# EXPOSURE REAFTS: UK SUSTAINABILITY REPORTING STANDARDS

ISEP response to DBT consultation

ISEP
Climate Change
Mitigation & Adaptation

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# 1. About The Institute of Sustainability and Environmental Professionals (ISEP)

We are the professional voice on sustainability and the environment.

The Institute of Sustainability and Environmental Professionals (ISEP) is the global membership body for anyone wanting sustainable change that delivers across government, business and society.

ISEP harnesses the collective expertise and experience of over 20,000 sustainability and environmental professionals globally to provide the evidence, insights, and innovative solutions that Government needs to deliver growth in a sustainable way.

We cover every sector and every level of sustainability, environmental management and impact assessment – with our networks reaching around the world. We unite talented people and draw on diverse perspectives to influence global change across government, business and society.

ISEP can help develop, deliver and implement laws, regulations and standards that drive sustainability and economic growth.

ISEP is transforming the world today for a sustainable future by:

- setting the standard across every business sector for sustainability and environmental professionals, drawing on their expertise to support the development and implementation of policies that drive green growth,
- advancing careers and nurturing talent by offering world-class training, practical guidance, cutting-edge evidence and insights, alongside awarding professional recognition,
- and creating collaborations and building partnerships to influence government policy and legislation, deliver best-practice across business, and inspire change in society.

Sustainability matters. Environmentally, economically and socially.

# 2. Executive summary and recommendations

We welcome and support the endorsement of the ISSB standards. Their adoption will help prevent the proliferation of conflicting sustainability reporting standards, reduce the burden on disclosing entities, and demonstrate the UK's leadership in sustainable finance.

The government's four amendments, based on the TAC's recommendations, appear reasonable.

Key points of note are:

- **Financed emissions**: Allowing use of the balance sheet from a previous period as an interim measure is acceptable, but alignment with financial reporting periods should be the ultimate goal for financial institutions.

- **Materiality**: Retaining the IFRS S1 'single materiality' approach is appropriate. However, there is a need for clear guidance—developed in partnership with the ISSB—on what information may be considered material in practice.

- **Streamlining reporting**: Proposals to reduce duplicative reporting are much welcomed. Standardised reporting formats would further cut costs and effort, benefitting both large entities and SMEs drawn into reporting via supply chains.

- **Workforce capacity**: Consideration should be given to how the specialist workforce will need to expand to meet new reporting demands, and how ISEP can contribute to this development.

**Recommendations**

1. **Endorse ISSB standards** to ensure consistency, minimise burden, and show UK commitment.

2. **Adopt the government's four amendments**, while signalling the need for eventual alignment of financed emissions data with financial reporting periods.

3. **Work with ISSB to develop materiality guidance**, providing clarity and consistency for preparers.

4. **Encourage standardised reporting formats** to maximise efficiency and reduce costs across all entity sizes.

5. **Plan for workforce growth**, with professional bodies such as ISEP playing a key role in training and capacity building.

# 3. Questions and responses

### Question 1 Do you agree or disagree with the UK government's 4 amendments based on the TAC's recommendations? Provide your rationale.

All the amendments seem reasonable.

A note on nature and the extension of the transition relief permitting a 'climate-first' approach, and addressing nature from year 3:

Nature disclosure is generally more complicated and resource intensive and less mature than climate, with far fewer agreed frameworks and mature datasets. In the absence of an ISSB/IFRS standard on nature, final transition plan guidance from TNFD, and robust, well-tested scenarios over the long term, it makes practical sense to provide relief in terms of disclosure timings that matches those set out in UKSRS:S1, i.e., in Amendment 2 to IFRS:S1 ***"in year 3 – climate-related risks and opportunities, Scope 3 emissions, and wider sustainability-related risks and opportunities"*** for the development of nature-related requirements. This provides a timeline for action and ensures that nature isn't left behind. It should be noted that given the requirements of the EUSRS many larger companies will have been collecting data for more than four years on this topic and cascading requirements through their supply chains. Having more clarity on this issue will help support companies that are tasked with providing nature-related targets and data and ensure they are less exposed to multiple differing requests from their customers.

The nature crisis is as pressing as the climate crisis, and we caution against leaving it any later, and highlight that acting on nature through a climate lens alone will not be sufficient.

### Question 2 Industry practice is to use the balance sheet for loans and investments from a previous period to calculate financed emissions (where it is impracticable to provide the information for the current reporting period end). Do you agree or disagree that this results in decision-useful information, and what additional guidance might be useful?

Where current reporting period information cannot be obtained, previous period information can act as a decision-useful proxy that is more informative than no information. However, it is simply a matter of sector inertia and current lack of procedures and tools in place that prevent financial institutions from aligning sustainability-related reporting (including financed emissions) with financial reporting, rather than an inherent characteristic of the former.

The intention of the SRS should be to transition sustainability-related risk and opportunity disclosure to align to financial reporting periods. This may become a mandatory requirement of future updates to the SRS (and that intention should be signposted well in advance).

As an interim transitional measure, we recommend as a minimum that any sustainability-related disclosure (e.g. financed emissions) in respect of a previous period (i.e. does not align with current financial reporting period) must be supported with qualitative commentary that discusses how such disclosures are likely to have changed for the current reporting period.

### Question 3 For entities subject to financed disclosure requirements, what is the impact of revising comparative data for financed emissions calculations and what additional guidance might be useful?

We broadly agree with the TAC's conclusions and recommendations in respect of comparative data disclosure and revisions. We consider that revisions to comparative data for previous reporting periods that are transparently disclosed in accordance with the approach described in paragraphs B49-B54 will be informative and accepted by disclosure recipients as being aligned to good practice.

Relevant guidance which, as recommended by the TAC, should be developed in partnership with the ISSB could include:

- Agreed materiality thresholds above which revisions to comparative data must be explained; and
- Standardised terminology for explaining the causes of revisions.

### Question 4 Do you have any other comments on the TAC's final report and recommendations? Include any supporting evidence.

We are fully supportive of the TAC's opinion that UK's endorsement of the IFRS S1 and S2 standards for the creation of the SRS would be "conducive to the long-term public good in the UK", being to the benefit of the finance sector, with transparent disclosure being a precursor to prudent management by financial institutions of sustainability-related risks and opportunities in relation to economic activities.

In its comments in relation to materiality, the TAC recommended that the materiality approach of IFRS S1 be maintained without amendment, that approach being prima facie a 'single materiality' approach that contrasts with the 'double materiality' (i.e. including impact materiality) approach adopted by the European Sustainability Reporting Standards.

Whilst we follow the TAC's rationale for this recommendation and therefore do not fundamentally disagree with it, in contrast to the TAC we do recommend that guidance <u>should</u> be developed in partnership with the ISSB on what information may be considered material. The broad definition of materiality, being "information [that] could reasonably be expected to influence decisions that the primary users of general purpose financial reports make", allows for disclosing entities to declare immaterial sustainability-related factors that a primary user might indeed consider material – e.g. reputational considerations associated with impacts that could influence decisions. Additional guidance on determining materiality would help avoid such misalignments of expectations.

### Question 5 Do you agree or disagree that 'shall' should be amended to 'may' in "shall refer to and consider the applicability of… [SASB materials]"? Provide your rationale, including any views you have on the timing of the review of the amendment.

Taking questions 5 and 6 together: agree to both

All of these policy proposals are progressive. ISEP members note that they are doable and there should not be pushback from organisations saying that they are too onerous for business.

### Question 6 Do you agree or disagree with the proposal to link the reporting periods in which a transition relief can be used to the date of any reporting requirements coming into force? Provide your rationale.

Taking questions 5 and 6 together: agree to both

All of these policy proposals are progressive. ISEP members note that they are doable and there should not be pushback from organisations saying that they are too onerous for business.

### Question 7 Explain your views on: a) whether disclosure of the purchase and use of carbon credits in the current period would be useful information b) what the barriers to companies being able to produce this information are (including the availability of the information required for reporting and the associated costs) c) whether (and how) any further disclosures would be useful

ISEP has previously responded to the consultation on voluntary carbon and nature markets. The use of carbon credits should be disclosed. Our headline response on carbon credits was as follows:

- Enable credible interim carbon neutrality claims

- Allow interim carbon neutrality claims using voluntary credits while transitioning to net zero.
- Ensure claims are time-bound, publicly explained, independently verified, and backed by robust emissions reduction plans.

Ensure that Claims standards:

- Align with VCMI and the Oxford Principles.
- Follow the GHG hierarchy - prioritising reductions before credits.
- Differentiate between reductions and removals.
- Reduce the burden of multiple assurances.

Provide Additional Guidance for Transition Plans

- Offer clear guidance on the role of voluntary credits in transition plans, especially for growing organisations.
- Support consistent and transparent disclosure practices (e.g. aligning with CDP).

### Question 8 What are your views on the potential amendments to IFRS S2 proposed by the ISSB at this time?

No response

### Question 9 Do you have any other comments (including any supporting evidence you would like to share) on the UK government's 2 amendments based on the PIC's conclusions? Explain them here.

No response

### Question 10 Overall, do you agree that the UK government should endorse the standards, subject to the amendments proposed? Explain any other amendments that you judge to be necessary for endorsement and why.

Yes. We are supporting of endorsement of the standards, particularly in that adoption of the internationally-accepted ISSB standards helps prevent the proliferation of multiple conflicting standards, and minimises burden on disclosing entities whilst showing UK commitment and leadership on sustainable finance.

### Question 11 Explain the direct and indirect benefits that you are expecting to result from the use of UK SRS S1 and UK SRS S2. Include an assessment of those benefits which are additional to benefits arising from current reporting practices.

The benefits of reporting include transparency, awareness, comparability, and the impetus to develop environmentally friendly practices.

### Question 12 Explain the direct and indirect costs that you are expecting to result from the use of UK SRS S1 and UK SRS S2. Include an assessment of those costs which are additional to costs arising from existing reporting practices.

Direct and indirect costs will depend on existing reporting practices, both those required for UK-based and international compliance. Wherever possible, and certainly in respect of UK disclosures, reporting schemes should be lined up to prevent duplicative reporting. This includes the nature of the data to be reported by the entity, and for reported data to be accessible in a standardised format. Consideration should be given to how much the specialist workforce will need to be scaled up to meet demand as reporting requirements expand.

### Question 13 What are your views on the merits of economically-significant private companies reporting against UK SRS? Explain your assessment of direct and indirect benefits and costs.

No response

### Question 14 For non-listed entities, what are your views on your readiness to report against UK SRS – particularly UK SRS S1, which covers non-climate reporting? Explain whether you require additional resources to report on UK SRS, beyond resources used for existing climate or sustainability-related reporting, and what these resources would be.

Entities that already are in scope of ESRS will find it easier to report against SRS S1. However it would be helpful if guidance could be published in the form of a mapping of data points comparing gaps and overlaps between the different standards. This would help some entities to understand the scale and scope of reporting that needs to be set up in addition to the existing ESRS (Group) Reporting.

### Question 15 What (if any) would be the opportunities to simplify or rationalise existing UK climate-related disclosures requirements, including emissions reporting, if economically-significant private companies are required to disclose against UK SRS? Consider how duplication in reporting can be avoided. Responses to this question will support the government's review of the UK's non-financial reporting framework.

Requests from clients would not have to be answered individually. Instead, the reporting under UK SRS could be used to respond to these requests.

### Question 16 Explain which other sustainability-related requirements your organisation currently reports against or expects to report against. How does this affect your assessment of associated costs and benefits for any UK SRS reporting?

Many UK-based ISEP members report for mandatory schemes including SECR, ESOS, PPN006, ESRS. Members include in-house sustainability experts who report for their employers, and consultants, who assist other organisations to report. This response is formed from this wide experience base.

Voluntary frameworks such as EcoVadis, CDP are costly and it takes time to respond. If the UK SRS is aligned to ESRS and established non-regulatory frameworks, this would be beneficial in terms of streamlining reporting burden.

### Question 17 What support from UK government or regulators may be useful for SMEs and what support is already available within the market? Explain which costs could be mitigated and/or which benefits could be realised through this support.

Clear guidance in regards to definitions, reporting scope, examples/case studies and best practices would help all companies.

While smaller companies are excluded from the intent of these proposals, in practice they will be drawn into the process. There will be a trickle down effect where SMEs have to gather their own data to pass on to their larger supply chain partners. As an ancillary point, it was noted that the UK's industrial strategy and government policy is focused on encouraging and building the base of SMEs, in which case the proportion of businesses officially in scope may reduce while the proportion of businesses unofficially in scope will increase. We make the same point about transition planning in our response to this separate consultation.

### Question 18 Explain your assessment of the legal implications of using UK SRS and your assessment of the existing provisions in section 463 of the Companies Act. 19.

The provisions appear to provide some protection, so long as the forward-looking statements are written in good faith and so on.

### Question 19 If you have any other comments (including any supporting evidence) on the potential costs and benefits of UK SRS for any stakeholder, including any comments on sector-specific impacts, explain them here.

No response

**Question 20 What are your views on the quality and availability of existing guidance for the topics listed in paragraph 5.4? Explain what additional guidance – particularly on a global basis – would be helpful and why.**

No response