IFRS Sustainability Disclosure Standards: Consultation on Agenda Priorities

Response from UK Finance

August 2023

UK Finance is the collective voice for the financial services industry. We represent over 300 member firms across the sector, and act to enhance competitiveness, support customers and facilitate innovation.

We are a strong supporter of the International Sustainability Standards Board (ISSB) and its standards as the global baseline for sustainability reporting, and advocate for the adoption of the standards in the UK and elsewhere. We were pleased to host the ISSB for one of the global launch events for the sustainability and climate reporting standards in June 2023.

We are delighted to respond to this consultation on the ISSB's agenda priorities, and have also input into responses by the International Regulatory Strategy Group (IRSG), the European Banking Federation (EBF) and the International Banking Federation (IBFed).

If you have any questions relating to this response, please contact Ian Bhullar, Principal, Sustainability Policy at ian.bhullar@ukfinance.org.uk.

Key recommendations:

- The ISSB should focus primarily on **ensuring its existing sustainability standard IFRS S1 and climate standard IFRS S2 are implemented widely and embedded into sustainability reporting requirements**. The standards are a critical enabler of firms' support for the transition to a more sustainable economy, and there is still a significant risk that they will not be successfully rolled out as the global baseline. Continued efforts are needed to support the adoption of the standards in as many jurisdictions as possible. To enable this, the ISSB should provide good practice examples, similar to those for implementation of the Taskforce on Climate-Related Financial Disclosure (TCFD), to assist firms' understanding of the ISSB's expectations and to demonstrate feasibility.
- Where new research is undertaken with a view to developing future sustainability reporting standards, we support further work on **biodiversity, ecosystems and ecosystem services** as highest priority, to help expand data available to investors and lenders. This is partly driven by the specific urgency of biodiversity and ecosystems loss, interdependencies with climate standard IFRS S2, and the regulatory pipeline in the UK and elsewhere.
- Wherever possible, additional standards need to **draw on existing best practice** to maximise regulatory coherence, including building on frameworks like the Taskforce on Nature-Related Financial Disclosure (TNFD) and the European Sustainability Reporting

Standards (ESRS), while recognising that some frameworks are in early stages and will need further development.
- Expanding data availability on exposures to human rights and human capital concerns is important, and research should proceed, although we **consider this lower priority** in a resource-constrained environment.
- We would support **targeted enhancements to the Sustainability Accounting Standards Board (SASB) standards**, where these enhancements will make the standards more internationally applicable in support of IFRS S1 and S2 implementation. The ISSB should consider lessons learned from emerging best practice, as the market builds its experience of implementing the ISSB standards.
- Reporting rules should be **consistent and proportionate**, to generate decision-useful data without placing undue burden on small- and medium-sized enterprises.
- We maintain strong support for the ISSB's work to strengthen **international interoperability** across sustainability disclosure requirements. We call on the ISSB and partners to continue to collaborate closely, working toward greater coherence and to mitigate the risk of regulatory divergence.

Detailed recommendations

Strategic direction and balance of the ISSB's activities (question 1)

We call on the ISSB to **give highest priority to the implementation of the existing standards** IFRS S1 and IFRS S2. The creation of the global baseline for sustainability and climate reporting is crucial for the generation of consistent, comparable sustainability risk and opportunity information, which in turn will enable the efficient allocation of capital to the transition. While some jurisdictions, including the UK, have an in-principal commitment to implementing the standards, their widespread adoption is by no means guaranteed and faces further hurdles.[1] It will be important to dedicate resource during the first few years of roll-out to ensuring that they are widely adopted and interoperable with those of other jurisdictions. In the interest of consistency, we would like to see the ISSB provide best-practice statements on the new standards and how they compare to existing standards.

New research and standard-setting projects (question 3)

If and where the ISSB opts to embark on new research and standard-setting projects, we call for the ISSB to prioritise **the development of biodiversity, ecosystems and ecosystems-focused standards**. This is for the following reasons:

- There is an urgent and specific need to address biodiversity and ecosystems loss. The current decade is a critical moment for averting irreparable damage to ecosystems, and industry has a key role to play.[2] Improved access to risk and opportunity information will support firms in responding to this challenge.
- Further work on disclosure of biodiversity risks will act as a complement and potential input to the ISSB's existing work on climate-related risks, given interdependencies between nature

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[1] See, for example, the expected process to endorse and adopt the standards in the UK, which includes multiple stages of public consultation. *Mobilising Green Investment: 2023 Green Finance Strategy*, March 2023, p.43.

[2] See, for example, World Economic Forum 2020; London School of Economics Grantham Institute 2022; Accounting for Sustainability 2023.

degradation and climate change (albeit recognising differences between climate and nature and that there will be challenges adapting climate approaches for nature reporting).

- Biodiversity and ecosystems loss poses a risk to firms, including financial services firms,[3] and improved risk and opportunity information through the value chain can help firms to manage those risks.
- An emerging regulatory landscape makes standardised approaches to disclosure of biodiversity- and ecosystems-related risks and opportunities more important. Within the UK, the 2023 Financial Services and Markets Act compels financial services regulators to have regard to the achievement of UK environmental targets; and sets a pathway for potential regulation to eliminate financing of the use of "prohibited forest risk commodities".[4] Elsewhere, reporting on biodiversity and ecosystems-related risks, opportunities and impacts is already embedded in legislation – for example, the EU's Corporate Sustainability Reporting Directive (CSRD). The ISSB will play an important role in creating a global baseline to support alignment across these and other initiatives.
- There is already a broad corpus of literature and initiatives for the ISSB to draw on, including the work of the TNFD and the European Financial Reporting Advisory Group's (EFRAG's) European Sustainability Reporting Standards (ESRS). It will be sensible to leverage aspects of these existing frameworks, while recognising their nascent stage and the limited availability of high-quality data: further exploration may be necessary to address challenges, ensure information generated is decision-useful and minimise risk of fragmentation.

UK Finance and its members stand ready to support the development of these standards, building on existing experience of developing and implementing nature-focused disclosures.

Biodiversity, ecosystems and ecosystem services (BEES) (question 4)

UK Finance members are both preparers and users of sustainability reporting, as they report for the needs of investors and other stakeholders, and draw on the disclosures of their existing and potential clients and wider value chain. As users, it will be important to have access to accurate biodiversity, ecosystems and ecosystem services data to enhance their own understanding of the risks and opportunities faced in those areas. Reporting rules should be consistent and proportionate, to generate decision-useful data without placing undue burden on small- and medium-sized enterprises.

Looking across the list of sub-topics set out by the ISSB in paragraph A11 of this consultation, whilst we do not have a comprehensive view on which sub-topics are most material to investors, we suggest giving particular priority to those sub-topics that have causal links to other material considerations for investors such as land-use, land-use change and deforestation; pollution; and resource exploitation. In this regard, the ISSB should also consider biodiversity and species loss, which has a demonstrated link to financial risk, as set out in the 2021 Dasgupta Review.[5]

To avoid duplication of work, maximise the value of the ISSB's efforts, and increase opportunities for interoperability, the ISSB should draw on the range of existing initiatives, particularly the work of the Global Reporting Initiative, TNFD, the EU institutions and EFRAG, while ensuring that ISSB reporting expectations adhere to the existing definition of financial materiality as established under IFRS S1.

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[3] See, for example, Dasgupta Review 2021; Sarah Breeden, "The Nature of Risk" 2022

[4] Financial Services and Markets Act 2023

[5] Dasgupta Review 2021

While a focus on financial materiality will be of primary importance to investors, we encourage the ISSB to provide clarity on how to consider impact materiality where possible to ensure maximum international interoperability, given that some reporting frameworks and jurisdictions are moving more towards approaches that include impact or “double” materiality.

Human capital and human rights (questions 5-6)

UK Finance members would strongly welcome an improvement in the availability of data on labour and human rights risk exposures in supply and value chains. A lack of transparency is a challenge for many in improving performance on these issues, and many firms are engaged with initiatives like the OECD’s Due Diligence Guidance for Responsible Business Conduct and third-sector bodies looking to improve such transparency.[6]

Further research by the ISSB into these topics would therefore be welcome. While human capital and human rights should be treated as separate topics, any research should be undertaken simultaneously as essential and interlinked issues, and it is important that the research consider all relevant stakeholders, including employees, customers and wider communities.

However, for the reasons set out earlier in this response, we recommend prioritising work on biodiversity, ecosystems and ecosystem services over human capital and human rights at present.

It is important to note that certain types of human capital and human rights reporting will be challenging to undertake from a political perspective, and may generate political risks for the reporting entity in jurisdictions in which they operate – for example, if that reporting entails implicit value judgements about a given jurisdiction. This could include undermining the relationship between the reporting organisation and important stakeholders. Such risks will need to be carefully managed, to avoid unintended consequences.

Integration in reporting (question 7)

We support work on integrated reporting to the extent that this links into connectivity between financial reporting and strategic reporting. We agree that the ISSB and International Accounting Standards Board (IASB) should “ensure that connections between financial and sustainability performance are explicitly, efficiently and effectively communicated in a manner that is more easily understood”. We consider that this would occur naturally as IFRS S1 and IFRS S2 are implemented — a continuation of the journey on TCFD implementation — and therefore do not see it an immediate priority for the ISSB.

[6] OECD Due Diligence Guidance for Responsible Business Conduct