclosed in general purpose financial reporting. The objective is that all information is prepared consistently, where appropriate, and can be connected in general purpose financial reports. The ISSB has applied the qualitative characteristics in the IASB *Conceptual Framework* to aid consistency[16].

18. The ED has been based on IASB's *Conceptual Framework for Financial Reporting,* IAS 1 *Presentation of Financial Statements,* IAS 8 *Accounting Polices, Changes in*

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10 According to IFAC The State of Play in Sustainability Assurance (June 2021) of the UK entities surveyed approximately 40% under made sustainability disclosures under TCFD, 35% under GRI Standards, 15% under SASB Standards.

11 IFRS Foundation announces ISSB and publication of prototype disclosure requirements

12 IFRS Foundation Due Process Oversight Committee Summary of meeting held on 21 March 2022

13 ISSB note that these proposals are in response to demand from users of general-purpose financial reporting for more consistent, complete, comparable, and verifiable sustainability-related financial information, to help them assess an entity's enterprise value. Enterprise value reflects expectations of the amount, timing, and certainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its' access to finance and cost of capital. The proposals require an entity to disclose material information about all significant sustainability-related risks and opportunities to which it is exposed.

14 Basis for Conclusions IFRS S1 para BC18, page 8

15 Basis for Conclusions IFRS S1 para BC14, page 7

16 Basis for Conclusions IFRS S1 para BC60, page 19. Qualitative characteristics of useful sustainability-related financial information have also been provided in Appendix C of the Exposure Draft for guidance.

Accounting Estimates and Errors and with reference to *IFRS Practice Statement 2 Making Materiality Judgements*, where applicable.

19. The Basis for Conclusions also notes[17] that '*the requirements and guidance from IAS 1 and IAS 8 have been changed only to refer to sustainability-related financial disclosures, with two exceptions – location of information, and special application of sources of estimation and outcome uncertainty and errors.*'

20. In relation to the location of information, an entity would be required to report sustainability-related financial disclosures at the *same time* as it publishes its related financial statements. In the UK, BEIS are expected to consult on the most appropriate location for these disclosures. but they are likely to be required within the Annual Report.

21. The proposals are also intended to act as a global baseline, that are interoperable with the range of jurisdictional laws and regulations, while meeting the needs of capital markets[18]. In addition, an entity could apply IFRS Sustainability Disclosure Standards whether their financial statements are prepared using IFRS or another accounting framework i.e. local GAAP. However, in the UK, Companies Act legislation will specify whether this will be acceptable for UK registered entities, as other global jurisdictions will determine for their own frameworks.

IFRS S2 Climate Related Disclosures

22. IFRS S2 is a thematic disclosure standard and sets out the proposed requirements for identifying, measuring and disclosing climate-related risks and opportunities[19]. The standard is designed to enable users of general-purpose financial reporting to assess an entity's exposure to, and management of, climate-related risks and opportunities, across markets, to facilitate capital allocation and stewardship.

23. The ISSB Basis for Conclusions for IFRS S2[20] notes that IFRS Accounting and Sustainability Standards are intended to be complementary. It also notes that the ED does not '*negate requirements to consider the effects of climate, when material, in applying IFRS Accounting Standards*[21]' and specifies that the application of the ED is not a substitute for applying the requirements of IFRS Accounting Standards.

24. We note that IASB standards do not explicitly refer to climate-related risks and opportunities. However, entities are required to consider climate-related risks when

17 Basis for Conclusions IFRS S1 para BC48, page 14

18 This has been designed through a 'building block' approach where IASB standards are the base block and the ISSB standards are added to create a global baseline to meet the needs of primary users of general-purpose financial reporting. Local public policy requirements, or other sustainability frameworks, can then be added to this baseline to meet the needs of wider stakeholders.

19 The ISSB note that an entity's relationship with the environment has become increasingly important. Climate change presents significant risks for all entities, their activities, and their economic sectors. The proposals in the exposure draft are intended to facilitate the provision of comparable information on this topic for global capital markets.

20 Basis for Conclusions IFRS 2 para BC195, page 58

21 Basis for Conclusions IFRS 2 para BC196, page 58

applying IFRS if their effect is '*material in the context of the financial statements taken as a whole*'[22].

25. The IFRS S2 Basis for Conclusions[23] notes that the ED requirements are *'consistent with and complement those in [draft] IFRS S1'*. These include the core content areas, conceptual elements, and general features e.g. materiality, reporting entity, connected information and the location of information.

26. The standard is structured around the TCFD four core elements of governance, strategy, risk management, and metrics and targets. A potential area of overlap with IFRS may be the strategy and decision-making disclosure requirements.

Economic assessment

27. To support the response to the ISSB, and to help explain the potential economic impacts on UK stakeholders, the economics team have:

    a) engaged with the London Stock Exchange Group to discuss the prevalence of sustainability and climate reporting among UK listed companies. Unfortunately, there is not yet a consolidated repository providing detail on which companies report under which sustainability framework;

    b) merged data provided by sustainability framework and standard providers with other market data, such as Reuters-Eikon, to derive the approximate prevalence of sustainability reporting for listed companies for 2021-year ends; and

    c) referenced the BEIS impact assessment[24] for the policy intervention regarding mandating of TCFD climate-related financial disclosures in April 2022.

28. This research has been incorporated into the Draft Comment Letter to provide context for the status of sustainability reporting in the UK.

Research & Outreach

Desk-based research

29. To inform the drafting of the DCL, the following desk-based research has been conducted:

    a) a high level 'top down' review of the standards' principles and concepts followed by a detailed 'bottom up' review comparing between the ISSB EDs and relevant IASB standards;

    b) a review of the structures of the EDs in comparison with IASB standards to ensure any differences are easily identifiable; and

22 IFRS Foundation 'Effects of climate-related matters on financial statements' – November 2020
23 Basis for Conclusions IFRS 2 para BC17, page 9
24 UK to enshrine mandatory climate disclosures for largest companies in law

c) consideration of overlap between the EDs and the disclosure requirements in IASB issued standards.

Outreach with UK stakeholders

30. As per the Project Initiation Plan, approved by the Board at its April meeting, the Secretariat has, so far:

    a) conducted three interviews with accounting firms to explore their views on how reporting will work in practice, whether the disclosures will be useful and comparable, and to identify any areas of concern or difficulty;

    b) attended webinars held by the ISSB and the FRC that introduced the EDs to UK stakeholders; and

    c) worked in coordination with BEIS and other UK regulators to ensure the UK's feedback takes the issues and concerns of all UK stakeholders into account.

UKEB Draft Comment letter

31. A DCL for Board discussion is included at Appendix 1 to this paper.

32. Due to the close association between the two EDs, we have co-ordinated the UK response as a single project, to avoid repetition. We are, therefore, submitting one comment letter covering both EDs. There are three appendices to the draft comment letter:

    - Appendix A: Questions and comments on IFRS 1;
    - Appendix B: Questions and comments on IFRS 2; and,
    - Appendix C: Combined Invitation to Comment questions.

IFRS S1

33. We have made the following high-level recommendations:

    a) We highlight a number of areas where the baseline may have been set too high to initially encourage maximum participation.

    b) We propose changes to certain definitions or the creation of new definitions to provide clarity and reduce the breadth of the proposals.

    c) We highlight inconsistencies between these proposals and the requirements of IFRS standards where we consider further alignment is needed, or where signposting may be helpful to assist users and improve understandability of the general purpose financial reports.

    d) We share learnings from our stakeholder outreach and field testing on the recent IASB Exposure Draft *Disclosure Requirements in IFRS Standards – A Pilot Approach,* recommending the use of specific objectives, multiple examples and other findings which may benefit this standard.

e) We recommend extensive field testing to provide an evidence base for the proposals, which will provide useful information on practical concerns, effective date and likely costs and benefits.

IFRS S2

34. We have not responded to all questions in the ED as some are out of our scope, or our remit. However, if stakeholders have views on these questions, we will ensure they are shared with the ISSB. In this vein, we have shared stakeholder feedback: i) on Appendix B to the ED, which contains the SASB industry standards; and, ii) challenges with stakeholder capacity to provide comprehensive feedback to ISSB when several jurisdictions have issued draft climate-related standards, concurrently.

35. As there is close alignment between the EDs, we have cross referenced, as appropriate, to comments in IFRS S1 to avoid duplication.

36. We note the challenge with defining 'climate related risks and opportunities', but also consider that the proposed approach of relying on TFCD and SASB may be too broad and result in challenges with application and, consequently, assurance. We suggest in the DCL that the ISSB considers using or adapting an existing definition, providing additional guidance, and fielding testing the approach with stakeholders, to validate.

37. As there is already a level of familiarity in the UK with the TCFD disclosure requirements, which IFRS S2 is largely based on, stakeholders may be more aware of, and prepared for, these disclosure requirements than for those in the IFRS S1. We have, therefore, suggested that the effective date for the ED should be earlier than that of IFRS S1.

38. The above points need to be analysed further as desk-based research and stakeholder outreach continues.

Questions for the Board

39. Does the Board have any comments or suggestions regarding the proposed DCL?

40. Does the Board agree with invitation to comment questions in Appendix C or have any additional or alternative questions for inclusion?

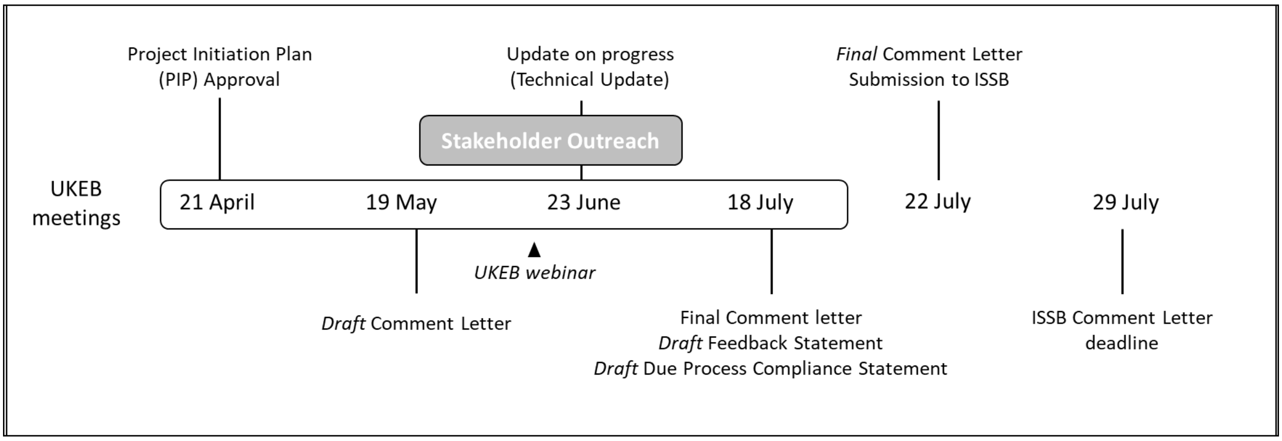
Next Steps

41. Outreach with stakeholders to continue through May and June 2022, including via publication of the DCL on the UKEB website.

42. Work has commenced on planning a joint half day webinar, with the IASB, the ISSB and BEIS, to consider the areas of overlap with IASB Standards.

43. The Final Comment Letter, Feedback Statement and draft Due Process Compliance Statement will be brought to the July Public Board meeting for approval by the Board.

Project Plan



Mr Emmanuel Faber
Chairman
International Sustainability Standards Board
c/o International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London
E14 4HD

XX July 2022

Dear Mr Faber

Invitation to Comment: Exposure Drafts S1: *General Requirements for Disclosure of Sustainability-related Financial Information* and S2: *Climate-related Disclosures.*

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 Foundation'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.

There are currently approximately 1,500 entities with equity listed on the London Stock Exchange using IFRS Standards[1]. In addition, unlisted companies have the option to use IFRS and a significant number take up this option.

UK Legislative Framework for Sustainability Reporting

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. Since 2013, the Companies Act 2006 has required all large and medium sized, UK registered entities to file a Strategic Report as part of their publicly available Annual Report. Quoted companies are additionally required to include information about environmental matters (including the impact of the company's business on the environment); the company's employees; and, social, community and human rights issues.

The UK was also the first G20 country to make climate reporting mandatory. Under the Financial Conduct Authority (FCA) Listing Rules, the, nearly 900, premium listed companies are required to report on a comply or explain basis, against the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD) for accounting periods beginning on or after 1 January 2021. In January this year, changes to the Companies Act 2006

[1] UKEB calculations based on LSEG and Eikon data.

extended the requirement to provide TCFD disclosures to all large companies & LLPs[2], over 1,300, for financial years starting on or after 6 April 2022.

The UK remains committed to an international approach to sustainability reporting to help ensure investors and other stakeholders have access to consistent and reliable information on how companies are addressing sustainability matters. As such, the Government intends to the establish a framework for the endorsement and adoption of ISSB issued standards for use in the UK. However, there is currently limited information on the likely time required for the legislative processes to complete. We understand that this is a consistent global theme, with several other jurisdictions in a similar position to the UK.

Currently, no single UK organisation has been delegated a statutory function to consider and adopt ISSB standards for use in the UK. Until the establishment of a legislative framework for adoption of the ISSB standards in the UK, the UKEB has been asked by BEIS to consider the overlap between IASB and ISSB issued standards.

The UKEB has keenly supported the establishment of the ISSB[3]. The UKEB considers that global standards for sustainability have the potential to be as significant for the market and stakeholder transparency as International Financial Reporting Standards (IFRS). The Board also recognises the need for close alignment and connectivity between financial and sustainability reporting to ensure that the information will provide investors with high-quality, comparable, and decision-useful information.

In the remainder of this letter we share our perspective, as national standard setter, about the readiness of legislators, users, preparers and their advisers to work with the sustainability standards. These are based on lessons learned from influencing and observing the IFRS standard setting process as well as our recent experiences of formally adopting IFRS for use in the UK. We hope these insights will be helpful during the ISSB's re-deliberations and help them develop high quality sustainability standards that are capable of being applied consistently across the globe. We remain ready to work with the ISSB to help achieve global acceptance of their standards.

Legislative readiness

The UKEB firmly believes that ISSB standards should act as a minimum global baseline that are built on by local regulators and jurisdictions. We would like as many jurisdictions as possible to be able to implement this baseline, as doing so will provide improved information to UK users of financial statements, particularly those who invest on a global basis.

However, for this aim to be achieved, stakeholders need certainty of the requirements both at the international as well as local jurisdictional level. In the UK, while stakeholders understand that the UK intends to adopt ISSB Standards[4] lack of full engagement with ISSB standards

2 More than 500 employees and £500M turnover.

3 See our comment letter on the IFRS Foundation's Exposure Draft (ED) *Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards* Invitation to Comment: Exposure Draft ED/2021/1 Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards.

4 UK Government Green Finance Strategy and Green Finance: A Roadmap to Sustainable Investing

may persist until there is further clarity on the adoption status of the standards and the entities that are in scope.

International readiness

We congratulate the IFRS Foundation, Technical Readiness Working Group members and the ISSB for the speed of delivery, following the announcement at the COP 26 conference, in November 2021. We recognise the urgency and high priority given to sustainability and climate-related matters by stakeholders globally, and we support the transitional approach adopted to publish the Exposure Drafts before the ISSB Board was quorate. We also understand that the rationale for this approach was to balance the need to advance the urgent work of the ISSB with the requirement to obtain stakeholder views.

We are, however, conscious of the global lack of experience and knowledge in this area, which means that there are limited pre-existing sources of information to draw on. We also understand that standard setters in other jurisdictions are also starting similar projects to ours, removing another potential source that would help amplify the debate and enable wider consultation. This all adds to the extensive number of domestic and international uncertainties and risks.

Our standard setting experience has made us keenly aware of the benefits of ensuring stakeholders have sufficient time to fully understand the requirements of new standards, consider any additional data or systems needs and field test them to flush out any implementation issues. Where stakeholder views have not been adequately sought and addressed as part of the due process, there can be a high risk of the need for re-exposure or, at worst, the need to fully overhaul a defective standard before it is implemented. We are, therefore, concerned that the comment period of 120 days, concluding on 29 July 2022, may unnecessarily limit stakeholder engagement. In this vein, we note that the SEC has extended its consultation period to give stakeholders more time to provide feedback on their climate standard.

User readiness

Whilst some sophisticated investors are aware of the benefits for sustainability reporting, recent media coverage[5] demonstrates that this is not a universal view. We consider that users of company annual reports will also need significant time to educate themselves and understand the impacts of the standards for this new area of reporting. In addition, they are also concurrently assessing the recently published EU and SEC sustainability standards.

Users will then need time to prepare operationally to update their analytical models and train their resources etc to be able to work effectively with the sustainability standards.

Preparer readiness

The UK is several reporting cycles ahead of most other jurisdictions in this space, as The Companies Act 2006 already requires certain entities to report on ESG matters. However, even here the introduction of mandatory reporting under ISSB issued standards will require a significant step change.

[5] Financial Times 10 May, BlackRock warns it will vote against more climate resolutions this year.

For context, based on 2021 year-end reports, we estimate that of 422 UK TCFD supporters[6], 93 were companies or groups listed on the London Stock Exchange with a combined market capitalisation of £1.16 trillion, representing approximately 40% of total market capital. According to SASB, 70 UK companies use their framework and of those, 54 were listed companies with a combined market capitalisation of £1.21 trillion, representing approximately 42% of total market capital[7].

While this is commendable progress, there are a significant number of listed companies that have not yet reported under TCFD. In addition, there have been consistent challenges, noted by the UK's Financial Reporting Council (FRC), with the quality of reporting and the poor links between the sustainability narrative and the financial statements[8].

In October 2021, BEIS conducted an impact assessment on the TCFD policy intervention and estimated that it would affect approximately 1,300 UK businesses with a best estimate cost of £1.42 billion[9]. This clearly anticipates a significant amount of organisational change and time will be required to provide this level of sustainability reporting across all industries.

As will be the case in many jurisdictions, while preparers understand that the UK intends to endorse ISSB Standards[10], without ISSB standards formally adopted for use in the jurisdiction they are likely to struggle to adequately design and implement the required data, systems, and processes to meet the reporting requirements.

In addition, UK preparers with operations in the EU and/or the USA are concurrently assessing the impacts of a suite of new sustainability reporting requirements issued by those jurisdictions.

UKEB's recommendations on due process

Based on our assessment of the low state of readiness of stakeholders, both in the UK and in other jurisdictions, we recommend that the ISSB reconsiders the pace of change. We would therefore encourage the ISSB to consider one or all of the following alternatives:

1. extend the comment deadline on these exposure drafts;
2. undertake field testing with a range of preparers of different sizes and from different jurisdictions; and
3. set up standard-specific transition resource groups.

Stakeholders, across the globe are now aware of the direction of travel concerning sustainability standards and that the ISSB is leading that journey. Therefore, we consider that extending the timeframe for stakeholders to work with the exposure drafts should be the first step. This would have the advantage of obtaining more comprehensive analysis and feedback, while the recruitment of the remaining ISSB board members is on-going.

6 Source: UKEB - TCFD Status Report 2021 data merged with Eikon data.
7 Source: SASB, Reuters-Eikon.
8 UK FRC Climate Thematic November 2020.
9 See https://www.legislation.gov.uk/ukia/2022/13/pdfs/ukia_20220013_en.pdf
10 UK Government Green Finance Strategy and Green Finance: A Roadmap to Sustainable Investing.

Detailed Feedback on the Exposure Drafts

We welcome the opportunity to provide comment on both ISSB's Exposure Drafts: S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and S2 *Climate-related Disclosures*.

To develop our draft response, our work to-date has included stakeholder outreach to identify potential areas of overlap between IASB and ISSB issued standards, or other implications to produce IFRS financial statements. [Stakeholder consultation is ongoing and will be concluded before this draft comment letter is finalised]

Due to the close association between the drafts, we have co-ordinated the UK response as a single project. We are, therefore, submitting one comment letter covering both drafts. Our responses to the detailed questions for each draft are included in the appendices to this letter.

[Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.

We welcome the exposure draft and support the need for a general requirements framework for sustainability-related information. We acknowledge the many areas of alignment with the IASB's *Conceptual Framework for Financial Reporting*, IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and believe this will improve connectivity within the financial reports and help stakeholders to better understand the information presented. Detailed responses to the questions are included within Appendix A to this letter. The following, however, are worth highlighting:

1. In Appendix A, we have highlighted some areas where the baseline may have been set too high to encourage maximum participation at the outset. These include our comments on definitions and the references to external resources (see paragraphs A10, A18 and A33 and paragraph A30 of Appendix A respectively). We believe further development of these requirements would be necessary to aid uptake of the standard. There will be opportunities in the future to further develop these areas via topic-specific sustainability standards, or by other regulatory or jurisdictional future requirements.

2. In our view, the strategic disclosures should in the first instance be based on an entity's business model. This would then help identify the linkage with the associated sustainability risks and opportunities. Emphasising the relationship between the business model and risks to future cashflows in the entity strategy would also enhance stakeholders' understanding of the direct link with financial reporting and their assessment of enterprise value.

3. Further, we note there is a practical tension between the ISSB's objective for complete reporting of sustainability-related financial information, as noted at ED IFRS S1 paragraph 2 (and throughout the proposals), and the concept of a *baseline.* A baseline is typically a set of common disclosures that many entities have the ability to comply with, rather than a set of complete disclosures. We recommend that further consideration is given to both the objective of completeness within the context of creating a global baseline, and how this is articulated in the proposals.

4. We have reflected on our experiences with stakeholder outreach and field testing for recent IASB disclosure consultations, and share these experiences where they may be helpful for successful implementation of this standard at paragraphs A6, A19, A31 and A34 of Appendix A.

5. In our experience, such as with the IASB Exposure Draft *Disclosure Requirements in IFRS Standards – A Pilot Approach*, supporting evidence for untested proposals can only be obtained through extensive field testing, in collaboration with the associated National Standard Setter. As the IASB has significant experience of field testing we recommend that the ISSB consider leveraging that experience to ensure the standards are developed from an evidence base. We recommend that the ISSB build into its project plans field testing of the requirements across different jurisdictions and with entities of different sizes to obtain further information on practical application issues, the most appropriate effective date and likely costs and benefits. We would be happy to support the ISSB in undertaking this work in the UK.

6. We have also noted certain inconsistencies between these proposals and the requirements of IFRS standards where we consider further alignment, or signposting to assist understandability, may be useful. These can be found at Appendix A paragraphs A6, A8, A15, A27 and A42.

[Draft] IFRS S2 *Climate-related Disclosures*:

We strongly support the close alignment of the exposure draft with the TCFD Recommendations, which many of our stakeholders will already be familiar with. Given the familiarity with the TCFD framework within the UK, we have, so far, heard fewer concerns with the proposals at a high level. Detailed responses to the questions are included within Appendix B to this letter. The following, however, are worth highlighting:

1. While we appreciate the challenge with defining 'climate related risks and opportunities', we consider that the proposed approach of relying on TFCD and SASB may be too broad and result in challenges with application and consequently assurance. We suggest using or adapting an existing definition and fielding testing this with stakeholders to validate (refer to paragraphs B2 and B4 in Appendix B).

2. We consider that the effective date for the exposure draft should be earlier than that of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. In the UK, as there is already a level of familiarity with the TCFD disclosure requirements, which IFRS S2 Climate is largely based on, stakeholders may be more aware and more prepared for these disclosure requirements (refer to B20 to B22 in Appendix B).

We have not responded to all questions in the exposure draft as some are out of scope or our remit. However, if stakeholders have views on these questions, we will ensure they are shared with the ISSB. In this vein, we received some initial feedback from stakeholders which we share here to support the ISSB deliberations. These are:

1. Some stakeholders found that the methodology used in the SASB standards required further alignment with TCFD framework to ensure consistent application.

2. Stakeholders recognised the benefit of using the enterprise value focussed SASB standards to provide a running start but had some reservations that they were included as an integral part of the draft before they had been subjected to ISSB due diligence. Some considered that, at this stage it may be more appropriate to incorporate them as guidance and that only the metrics should be mandatory.

3. Finally, stakeholders commented on the challenge to effectively assess the ISSB draft when multiple jurisdictions have also issued climate standards for comment concurrently.

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 Exposure Draft *General Requirements for Disclosure of Sustainability-related Financial Information.*

Question 1: Overall approach
The Exposure Draft sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it. Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value. a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer? b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not? c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 *Climate-related Disclosures*? Why or why not? If not, what aspects of the proposals are unclear? d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

Overall approach

A1 The ED does state clearly that the entity would be required to identify and disclose material information about all the sustainability-related risks and opportunities an entity is exposed to. However, the wording in the ED creates very broad requirements, which we do not believe are consistent with ISSB's intention to create a baseline for sustainability reporting. This is discussed further at paragraphs A10, A18 and A33 (definitions), A30 (external resources) and A49 (summary).

A2 Due to the broad scope it is likely that there will be significant variation in how companies/jurisdictions understand and choose to report on it. This would create challenges to achieving the objectives of consistency and comparability. To achieve consistency and comparability it may be beneficial to provide tighter definitions of key terms and minimum disclosures. This is discussed further in paragraphs A10, A20 and A33 below.

A3 The ED is clear that the requirements of this exposure draft would be applied together with the requirements of other ISSB standards. We note it is not clear whether the documents referenced in paragraph 51 of the ED will subsequently form the basis of future ISSB standards. This is discussed further in paragraph A30 below.

A4 We have not consulted the audit community as part of our stakeholder outreach. However, it is possible that broad requirements leading to a variety of interpretations explained at paragraphs A1and A2, will also create challenges to the audit process.

A5 We note there is a practical tension between the ISSB's objective for *complete* reporting of sustainability-related financial information, as noted at ED paragraph 2 (and throughout the proposals), and the concept of a *baseline.* A baseline is typically a set of common disclosures that many entities have the ability to comply with, rather than a set of complete disclosures. We recommend further consideration is given to both the objective of completeness within the context of creating a global baseline, and how this is articulated in the proposals.

A6 While considering the question of overall approach, additionally, we note that:

a) IASB has been working on its Disclosure Initiative, a portfolio of projects to improve the effectiveness of disclosure in financial statements, for many years and we encourage ISSB to ensure learnings from this extensive work are considered. To this end, we highlight in this letter stakeholder feedback received during our 2021 IASB Exposure Draft *Disclosure Requirements in IFRS Standards – A Pilot Approach* (the "Disclosure Pilot") consultation, where relevant to this ED.

b) The use of many elements of the IFRS conceptual framework, within the ED, should aid the understanding of stakeholders who are familiar with these concepts from IFRS reporting. We note that paragraphs 2.34-2.36 of the IFRS Conceptual Framework, which address the concept of understandability, do not appear to be reflected in the ED. Given the potentially technical/complex nature of sustainability disclosures we see merit in incorporating principles of understandability, including the acknowledgement at paragraph CF2.36 that "*…reports are prepared for users who have a reasonable knowledge…..even well informed and diligent users may need to seek the aid of an advisor…*"

c) Similar IFRS standards (IAS 1, IAS8) include a Purpose section early in the document. In the ED the Introduction section acts in a similar way, but this is not intended to form part of the final text. We recommend that information contained in the ED introduction be carried forward as a Purpose section in the final standard.

d) During our recent field tests for the IASB Disclosure Pilot consultation, it was observed that the inclusion of specific objectives and information on how users would use the information presented was helpful to producing high quality disclosure. While the ED goes some way toward providing general objectives (for example at paragraphs 12, 14, 25, and 27 when discussing the core content objectives), creating specific objectives for the other, detailed, disclosures required by the ED would likely improve the quality of reporting.

e) The ED Appendix C discussion of verifiability does not include reference to the IAS 1 paragraph 2.31 observation that verification methods may be direct or indirect, and describing these methods. Given the wide range of subject matter potentially included in sustainability disclosures, we recommend consideration be given to including a similar paragraph.

Question 2: Objective (paragraphs 1–7)
The Exposure Draft sets out proposed requirements for entities to disclose sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities on an entity's enterprise value. Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information in an entity's financial statements and sustainability-related financial information. Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Sustainability-related financial information should, therefore, include information about the entity's governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements. Sustainability-related financial information also depicts the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy, or about the entity's development of knowledge-based assets. The Exposure Draft focuses on information about significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity's enterprise value. a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not? b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

A7 The general objective of disclosing sustainability-related financial information is clear. However, as discussed at paragraph A6d, stakeholder feedback from our recent work on the IASB Disclosure Pilot consultation suggests that providing specific objectives for disclosures and information on how users will use the information provided may lead to higher quality reporting. Field testing the proposals with both preparers and users of annual reports will be a critical step in understanding the most effective path to baseline disclosure and we would be happy to support the ISSB in undertaking this work in the UK.

A8 The definition of users as being primary users of financial statements would benefit from further explanation. Given the nature of sustainability there is likely to be a wide community of users beyond investors interested in the information presented, and the extent to which their needs have been considered by these standards needs to be explained. For example, the IFRS conceptual framework addresses this in paragraphs 1.5-1.11, and acknowledges that other members of the public may find the reports useful, but the reports are not primarily addressed to these groups.

A9 We believe that an explanation of the relationship between the business model and risk to future cashflows would enhance stakeholders' understanding of enterprise value and the links with financial reporting. As with the approach in IFRS, users may find it helpful if the strategic approach started with the business model and then discussed the associated sustainability risks in that context.

A10 The reference to "sustainability-related financial information" is insufficiently clear, as the term "sustainability" has not been defined. In the absence of this definition, the requirement becomes, potentially, very broad – to provide insight on "risks and opportunities that affect enterprise value", which could incorporate a wide range of factors, far beyond what would be traditionally regarded as "sustainability". To ensure consistency and comparability, a shared understanding of the boundaries of "sustainability" is important.

A11 The UK requires certain companies to provide a non-financial and sustainability information statement within their Annual Report. The list of matters which that statement must contain could be used as a basis for defining "sustainability". Those matters are: climate-related financial disclosures; environmental matters (including the impact of the company's business on the environment); the company's employees; social matters; respect for human rights; and, anti-corruption and anti-bribery matters. Alternatively, an existing definition (such as that provided by the United Nations and referred to in paragraph BC 30) could be referenced in the list of defined terms.

A lesser concern regarding the definition of "sustainability-related financial information" is our assumption that, to meet the requirements of the proposed standard, non-financial information may need to be provided, in addition to monetized or qualitative disclosures. In the UK, legislation currently requires certain entities to provide their energy and carbon usage within their Directors' Report. The required disclosures include: the annual quantity of emissions, in tonnes of carbon dioxide, resulting from; and the figure, in kWh, of energy consumed from; activities for which the company is responsible, involving the combustion of gas, or consumption of fuel for transport.

A12 The use of the phrase "financial information" throughout the document caused initial confusion as to whether there would be another over-arching standard similar to S1 established for non-financial information. We do not believe this is ISSB's intent, and to avoid such confusion it may be better to remove the reference to "financial" and simply refer to "sustainability-related information". This may also be helpful in avoiding any confusion between the different basis of preparation of IFRS financial information and the requirements of this standard, discussed at paragraph A27.

Question 3: Scope (paragraphs 8–10)
Proposals in the Exposure Draft would apply to the preparation and disclosure of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Sustainability-related risks and opportunities that cannot reasonably be expected to affect users' assessments of the entity's enterprise value are outside the scope of sustainability-related financial disclosures. The Exposure Draft proposals were developed to be applied by entities preparing their general purpose financial statements with any jurisdiction's GAAP (so with IFRS Accounting Standards or other GAAP). Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

A13 Considering the requirements holistically we are unsure how entities can determine the sustainability-related risks and opportunities that cannot reasonably be expected to reflect users' judgement of enterprise value. Unless further guidance is given, there is risk that this may result in boilerplate language, or a wide variety of interpretations as to what is material to such an assessment. Field testing may provide further guidance as to practical application as well as useful information on the most effective additional guidance to provide. We would be happy to support the ISSB in undertaking this work in the UK.

A14 In theory, there appears no reason why the proposed requirements could not be used by entities which use local GAAP, providing any contradictions in those requirements are adequately addressed by that jurisdiction.

A15 However, we note that there are certain inconsistencies between these requirements and IFRS. In some cases, it is difficult to reconcile why certain requirements are appropriate for sustainability reporting but not for IFRS reporting, or vice versa. We acknowledge that ISSB's remit means that it would require disclosure of information that has "*not met the requirements of inclusion in the related financial statements*". However, we would suggest that alignment with the principles of IFRS recognition are built in, as far as is possible. We believe this may help stakeholders understand and differentiate between items reported in the financial statements from those reported under ISSB issued standards. Greater clarity around differentiation between these items could make it easier to prevent companies from "greenwashing" their disclosures. This, in turn, may allow a lighter touch on the greenwashing detection requirements (e.g. restatement of comparatives) leading to a prevention rather than cure design to the requirements. Examples of such contradictions between IFRS and the ED include:

a) *Recognition of liabilities* – the IASB's Conceptual Framework for Financial Reporting requires a present obligation to exist for recognition of a liability (paragraph 4.27 "*a present obligation that exists as a result of past events*"), whereas there is no equivalent requirement in the ED. For example, the ISSB standard would require the disclosure of an entity's proposed, hypothetical, expenditure to introduce new technology to reduce pollution. However, if there are no firm plans in place or contracts entered into, there will be no liability/provision recognised in the financial statements. Increasing the disclosure threshold to require more tangible intent (closer to the IFRS requirements) may reduce instances of greenwashing, such as disclosing abstract plans that are unlikely to come to fruition and may be ignored in reporting for subsequent years.

b) *Funding sources* – similarly, the requirement to disclose funding sources for such early-stage plans (which are insufficiently mature to qualify for IFRS liability recognition as explained above), appears very hypothetical in nature. It is not clear how much benefit users would obtain from such uncertain information, in comparison to the cost incurred by companies required to disclose it.

c) *Confidentiality/commercially sensitive information* – certain IFRS standards acknowledge the requirement to maintain confidentiality of commercially sensitive information (until such time as specified thresholds are met). Under existing proposals in this ED, disclosure may be required under ISSB standards which undermine the protections provided under IFRS.

d) *Reporting of outcomes against previously disclosed plans* – IFRS does not require subsequent reporting of outcomes against previously disclosed numbers. Where uncertainty exists in relation to financial risks, it is more common to use sensitivity testing in financial reports to illustrate a range of potential outcomes of the risk event (for example, impairment provisions under IFRS 9 Financial Instruments).

We note the publication of sensitivity analysis is also required by the ED, so the value added by this additional disclosure of outcomes is unclear. If the motivation is to provide users with a mechanism to monitor for greenwashing, it may be more effective to reduce the opportunity for greenwashing by putting in place a threshold for disclosure, as discussed in paragraph A15a above.

e) *Restatement of comparatives* – the requirement to restate comparatives to reflect updated assumptions, and explain any difference to numbers previously published, exceeds the requirements of IFRS, where such treatment is only required in the case of error or retrospective application of a change in accounting policy. This requirement could be potentially burdensome for preparers and difficult to understand for investors if many disclosures include such assumptions. Again, it is unclear to us why a higher standard of reporting is required for sustainability comparatives than for IFRS financial statement comparatives. If the intention is to monitor greenwashing, there may be more effective ways to achieve this, as discussed in paragraph A15a above.

Question 4: Core content (paragraphs 11–35)

The Exposure Draft includes proposals that entities disclose information that enables primary users to assess enterprise value. The information required would represent core aspects of the way in which an entity operates.

This approach reflects stakeholder feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting, and builds upon the well-established work of the TCFD.

Governance

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on governance would be:

> *to enable the primary users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities.*

Strategy

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on strategy would be:

> *to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.*

Risk management

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on risk management would be:

> *to enable the users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall also enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.*

Metrics and targets

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on metrics and targets would be:

> *to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.*

a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

A16 The general objective of disclosing information on governance, strategy, risk management and metrics and targets are clear. However, we note that the objectives are also all largely untested, as relatively few stakeholders have had opportunity to actively consider the detailed requirements or their implementation within their organisations. In our experience, such as with the IASB's Disclosure Pilot project, supporting evidence can only be obtained through extensive field testing, in collaboration with the associated National Standard Setter. As the IASB has significant experience of field testing we recommend that the ISSB consider leveraging that experience to ensure the standards are developed from an evidence base.

A17 The Strategy objectives in paragraph 15(b) require disclosure of the effects of significant-related sustainability risks and opportunities on the business model. Further to our comments in A9, without a requirement to explain the entity's business model, this potentially valuable disclosure may become mealiness.

A18 In addition, we believe tightening certain definitions would assist consistent understanding and application. These include:

a) the term "sustainability", as discussed in paragraph A10;

b) the use of the term "significant" rather than "material" in certain parts of the document, such as the requirement above to "manage significant sustainability-related risks and opportunities". This has caused some confusion and we see no reason why the term "material" could not be used throughout the document.

c) consideration for a definition, or further guidance, for the term 'business model'

A19 As discussed at paragraph A6d, we believe that, in addition to the general disclosure objectives noted above, providing specific objectives for each section of disclosures, and information on how users will use the information provided (consistent with the IASB's Disclosure Pilot project), may lead to higher quality reporting.

A20 In some cases, we believe the disclosure requirements in these sections are too exhaustive to meet the objective of acting as a global baseline. We recommend a pragmatic approach, where the baseline is readily achievable to allow other regulators and local jurisdictions to build on the requirements, as appropriate. Given the novel nature of these requirements in some jurisdictions, we believe that in the first instance, it is more desirable to stipulate an easier to implement, basic set of principles and requirements. This could be achieved by considering splitting the ED's proposed requirements into mandatory and optional requirements. We include further discussion in paragraphs A30 and A49 below, as making the baseline too exhaustive may act as a deterrent to widespread global adoption. Field testing the proposals with preparers and users may provide opportunity to understand which disclosures are most valuable and should be considered mandatory. We would be happy to support the ISSB in undertaking this work in the UK.

Question 5: Reporting entity (paragraphs 37–41)
The Exposure Draft proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements. The Exposure Draft proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Such risks and opportunities relate to activities, interactions and relationships and use of resources along its value chain such as: • its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain; • the assets it controls (such as a production facility that relies on scarce water resources); • investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and • sources of finance. The Exposure Draft also proposes that an entity disclose the financial statements to which sustainability-related financial disclosures relate. a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why? b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why? c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

A21 The requirement to provide sustainability-related financial information for the same reporting entity as the related financial statements is reasonable and is consistent with the desire to promote stronger relationships between the information in the financial statements and the other general purpose financial reporting.

A22 We support the requirement to provide information about sustainability-related risks and opportunities along the value chain. However, the scope of the information required from the value chain may be too costly or difficult for companies to obtain and verify. We recommend that as part of field testing a cost benefit analysis is undertaken to identify a threshold for the scope.

A23 Further to our comments in A9 we suggest that sustainability-related risks and opportunities along the value chain should be defined in the context of the entity's business model. To assist consistency of application, it may be helpful to provide guidance or illustrative examples to assist entities in making judgements about how far along the value chain should be assessed.

A24 We support the concept in ED paragraph 41 that other IFRS Sustainability Disclosure Standards will be used to specify how an entity is required to disclose its significant sustainability-related risks and opportunities related to associates, joint ventures etc. However, we recommend the drafting of paragraph 41 is clarified. Currently it suggests such disclosure is not required under ED S1, while paragraph BC53 states that it is required. However, how the information on associates, joint ventures etc should be included has not been specified to allow flexibility to facilitate better interaction with existing materials. These statements appear contradictory and greater clarity would likely improve consistency of application.

A25 In the UK, it is expected that reporting under ISSB issued standards will be required within the Annual Report. For jurisdictions that take this approach, it will be clear which financial statements relate to the sustainability reporting. However, some jurisdictions may introduce a separately published document for disclosures under ISSB issued standards, which could be made publicly available at a different time to the related financial statements. Therefore, we agree with the proposed requirement to identify the related financial statements as it will provide clarity for users.

Question 6: Connected information (paragraphs 42–44)
The Exposure Draft proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between (a) various sustainability-related risks and opportunities; (b) the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets; and (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements. a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not? b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

A26 The requirements are clear on the need for connectivity between various sustainability-related risks and opportunities. We agree with the concept of identifying and explaining the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements, as we believe this provides better information for users.

A27 To assist users in understanding the information presented, further thought should be given to explaining the different bases of preparation of the sustainability-related information and that included in the financial statements. Example of difference we have identified include:

a) the sustainability related information and IFRS information use different definitions of materiality, and different bases of recognition;

b) historic cost conventions are largely used for IFRS information while the information in the ED is mostly prospective and forward looking; and,

c) the financial statements will be subject to audit whereas audit or assurance requirements may not apply to information produced on application of the ED proposals.

A28 This needs to be clearly explained to users. Additionally, some aspects may need legislative underpinning at local jurisdictional level. It may be best that ISSB maintain flexibility in this area and allow this need to be managed by local jurisdictions. We would be happy to work further with ISSB to explore possible routes to achieve this.

Question 7: Fair presentation (paragraphs 45–55)
The Exposure Draft proposes that a complete set of sustainability-related financial disclosures would be required to present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation would require the faithful representation of sustainability-related risks and opportunities in accordance with the proposed principles set out in the Exposure Draft. Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation. To identify significant sustainability-related risks and opportunities, an entity would apply IFRS Sustainability Disclosure Standards. In addition to IFRS Sustainability Disclosure Standards to identify sustainability-related risks and opportunities, the entity shall consider the disclosure topics in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies. To identify disclosures, including metrics, that are likely to be helpful in assessing how sustainability-related risks and opportunities to which it is exposed could affect its enterprise value, an entity would apply the relevant IFRS Sustainability Disclosure Standards. In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk and opportunity, an entity shall use its judgement in identifying disclosures that (a) are relevant to the decision-making needs of users of general purpose financial reporting; (b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and (c) are neutral. In making that judgement, entities would consider the same sources identified in the preceding paragraph, to the extent that they do not conflict with an IFRS Sustainability Disclosure Standard. a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not? b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

A29 Subject to our recommendations to tighten the definition of certain terms discussed in at paragraphs A10, A18 and A33, we believe the proposal is clear.

A30 We are concerned that the requirements of ED paragraph 51, linking to an open-ended list of external documents, may be too broad. While we support the ambition behind this thinking, we would not wish it to become a barrier to entry for those wishing to participate in the global baseline. Additionally we are concerned that including such a broad list as part of a baseline could lead to cherry picking of information or lack of consistency and comparability both between companies and over time. During our 2021 stakeholder outreach and field-testing in relation to the IASB Disclosure Pilot consultation, stakeholders repeatedly highlighted to us that they preferred a single source of reference for mandatory disclosure requirements rather than having to refer to multiple sources. We think given the nature of the requirements in this ISSB ED, that feedback applies here too. So, in the spirit of creating a baseline, we recommend that the ISSB review the requirements of the linked documents and select a number of mandatory core requirements to incorporate in the standard (possibly as application guidance). That would then permit the external documents recommended in paragraph 51 to act as non-mandatory points of reference. We presume that, in due course, many of these requirements will form the basis of future ISSB standards. This approach will also allow ISSB oversight and governance procedures to be applied to these recommendations prior to them forming part of ISSB standards.

Question 8: Materiality (paragraphs 56–62)
The Exposure Draft defines material information in alignment with the definition in IASB's *Conceptual Framework for General Purpose Financial Reporting* and IAS 1. Information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'. However, the materiality judgements will vary because the nature of sustainability-related financial information is different to information included in financial statements. Whether information is material also needs to be assessed in relation to enterprise value. Material sustainability-related financial information disclosed by an entity may change from one reporting period to another as circumstances and assumptions change, and as expectations from the primary users of reporting change. Therefore, an entity would be required to use judgement to identify what is material, and materiality judgements are reassessed at each reporting date. The Exposure Draft proposes that even if a specific IFRS Sustainability Disclosure Standard contained specific disclosure requirements, an entity would need not to provide that disclosure if the resulting information was not material. Equally, when the specific requirements would be insufficient to meet users' information needs, an entity would be required to consider whether to disclose additional information. This approach is consistent with the requirements of IAS 1. The Exposure Draft also proposes that an entity need not disclose information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. In such a case, an entity shall identify the type of information not disclosed and explain the source of the restriction. a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not? b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not? c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why? d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

A31 We agree the definition of materiality is clear in the context of sustainability-related financial information. However during our work on the IASB Disclosure Pilot some stakeholders observed there could be difficulties in applying materiality judgement to disclosures in IFRS standards, with which they were very familiar. Effectively applying materiality judgements to unfamiliar material such as ISSB standards may prove even more challenging, and we recommend further guidance and examples are provided to assist preparers and auditors to do so. This could, for example, provide guidance on understanding relevant information and the consistent use of information, which would assist with application.

A32 The ED notes that information should not be obscured, and we think it may be helpful to provide further examples of how information may be "obscured". IAS 1 paragraph 7 provides language which would work well for this purpose.

A33 We think the existing definition of materiality may be too broad for a global baseline requirement. However, this can be resolved creating a definition of sustainability, as discussed at paragraph A10. This would narrow the focus of materiality to that relevant to the defined understanding of "sustainability". In A31 above we noted that providing further guidance to assist in understanding relevant information, and consistent use of information may aid in application of the definition. Alternatively, ISSB could chose to incorporate this information within the definition.

A34 To assist implementation we suggest the implementation guidance be expanded to provide further examples. Following stakeholder outreach and field testing our response to IASB's 2021 Disclosure Pilot consultation recommended that multiple examples of disclosure be provided to prevent any single example being used as a "disclosure checklist".

A35 We agree with the proposed relief from disclosing information where prohibited by local law or regulation, and support the proposed disclosure of the fact the exemption has been applied.

Question 9: Frequency of reporting (paragraphs 66–71)
The Exposure Draft proposes that an entity be required to report its sustainability-related financial disclosures at the same time as its related financial statements, and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements. Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

A36 We welcome the proposal to report sustainability-related financial disclosures at the same time as the financial statements, as we believe this provides users with a holistic view of the entity's performance. We are concerned that some elements of the proposals (such as, reporting along the value chain and the restatement of comparative information) may prove time consuming, resource-intensive and, potentially, cause delay in publishing the financial statements. This creates a tension between the ability to provide holistic information and the ability to provide timely information. While the very largest companies may be able to accommodate such demands, that may not be the case for other companies.

A37 Given the novel nature of these requirements, we strongly recommend field testing the proposals, in different jurisdictions and with entities of varying sizes. This will help ISSB to obtain a better understanding of their impact, potential hurdles to implementation as well as helping them identify workable solutions. We would be happy to support the ISSB with conducting outreach with our existing stakeholders in the UK.

Question 10: Location of information (paragraphs 72–78)
The Exposure Draft proposes that an entity be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting—i.e. as part of the same package of reporting that is targeted at investors and other providers of financial capital. However, the Exposure Draft deliberately avoids requiring the information to be provided in a particular location within the general purpose financial reporting so as not to limit an entity's ability to communicate information in an effective and coherent manner, and to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting. The proposal permits an entity to disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. However, the entity would be required to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information. Information required by an IFRS Sustainability Disclosure Standard could also be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements. The Exposure Draft also proposes that when IFRS Sustainability Disclosure Standards require a disclosure of common items of information, an entity shall avoid unnecessary duplication. a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not? b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location? c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced? Why or why not? d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

A38 We support the ED's requirement to disclose information required by the sustainability standards, as part of its general purpose financial reporting. We agree with the decision not to require the information to be provided in a specific location. This provides the necessary flexibility to accommodate the reporting frameworks in local jurisdictions, and for entities to tell their story in the most effective way.

A39 We support the proposal that information can be included by cross reference. However, from discussions during the IASB Disclosure Pilot outreach, we note it is important such information is required, not only on the same terms and at the same time as the financial information, but also, that the cross-referenced information has integrity/ persists for appropriate duration. For example, if linking to information on a website, it would be necessary to ensure continuity of the link is maintained for future periods, when users may once again be referring to that set of general purpose financial reporting. Due to this cross references within the same, self-contained, publication were considered more practical than cross references to external information.

A40 We agree it is clear that entities are not required to make separate disclosures on each aspect of sustainability, but rather provide integrated disclosures.

Question 11: Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)
The Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8. However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable —i.e. the comparatives would be restated to reflect the better estimate. The Exposure Draft also includes a proposed requirement that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements, to the extent possible. a) Have these general features been adapted appropriately into the proposals? If not, what should be changed? b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives? c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

A41 We agree that the intent to provide updated estimates of comparative information has been incorporated into the proposals. We believe it would be helpful to clarify the drafting in ED paragraph 64, which currently suggests that all comparative information should be updated to reflect current estimates, and differences to information published previously explained. However, BC 83 suggests this is only required for material changes in estimates or material errors. Greater clarity will improve consistency of application.

A42 As explained in para A15e, this treatment of comparatives is significantly different to that required under IFRS where this approach is only required in cases of error or retrospective application of change in accounting policy. BC83 suggests the rationale for this difference in treatment is that sustainability standards do not give rise to double entry accounting, which affects reported equity. However, if the requirement is to recalculate all comparatives with updated information on assumptions, this could be a time-consuming exercise for preparers and undermine the information needs of users interested in trend analysis and assessing management's stewardship of the business. In addition, the cost benefit case for the difference between IASB and ISSB reporting is not clear. We recommend field testing across entities of different sizes and jurisdictions, to obtain further information on how these requirements may work in practice and how entities may interpret the requirements. We would be happy to partner with ISSB to do so in the UK.

A43 We agree it is desirable to use common financial data and assumptions for sustainability-related reporting and IFRS reporting when it makes sense to do so. Given the different definitions for materiality and different practices restating comparatives with fresh assumptions for sustainability reporting, this may not always be possible. Care will need to be taken to explain the different basis of preparation to users. We support paragraph 80 when it states this is only required "to the extent possible", and suggest further guidance or examples illustrating such challenges would be useful.

Question 12: Statement of compliance (paragraphs 91–92)
The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements. The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards. Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

A44 As noted at A35 we agree with the proposed relief from disclosing mandatory information where prohibited by local law or regulation, and support the proposed disclosure of the fact that the exemption has been applied.

A45 It may be helpful to specify in ED paragraph 91 that the financial disclosures comply with all of the mandatory requirements of ISSB standards, rather than all relevant requirements.

Question 13: Effective date (Appendix B)
The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard. a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others. b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

A46 We plan to consult stakeholders on this question prior to finalising this comment letter. We also recommend ISSB allow sufficient time for and undertake field testing across entities of different sizes and jurisdictions to obtain further information on the lead time for an effective date. We would be happy to partner with ISSB to do so in the UK. We also recommend alignment with the IASB approach of allowing at least three years as an implementation period.

A47 We note, like many other jurisdictions, the UK endorsement and adoption mechanism for ISSB standards is yet to be determined and established. Currently, no single UK organisation has been delegated a statutory function to consider and adopt ISSB standards for use in the UK. While stakeholders understand that the UK intends to endorse ISSB Standards[11], without ISSB standards formally adopted for use in the jurisdiction they are likely to struggle to adequately design and implement the required data, systems, and processes to meet the reporting requirements.

[11] UK Government Green Finance Strategy and Green Finance: A Roadmap to Sustainable Investing.

A48 We agree with IASB providing the proposed relief from disclosing comparative information in the first year of application.

Question 14: Global baseline
IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of sustainability-related risks and opportunities. Those needs may be met by requirements set by others, including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards. Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

A49 We are strong supporters of the creation of ISSB standards as a minimum global baseline that other regulators and jurisdictions can build upon. We have highlighted areas in this document and summarised them in the Comment Letter where the baseline may have been set too high to initially encourage maximum participation.

Question 15: Digital reporting
The ISSB plans to prioritize enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption as compared to paper-based consumption is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S2 Climate-related Disclosures Standards are the sources for the Taxonomy. It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation. Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

A50 We support the creation of digital taxonomies and tagging for sustainability standards. When creating taxonomies, we think it will be important to consider how users are informed of the basis of preparation (for example definition of materiality) and level of audit assurance provided, as these may be different between financial statement tags and sustainability information tags.

Question 16: Costs, benefits and likely effects
The ISSB is committed to ensuring that implementing the Exposure Draft proposals appropriately balances costs and benefits. a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals? b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

A51 We have been unable to assess the likely costs and benefits of implementing the proposals due to the short consultation deadline. However, as an endorsement and adoption body that adopts IFRS for use in the UK, we can confirm that cost benefit and an assessment of the likely effects is a key adoption test for a new set of requirements to be implemented in a jurisdiction. As such, we recommend that the ISSB build into its project plans field testing of the requirements across different jurisdictions and with entities of different sizes to obtain further information on likely costs and benefits. We would be happy to support the ISSB in undertaking this work in the UK.

Appendix B: Questions on Exposure Draft *Climate-related Disclosures.*

To avoid repetition, comments have been provided where they are both within UKEB scope and not already adequately covered in the responses to the *General Requirements for Disclosure of Sustainability-related Financial Information* in Appendix A. Cross references are made to Appendix A where relevant.

Question 1: Objective of the Exposure Draft
Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting: e) to assess the effects of climate-related risks and opportunities on the entity's enterprise value; f) to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and g) to evaluate the entity's ability to adapt its planning, business model and operations to climate-related risks and opportunities. Paragraphs BC21–BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. c) Do you agree with the objective that has been established for the Exposure Draft? Why or why not? d) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value? e) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

B1 We would like to highlight that the areas identified in our response in Appendix A to Question 1: Overall approach (see paragraphs A1-A6 above) and Question 2: Objectives (see paragraphs A7-A12 above) are equally applicable in the context of the objective of this ED.

B2 Having noted the above, we broadly agree that the objective of the Exposure Draft should focus on the information required by users to assess climate-related risks and opportunities on enterprise value and that the disclosure requirements will meet the requirements of the objectives.

B3 However, we note in the ED Basis for Conclusions (BC49) that the ISSB has chosen not to define the scope of 'climate-related risks and opportunities' and instead a broad approach of alignment with TCFD recommendations and SASB industry-based standards has been adopted. The intention of this approach is to 'facilitate and encourage disclosure of all climate-related risks and opportunities that could affect the assessment of enterprise value'.

B4 We consider that this approach may be too broad and potentially result in challenges with application and assurance. We suggest that the ISSB consider using or adapting existing accepted definitions to provide clarity, such as that from the Intergovernmental Panel on Climate Change (IPCC). Field testing may provide further guidance as to practical application and provide useful information to ISSB to identify the most effective additional guidance to provide. We would be happy to support the ISSB in undertaking this work in the UK.

Question 2: Governance
Paragraphs 4 and 5 of the Exposure Draft propose that an entity be required to disclose information that enables users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. To achieve this objective, the Exposure Draft proposes that an entity be required to disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and a description of management's role regarding climate-related risks and opportunities. The Exposure Draft's proposed governance disclosure requirements are based on the recommendations of the TCFD, but the Exposure Draft proposes more detailed disclosure on some aspects of climate-related governance and management in order to meet the information needs of users of general purpose financial reporting. For example, the Exposure Draft proposes a requirement for preparers to disclose how the governance body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies. The related TCFD's recommendations are to: describe the board's oversight of climate-related risks and opportunities and management's role in assessing and managing climate-related risks and opportunities. Paragraphs BC57–BC63 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

B5 We would like to highlight the areas identified in our response in Appendix A to Question 4: Core content A16-A20 are equally applicable here. In addition, we agree with the proposed governance requirements and support the close alignment with the TCFD Recommendations.

Question 3: Identification of climate-related risks and opportunities
Paragraph 9 of the Exposure Draft proposes that an entity be required to identify and disclose a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity would be required to refer to the disclosure topics defined in the industry disclosure requirements (Appendix B). Paragraphs BC64–BC65 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not? b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

B6 We would like to highlight our responses to in Appendix A Question 6: Connected information A26-A28 are equally applicable here. In addition, we consider the requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear.

Question 4: Concentrations of climate-related risks and opportunities in an entity's value chain
Paragraph 12 of the Exposure Draft proposes requiring disclosures that are designed to enable users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on an entity's business model, including in its value chain. The disclosure requirements seek to balance measurement challenges (for example, with respect to physical risks and the availability of reliable, geographically-specific information) with the information necessary for users to understand the effects of significant climate-related risks and opportunities in an entity's value chain. As a result, the Exposure Draft includes proposals for qualitative disclosure requirements about the current and anticipated effects of significant climate-related risks and opportunities on an entity's value chain. The proposals would also require an entity to disclose where in an entity's value chain significant climate-related risks and opportunities are concentrated. Paragraphs BC66–BC68 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not? b) Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

B7 We would like to highlight that our comments on business model, value chain and current levels of practical application on Appendix A Question 4: Core content A16-A20 are equally applicable here.

Question 5: —Transition plans and carbon offsets
Disclosing an entity's transition plan towards a lower-carbon economy is important for enabling users of general purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value.   Paragraph 13 of the Exposure Draft proposes a range of disclosures about an entity's transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general purpose financial reporting to understand the effects of climate-related risks and opportunities on an entity's strategy and decision-making, including its transition plans. This includes information about how it plans to achieve any climate-related targets that it has set (this includes information about the use of carbon offsets); its plans and critical assumptions for legacy assets; and quantitative and qualitative information about the progress of plans previously disclosed by the entity.   An entity's reliance on carbon offsets, how the offsets it uses are generated, and the credibility and integrity of the scheme from which the entity obtains the offsets have implications for the entity's enterprise value over the short, medium and long term. The Exposure Draft therefore includes disclosure requirements about the use of carbon offsets in achieving an entity's emissions targets. This proposal reflects the need for users of general purpose financial reporting to understand an entity's plan for reducing emissions, the role played by carbon offsets and the quality of those offsets.   The Exposure Draft proposes that entities disclose information about the basis of the offsets' carbon removal (nature- or technology-based) and the third-party verification or certification scheme for the offsets. Carbon offsets can be based on avoided emissions. Avoided emissions are the potential lower future emissions of a product, service or project when compared to a situation where the product, service or project did not exist, or when it is compared to a baseline. Avoided-emission approaches in an entity's climate-related strategy are complementary to, but fundamentally different from, the entity's emission-inventory accounting and emission-reduction transition targets. The Exposure Draft therefore proposes to include a requirement for entities to disclose whether the carbon offset amount achieved is through carbon removal or emission avoidance.   The Exposure Draft also proposes that an entity disclose any other significant factors necessary for users of general purpose financial reporting to understand the credibility of the offsets used by the entity such as information about assumptions of the permanence of the offsets.   Paragraphs BC71–BC85 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.   a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?   b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.   c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?   d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

B8 We would like to highlight our comments on Appendix A Question 3 Scope, paragraph A15(c) and (d) in relation to the disclosure of funding sources and reporting of outcomes against previously disclosure plans which are equally applicable here.

Question 6: Current and anticipated effects
The Exposure Draft proposes requirements for an entity to disclose information about the anticipated future effects of significant climate-related risks and opportunities. The Exposure Draft proposes that, if such information is provided quantitatively, it can be expressed as a single amount or as a range. Disclosing a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value may be more appropriate. The TCFD's 2021 status report identified the disclosure of anticipated financial effects of climate-related risks and opportunities using the TCFD Recommendations as an area with little disclosure. Challenges include: difficulties of organisational alignment, data, risk evaluation and the attribution of effects in financial accounts; longer time horizons associated with climate-related risks and opportunities compared with business horizons; and securing approval to disclose the results publicly. Disclosing the financial effects of climate-related risks and opportunities is further complicated when an entity provides specific information about the effects of climate-related risks and opportunities on the entity. The financial effects could be due to a combination of other sustainability-related risks and opportunities and not separable for the purposes of climate-related disclosure (for example, if the value of an asset is considered to be at risk it may be difficult to separately identify the effect of climate on the value of the asset in isolation from other risks). Similar concerns were raised by members of the TRWG in the development of the climate-related disclosure prototype following conversations with some preparers. The difficulty of providing single-point estimates due to the level of uncertainty regarding both climate outcomes and the effect of those outcomes on a particular entity was also highlighted. As a result, the proposals in the Exposure Draft seek to balance these challenges with the provision of information for investors about how climate-related issues affect an entity's financial position and financial performance currently and over the short, medium and long term by allowing anticipated monetary effects to be disclosed as a range or a point estimate. The Exposure Draft proposes that an entity be required to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (paragraph 14). The requirements also seek to address potential measurement challenges by requiring disclosure of quantitative information unless an entity is unable to provide the information quantitatively, in which case it shall be provided qualitatively. Paragraphs BC96–BC100 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not? b) Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why? c) Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?

B9 We would like to highlight our comments in Appendix A Question 3 Scope, paragraph A15(a) recognition of liabilities (b) funding sources (c) confidentiality / commercially sensitive information (d) Reporting of outcomes against previously disclosed plans and (e) Restatement of comparatives which are equally applicable here.

B10 Having noted the above, we also observe that our points raised in these areas are particularly problematic for current and anticipated effects in this exposure draft.

B11 These were also noted as challenges raised by preparers, the Technical Readiness Working Group and issues identified with TCFD implementation with quantification (Basis for Conclusions BC99) of anticipate financial affects. We anticipate that due to the limited state of readiness, most preparers will be unable to provide either a single point or a range and will therefore adopt a qualitative approach.

B12 We consider that field testing will be essential in providing further guidance on disclosures. We would be happy to support the ISSB in undertaking this work in the UK.

Question 7: Climate resilience

The likelihood, magnitude and timing of climate-related risks and opportunities affecting an entity are often complex and uncertain. As a result, users of general purpose financial reporting need to understand the resilience of an entity's strategy (including its business model) to climate change, factoring in the associated uncertainties. Paragraph 15 of the Exposure Draft therefore includes requirements related to an entity's analysis of the resilience of its strategy to climate-related risks. These requirements focus on:

a) what the results of the analysis, such as impacts on the entity's decisions and performance, should enable users to understand; and

b) whether the analysis has been conducted using:

- climate-related scenario analysis; or
- an alternative technique.

Scenario analysis is becoming increasingly well established as a tool to help entities and investors understand the potential effects of climate change on business models, strategies, financial performance and financial position. The work of the TCFD showed that investors have sought to understand the assumptions used in scenario analysis, and how an entity's findings from the analysis inform its strategy and risk-management decisions and plans. The TCFD also found that investors want to understand what the outcomes indicate about the resilience of the entity's strategy, business model and future cash flows to a range of future climate scenarios (including whether the entity has used a scenario aligned with the latest international agreement on climate change). Corporate board committees (notably audit and risk) are also increasingly requesting entity-specific climate-related risks to be included in risk mapping with scenarios reflecting different climate outcomes and the severity of their effects.

Although scenario analysis is a widely accepted process, its application to climate-related matters in business, particularly at an individual entity level, and its application across sectors is still evolving. Some sectors, such as extractives and minerals processing, have used climate-related scenario analysis for many years; others, such as consumer goods or technology and communications, are just beginning to explore applying climate-related scenario analysis to their businesses.

Many entities use scenario analysis in risk management for other purposes. Where robust data and practices have developed, entities thus have the analytical capacity to undertake scenario analysis. However, at this time the application of climate-related scenario analysis for entities is still developing.

Preparers raised other challenges and concerns associated with climate-related scenario analysis, including: the speculative nature of the information that scenario analysis generates, potential legal liability associated with disclosure (or miscommunication) of such information, data availability and disclosure of confidential information about an entity's strategy. Nonetheless, by prompting the consideration of a range of possible outcomes and explicitly incorporating multiple variables, scenario analysis provides valuable information and perspectives as inputs to an entity's strategic decision-making and risk-management processes. Accordingly, information about an entity's scenario analysis of significant climate-related risks is important for users in assessing enterprise value.

The Exposure Draft proposes that an entity be required to use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience.

Requiring disclosure of information about climate-related scenario analysis as the only tool to assess an entity's climate resilience may be considered a challenging request from the perspective of a number of preparers at this time—particularly in some sectors. Therefore, the proposed requirements are designed to accommodate alternative approaches to resilience assessment, such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests. This approach would provide preparers, including smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, represents an iterative learning process, and may take multiple planning cycles to achieve. The Exposure Draft proposes that when an entity uses an approach other than scenario analysis, it disclose similar information to that generated by scenario analysis to provide investors with the information they need to understand the approach used and the key underlying assumptions and parameters associated with the approach and associated implications for the entity's resilience over the short, medium and long term.

It is, however, recommended that scenario analysis for significant climate-related risks (and opportunities) should become the preferred option to meet the information needs of users to understand the resilience of an entity's strategy to significant climate-related risks. As a result, the Exposure Draft proposes that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted. Consideration was also given to whether climate-related scenario analysis should be required by all entities with a later effective date than other proposals in the Exposure Draft.

Paragraphs BC86–BC95 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?

b) The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.

   (i) Do you agree with this proposal? Why or why not?

   (ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?

   (iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?

c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?

d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?

e) Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?

B13 [No comment as we consider this question to be out of UKEB scope. If our stakeholders share their views on this question, we shall consider and relay them to the ISSB in our final comment letter.]

Question 8: Risk management
An objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities, to enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise value. Such disclosures include information for users to understand the process, or processes, that an entity uses to identify, assess and manage not only climate-related risks, but also climate-related opportunities. Paragraphs 16 and 17 of the Exposure Draft would extend the remit of disclosures about risk management beyond the TCFD Recommendations, which currently only focus on climate-related risks. This proposal reflects both the view that risks and opportunities can relate to or result from the same source of uncertainty, as well as the evolution of common practice in risk management, which increasingly includes opportunities in processes for identification, assessment, prioritisation and response. Paragraphs BC101–BC104 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

B14 We would like to highlight our responses provided in Appendix A to Question 4: Core content A16-A20 which are equally applicable here. We agree with the proposed governance requirements and support the close alignment with the TCFD Recommendations.

Question 9: Cross-industry metric categories and greenhouse gas emissions

The Exposure Draft proposes incorporating the TCFD's concept of cross-industry metrics and metric categories with the aim of improving the comparability of disclosures across reporting entities regardless of industry. The proposals in the Exposure Draft would require an entity to disclose these metrics and metric categories irrespective of its particular industry or sector (subject to materiality). In proposing these requirements, the TCFD's criteria were considered. These criteria were designed to identify metrics and metric categories that are:

c) indicative of basic aspects and drivers of climate-related risks and opportunities;

d) useful for understanding how an entity is managing its climate-related risks and opportunities;

e) widely requested by climate reporting frameworks, lenders, investors, insurance underwriters and regional and national disclosure requirements; and

f) important for estimating the financial effects of climate change on entities.

The Exposure Draft thus proposes seven cross-industry metric categories that all entities would be required to disclose: greenhouse gas (GHG) emissions on an absolute basis and on an intensity basis; transition risks; physical risks; climate-related opportunities; capital deployment towards climate-related risks and opportunities; internal carbon prices; and the percentage of executive management remuneration that is linked to climate-related considerations. The Exposure Draft proposes that the GHG Protocol be applied to measure GHG emissions.

The GHG Protocol allows varied approaches to be taken to determine which emissions an entity includes in the calculation of Scope 1, 2 and 3—including for example, how the emissions of unconsolidated entities such as associates are included. This means that the way in which information is provided about an entity's investments in other entities in their financial statements may not align with how its GHG emissions are calculated. It also means that two entities with identical investments in other entities could report different GHG emissions in relation to those investments by virtue of choices made in applying the GHG Protocol.

To facilitate comparability despite the varied approaches allowed in the GHG Protocol, the Exposure Draft proposes that an entity shall disclose:

g) separately Scope 1 and Scope 2 emissions, for:

- the consolidated accounting group (the parent and its subsidiaries);
- the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and

h) the approach it used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group (for example, the equity share or operational control method in the GHG Protocol Corporate Standard).

The disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. However, despite these challenges, the disclosure of GHG emissions, including Scope 3 emissions, is becoming more common and the quality of the information provided across all sectors and jurisdictions is improving. This development reflects an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity's carbon footprint.

Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energy-efficient products or seek to enable or incentivise upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to identify the most significant GHG reduction opportunities across an entity's entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs.

For Scope 3 emissions, the Exposure Draft proposes that:

i) an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;

j) an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;

k) if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement; and

l) if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure.

Aside from the GHG emissions category, the other cross-industry metric categories are defined broadly in the Exposure Draft. However, the Exposure Draft includes nonmandatory Illustrative Guidance for each cross-industry metric category to guide entities.

Paragraphs BC105–BC118 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?

b) Are there any additional cross-industry metric categories related to climate-related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.

c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?

d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in CO_2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH_4) separately from nitrous oxide (NO_2))?

e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:

(i) the consolidated entity; and

(ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?

f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

B15 [No comment as we consider this question to be out of UKEB scope. If our stakeholders share their views on this question, we shall consider and relay them to the ISSB in our final comment letter.]

Question 10: Targets
Paragraph 23 of the Exposure Draft proposes that an entity be required to disclose information about its emission-reduction targets, including the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives), as well as information about how the entity's targets compare with those prescribed in the latest international agreement on climate change. The 'latest international agreement on climate change' is defined as the latest agreement between members of the United Nations Framework Convention on Climate Change (UNFCCC). The agreements made under the UNFCCC set norms and targets for a reduction in greenhouse gases. At the time of publication of the Exposure Draft, the latest such agreement is the Paris Agreement (April 2016); its signatories agreed to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit warming to 1.5 degrees Celsius above pre-industrial levels. Until the Paris Agreement is replaced, the effect of the proposals in the Exposure Draft is that an entity is required to reference the targets set out in the Paris Agreement when disclosing whether or to what degree its own targets compare to the targets in the Paris Agreement. Paragraphs BC119–BC122 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. a) Do you agree with the proposed disclosure about climate-related targets? Why or why not? b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?

B16 [No comment as we consider this question to be out of UKEB scope. If our stakeholders share their views on this question, we shall consider and relay them to the ISSB in our final comment letter.]

Question 11: Industry-based requirements

The Exposure Draft proposes industry-based disclosure requirements in Appendix B that address significant sustainability-related risks and opportunities related to climate change. Because the requirements are industry-based, only a subset will apply to a particular entity. The requirements have been derived from the SASB Standards. This is consistent with the responses to the Trustees' 2020 consultation on sustainability that recommended that the ISSB build upon existing sustainability standards and frameworks. This approach is also consistent with the TRWG's climate-related disclosure prototype.

The proposed industry-based disclosure requirements are largely unchanged from the equivalent requirements in the SASB Standards. However, the requirements included in the Exposure Draft include some targeted amendments relative to the existing SASB Standards. The proposed enhancements have been developed since the publication of the TRWG's climate-related disclosure prototype.

The first set of proposed changes address the international applicability of a subset of metrics that cited jurisdiction-specific regulations or standards. In this case, the Exposure Draft proposes amendments (relative to the SASB Standards) to include references to international standards and definitions or, where appropriate, jurisdictional equivalents.

Paragraphs BC130–BC148 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals to improve the international applicability of the industry-based requirements.

a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?

b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?

c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

The second set of proposed changes relative to existing SASB Standards address emerging consensus on the measurement and disclosure of financed or facilitated emissions in the financial sector. To address this, the Exposure Draft proposes adding disclosure topics and associated metrics in four industries: commercial banks, investment banks, insurance and asset management. The proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. The proposal builds on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments).

Paragraphs BC149–BC172 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals for financed or facilitated emissions.

d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?

e) Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?

f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?

g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?

h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?

i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

Overall, the proposed industry-based approach acknowledges that climate-related risks and opportunities tend to manifest differently in relation to an entity's business model, the underlying economic activities in which it is engaged and the natural resources upon which its business depends or which its activities affect. This affects the assessment of enterprise value. The Exposure Draft thus incorporates industry-based requirements derived from the SASB Standards.

The SASB Standards were developed by an independent standard-setting board through a rigorous and open due process over nearly 10 years with the aim of enabling entities to communicate sustainability information relevant to assessments of enterprise value to investors in a cost-effective manner. The outcomes of that process identify and define the sustainability-related risks and opportunities (disclosure topics) most likely to have a significant effect on the enterprise value of an entity in a given industry. Further, they set out standardised measures to help investors assess an entity's performance on the topic.

Paragraphs BC123–BC129 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals related to the industry-based disclosure requirements.

While the industry-based requirements in Appendix B are an integral part of the Exposure Draft, forming part of its requirements, it is noted that the requirements can also inform the fulfilment of other requirements in the Exposure Draft, such as the identification of significant climate-related risks and opportunities (see paragraphs BC49–BC52).

j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?

k) Are there any additional industry-based requirements that address climate-related risks and opportunities that are necessary to enable users of general purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.

l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?

B17 [No comment as we consider this question to be out of UKEB scope. If our stakeholders share their views on this question, we shall consider and relay them to the ISSB in our final comment letter.]

Question 12: —Costs, benefits and likely effects
Paragraphs BC46–BC48 of the Basis for Conclusions set out the commitment to ensure that implementing the Exposure Draft proposals appropriately balances costs and benefits. a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals? b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider? c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

B18 We would like to highlight our comments on Appendix A Question 16: Costs, benefits and likely effects A51 which are equally applicable here.

Question 13: Verifiability and enforceability
Paragraphs C21–24 of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* describes verifiability as one of the enhancing qualitative characteristics of sustainability-related financial information. Verifiability helps give investors and creditors confidence that information is complete, neutral and accurate. Verifiable information is more useful to investors and creditors than information that is not verifiable. Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

B19 No draft response is provided as verifiability and enforceability are out of scope of the UK Endorsement Board. However, we understand that other UK regulatory bodies will be providing comments on this area in due course.

Question 14: Effective date

Because the Exposure Draft is building upon sustainability-related and integrated reporting frameworks used by some entities, some may be able to apply a retrospective approach to provide comparative information in the first year of application. However, it is acknowledged that entities will vary in their ability to use a retrospective approach.

Acknowledging this situation and to facilitate timely application of the proposals in the Exposure Draft, it is proposed that an entity is not required to disclose comparative information in the first period of application.

[Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* requires entities to disclose all material information about sustainability-related risks and opportunities. It is intended that [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* be applied in conjunction with the Exposure Draft. This could pose challenges for preparers, given that the Exposure Draft proposes disclosure requirements for climate-related risks and opportunities, which are a subset of those sustainability-related risks and opportunities. Therefore, the requirements included in [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information could take longer to implement*.

Paragraphs BC190–BC194 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*? Why?

b) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparation that will be required by entities applying the proposals in the Exposure Draft.

c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

B20 We would like to highlight our comments on Appendix A Question 13: Effective date A46-A47 which are equally applicable here.

B21 In addition, we consider that the effective date for the Exposure Draft should be earlier than that of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. In the UK, there is already a developed framework for ESG reporting which allows reporting under existing voluntary frameworks. As there is already a level of familiarity with the TCFD disclosure requirements, which IFRS S2 Climate is largely based on, stakeholders may be more aware and more prepared for these disclosure requirements.

B22 Further to the points outlined in our Draft Comment Letter on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information we believe more time may be required to fully develop this [draft] standard.

Question 15: Digital reporting
The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption of sustainability-related financial information, as compared to paper-based consumption, is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* Standards are the sources for the Taxonomy. It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation. Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

B23 We would like to highlight our comments on Appendix A Question 15: Digital reporting A50 which are equally applicable here.

Question 16: Global baseline
IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of climate change. Those needs may be met by requirements set by others including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards. Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

B24 We would like to highlight our comments on Appendix A Question 14: Global baseline A49 which are equally applicable here.

Question 17: Other comments
Do you have any other comments on the proposals set out in the Exposure Draft?

B25 No further comments.

Appendix C: Questions for the Invitation to Comment

<u>LIST OF POTENTIAL QUESTIONS</u>

	Question
	[Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*
1	Should the term "sustainability" be defined to create a shared understanding of the boundaries of this term? Please explain your rationale.
2	To identify sustainability-related risks and opportunities paragraph 51 of the ED states that an entity "shall consider" external documents such as SASB standards, ISSB non-mandatory guidance, pronouncements of other standard setting bodies and risks and opportunities disclosed by other entities? In the UKEB draft comment letter we suggest that for the purpose of creating a global benchmark ISSB should select a number of mandatory core requirements from these documents to incorporate in the proposed standard, and then treat the remaining list as non-mandatory additional resources. Do you agree with either of these approaches? Please explain your rationale and any alternative approaches would you suggest?
3	Do you support the requirement to update comparative information with updated assumptions, and explain any difference between that and the number published in the prior year? Please explain your rationale.
4	Do you consider it necessary to use both the terms "significant" and "material" in the proposals? Could "material" be used in place of "significant"? Please explain your rationale.
5	The ED requires disclosures related to significant sustainability-related risks and opportunities in its business model and value chain. Is it clear what information is required from entities in the value chain, and how far this chain should be considered? Are there any practical difficulties that arise in relation to the value chain?
6	The ED suggests in paragraph 66 that the sustainability-related financial proposals should be presented at the same time as the related financial statements? Do you believe this is practical for your organisation? Do you believe this would delay your reporting timetable?
7	Overall, do you believe the proposals in the ED are successful in establishing a suitable "*global baseline for the assessment of enterprise value*"? Please explain your rationale.
8	Overall, do you believe the proposals in the ED will successfully meet their objective to create "*more consistent, complete, comparable and verifiable sustainability-related financial information*"? Please explain your rationale.
9	Are there any other comments you would like to make on ED [S1]

[Draft] IFRS S2 *Climate-related Disclosures*	
1	Do you foresee any conflicts or overlaps with requirements in IASB issued standards on application of the ED? Please provide your rationale and potential implications for users of general-purpose financial statements.
2	Do you foresee any conflicts or overlaps with other jurisdictions' climate-related standards which may cause issues for users of general-purpose financial statements? Please provide your rationale and potential implications for users.
3	Should the term "climate-related risks and opportunities' be defined to create a shared understanding of the boundaries of this term? Please explain your rationale. Can you suggest any suitable alternative definitions or guidance the ISSB should consider?
4	Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*? Please explain your rationale.
5	Do you have any comments on the likely benefits of implementing the proposals and their likely costs that the ISSB should consider in analysing the likely effects of these proposals?
6	Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?
7	Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?
8	Are there any other comments you would like to make on ED [S2]

General ED S1 and S2	
1	Following finalisation of these proposals, how much lead time would your organisation require to be able to successfully implement the proposals? Do you have any other comments on ISSB's proposed due process for issue of the final standards?

A link to the Exposure Drafts can be found IFRS S1 and IFRS S2.