Appendix to the UK Endorsement of IFRS S1 & IFRS S2: Call for Evidence

The template below may be used to prepare and structure your response to the call for evidence.

Stakeholder type	☐Individual ☐Investor ☐Shareholder ☐Academic ☐Business ☒Representative Body ☐Other (please specify)
	Click or tap here to enter text.
Individual/Organisation name	The Chartered Governance Institute UK & Ireland
Organisation size (number of employees)	64
Contact email address	eford@cgi.org.uk
Is this response confidential?	☐Yes ☒No

Views on the potential application of IFRS S1 and IFRS S2 in the UK
Please provide your views on whether the disclosures required by the IFRS Sustainability Disclosure Standards, in the context of the UK:

- will result in disclosures that are understandable, relevant, reliable and comparable for investors;
- are technically feasible to prepare;
- can be prepared on a timely basis and at the same time as general purpose financial reports; and
- are expected to generate benefits that are proportionate to the costs that are likely to be incurred.

Respondents are asked to provide opinions and evidence pertaining to specific topics in these two standards. In particular, respondents are asked to provide insight into any challenges and benefits that might arise when preparing and disclosing information in compliance with the two standards, including the scale of the challenge and any solutions you are able to propose.

In preparing your response, you may consider the topics outlined in the call for evidence. Please note, you are not required to limit your response to the suggested topics, nor are you expected to respond to all topics or questions. In your response, you are encouraged to comment on any aspect of the IFRS Sustainability Disclosure Standards. When providing your comments, please clearly state the requirement(s) that the comment relates to so that these can be effectively captured.

The Chartered Governance Institute UK & Ireland is the professional body for governance and the qualifying and membership body for governance professionals across all sectors. Its purpose under Royal Charter is to lead 'effective governance and efficient administration of commerce, industry and public affairs', working with regulators and policy makers to champion high standards of governance and providing qualifications, training and guidance. As a lifelong learning partner, the Institute helps governance professionals to achieve their professional goals, providing recognition, community and the voice of its membership.

One of nine divisions of the global Chartered Governance Institute, which was established 130 years ago, The Chartered Governance Institute UK & Ireland represents members working and studying in the UK and Ireland and in many other countries and regions including the Caribbean, parts of Africa and the Middle East.

As the professional body that qualifies Chartered Secretaries and Chartered Governance Professionals, our members have a uniquely privileged role in companies' governance arrangements. They are therefore well placed to understand the processes behind preparing non-financial information and the technicalities of sustainability-related disclosure standards. In preparing our response we have consulted, amongst others, with our members. However, the views expressed in this response are not necessarily those of any individual members, nor of the companies they represent.

1. Overall views on the standards

Overall, the Institute is pleased with IFRS S1 and IFRS S2, and sees them as having a key role to play in addressing the fragmentation which is currently seen across sustainability-related reporting. We hope that they encourage consistent and comparable disclosures, whilst reducing the potential for greenwashing.

We did not receive substantive comments from our members on the details of particular requirements. This may be simply because our members are content with the required disclosures and do not feel that any particular changes are necessary in the UK context. It may also reflect the fact that these standards are still new, and organisations therefore need more time to become fully familiar with them. Furthermore, it is possible that the particular areas of difficulty or challenge that these standards pose will only emerge more fully once companies begin reporting against them. As such, we have only included responses to areas where our members have expressed particular views.

It is clear, however, that IFRS S1 and IFRS S2 mark a step-change in the amount and the variety of non-financial information which companies are expected to prepare. To date, the UK's sustainability reporting requirements have largely focussed on climate, and in particular on greenhouse gas emissions – leading some to criticise this approach as blinkered and narrow. This is certainly now changing, in particular with the recommendations of the TNFD on nature-related disclosures and the TPT on net zero transition plans. IFRS S1 widens the focus to incorporate all sustainability-related risks and opportunities. This will require a significant uplift in the amount of and the granularity of information which companies need to prepare – and therefore also increase costs.

3. Application of materiality

Paragraphs 17 and 18 on the definition of materiality are clear and feel very familiar. The provisions set out under B13 to B28 are also clear, particularly when supported by the ISSB's associated guidance. Nevertheless, the implementation of this guidance will require a significant amount of time and resource from companies. Many will require significant external support to establish materiality thresholds.

4. Reporting approach

Our members have commented that subsidiaries should be exempt from non-financial reporting requirements where this is undertaken at the holding company level. This is to avoid duplication of work and of the significant costs associated with the preparation of this information.

5. Timing and location

The TCFD already recommends including climate-related information in a company's main financial reports to improve the interconnectedness of the information. As such, the provisions in IFRS S1 around timing and location of information do not necessarily represent a significant jump.

The provision under paragraph 63 that "Information required by an IFRS Sustainability Disclosure Standard may be included in sustainability-related financial disclosures by cross-reference to another report published by the entity" and the further specifications under B45 – B47 give companies the latitude to produce a separate report or documentation so long as this is cross-referenced. This is a welcome addition, as many of our members have expressed concerns over the ever-growing length of the annual report.

Additionally, the provision under paragraph 66 gives companies the ability to shorten or lengthen the timeframe over which it reports its sustainability-related financial disclosures. Whilst investors are unlikely to see this as good practice, it does provide companies with some flexibility in cases where this may be necessary.

Whilst the Institute supports the sentiment of B27b, namely that material information should not be presented in language which is 'vague and unclear', the UK's guidance on IFRS S1 should lay out in more detail what 'vague and unclear' looks like. This is particularly important to minimise risks of perceived or actual greenwashing.

10. Costs and benefits

One of the four key aims of the ISSB's standards is to create disclosures which generate benefits proportionate to the costs incurred. It is no secret that the resources required to fulfil reporting obligations can be significant. Collecting, aggregating, and analysing the underlying data and information for sustainability-related disclosures is generally more difficult than doing so for financial reporting. Companies' processes for measuring and handling such data are less developed and they may struggle to quantify and to identify metrics for certain sustainability-related issues. The processes of assurance and verification for sustainability-related disclosures are also significantly more challenging.

The volume of information which companies are expected to provide can create significant amounts of work, within short timeframes, for all sizes of company; although larger companies have more resources, they are typically asked for more data. Whilst some of the benefits of sustainability-related disclosures are felt by business, many are mostly felt or derived by investors and other stakeholders. Some of our members have described preparing sustainability-related disclosures as "a compliance cost of doing business" which is often not material to the management of the business.

One 'cost' of sustainability-related reporting that can be overlooked is the time cost for senior management and the board. The Institute publishes an annual survey which canvasses the views of Company Secretaries in FTSE 350 companies. This year, we asked whether increasing (non-financial) reporting requirements are reducing the time available for strategic discussions at board level. 81% of respondents believe that they are, to some or to a large extent. 55% of the FTSE 100 respondents and 65% of the FTSE 250 respondents indicated that reporting requirements reduce the time available to some extent, whilst 17% of the FTSE 100 and 30% of the FTSE 250 signalled that time is reduced to a large extent. This implies that there is (unsurprisingly) a relationship between the size of the company and how onerous they perceive reporting requirements to be – probably due to the availability of in-house experience, established non-financial reporting processes, and human resource. It also emphasises that the time spent on reporting is time that cannot be spent on other strategic or business-critical matters.

11. Application of the requirements

Ultimately, IFRS S1 and IFRS S2 are unlikely to create huge challenges for companies already providing disclosures which are aligned with the TCFD and / or the SASB standards, although they will increase the amount of information required. The existing transitional relief outlined under IFRS S1 E3 – E6 is reasonable. However, the most appropriate transitional periods will depend very much on company size, structure, and to some extent on sector. This will need to be consulted on further at the point at which the government and the FCA consult on requiring or mandating ISSB-aligned disclosures.

12. Any further comments

One final area of significance is that of interoperability. One of the main benefits of the ISSB standards is that they bring together the SASB sector-specific sustainability disclosures standards and the TCFD recommendations on climate disclosures into a single, global framework. The endorsement from IOSCO, co-led by the FCA, demonstrates that IFRS S1 and IFRS S2 are fit for purpose in their current form, and it is also a solid indicator of considerable global appetite for these standards. The Institute agrees with the UKEB that ISSB standards should 'act as a minimum global baseline', and ultimately that the implementation of these standards in the UK should only divert from this baseline where absolutely necessary, in order to maintain consistency globally. With the EU's CSRD and the SEC's climate disclosure proposal in the US, companies are already going to face significant complexity when navigating these different reporting requirements. To mitigate further complexity, the closer the UK can stay to the ISSB standards, the better.