28 June 2024
Agenda Paper 8

UK Endorsement Board

Technical Advisory Committee Update

Executive Summary

Project Type	Monitoring
Project Scope	Various
Purpose of the paper	
This paper provides an update on the UK Sustainability Disclosure Technical Advisory Committee (TAC) meetings held in May and June 2024.	
Summary of the Issue	
This paper includes a summary of the papers and discussions from the May and June 2024 TAC meetings. The TAC has been tasked by the Department for Business and Trade[1] (DBT) to assess the IFRS Sustainability Disclosure Standards from a technical perspective and provide advice[2] to the Secretary of State on whether their endorsement would be conducive to the long-term public good in the UK. The TAC consists of 15 members, including the Chair. UKEB Member, Paul Lee, has been appointed as a member of the TAC. The UKEB seat on the TAC is to reflect the connectivity between UK-adopted international accounting standards and UK Sustainability Reporting Standards. Both TAC meetings were held before the June 2024 UKEB meeting. Papers for the July 2024 TAC meeting were not available at the time of writing. The publication of those papers, and others for future TAC meetings, will be flagged to UKEB members. Relevant topics will be brought for the Board's consideration and discussion, as soon as the timing of meetings and the publication of papers allow.	
Question for the Board	
Does the Board have any comments on the TAC update?	
Recommendation	
N/A	
Appendices	
Appendix A: UK Sustainability Disclosure TAC meeting schedule	

1 Section B: UK Sustainability Disclosure TAC Terms of Reference

2 Context letter from the Department for Business and Trade (May 2024) suggests that the TAC may wish to consider whether definitions in IFRS S1 and IFRS S2 are sufficiently clear, and whether any significant incompatibilities are identified with those currently used UK adopted international accounting standards.

UK Endorsement Board

TAC meeting – May 2024

1. This section sets out the main discussion points and tentative decisions from the May 2024 TAC meeting[3].

Assessment approach

2. The TAC discussed the proposed scope and process for the technical assessment of current and future IFRS Sustainability Disclosure Standards and the development of endorsement recommendations[4]. The TAC was asked to approve the assessment approach and highlight whether any further considerations should be made.

Contributions from the UKEB Member:

3. The reference to timeframes (Paper 2 – para 5(d)) should refer to general timeframes, rather than whether any individual entity will experience reporting delays. *This position was supported.*

4. The list of issues for the TAC to consider should include the application of 'limited' as well as 'reasonable' assurance[5] as requested by DBT. The TAC Secretariat advised that the FRC's audit technical team would be providing input on this area and that a key issue would be whether the information was able to be verified.

5. The UKEB member highlighted that the proposed TAC endorsement criteria were similar to the statutory criteria applied by the UK Endorsement Board (UKEB) during the adoption process for IASB standards and amendments, and that following the UKEB model might be helpful for the TAC.

6. The TAC approved the assessment approach, subject to addressing the comments raised during the meeting and approval by the Chair.

Work plan for technical assessment of IFRS S1 and IFRS S2

7. The TAC discussed the proposed technical work plan to assess IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and IFRS S2 *Climate-related Disclosures* (IFRS S2) for prospective endorsement for use in the UK. The work plan was based on the proposed assessment approach and included priority technical areas[6]. The TAC was asked to approve the proposed work plan and technical areas identified.

---

3 TAC 31 May 2024 meeting agenda
4 Technical assessment of IFRS S1 and IFRS S2 – Assessment approach
5 Context letter from the Department for Business and Trade (May 2024)
6 Technical assessment of IFRS S1 and IFRS S2 - Work plan for technical assessment of IFRS S1 and IFRS S2

Contributions from the UKEB Member:

8. During a discussion regarding obtaining updated stakeholder feedback, from the Call for Evidence conducted in 2023, the UKEB member recommended obtaining additional insight and understanding from the corporate world on preparedness for the ISSB Standards.

9. The UKEB member also recommended that the wording describing connectivity in the appendix should be amended to clearly articulate that the TAC will be considering connectivity with the financial statements.

10. A member queried whether 'reliable' should be removed from the criteria as it has been removed from FRS 102 *Financial Reporting Standard applicable in the UK and Republic of Ireland*. The UKEB member confirmed that the word 'reliable', which came from DBT, was consistent with the statutory criteria applied by the UKEB.

11. The TAC approved the work plan and technical areas identified, subject to transition plans, targets, and cross-industry metrics (apart from greenhouse gas emissions) being moved to the priority list for future discussion and to the appendix being amended.

Project plan and target timeline

12. The TAC considered a proposed project plan and target timeline in the context of key assumptions, constraints, and risks for the technical assessment of IFRS S1 and IFRS S2 for prospective use in the UK[7].

13. Key constraints were noted as: the capacity of the TAC members and TAC Secretariat; any communication restrictions during the pre-general election period; that DBT may add additional scope; and the possible need to consider amendments to the standards.

14. DBT had advised that they intended to make an endorsement decision on the first ISSB standards during Q1 2025. This would require the TAC to publish final endorsement recommendations by the end of Q4 2024. The TAC will meet monthly, with two meetings in November and aim to vote on the final recommendations at the December 2024 meeting.

Contributions from the UKEB Member:

15. The UKEB member noted that given the ambitious timeline, it would be helpful for both the TAC members and stakeholders to have a timetable of which items are

7 Technical assessment of IFRS S1 and IFRS S2 - [Project plan and target timeline]

intended to be discussed at each meeting. Not least, this would help provide an early indication of whether the TAC was on track.

16. The TAC approved the project plan, including the target timeline, subject to addressing the comments raised during the meeting.

TAC June 2024 meeting

17. The summary below sets out the main discussion points and tentative decisions from the June 2024 TAC meeting[8].

Current reporting in the UK

18. The TAC was provided with an overview of current sustainability related reporting requirements in the UK (TAC, June 2024, paper 2A[9]) which considered overlaps between IFRS S1 and IFRS S2, and the existing UK reporting framework. The paper noted (paragraph 12, page 8) that when considering connectivity, the members should be aware of how company law and accounting standards interacted with ISSB Disclosure Standards. The role and remit of the UKEB was noted (paragraph 13, page 8). The paper was provided to members for information only and no decisions were required.

19. Paper 2B[10] summarised the findings from a literature review by the TAC Secretariat of corporate reporting reviews conducted over the last two years. The paper was provided for information only and no decisions were required.

The location and timing of sustainability-related disclosures

20. IFRS S1 requires entities to disclose sustainability-related information in the same location and at the same time as the general-purpose financial reports. The TAC paper (TAC, June 2024, Paper 3)[11] requested the TAC members consider the appropriateness of these requirements in the UK context and tentatively decide to maintain the requirements in IFRS S1. Transition reliefs relating to the timing of these disclosures were excluded from the paper and will be discussed at a future TAC meeting.

8 TAC Public Meeting June 2024 Agenda
9 TAC Public Meeting June 2024 Paper 2A: Current reporting framework in the UK
10 TAC Public Meeting June 2024 Paper 2B: Current reporting practice in the UK
11 TAC June 2024 Paper 3: Location and timing of sustainability-related disclosures

Relevant information from UKEB Comment Letter to ISSB Exposure Drafts[12]

Location of reporting

- The UKEB Final Comment Letter (paragraphs B42 – 44, page 29) supported the requirement to disclose information as part of an entity's general-purpose financial reporting and not to require the information to be provided in a specific location.

Frequency of reporting

- The UKEB Comment Letter (paragraphs B39 – 41, page 27) supported this requirement but subject to concerns regarding the time and resources required by preparers, which could potentially cause a delay in publishing the financial statements. The letter strongly recommended that the ISSB consider field testing or phasing in these requirements to allow entities to develop the necessary reporting systems and assurance processes.
- The UKEB letter also noted that while users considered reporting at the same time was beneficial, that it should not be at the cost of delaying the publication of the financial reports.
- The letter noted that if sustainability disclosure requirements continued to increase, there may be a point at which some smaller entities may not have the capacity to deliver the information at the same time as the financial statements. Regulated entities had also raised concerns regarding timing differences between the publication of their financial statements and regulatory filing dates.

Contributions from the UKEB Member

21. The UKEB member noted that the requirements of IFRS S1, paragraph 64[13] would be challenging for many preparers to achieve.

22. During a discussion on the location of information the UKEB member observed that capability to electronically tag sustainability data would not reduce the importance of where it was located. He noted that once users had identified a population of companies to analyse, they then relied on the disclosures in the annual reports and accounts to make investment decisions.

23. The UKEB member also noted that IFRS S1, paragraph 2514 did not comment on either location or timing of reporting. He supported further guidance from the ISSB to clarify if current or future topical sustainability standards may supersede IFRS S1.

12 UKEB Final Comment Letter – ISSB Exposure Drafts IFRS S1 and IFRS S2 (July 2022)

13 IFRS S1, paragraph 64 Timing of reporting 'An entity shall report its sustainability-related financial disclosures at the same time as its related financial statements. The entity's sustainability related financial disclosures shall cover the same reporting period as the related financial statements.'

14 IFRS S1, paragraph 25 Core Content 'Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise in specified circumstances…'

Outcomes from the discussion

24. The TAC Chair noted that the TAC tentatively accepted the Secretariat's recommendations on both location and timing of information, subject to further consideration of the following areas:

    a) Due to the significant scale of the reporting change proposed, preparers may require a transition phase. Transitions reliefs will be discussed at a future TAC meeting.

    b) Where the availability of the data was dependent a third party, preparers may be unable, even after transition reliefs, to align the time periods covered by sustainability and financial statement reporting. This is likely to be the case for financed emissions, for example.

    c) Clarification was required to determine if the detailed requirements in a topical standard superseded the more general requirements in IFRS S1. The issue with paragraph 64 is unlikely to be the sole example. The TAC may request further guidance on this from the ISSB.

    d) The TAC may consider case studies to assist in making the final recommendations.

Commercially sensitive information

25. IFRS S1 provides an exemption that allows entities to omit commercially sensitive information about sustainability related opportunities from their disclosures in specific and limited circumstances.

26. The TAC staff paper[15] asked the TAC members to consider whether this exemption and the requirements were appropriate and whether there were any issues with their compatibility with existing UK legislation and regulations.

27. The TAC was asked to tentatively decide to maintain the exemption and requirements and advise DBT that while there are inconsistencies in UK legislation that this should not impact the ability to apply IFRS S1 in the UK.

[15] TAC Public Meeting June 2024 Paper 4: Commercially sensitive information

Relevant information from UKEB Comment Letter to ISSB

Confidentiality/commercially sensitive information

- The UKEB Comment Letter (paragraph B15c, page 17) noted that IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* acknowledges the need to maintain confidentiality of provisions for litigation if that would prejudice seriously an entity's position in a legal dispute (IAS 37, paragraph 92). The IFRS S1 disclosure could therefore undermine this protection provided under IFRS Accounting Standards.

Additional UKEB staff observations

- In addition, the UKEB staff paper[16] noted the following potential disconnects:

a) IAS 37 does not distinguish between risks and opportunities.

b) Users may anticipate that if commercially sensitive information is disclosed that it may no longer be considered commercially sensitive, and that the entity would therefore not apply the exemption in IAS 37 in the financial statements.

c) IFRS S1 paragraph 22(c) requires an entity to disclose current and committed investment plans, planned sources of funding and how the financial position is expected to change over time. If an entity chose to omit disclosures related to a climate-related opportunity to mitigate a material climate-related risk on the ground of commercial sensitivity the nature of the impact on an entity's plans and financial position may be unclear to users.

Contributions from the UKEB Member:

28. The UKEB member noted that the proposed approach was inconsistent with the approach adopted in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. He advised that the area required careful consideration to avoid unintended consequences where a sustainability disclosure may prejudice a company's negotiations to the detriment of shareholders. The category of items that would seriously prejudice a reporter's position is clearly a narrower category than commercial sensitivity.

29. In relation to recommendations to DBT, the UKEB member suggested that it may be more expedient to suggest that DBT consider interim guidance pending a broader decision by the ISSB.

Outcomes from the discussion

30. The Chair noted that the TAC tentatively accepted the Secretariat's recommendations, to allow the omission of commercially sensitive information about sustainability-related opportunities in specific and limited circumstances, subject to further consideration of the following areas:

16 Connectivity – UKEB Staff Paper: Liabilities and Provisions (April 2023)

a) Seeking feedback from the ISSB for further guidance regarding how ‘commercially sensitive’ is defined and the level of disclosure required.

b) Suggesting that DBT reflect on a potentially broader exemption, particularly to encompass sustainability-related risks as well as opportunities, but in very narrow circumstances.

Judgements, uncertainties, and errors, including revising comparatives

31. The TAC paper[17] noted that IFRS S1 required entities to disclose information about the judgements, assumptions and uncertainties used in the preparation and presentation of sustainability-related disclosures. In addition, IFRS S1 requires entities to restate comparative amounts to correct material errors, and to revise comparative amounts due to changes in estimates. The TAC was asked to consider whether these requirements were appropriate and if any further guidance was required.

32. The TAC was asked to tentatively decide to maintain these requirements in IFRS S1 but to provide feedback to the International Sustainability Standards Board (ISSB) that further clarification and guidance on the application of the requirements was required.

[17] TAC Public Meeting June 2024 Paper 5: Judgements uncertainties and errors including revising comparatives

Relevant information from UKEB Comment Letter to ISSB

Restatement of comparatives

- The UKEB Comment Letter (paragraph B15e) noted that the requirement to restate comparatives to reflect updated estimates, and explain any difference from previously published numbers, exceeds the requirements in IFRS Accounting Standards, where such treatment is only required in the case of error or retrospective application of a change in accounting policy.
- Paragraph B46 of the UKEB Comment Letter noted that if the requirement was 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.
- The UKEB recognised that the requirement was "to the extent possible" (paragraph 80, IFRS S1) and that care would need to be taken to ensure users were made aware of the different basis of preparation.

Additional UKEB staff observations

- While other aspects of the S1 are broadly consistent with the requirements of paragraphs 122-124 of IAS 1 *Presentation of Financial Statements* (IAS 1) in relation to significant judgements, the IFRS S1 requirement to revise comparative amounts due to changes in estimates appears to conflict with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8).
- The TAC agenda paper (paragraph 17) refers to "IAS 8, which does not require comparative amounts to be revised". However, IAS 8 does require prospective adjustments to estimates, and thus prohibits the revision of comparative amounts for changes in estimates.
- The introduction of potentially conflicting sustainability and accounting standards requirements may cause application issues for both preparers and users, and lead to cost implications, if preparers are required to continually update historic estimates.

Contributions from the UKEB Member

33. The UKEB noted that regulators may need to help frame the evolution of disclosures to ensure investors are aware of the context, not surprised when revisions and corrections are made, and are therefore well placed to encourage reporting improvements over time.

Outcomes from the discussion

34. The Chair noted that the TAC had tentatively accepted the Secretariat's recommendation to retain the disclosure requirements regarding judgements, assumptions and uncertainties and the restatement of comparative amounts to correct material errors, and to revise comparative amounts due to changes in estimates. However, this was subject to:

a) Additional guidance from ISSB to clarify the type of circumstances when disclosure may be required. For example, consideration of error tolerances or materiality thresholds.

b) Recommend for DBT to review the SECR in relation to requirements for comparative information as they may differ from IFRS S1 requirements.

c) Framing these requirements as an evolutionary process for preparers which would evolve and become more reliable over time.

Reporting entity boundary and consolidated reporting

35. The TAC was provided with an analysis of the reporting entity boundary and consolidated reporting issues raised by stakeholders[18] and was asked to consider whether the requirements of IFRS S1 and IFRS S2 were appropriate and whether any further guidance may be required.

36. The analysis considered the advantages and disadvantages of including subsidiary level sustainability reporting and noted that stakeholders had provided feedback that there should be an exemption when the parent prepares these disclosures at a consolidated level. An advantage of including subsidiaries in scope was noted as supporting connectivity 'by enabling users to view the financial and sustainability-related data together for a 'whole-of entity'…' (para 7.1, page 4).

37. A potential implementation risk was noted where a UK intermediate parent could be exempt under section 401 of the Companies Act but could still be required to report consolidated sustainability-related disclosures. It was suggested in the paper that DBT may need to consider the interaction with existing provisions in the Companies Act to avoid, potentially, disconnected information for users (paragraph 8, page 5).

38. Differences in defining reporting boundaries (paragraph 9, page 5) noted potential challenges with the interaction with financial accounting definitions and with the Greenhouse Gas Protocol (GHG Protocol). Stakeholders' feedback highlighted that IFRS 10 *Consolidated Financial Statements* used a financial concept for control to determine scope of consolidation, while the ISSB standards used operational control. In addition, the GHG Protocol allowed for consolidation based on either financial or operational control or the entity's equity share, which may not align with the entity's financial reporting boundary. These situations could result in misaligned reporting boundaries, leading to divergent reporting and inconsistent information for users.

---

[18] TAC Public Meeting June 2024 Paper 6: Reporting entity boundary and consolidated reporting

39. The TAC was asked to tentatively decide to maintain the requirements in IFRS S1 but to communicate any issues noted to DBT.

Relevant information from UKEB Comment Letter to ISSB

Reporting entity boundary and Consolidated reporting

- The UKEB Comment Letter (paragraph B22) supported the requirement to provide sustainability-related financial information for the same reporting entity as the related financial statements. However, noted that the scope of the information required from the value chain may be costly or difficult for companies to obtain and verify and suggested that the location in the value chain should be defined in the context of the entity's business model.
- The UKEB also supported the concept in IFRS S1 (paragraph 41) that other IFRS Sustainability Disclosure Standards would be used to specify how an entity was required to disclose its significant sustainability-related risks and opportunities related to associates. However, the drafting appeared to suggest that disclosure for associates may not be required, while Basis for Conclusions (paragraph BC53) stated that "the effects arising from these investments are included". These statements appear contradictory and greater clarity would be required to improve consistency of application.

Additional UKEB staff observations

- As the consolidation requirements in the Companies Act 2006 apply to all companies, irrespective of whether they are IFRS or UK GAAP, the implications of this requirement would be far reaching in the UK.
- The potential cost implications may also be significant due to the additional reporting burden on large groups with a significant number of subsidiaries, without any clear benefits to users for all but the largest subsidiaries. Users have advised us that they usually rely on group reporting level and only drill down to subsidiary level by exception. Users may therefore require an explanation for why the TAC consider providing the rationale for why this level of sustainability disclosure at the subsidiary level is important.
- The TAC may also wish to consider implications for the reduced disclosure frameworks for subsidiaries without public accountability in both FRS 101 *Reduced Disclosure Framework* and IFRS 19 *Subsidiaries without Public Accountability: Disclosures*. There may be a risk of a disconnect between limited financial statement disclosures but potentially significant sustainability disclosures.

Contributions from the UKEB Member

40. In relation to the differing views of control between ISSB, GHG Protocol and IASB standards, the UKEB member noted that a consistent approach was required. He suggested that as financial control was used for the purposes of financial consolidation it would be appropriate to consider this approach. Consolidation on a financial control-based approach was supported by the members but some noted it would be a significant change for preparers and so was likely to require time for transition.

41. In relation to groups being able to net off sustainability-related risks and opportunities from separate subsidiaries the UKEB Member suggested that this could be barred under the new requirements, when material.

Outcomes from the discussion

42. The Chair noted that the TAC had tentatively accepted to maintain the requirements in IFRS S1 and to communicate potential legislative issues to DBT. This may include aligning reviewing reporting exemptions in the Companies Act 2006, considering adopting the concept of financial control for consolidation purposes and reviewing the content of the Strategic and Director Reports and Sustainability Statements.

43. It was also noted that further disclosure guidance may be required for conglomerates and other complex entities. No position was taken on subsidiaries, though there was a general view that a universal exemption from reporting for subsidiaries was unlikely to be appropriate.

General Reporting Update

44. The paper[19] was for information only and included the main updates since IFRS S1 and IFRS S2 since issued by the ISSB in June 2023, a summary of the ISSB meetings and jurisdictional developments in relation to the adoption of the standards.

UKEB staff observations

- The paper notes that the standards will apply to listed entities in Canada. We understand that the Canadian standard setters and regulators have yet to determine which entities will be in scope of the sustainability standards.

Question for the Board
1. Does the Board have any comments on the TAC update?

[19] TAC Public Meeting June 2024 Paper 7: June general reporting update

UK Endorsement Board

Appendix A: UK Sustainability Disclosure TAC meeting schedule

UK Sustainability Disclosure TAC meetings

A1. The table below compares the scheduled of TAC and UKEB meetings. As the meeting dates do not always align, the UKEB updates will either include topics for discussion (when the UKEB meets prior to the TAC) or for information (when the UKEB meets after the TAC).

TAC meetings 2024	**UKEB** meetings 2024
31 May	24 May
18 June	28 June
15 July	18 July
3 September	19 September
8 October	17 October
5 November	28 November
28 November	
5 December	12 December

A2. The May[1] and June TAC meetings have now been held. The public meeting agenda, technical papers and summary minutes from the TAC meetings can be found on the UK Sustainability Disclosure Technical Advisory Committee website[2].

TAC work plan for technical assessment of IFRS S1 and IFRS S2

A3. The table below summarises areas that the TAC Secretariat has concluded[3] requires further assessment as well as the topics discussed in TAC meeting to date.

1 The recording of the 31 May 2024 meeting and meeting summary.
2 UK Sustainability Disclosure Technical Advisory Committee
3 Technical assessment of IFRS S1 and IFRS S2: Appendix 1 – Initial assessment of priority technical areas in IFRS S1 & IFRS S2

<table>
<tr><th>Area for assessment</th><th>Discussions held</th></tr>
<tr><td>Relationship with existing UK requirements</td><td rowspan="10">TBC</td></tr>
<tr><td>International interoperability</td></tr>
<tr><td>Connectivity and integration</td></tr>
<tr><td>Proportionality</td></tr>
<tr><td>Reliefs</td></tr>
<tr><td>Aggregation and disaggregation</td></tr>
<tr><td>Materiality</td></tr>
<tr><td>Identifying risks and opportunities</td></tr>
<tr><td>Industry-based approach</td></tr>
<tr><td>Sources of guidance</td></tr>
<tr><td>Timing and location of reporting</td><td rowspan="4">June TAC</td></tr>
<tr><td>Commercial sensitivity</td></tr>
<tr><td>Judgements, uncertainties and errors / Revising comparatives</td></tr>
<tr><td>Reporting boundary / consolidated group accounts</td></tr>
<tr><td>Value chain</td><td rowspan="8">TBC</td></tr>
<tr><td>Current and anticipated financial effect</td></tr>
<tr><td>Resilience and scenario analysis</td></tr>
<tr><td>Greenhouse gas emissions, including Scope 3 emissions</td></tr>
<tr><td>Financed emissions</td></tr>
<tr><td>GHG Protocol and measurement methods</td></tr>
<tr><td>Greenhouse gas emissions— disaggregation by consolidated group and other investees</td></tr>
<tr><td>Cross-industry metrics in IFRS S2 (other than greenhouse gas emissions)</td></tr>
</table>