# IA response to the Department for Business and Trade

CONSULTATION ON UK SRS

## About the Investment Association

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £9.1 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 49% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

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

We agree with all four of the proposed amendments recommended by the UK Sustainability Disclosure Technical Advisory Committee (TAC). Each amendment addresses a specific practical concern in applying IFRS S1 and S2 in the UK, while preserving the core intent and comparability of the standards. Our rationale for each is as follows:

- **Removal of the "delayed first-year reporting" relief (IFRS S1 §E4):** We support removing the option for companies to publish sustainability disclosures later than financial statements in the first year, except where preparers are able to present financial and sustainability reporting together using some prior-period data. Aligning the timing with financial reporting from the start is important to maintain connectivity between narrative reporting and the financial accounts. This is particularly important given the requirement to disclose the effects (and anticipated effects) of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows. Allowing reporting that covers different periods would undermine these interlinkages and could reduce the usefulness of the information to investors—it is crucial that investors understand how sustainability-related matters translate into an entity's financial performance and position for the reporting period as a whole.

  Moreover, UK companies are not starting from scratch: large listed and private companies have been reporting climate information in their annual reports since 2022 under TCFD-aligned rules. They are already accustomed to integrating these disclosures alongside financial results. Indeed, we and the FRC have observed the quality of UK TCFD reporting improving year by year, indicating readiness. Given this experience, we agree that UK companies can and should publish sustainability data concurrently with their financials, even in the first year. This amendment reinforces the message that sustainability-related financial information is an integral part of annual reporting, not an afterthought. It upholds comparability (investors can read everything together) and avoids confusion that could arise if, for example, the first year's sustainability report came months after the financial statements.

We recognise that some companies may struggle to prepare certain UK SRS disclosures (such as financed emissions) within the timeframe allowed between the financial year-end and publication of the annual report. Investors would still prefer financial and sustainability information to be published together, even if some metrics are based on prior-period data, which may need to be as much as four quarters old for preparers obliged to report more extensive measures including financed emissions.

- **Extension of the "climate-first" transitional relief to two years (IFRS S1 E5, as amended):** We consider, on balance, this is a pragmatic recognition of where companies currently stand. Climate reporting frameworks (TCFD) are well advanced and understood; however, reporting on other sustainability matters (like biodiversity, human capital) are less mature. Members' consider the extension may be prudent, though not strictly necessary given the UK companies' existing experience of reporting against the TCFD requirements, and their focus on climate. For Scope 3 emissions, we recommend that the UK follows the reliefs provided by the IFRS and does not delay the reporting of Scope 3 emissions by 2 years, unless compelling evidence emerges. Members are comfortable with the current approach, given UK firms' existing experience with Scope 3 reporting. A year to develop reporting for other sustainability topics would be largely sufficient and yield material information for investors earlier. However, by granting a transitional relief of two years, companies—especially those with less resources or in sectors where non-climate issues are emerging—get extra time to develop the processes for identifying and disclosing those other sustainability risks and opportunities. We believe this extension is reasonable and balanced. It does not diminish the urgency of climate reporting (reflected by existing requirements), and investors will continue to receive climate disclosures – arguably the most material topic for many sectors – in the first two years. Meanwhile, companies can use that period to build capability for a fuller sustainability report in year three. In our view, this amendment will facilitate smoother implementation, reducing the risk of poor-quality data on non-climate factors in initial years. It is also worth noting that the ISSB as part of its current workplan and agenda has added two additional sustainability-related risk and opportunity research projects on biodiversity, ecosystems and ecosystems services (BEES), and human capital but has not yet issued further topic-specific standards beyond climate. We have argued designing topic-specific standards that are decision-useful for investors can be complicated by geographical and other variances, though we support the ISSB's approach of first researching the feasibility of an international standard for these topics. If the extension is retained, we recommend strong implementation guidance urging early adoption of broader S1 topics where preparers are ready, to preserve momentum and investor utility.

- **Removal of the requirement to use GICS for financed emissions disclosure (IFRS S2, Appendix B):** The ISSB is proposing permitting the use of industry classification systems other than the Global Industry Classification Standard (GICS) for categorising financed emissions. This aligns with the TAC's recommendation to allow companies to use "any appropriate classification system." Our members expressed mixed views on the use of alternative industry classification systems. Some members supported the proposed flexibility and raised concerns around the ISSB giving monopoly and preferential treatment to a single commercial offering, whereby a mandate could lead to issues around future pricing, deterioration of the standard and discontinuities of service or sale. Furthermore, the ISSB has its own classifications (the SASB SICs system) and as part of a mapping exercise to other classification systems, the ISSB has noted that the GICs can be read across to other classification systems which undermines the argument for requiring its use in all circumstances. As such, there is a view that more flexibility would be a positive step towards encouraging greater uptake of the S2 standard, as it would allow companies to report against a classification tool which is already internally applied and best suited to their business model, creating greater connectivity with existing corporate reporting practices. This in turn will allow companies to disclose the most relevant information to shareholders. Meanwhile, other members argued that there is already significant fragmentation of sectoral classification standards and that additional flexibility could impinge on the ability of investors to meaningfully compare companies. On balance, we believe that the relief could be helpful in encouraging greater uptake of the standard and would address commercial concerns of giving one service provider preference in a rapidly developing space. Our members support allowing companies to use the relief in specific circumstances, for example where they are required to use another classification system to meet existing regulatory requirements. We would expect companies to disclose the industry classification system used and set out their reasoning for using an alternative standard, where the relief is applied.

- **Removal of the fixed "effective date" from the standards (with clarification on adoption):** We agree with deleting the specific effective date clause (which in the ISSB text was 1 January 2024) and instead making it clear that the effective date will be set through UK law or regulation when the time comes. This is a sensible drafting change because until the government formally endorses and mandates the standards, an effective date in the text is theoretical. By removing it, UK SRS S1 and S2 can be issued for voluntary use immediately upon endorsement. This will allow preparers to voluntarily build out their reporting capabilities until a fuller mandate is considered. We support the direction of travel with the FCA due to consult on integrating UK SRS into the listing rules and the Government considering application to economically significant private companies (see Q13).

### 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?

We agree that using prior-period data to calculate financed emissions can still result in decision-useful information for investors, given the current practical constraints in obtaining real time data. This approach is already commonplace in the industry and, if properly disclosed, it provides investors with a reliable estimate of financed emissions on a timely basis.

Members recognise that there has been a challenge around the accuracy and timeliness of obtaining climate-related data but they would be willing to accommodate the use of historical balance sheet data where companies provide greater transparency around what data they are using and the rationale for this, and when they might be able to move towards providing real time data. Financed emissions data is particularly decision-useful to investors where it provides a trend analysis on emissions reporting over time, this will require consistency in the way that companies are reporting one year to the next. We acknowledge that guidance and clarity are needed to ensure that the practices around emissions reporting, particularly scope 3, are understood and consistently applied under the standards.

In the financial sector, firms often face a reporting deadline just weeks after the financial year-end. Finalising "financed emissions", which require collating emissions data from numerous investee companies or clients, by that tight deadline can be impracticable. Further material disclosures and measures, like scenario analysis and conditional value at risk, can only be produced after financed emissions data are aggregated and finalised. The common solution has been to use the latest available data (say, Q3 data or the prior financial year emissions of those borrowers) as a proxy for year-end positions, and then update it in the following reporting cycle. This practice ensures that the bank can report a figure in its annual report, rather than omitting it or delaying its whole report. From an investor's perspective, a financed emissions number that is, for instance, based on September data is still highly informative – it will be directionally correct and reasonably close to a 31 December measure. The alternative (waiting perhaps several extra months to get exact December data) would leave investors with less transparency. Timeliness is a key aspect of decision-usefulness, and using historical balance sheet data from a recent period strikes the right balance between timeliness and accuracy.

We also want to stress – as did the TAC – that this issue should diminish over time. As sustainability reporting becomes routine, the speed and frequency of emissions data collection will improve.

### 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?

The practice of revising previously reported financed emissions figures, in light of new data has a notable impact on how investors interpret trends on financed emissions reporting over time, and it does present some challenges. Updating prior-year numbers improves accuracy but can make year-on-year comparisons less straightforward. We believe the impact can be managed with careful explanation. Some members further note that the standards have a built-in materiality assessment for when restatements should be made. We would recommend that the standards are clear that restatements are only required if they exceed that materiality threshold. The Exposure Drafts should also set out a clear definition for restated and represented non-financial data to make clear that the restatements are due to omitted data rather than updates arising from time-lagged client data.

We believe investors are tolerant of and even expect revisions in these metrics as data quality improves, provided companies are transparent about this. In fact, our members have indicated they would rather have access to the data, even if subject to uncertainties and estimates, provided that any adjustments are well explained. We support the proposal to seek further guidance regarding revision of comparatives to ensure companies handle these revisions in a transparent and consistent manner and clarify for preparers and users that revisions, handled appropriately, are changes in estimate, not errors. Whilst a general carve out exists which does not require the revision of comparatives when it is impracticable, it is important that there is consistency in the application of the standards particularly when more up-to-date information becomes available. This guidance should provide illustrative examples of the instances in which comparatives should be revised akin to what IASB has consulted on regarding Climate-related and Other Uncertainties in the Financial Statements.

Finally, we want to note the link to question 2: if prior-period data was used initially and then replaced by actual current-period data, the revision is a natural consequence. Over time, as this stabilises (and if more real-time data becomes available, reducing the need for estimation), the magnitude of such revisions should diminish.

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

We would like to take this opportunity to express our strong support for the TAC's final recommendations as a whole. We want to reinforce a key theme: the TAC's approach of minimal divergence from the ISSB standards is the correct one for the UK, if we are to maintain a truly global and interoperable baseline for sustainability reporting. We have no additional changes to suggest beyond what the TAC (and PIC) have proposed.

### 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.

We have received mixed views on the proposed wording change from “shall” to “may” in the context of referring to SASB standards and related industry-based guidance. Generally, members recognise the value of that industry-based disclosures provide and the significant value to investors by ensuring that reported sustainability information is decision-useful and financially material to the specific industry, rather than generic or incomplete. These disclosures enable investors to obtain information directly relevant to a company’s operations and business model, while also allowing preparers to focus on topics pertinent to their sector and thereby avoid unnecessary reporting burden.

Some members note that “shall consider” means companies must review the SASB Standards and determine whether disclosures are material, while retaining the flexibility to disclose information relevant to their specific business circumstances and to reference other frameworks if the SASB Standards do not result in material disclosures. For example, the processed foods standard is currently under consultation for a proposed amendment to include: “Revenue from products sold (1) in jurisdictions that require health warning labels and (2) that are required to carry a health warning label.” This could be financially material, decision-useful information for investors, but is not a sustainability factor relevant to other industries. If issuers are not required to refer to the SASB Standards, they may default to general disclosure topics common to many industries - such as generic food safety metrics - leaving investors with incomplete information to fully assess the sustainability risks and opportunities of the issuer. Therefore, some members are concerned that changing the requirement to “may consider” would enable companies to disregard the SASB Standards entirely, potentially resulting in the use of alternative frameworks that do not align with the materiality definition embedded in the ISSB Standards. This risks undermining the comparability, consistency, and investor utility of UK sustainability disclosures.

On balance we believe that companies *should* look to these materials as a useful resource, but we support making it an explicit option rather than an apparent mandate. We ask DBT to ensure complete internal consistency across all references to the SASB materials (e.g., IFRS S1 55(a), 58(a); IFRS S2 12, 23, 32, 37) when transposed into UK SRS. Notably the draft standards still include “shall” in paragraph S2 B65(d), which should be updated accordingly.

Our reasons for supporting this change, are that it will:

- **Maintain flexibility and proportionality:** The IFRS’ intent (even with “shall”) was largely to encourage companies to consider SASB’s industry-specific topics when determining what to report, not necessarily to force disclosure of every SASB metric. Changing to “may consider” makes this intent clearer. It ensures that if a SASB metric doesn’t make sense for a company (perhaps due to a particular business models or geography), or the company believes a more material and useful metric can be found elsewhere, the company won’t be seen as violating the standard by not using it. This also ensures that a company would not be required to prove to its assurance provider how they have considered the materials. This amendment is especially relevant for UK companies in industries where the SASB standards included very US-centric metrics or references (which the ISSB is now working to internationalise). We agree with the government’s proposal to review this amendment, pending the ISSB’s work to internationalise SASB.

- **Encourage use of SASB and other industry standards (voluntarily):** To be clear, we still expect and encourage that companies will refer to SASB and other industry standards in practice. Our members find industry-specific disclosures extremely useful – it’s one of the strengths of the ISSB’s approach that it inherited this from SASB. Many UK companies have already been voluntarily benchmarking against such metrics in their sustainability or annual reports. The change to “may” does not detract from this; rather, it avoids a legalistic interpretation and reinforces that SASB guidance is a recommended tool, not a compulsory checklist.

### 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.

We agree with this proposal. Linking the transitional reliefs to the date when reporting becomes mandatory (rather than to a company's first year of voluntary application) is a sensible modification that ensures fairness and encourages early adoption of the standards.

Under the ISSB's original wording, the reliefs, such as the ability to report climate-only in the first year (and now two years, per TAC's amendment) apply in the "first annual reporting period" the entity applies the standards. If left unchanged, an early voluntary adopter in 2026, for example, might exhaust its reliefs before they are actually required by law, potentially putting it at a disadvantage when the reporting regulations apply.

### 7. Explain your views on:

### a) Whether disclosure of the purchase and use of carbon credits in the current period would be useful information

We believe it would be highly useful for companies to disclose their carbon credit purchases and usage for the current reporting period. Such disclosure would enhance the transparency and credibility of companies' climate reporting particularly on the extent to which companies are seeking to use carbon credits as a way of meeting their carbon neutrality targets. It also recognises that in specific sectors, the use of carbon credits may be the only way to feasibly offset emissions, for example cement making at an industrial scale can cause chemical reactions which are a source of emissions that cannot be eliminated yet count for a large share of the cement sector's carbon emissions.  Currently, IFRS S2 focuses on revealing planned use of carbon credits towards future targets (i.e. how offsets factor into meeting a net zero goal). While that is important, knowing what happened *this year* provides context to those plans and helps stakeholders gauge a company's immediate actions. We note that the UK government is separately consulting on the implementation of its principles for voluntary carbon and nature market integrity. Disclosure of the purchase and use of carbon credits would be consistent with principle 3 as set out in that consultation.

From an investor's perspective, understanding how much of a company's carbon neutrality in the current year was achieved via carbon credits (as opposed to actual emission reductions in operations) is critical. It speaks to the quality and sustainability of the company's climate strategy. Heavy reliance on offsets might indicate higher transition risk (if, for instance, those offsets become more expensive or are regulated in the future) and possibly less progress on operational efficiency. There is a concern that the use of offsets can create an illusion of progress without necessarily tackling direct emissions reduction. Conversely, minimal offset use could indicate strong internal decarbonisation efforts. This would be decision-useful information for investors which can help gauge a company's climate strategy.

### 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)

In general, we believe the barriers to reporting this information are quite low. The availability of information on carbon credit usage is almost entirely within the company's control. According to 2024 MSCI data, most companies using carbon credits were successfully disclosing the volume of credits they used. However, as we set out at (c) it would also be useful to understand the types of credits used and there is currently less standardised disclosure around the names of the projects that have generated the carbon credits companies are using, the certifying standard and how the planned use of the credits relates to wider environmental objectives. This level of information can be found on a crediting registry's website, but there may be a cost involved in obtaining this data.

Some corporates have also raised concerns with potential legal challenges over carbon credit schemes which have raised challenges around a lack of transparency and clarity over offset schemes.

### c) Whether (and how) any further disclosures would be useful

Beyond simply disclosing the volume of credits purchased/used in the year, a few additional disclosures could be valuable:

- **Type of credits & verification:** Disclosures could focus on the type of carbon credit used. For instance, are they renewable energy certificates, forestry offsets, carbon removals? We note that the government has recently consulted on raising integrity within the voluntary carbon and nature markets. We support the government's view that suppliers of credits should ensure that they meet criteria that helps ensure that credits deliver the environmental benefits they claim. This will involve independent validation and verification, ensure that credits clarify and support mitigation of any social or environmental harms, and seek to demonstrate support for their wider environmental and social objectives.

- **Credit strategy or policy:** A short description of the company's approach to offsets could be helpful to contextualise usage. We would suggest that the use of credits forms part of a holistic approach that includes ambitious, timebound internal targets for reducing and eliminating environmental impacts at source (i.e., within value chain), plans for meeting those targets, and progress towards achievement.

- **Retired credits:** Disclosing the quantity of retired credits allows stakeholders to assess the extent to which credits are used within a company's climate claim or targets, and form part of its expenditure on climate mitigation.

- **Cost or financial impact:** While likely not required in sustainability disclosure, some companies might voluntarily disclose how much they spent on carbon credits or the average price per ton. This is not essential for all stakeholders, but for investors it can be interesting to assess the financial commitment to achieving climate goals.

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

The ISSB's proposed amendments to IFRS S2 (as of early 2025) address several technical issues that have been identified by preparers during initial implementation discussions. While we are supportive of some of these amendments and view them as sensible adjustments that will improve the clarity and feasibility of climate-related disclosures, our members are keen to retain other requirements as they provide decision-useful information to investors on a company's sustainability and transition related risks and opportunities. We recognise that the government may find the (pending) decisions and reasoning of the ISSB and consistency with the international standard compelling. At this point, therefore, we set out below the position the IA took when responding to the ISSB consultation earlier this year:

**Excluding certain categories from Scope 3 financed emissions (derivatives, facilitated emissions, insurance underwriting)**

The ISSB's proposal is to permit financial institutions to limit their disclosed Scope 3 Category 15 emissions to "financed emissions" (loans and investments), excluding emissions associated with derivatives, facilitated transactions (e.g. underwriting of securities issuances), and insurance contracts. This change recognises that methodologies for measuring those excluded categories are not well-established at this time. For example, determining the "facilitated emissions" from underwriting a stock or bond issuance is complex and could lead to inconsistent, incomparable estimates across firms.

While we appreciate that the ISSB balanced this relief with a requirement to disclose the magnitude of the exposures excluded, our members are generally not supportive of permanent reliefs for facilitated emissions, derivatives or insurance-based emissions. Members recognise that there are challenges in obtaining this data, but given that this is an area of reporting that is still evolving, providing a permanent relief could impede on any future developments to these application standards and efforts to enhance sectoral coverage.

Our members have had the greatest amount of experience with using and analysing facilitated emissions data. Members view this as a decision useful disclosure which is used to inform investors of bank's exposure to climate-related risks and opportunities, its transition alignment and potential transition risks. For most members, the facilitated emissions footprint is also important in order to understand the direct risks to their portfolios, particularly if banks increase their exposure to financing of fossil fuel projects. This can present as a market wide risk to the banking sector, and it is also important to understand the impact of this at the company specific level as an idiosyncratic risk. Members can also use this information to understand market activities and the scale of low carbon or high carbon activities and how this impacts on a company's alignment with any net-zero targets to reduce these emissions. Some members will use this data for engagement with companies rather than being formally used as part of assessment scoring or ratings of those banks.

Members will generally consider insurance related emissions as part of a climate assessment for insurance companies, with members preferring disclosure of these emissions to help assess transition related risks and opportunities. Similarly, derivatives related disclosures can provide some insight into climate exposure within trading activities.

While the proposed relief is optional, where it is granted, members want companies to provide a rationale as to the challenges they are facing with disclosure, for example in receiving consistent, quality data from portfolio assets, with classification methodologies and potential limited sectoral coverage. Given the importance of this information to investors, members would prefer for the relief to be time limited and for companies to set out clearly when future disclosure can be expected. The IFRS Foundation is proposing that companies set out the magnitude of the financial activity that has been excluded where a relief is applied. While this can provide some useful information to investors in the absence of fuller disclosure, it should be subject to a materiality assessment otherwise this could lead to additional burdens for preparers. As we note in our answer to Q3, more guidance from the IFRS or the government on this and other areas of scope 3 reporting would be welcome.

**GICS classification relief for financed emissions**

The ISSB is proposing precisely the change that the UK TAC already decided to implement – allowing financial institutions to use alternative industry classification systems (not just GICS) for disaggregating financed emissions. As we detailed in Q1, we support this relief.

**Jurisdictional relief from using the GHG Protocol Standard**

This relief recognises that some jurisdictions require methods for the measurement of GHG emissions other than the GHG Protocol. While we recognise that certain methodology and calculation challenges exist with the use of the GHG Protocol, a number of preparers seem to be coalescing towards it. To maintain international comparability, we believe that the GHG Protocol should be the required standard for measuring GHG emissions, unless jurisdictions have mandated the use of an alternative standard. To address outstanding application challenges, the ISSB could call for a review of the standard. We note that the GHG Protocol will be consulting on changes later in the year and the ISSB will then apply its own due process to see if the revisions are fit for purpose for use under its climate standard.

**Jurisdictional relief for GWP values and methodology**

The ISSB's proposals to (a) allow the use of jurisdiction-specific Global Warming Potential (GWP) values if required by jurisdictional authorities, and (b) clarify the use of a GHG emission measurement method other than the GHG Protocol when mandated by a jurisdiction, are both pragmatic steps. We support them because they reconcile the global standard with local regulatory requirements. It's preferable to have a company report with a slightly different methodology than to not report or to double report. We do not think that this relief will lead to significant issues as it is optional and an expansion of an already existing relief in IFRS S2.

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

Yes, we fully agree that the UK government should endorse IFRS S1 and S2 (UK Sustainability Disclosure Standards S1 and S2) with the amendments as proposed. In our view, endorsing these standards is a crucial step toward improving corporate transparency on sustainability issues and maintaining the UK's leadership in sustainable finance.

These standards are critical for investors because they provide consistent, comparable and decision-useful information on sustainability-related risks and opportunities that can materially affect enterprise value. Without a common baseline, investors face fragmented, inconsistent disclosures that hinder effective capital allocation and stewardship.

UK SRS will enable investors to assess long-term resilience, compare companies across sectors and jurisdictions, and engage constructively on transition plans and risk management. This is essential for fulfilling fiduciary duties and supporting well-informed investment and voting decisions.

We do not believe any further amendments are necessary for endorsement beyond those already identified; in fact, adding more amendments could be counterproductive and lead to divergence from a truly global baseline for sustainability disclosure. This could result in regulatory fragmentation where other jurisdictions are implementing the ISSB standards with few amendments. We understand that this is consistent with the government's stance favouring alignment, except where there is a compelling interest in (limited) divergence.

### 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 implementation of UK Sustainability Reporting Standards S1 and S2 (based on IFRS S1 and S2) is expected to yield substantial benefits for investors, companies, and the broader economy. Many of these benefits go above and beyond what current reporting practices provide, because the new standards will harmonise and enhance disclosures in ways that existing UK requirements (such as the Strategic Report, TCFD-aligned disclosures, and SECR) have not fully achieved. We outline the key benefits below:

**Benefits for investors (asset managers, asset owners, analysts):**

1. **Better-informed decision-making:** With UK SRS S1 and S2, investors will receive more comprehensive, consistent, and comparable information on sustainability-related risks and opportunities that affect company value. This directly improves our ability to assess companies' long-term prospects and risk profiles. For instance, under S2, all companies will disclose their climate-related targets, transition plans, and Scope 1-3 greenhouse gas emissions in a standardised way. This consistency means investment analysts can more confidently incorporate climate and

other sustainability risks into valuation models and credit assessments, leading to more accurate pricing of risks and opportunities.

2. **Lower cost of using sustainability data:** in 2024, IA members contributed to a government led study which estimated that asset managers spend around £140m-£230m a year to use non-financial reporting to inform their investment decisions. The UK government expects that the use of SRS will not only support a more resilient and financially stable UK market, but it will also lead to a reduction in the reliance on ESG data providers, which are not currently regulated, and in turn could lead to reduction in costs. Additionally, standardised metric reporting will reduce costs associated with data analysts who currently go through large amounts of sustainability-related disclosures to find comparable decision-useful information.

3. **Enhanced ability to perform stewardship and engagement:** The detailed disclosures under S1/S2 arm investors with the information needed to engage constructively with companies. Uniform disclosure standards help investors compare companies and identify leaders and laggards within an industry, which is essential for effective engagement.

4. **Reduced information asymmetry:** Currently, large, sophisticated investors may obtain additional sustainability information through proprietary research (and smaller investors may not have access). With public reporting under UK SRS, more of this decision-critical information will be available to all investors equally. This levelled playing field means that markets overall become more transparent and fairer. When all investors have high-quality information, market confidence and trust increase.

5. **Comparability across borders:** As global investors, IA members manage portfolios spanning multiple jurisdictions. If a UK company reports under the ISSB-based standards and so does, say, a Japanese or Canadian company, members can compare their sustainability profiles in a consistent way without worrying about different frameworks. This comparability is a huge benefit. It lowers analytical costs (as investors don't have to reconcile or normalise data as much) and improves the accuracy of cross-border investment decisions. For UK companies, this means they can be more easily compared by international capital providers, potentially attracting more investment.

**Benefits for companies (preparers of reports):**

- **Improved internal risk management and strategic planning:** The process of complying with S1 and S2 will require companies to more systematically evaluate their sustainability-related risks and opportunities and how these connect to their financial outcomes. This exercise, while initially challenging, will ultimately help management teams better understand and manage material risks/opportunities and therefore reduce the reporting burden. By bringing sustainability considerations into core business planning (via the reporting process), companies can become more resilient and identify new avenues for growth (like developing sustainable products or business models to seize opportunities). In the long run, this strengthens businesses and their ability to create long-term value.

- **Encouraging integrated thinking and a just transition:** UK SRS will encourage firms and policymakers to consider the interdependencies and trade-offs among sustainability issues—environmental, social, and governance—rather than treating them in isolation. This integrated approach is essential for enabling a just and orderly transition, as it helps boards and policymakers understand how actions in one area may affect outcomes in another, and ensures that transition policies are coherent, credible, and fair.

By requiring companies to disclose not only climate-related risks and opportunities but also broader sustainability factors, UK SRS supports more holistic decision-making and helps avoid unintended consequences that can arise from siloed approaches. This is a marked improvement over current practice, where fragmented reporting requirements often obscure these connections.

- **Enhanced reputation and stakeholder trust:** Companies that report transparently and thoroughly on sustainability matters build trust with investors, employees, customers, and regulators. UK SRS provides a recognised framework to do so. Adopting it early can signal that a company is a leader in sustainability governance.
- **Streamlined reporting and efficiency gains under the review of the Non-financial Reporting Framework:** One of the most significant benefits of adopting UK SRS is the opportunity to consolidate multiple existing disclosure obligations into a single, coherent framework. Today, companies often produce overlapping reports – for example, TCFD-aligned climate disclosures, SECR energy and carbon reporting, and narrative ESG content in the Strategic Report – each with different formats and timelines. The government's forthcoming consultation on the Non-Financial Reporting Review is explicitly aimed at simplifying and modernising this reporting landscape. The government's aim is to ensure that information is decision-useful and provided in an accessible format which best meets the needs of investors and other users. Subject to final government decisions, this review will likely include the rationalisation of existing reporting included in the annual report to help ensure any future UK sustainability reporting requirements fit well with wider requirements in the Companies Act 2006. The government will need to consider how the UK Sustainability Reporting Standards (UK SRS) consultation interacts with the existing reporting landscape, including where it will sit within the annual report as well as removing disclosures which potentially duplicate aspects of UK SRS. In this context, UK SRS can act as the anchor for a streamlined reporting regime. Over time, legacy requirements which are less decision-useful and have built up in a piecemeal way and could be removed or merged, reducing duplication and compliance burden. Consolidating disparate sources of reporting guidance also saves preparers the cost and effort navigating these. For preparers, this means lower long-term costs in preparing reports and less fragmentation in meeting reporting requirements; for investors, it means clearer, comparable and useful information in one place.

**Benefits for the broader market and economy:**

- **Enabling key stakeholders to understand key business and material sustainability risks:** as with other governance reporting requirements introduced in 2016, there is an ongoing recognition that all companies including private companies have a range of material stakeholders. Many large private companies are significant employers, have large supply chains or play important roles in local communities. This means that private companies have significant impact on a range of stakeholders, not just their owners. Therefore, it is important that all stakeholders have access to information on the material sustainability risks to the business and how they are being managed. This allows those stakeholders to also engage with the company and ensure that it is taking account of the key risks to that business and its stakeholders.
- **Enabling effective public policy and addressing moral hazard:** Reporting from private companies plays a role in enabling public policies that accelerate the transition to a sustainable economy. While investors and the savers they serve benefit from improved transparency and comparability, these disclosures that help policymakers design interventions which directly shape organisations' commercial incentives and imperatives. Some necessary actions to address sustainability risks are

only effective when taken collectively; individual firms may lack the incentive to act if they bear the costs but do not receive a commercial advantage, with benefits contingent on others acting as well.

UK SRS disclosures provide policymakers with the evidence base needed to address these collective action problems, raising the prospects for long-term returns for savers and supporting the resilience of the financial system. By enabling better-targeted, credible, and proportionate policy interventions, UK SRS helps ensure that the costs and benefits of transition are more fairly distributed and that the market can adjust in an orderly way.

- **Greater market stability and risk mitigation:** When sustainability risks (like climate change, resource scarcity, social unrest) are transparently reported, they are more likely to be proactively managed and priced in by the market. This can lead to **more stable financial markets**, because fewer "hidden" risks mean fewer sudden shocks when those risks materialise. For example, if high-carbon companies are required to disclose their transition plans and how climate policy could affect them, the market can slowly adjust rather than being blindsided by abrupt policy changes. This smoother price adjustment contributes to financial stability – a goal regulators share. It also directs capital more effectively to resilient, forward-looking companies, supporting a more sustainable economy.

**Additional vs. current practice:**

It's important to stress how these benefits compare to what current reporting practices offer. The UK already has relatively advanced non-financial reporting (TCFD for climate, SECR for emissions, etc.), but those are fragmented and not fully comprehensive. Key additional benefits of UK SRS beyond current practices include:

- **Connectivity with financial statements:** Current practice (Strategic Report/TCFD) encourages discussing impacts as guidance but doesn't require linking to financial outcomes explicitly. IFRS S1 explicitly requires companies to disclose the current and anticipated financial effects of sustainability risks/opportunities on their financial position, performance and cash flows. That's a benefit beyond current practice: it reduces the gap between sustainability reporting and financial reporting.

- **Standardisation and auditability:** Current narrative reporting varies widely and the assurance of this information is not conducted in a consistent manner. S1 and S2 create defined disclosure requirements that will lend themselves to any future assurance requirements. Investors will have more confidence in the data as it becomes subject to assurance (not mandatory yet, but the framework allows assurance over sustainability-related information). Over time this additional reliability is a benefit over the largely unassured status quo.

- **Global comparability:** As noted, ISSB-based UK SRS introduces global comparability where today we have divergence. This is a marked improvement in usability of reports.

### 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.

Implementing UK SRS S1 and S2 will inevitably impose costs on companies and, to a lesser extent, on other stakeholders. These near-term costs should be understood as the necessary investment to unlock longer-term burden savings from aligning to a single, consistent disclosure framework—replacing today's myriad, duplicative requests for information in different forms from different stakeholders—and to bring key data and methodological judgements back under the issuer's control rather than being inferred by third parties to fill data gaps.

Costs can be categorised into one-time implementation costs and ongoing compliance costs. Many large companies already incur some costs for existing reporting (TCFD, etc.), but UK SRS will introduce new requirements and a broader scope, thus some costs will be additional to current practice. Below we detail the expected costs and how they compare or add to the status quo:

**For Companies (preparers):**

- **Initial familiarisation and training** (one-time): Companies will need to spend time and resources to understand the new standards in depth and plan their adoption as many have begun to do so. However, given many UK companies are already versed in TCFD (for climate) and have some form of sustainability reporting, the training will build on an existing base of knowledge rather than start from scratch.

- **Data collection and systems upgrades** (initial and ongoing): Perhaps the most significant cost area is enhancing data collection systems to gather the information required by S1 and S2. Companies will need to establish or upgrade processes to capture metrics that may not have been tracked rigorously before. Nascency of reporting also often entails testing more than one approach or solution to establish which is the best for that measure or company.

- **Additional labour and expertise** (ongoing): To comply with UK SRS, companies may need to hire or reallocate staff. This could mean expanding the sustainability reporting team, bringing in data analysts, or engaging external consultants and accountants for technical advice. Some of this investment in labour and technology will extend to value chain entities that support others reporting against UK SRS.

- **External assurance and audit readiness** (ongoing, potentially increasing over time): While not immediately mandated, the FRC is considering whether mandatory assurance against the UK SRS should be a long-term aspiration. Some firms already do this voluntarily and more may choose to do so after endorsement. Costs will depend on scope and provider choice, but alignment with international standards (e.g., ISSA 5000) and a proportionate, profession agnostic regime should help contain- costs and avoid duplication. We're encouraged that the FRC is taking steps in this direction.

**For investors and others:**

The question mainly targets costs for companies, but it's worth noting there are some costs for other stakeholders too:

- **Investors:** Investors, as owners of companies, have an interest in efficiently run businesses, including reporting costs that are proportionate to their utility. This balance is supported by the IFRS S1 and S2's overarching materiality relief, so companies do not bear unnecessary costs. In the short term, investors and analysts will also need to educate themselves on the new disclosures and possibly adjust their analytical models. There is a learning curve (though arguably smaller than for companies). However, this is a normal research cost and is outweighed by the benefit of better data. Some investors might invest in new analytics tools to parse the richer ESG data (though the more globally consistent ISSB standards may make more efficient that which they already do for ESG data providers, reducing the cost of providing this information to users).

- **Regulators and standard setters:** The FRC (eventually ARGA) will incur costs to monitor and enforce these new reporting requirements. The FCA will incorporate it into listing rules and review compliance against disclosures. There will also be a cost to the government in developing guidance.

- **SMEs in value chains:** A notable indirect cost – large companies might push data requests down to their suppliers (often SMEs) to get Scope 3 info or other sustainability data. This means indirect compliance costs on those smaller firms who are not themselves reporting under UK SRS but have to support those who are. The ISSB's relief from reporting scope 3 emissions in the first year is prudent in this respect, to allow companies and their suppliers time to prepare and deliver this. It should be made clear that where preparers extend information requests to suppliers, provisions on undue cost and effort are also thus extended (see also Q17).

We should acknowledge that many of these costs are investments that yield benefits (as described in Q11).

### 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.

In private markets, due to ownership structures investors and lenders typically obtain the information they need bilaterally; standardised public reporting therefore delivers limited incremental investor benefit compared with listed markets. There remains a public-interest rationale for applying S1/S2 to economically significant private companies. For broader stakeholders and policymakers a consistent, decision-useful evidence base can be used to hold economically significant firms to account for their sustainability practices and, for policymakers, to design credible and proportionate transition policy that manages systemic risk. If the sustainability-related risks contemplated by S1/S2 crystallise, the consequences are economy-wide; in that context, a focus on a "level playing field" between public and private is secondary to ensuring Government has fit-for-purpose data to steer a just and orderly transition.

We emphasise "economically significant" – it implies not all private companies, only those of a scale where their activities materially affect stakeholders beyond just their owners (often defined by size metrics). We support maintaining a threshold (like the existing definition for Non-Financial Reporting and TCFD: 500 employees and £500m turnover) to target the benefits and not overburden genuinely smaller enterprises. That threshold captured 2-300 large private companies under TCFD – those are significant players (often household names) and it makes sense they report.

Streamlining is essential to unlock net benefits: replace TCFD company rules with S2, retire SECR climate duplications and rationalise Section 172 overlaps as UK SRS is implemented. Requiring economically significant private companies to report against UK SRS is consistent with the government's ambition to make the UK a global centre for sustainable finance. This will help close the information gap for investors and support the government's clean energy and transition objectives, while ensuring that reporting obligations are proportionate and targeted at the most significant entities.

### 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.

The IA does not have views on this 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.

Yes, significant opportunities exist to streamline current UK reporting obligations once UK SRS is in place. We strongly support the government's intention to review and cull redundant disclosure mandates in parallel with UK SRS adoption. The opportunity in respect of private firms is typically a subset of those of public companies, discussed in Q11. Examples include:

- **Climate disclosures** – UK SRS S2 should replace existing TCFD-aligned requirements for large private companies, avoiding duplication in the Strategic Report.
- **Section 172(1) statement** – Required for private companies that meet the Companies Act thresholds for large companies. Once UK SRS embeds governance and stakeholder considerations, the rationale for a separate section 172 statement should be reviewed. Rationalisation in this context should also consider whether some types of companies (e.g. investment companies) should be required to produce a s.172 statements, particularly where it is leading to generic, boilerplate statements that are not decision-useful to investors.
- **Other overlapping mandates** – SECR, NFRD-derived non-financial information statements and certain Directors' Report items could be consolidated into UK SRS reporting.

We strongly support the government's intention to review and **retire redundant requirements in parallel with UK SRS adoption**, ensuring that preparers can focus on a single, coherent set of disclosures. Where private-company-specific obligations remain (e.g., LLP reporting), these should also be assessed for duplication. It is our expectation that this review will ensure that sustainability reporting will be set at a group level on a consolidated basis where the company is part of a group and sustainability strategies including any targets and associated metrics are set at this level.

### 16. Explain which other sustainability-related disclosure 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?

*(No response – this question is specific to reporting entities. The Investment Association is not itself a corporate reporting under these standards; however, we note generally that many UK companies will be subject to EU's CSRD/ESRS if they have significant EU operations, and global investors are aware of other regimes. Alignment and interoperability between UK SRS and such regimes is addressed in our other answers.)*

### 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.

Proportionality in practice for value-chain data. We ask DBT to reaffirm that S1's estimation and undue cost/effort reliefs apply practically to value-chain data, and to discourage de-facto monthly supplier reporting demands. Many micro-enterprises lack a clear responsible owner for climate metrics; proportionality is essential to avoid cost without commensurate decision usefulness. We support efforts by government and industry to provide guidance, templates, or digital solutions to SMEs to ease their reporting burden, which in turn improves the data received by larger companies and investors and helps smaller companies to attain more of the benefits of reporting attained by better resourced companies.

### 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.

We recognise that section 463 of the Companies Act provides some protection for directors when making forward-looking statements in good faith, and this is helpful in reducing legal risk. However, these provisions do not fully address the underlying issue that current disclosures often fall short of providing investors with robust, decision-useful forward-looking information.

Investors consistently tell us that they need clearer insight into companies' future prospects, strategies, and resilience under different scenarios. While UK SRS will improve consistency and comparability, anything that can be done to strengthen the quality and depth of forward-looking disclosures—while maintaining proportionate liability protections—would be welcomed.

- We therefore encourage the government to consider whether additional guidance or safe-harbour provisions could incentivise companies to provide more meaningful forward-looking information, rather than boilerplate statements, as part of the UK SRS framework. We recommend that UK SRS disclosures are explicitly included within the scope of Section 463 or equivalent protections, to provide boards with assurance and encourage open, honest reporting. Consideration should also be given to the evolution of the narrative reporting landscape in the UK and that pending the government consultation on the "Future of Narrative Reporting", sustainability disclosures could sit within both the Strategic Report and a dedicated Sustainability Report and any safe harbour provisions would need to work with the updated reporting structure.
- Directors should not be penalised for good-faith estimates or scenario analysis that later prove inaccurate, provided they exercised due care and diligence.
- Guidance should also allow for disclosure of reliance on third-party or estimated data, to balance transparency with reasonable risk management.

### 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.

- The ISSB has published useful educational materials and examples (e.g. guidance on implementing climate-first reporting, interoperability mapping with EU standards, etc.). Companies and investors have started digesting these. However, given the novelty and breadth of the standards, there are several areas where additional guidance or clarification would be highly valuable. The UK's TAC identified a number of such areas in its commentary. We concur with those and add our perspective on key items:

  - **Financed emissions methodology & timeline:** Further guidance from ISSB on the acceptable use of prior-period data such as the IASB's illustrative guidance (as discussed in Q2) would remove ambiguity. Standardised guidance on how to disclose that practice (perhaps even a recommended template sentence) would ensure consistency. Also, as the ISSB is proposing changes regarding Scope 3 categories (discussed in Q8), clear explanation on how financial institutions should calculate and present financed emissions (with or without certain components) is needed.

  - **Comparative information and updates:** As noted in Q3, companies would benefit from guidance on how to handle **revisions of estimates** in sustainability reports.

  - **Commercial sensitivity vs. completeness:** One tricky area is whether an ISSB disclosure might force revelation of information that is legitimately commercially sensitive (for example, if a company has a sustainability-related innovation or a risk in early mitigation stages, disclosing too much might give competitors insight). IFRS S1 set out the disclosure exemption that allows entities, in limited circumstances, to omit information about sustainability related opportunities that are determined as commercially sensitive. IAS 37 allows omitting certain details of provisions in rare cases so as not to prejudice the entity's position. As such, information may be exempt from disclosure in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets paragraph 92 but required to be disclosed in accordance with IFRS S1. The TAC suggested the ISSB could clarify this. We agree that some guidance on how to navigate this would help – perhaps reinforcing that disclosures should be at a level that's decision-useful but not so granular as to reveal trade secrets. This might involve drawing on IAS 37's concept or simply providing examples of how to describe scenarios without naming counterparties or exact quantities that are sensitive.

- **Use of scenarios and assumptions:** Conducting scenario analysis (especially climate scenario analysis required by S2) is an area many companies find difficult. While the TCFD provided some guidance, further methodological support could be beneficial. The UK's Transition Plan Taskforce (TPT) developed detailed guidance on transition planning – now under ISSB's umbrella – which could complement S2's scenario requirements. The IFRS Foundation has recently published guidance which tailors the TPT material to ensure global applicability and it is encouraging jurisdictions to utilise the 'gold standard' for credible new guidance to support the provision of high-quality, comparable information about climate-related transition plan disclosures under S2, though it does not prescribe them. It is therefore not a matter of urgent necessity to further elevate the status of the TPT guidance for UK SRS preparers Should the government choose to do so, due process and stakeholder feedback would be prudent.