

Summary of the Sustainability Working Group meeting held on 25 May 2023 from 10:00am to 13:00pm

In attendance	
Name	Designation
Seema Jamil-O'Neill	Chair
Anna Korneeva	SWG Member
Chris Smith	SWG Member
Deepa Raval	SWG Member
Fiona Donnelly	SWG Member (alternate)
Joshua Davies	SWG Member
Kylee Dickie	SWG Member
Mark Randall	SWG Member
Maria Kingston	SWG Member (alternate)
Peter Leadbetter	SWG Member
Ronita Ram	SWG Member
Carlos Martin Tornero	Observer (FCA)
Debbie Crawshawe	Observer (DBT)
Robert Harvey	Observer (FRC)

Apologies: George Richards
Henry Biddle
James Sawyer
Nicole Carter
Sabrina Curry
Yannis Tsalavoutas

Relevant UKEB secretariat team members were also present.

Introductions

1. The UKEB's Sustainability Working Group (SWG) held its second meeting on 25 May 2023.
2. The Chair of the SWG welcomed the members of the Working Group and gave a brief update on the work of the UKEB, including the publication of a [Connectivity Projects](#) page on the UKEB website which provides links to all associated papers.

Annual Report Deep Dives: connectivity themes

3. The UKEB Secretariat provided an update on the IASB's position, in relation to proposed work on reporting on climate risk in the financial statement.
4. The Secretariat set out the scope of the UKEB's research project, considering connectivity between the sustainability disclosures and the financial statements, for a sample of FTSE 350 annual reports. The SWG was asked to consider certain illustrative examples.
5. During the discussion of those examples, members made the following points:
 - disconnects are the result of the different time horizons applicable to the sustainability and financial statements;
 - there is a difference between disconnect and inconsistency with regard to materiality. It was not desirable to encourage reporting in accounts 'just in case' when the item was not material. Absence of information did not necessarily mean there was a disconnect;
 - there were two lenses of materiality: one which was material to users, even if small, and one of financial materiality;
 - there were times to be more comfortable with the disconnect, such as where different recognition and measurement criteria are applicable to the sustainability and financial information. Post balance sheet events might not meet criteria for disclosure but might be included in the front end. This related to the point regarding timeframes, as IFRS S1 and S2 information would necessarily be forward looking, while financial statement periods tended to project no more than 12 months from balance sheet date;

- greenwashing was a risk for reporting in the front half. Entities liked to say what they were doing but not how they were doing it;
 - qualitative materiality could be a way to bridge the gap;
 - the front half might not clearly differentiate between aspiration and a commitment with a plan. Aspirations did not need to be mirrored in the back half. Until the methodology was established it could not be included in projections and other analyses. It also made it challenging to adjust for risk;
 - there was currently a concept of short to long term risks, but not how to establish timeframes for targets. It was hard to match targets with financial statement assumptions or understand feasibility. Many companies simply linked to government targets rather than those relevant to themselves;
 - connectivity was a topic for both the IASB and ISSB to address jointly; more guidance was required on the application of standards to sustainability risks. The connectivity principle in IFRS S1 and S2 needed time to be applied in practice before it could be assessed;
 - there was a disconnect developing in IFRS S2 between the judgements with a material effect in the next year and those with a much longer timeframe;
 - entities were encouraged to stand back and ask whether it was clear whether risk was incorporated into the estimation policy, discount rate, cash flows, etc. Often it was not clear from models where this had been placed and addressing the standard could provide more information.
6. An observer advised that further disclosure on transition plans was required by FCA rules. Some of that disclosure could help to bridge the gap. In future there would be a requirement under IFRS S2 to disclose details of the plans, and the Transition Plan Taskforce had been tasked with producing guidance on preparing disclosures relating to the plans. The status of the guidance, expected in autumn 2023, had not yet been determined by FCA and government policy. It was currently expected to be outside the financial statements.

Annual Report Deep Dives: IFRS S1 and IFRS S2

7. The Secretariat invited discussion about how reporting under IFRS S1 and S2 would impact the disconnects identified during the UKEB research.
8. Members made the following points:
- organisationally the ISSB and IASB needed to work together to assess requirements;
 - preparers would defer to disclosing information in the front half of the annual report unless the standard specified otherwise;

- very few auditors would encourage things like how financial position might change over time to be placed in the back half and audited, as it was highly speculative;
- the sustainability and financial information were often produced by different human resources within the organisation, and more needed to be done to ensure joined up thinking. ESG teams at large, listed companies were often unaware of how materiality and measurements impacted the financial accounting. This needed to change to enhance connectivity and produce useful information;
- part of this narrative disclosure by entities of information they would use to understand significant climate risks and opportunities, that could be reasonably expected to affect the business model, ought to explain why the risks and opportunities might 'reasonably' be expected to have an effect. This would be a negative statement which would implicitly cover the expectation gap;
- it was clear that an immense capacity building programme was needed to help preparers with potential proportionality issues in the standards, like an aftersales service.

ISSB Request for Information (Rfi)

9. The SWG discussed the content of the ISSB's Rfi seeking feedback on its priorities for the next two-year workplan.
10. Members made the following points:
 - the ISSB's mission was to be the global baseline for sustainability financial reporting and they had to get IFRS S1 and S2 bedded in before expanding their remit;
 - the priority should be implementation and the demand for standards on other topics should only be addressed if there was remaining capacity to do so;
 - the reporting burden was likely to be huge. It was worth spending time up front to get the principles well defined and understood;
 - the suitability criteria did not explain what the full suite of standards were expected to look like, which made it hard to identify deficiencies. The ISSB previously referred to topic specific and industry standards. So far, a clear vision of what this would look like had not been shared. It was hard to say whether they had put forward the right projects in this regard;
11. In relation to the four potential projects identified by the ISSB, the members made the following comments:
 - if these requirements all ended up in audited financial statements, there was a danger that they could break the system, as it would make timely publication of annual reports impossible. Companies already often delayed the publishing of

accounts as auditors would not sign them off. Everyone was doing more in the same period and it was already at breaking point;

- while biodiversity was important in relation to accounting, it would be better for the ISSB to work out integration in reporting (connectivity) before taking on any further new projects. The standards the ISSB produced would be used in a number of countries which would produce various different implementation issues they might not have considered. This piece was essential to establish credibility.;
- biodiversity stood out, as there were not many questions to investor relations about nature. Also, environmental laws were so strong that investors assumed it to be covered already for companies likely to be within the scope;
- relevance and comparability were key issues with financial reporting;
- human rights were potentially a subset of human capital considerations and should be part of a general standard on people. Biodiversity was much less mature than other areas which did not take so much imagination to address. Much that was taken for granted in the UK would be a revelation elsewhere in the world.

12. The Secretariat advised the group of the UKEB's timeline for responding to the RfI and noted that the Final Comment Letter would go to a special meeting of the UKEB Board on 2 August 2023.

Technical Update: Fair value and Liabilities and provisions

13. The Secretariat advised that the UKEB had discussed two further connectivity papers. One on liabilities and provisions and a second on fair value. The next paper would cover the Conceptual Framework and the final paper would wrap up the remaining issues to ensure the Board had a full understanding of the issues.

AOB

14. The SWG were advised that the Department for Business and Trade (DBT) had issued a [call for evidence](#) on the non-financial reporting area. The consultation closes on 16 August 2023.
15. The DBT observer also gave an update on the proposed IFRS Sustainability Disclosure Standards endorsement mechanism.