

20 March 2026

Primary Markets Policy
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Submitted by e-mail to: cp26-5@fca.org.uk

Dear Policy Team:

***Consultation Paper CP26/5:
Aligning Listed Issuers' Sustainability Disclosures with International Standards***

CFA Society of the UK (“CFA UK”) and CFA Institute (“CFAI”)¹ welcome the opportunity to comment on the Financial Conduct Authority’s (“FCA”) Consultation Paper [CP 26/5: *Aligning Listed Issuers' Sustainability Disclosures With International Standards*](#) (the “Consultation”). Our detailed responses to the questions in the Consultation are in the **Appendix** to this letter.²

Both CFA UK and CFAI have a long history of promoting fair and transparent UK and global capital markets and advocating for strong investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial and sustainability reporting and disclosures – and the related independent audits and assurance – provided to investors and other end users are reliable and of high quality. Our policy positions are informed by our UK and global membership who invest both locally and globally.

Contextual Themes Which Have Resulted in Our Views

As you already are aware, *investors want to be able to obtain financially material, industry-based disclosures about relevant sustainability matters*. It is why global investors supported the creation and work of the International Sustainability Standards Board (“ISSB”) and why UK investors supported the work of the UK government to use the ISSB’s standards as the

¹ About CFA UK and CFA Institute:

- **CFA UK** is an independent professional association, based in London, that serves nearly 12,000 members across the UK. Members include investment analysts, portfolio managers, investment advisors and other investment professionals. Founded in 1955, CFA UK is one of the largest member societies of CFA Institute. Most of our members have earned the Chartered Financial Analyst® (CFA®) designation. All our members are required to attest to adhere to CFA Institute’s Code of Ethics and Standards of Professional Conduct. For more information, visit www.cfauk.org or follow us on [LinkedIn](#).
- **CFA Institute** is a global, not-for-profit professional association of more than 200,000 members, as well as 160 member societies around the world, with offices in Charlottesville, VA; New York; Washington, DC; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the CFA® Program. For more information, visit www.cfainstitute.org or follow us on [LinkedIn](#) and X at [@CFAInstitute](#).

² Unless otherwise noted, our references to the UK Sustainability Reporting Standards (“UK SRS”) are to the final standards issued in February 2026. We note that the Consultation refers to the proposed versions of the standards.

basis for developing UK Sustainability Reporting Standards (“UK SRS”) for use by UK companies, initially on a voluntary basis. Investing is global and comparability is the lifeblood of investment analysis and effective capital allocation, and the UK is a significant capital market for investors and companies.

We understand that some companies will need time to develop the processes and systems necessary to apply UK SRS. We also recognise that – *for all companies – it is, and will continue to be, an iterative process to get the resulting new sustainability disclosures right.* It will also be an iterative process for investors to adjust to having the new information and to recognise the disclosures do not just give them what is *useful today*, but what has the *potential to be useful* for their purposes looking forward (i.e., that it provides information relevant to securities pricing and capital allocation, engagement activities and/or voting).

Unfortunately, however, *today it is hard for investors to discern the financially material information amongst the many disclosures that come from the many standards and frameworks companies now use.* It’s all the more challenging because disclosures about financial effects are not sufficiently (if at all) quantitative for investors to be able to use the information in their analytical models.

We are hopeful that having a clear objective in UK SRS to provide financially material information will limit UK companies’ ability to follow the current “choose their own adventure approach” to sustainability disclosures. *The global adoption of the ISSB’s standards has the potential to narrow the focus of corporate disclosure to what is genuinely relevant for investor decision-making and capital formation.* That is why *we have concerns about adopting UK SRS S1 General Requirements for Disclosure of Sustainability-related Financial Information on a comply-or-explain basis indefinitely*, as we discuss in more detail below.

The UK is a global leader in corporate reporting and governance, and the adoption of the UK SRS is a way to maintain that leadership role, particularly when there are other major capital markets that have either introduced very complex sustainability reporting requirements and others that have very little, if any. The UK’s proportionate approach will distinguish it as place to invest, both for companies and for global investors.

Our Perspectives in Summary

We commend the FCA for developing a thoughtful approach to implementing the UK SRS into the Listing Rules so that listed companies provide high-quality, financially material sustainability disclosures to investors in the UK’s capital markets. The FCA of course needs to strike a balance between (a) requiring companies to apply the standards in the short term so that more useful information can get to investors more quickly and (b) ensuring that companies have the time they need to implement the standards in considered way so that the information disclosed is indeed useful. However, *we don’t think all the proposals get that balance exactly right.* Our perspectives on what we consider to be the most significant areas for investors are as follows:

- ***We support mandatory application of UK SRS S2 Climate-related Disclosures:*** We believe this will promote global comparability of climate-related financial disclosures that are useful to investors as jurisdictions globally adopt or otherwise use the ISSB’s standards.
- ***We support the additional one-year relief for Scope 3 greenhouse gas (“GHG”) emissions:*** This is arguably one of the most challenging areas of climate reporting and

companies will need time to be ready, including making plans for gathering the necessary information from other entities in their supply chain or making estimates.

- ***However, we believe that any comply-or-explain approach to sustainability disclosures should be a temporary measure:*** Given the financially material nature of the information in disclosed using UK SRS, we believe that UK SRS S1 non-climate disclosures and the Scope 3 GHG emissions disclosures should be required sooner rather than later. Although we support reliefs for both, and can see merits in them being applied initially on a comply-or-explain basis, we believe this needs to be a short-term approach, with a clear timetable for review and an aim ultimately to make them both *mandatory* (although we expect that the schedule for such a review is likely to be different for each, with an assessment of the readiness for mandatory Scope 3 reporting being further into the future). ***We are most concerned about allowing an indefinite comply-or-explain relief for UK SRS S1. Our preference is for its application to be mandated, as was proposed in the draft UK SRS, two years after “climate-first” reporting.*** Given the connectivity between sustainability information and financial information, and the fact that as defined in UK SRS S1 the identified SRROs are likely to one day (if not already) have financial statement implications, it is critical for investors to have this information so they can price securities, understand risks, inform voting decisions and identify areas to engage with companies. Our concerns about an indefinite (or many years long) comply-or-explain approach are as follows:
 - ***The “alphabet soup” approach to sustainability reporting will continue to cause problems for investors:*** The current “choose your own adventure approach” mentioned above means that ***there is a risk that the “alphabet soup” of standards and metrics will continue to proliferate*** as long as companies are able to choose amongst the various metrics and standards – those which they like – to tell their story. This does not serve investors because the information is currently not, and as proposed is not likely ever to be, comparable, consistent or necessarily financially value relevant.
 - ***Investors will lose out on the rigour that comes from the ISSB’s approach to reporting standards:*** Unless UK SRS S1 is (or has a clear plan to become) mandatory, investors will continue to receive sustainability “disclosures” that do not have the quality or rigour that comes from applying the principles and guidance in the ISSB’s standards as intended (i.e., with full compliance). ***There is a high likelihood that companies will not put in place the necessary systems and processes for preparing robust and relevant disclosures – because they won’t have to – and investors will have to wait even longer to get a comprehensive view of a company’s performance and risk exposure*** (including sustainability matters), with a focus on what those mean for their expectations about future cash flows, access to finance and cost of capital. As mentioned above, investors need sustainability information that is financially material to inform their analysis and decision making. If such information is not required, or is only “required” on a comply-or-explain (therefore, largely voluntary) basis, its usefulness and relevance is likely to be significantly diminished.
 - ***Investors will get less information about sustainability than they do today:*** Many, indeed most, UK listed companies already prepare sustainability information that is included in their annual reports or in a separate sustainability report. Given this, we are not sure why they need more time beyond the two-year “climate-first” approach that was proposed for UK SRS

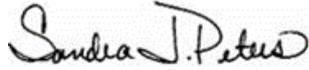
S1. *UK SRS S1 gives companies helpful clarity and guidance thorough its principles so they can apply it consistently, raising the quality and relevance of the resulting disclosures and giving investors much-needed information for their decision making* about capital allocation, company engagement and voting activities.

- *A comply-or-explain approach to UK SRS S1 will require more work for investors:* To understand sustainability disclosures, investors will need to be experts in many different sustainability frameworks, if they even attempt to understand what companies report at all. The “alphabet soup” does not just affect the many combinations of disclosures companies can prepare to suit them. It also *requires investors to be experts in all of the various frameworks, including the UK SRS standards, so they are able to understand reported corporate sustainability information.* It takes substantial effort for investors to interpret and understand disclosures even when companies don’t have the option to choose what they want to do (such as with most financial reporting). A comply-or-explain approach for UK SRS S1 will require investors to use time that should be dedicated to making decisions about allocating capital to instead understanding what the various standards and frameworks that underpin the disclosures mean in the first place. ***This is not a characteristic of a well-functioning capital market.***
- *We support the proposal to require companies to provide investors with much needed transparency about assurance obtained, if any, over their sustainability disclosures:* However, *we believe that companies should also be required to explicitly state that they have not obtained external assurance.* Moreover, if they have obtained assurance, *they should be required to disclose what the auditor’s or assurance provider’s opinion was and any emphases of matter noted in the report.* In fact, our preference would be to require companies to make any assurance reports publicly available alongside the sustainability disclosures to which they relate. Without more explicit information about the outcome of the assurance process, it will be difficult for investors to know if they can rely on the assurance obtained. This is particularly problematic when UK SRS S1 is only required on a comply-or-explain basis and “explanations” will contribute to the auditor’s completeness checks, we won’t know what the opinion will actually say and we won’t know what has been assured or not assured.

Thank you for considering our views and perspectives. We would welcome the opportunity to meet with you to provide more detail on our letter. If you have any questions or seek further elaboration of our views, please contact Sandra J. Peters at Sandra.peters@cfainstitute.org or Amit Bisaria at abisaria@cfauk.org.

Yours sincerely,

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With thanks for their contributions to our volunteers:

Jacopo Gadani, CFA and
Hilary Eastman, CFA and
the oversight of CFA UK's Ethics & Professionalism Steering Committee.
We consent to publication of our response.

cc:

Emmanuel Faber, Chair, International Sustainability Standards Board
Sue Lloyd, Vice-Chair, International Sustainability Standards Board

APPENDIX

RESPONSES TO QUESTIONS

Question 1: Proposed Scope – Do you agree with the proposed scope for our rules? If not, what alternative scope would you suggest and why?

We agree with the proposed scope. Please also see our comments related to Question 15 and Question 17.

Those proposed companies, in these four listing categories, have been applying the Task Force on Climate Related Financial Disclosures (“TCFD”)-aligned rules for a few years now and generally prepare other non-climate sustainability information, either for inclusion in their annual reports or as separate sustainability reports. In our experience reading such reports, we have seen the quality of TCFD-related information disclosed improve, with companies complying more than explaining, and the sophistication of companies’ analyses (such as scenario analysis, risk management and target setting) increasing over time.

Although UK SRS S2, *Climate-related Disclosures*, differs from the TCFD-aligned rules in some respects (e.g., UK SRS S2 requires more detailed information and requires use of the general principles in UK SRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information*), the differences are not significant in most areas. ***The companies in the proposed scope have experience of applying the TCFD recommendations, and the additional requirements in UK SRS S2 should be possible within the timeframes proposed.*** They also compete for capital globally, and the consistency that UK SRS S2 brings to climate disclosures will help them do that effectively.

Applying UK SRS S1 in full will be a significant step for some companies in the proposed scope. It will be more challenging for those companies that have not historically provided the level of detail in the disclosures required by UK SRS S1 or perhaps have not identified sustainability-related risks and opportunities (“SRROs”) in the way required by the standard. However, ***many, if not most, of them will have been reporting sustainability-related (non-climate) information voluntarily for some time*** and the transition period allowed should be sufficient time for implementing the UK SRS S1 requirements for non-climate matters. In fact, we believe that the level of sophistication in the sustainability reporting practices of UK listed companies today means they can apply UK SRS S1 on a mandatory basis by 1 January 2029 (also see our concerns with the indefinite comply-or-explain approach proposed for UK SRS S1 in Question 6).

Question 2: Replaced TCFD-aligned with UK SRS S2 – Do you agree that we should replace our TCFD-aligned rule (which has not been updated since 2023 due to TCFD being disbanded) and guidance with requirements to report against UK SRS S2 (and relevant aspects of UK SRS S1)? This would be for companies with a listing in the commercial companies, non-equity shares and non-voting equity shares, and transition categories. If not, what alternative approach would you suggest and why?

We agree with the proposal and the identified relevant aspects of UK SRS S1 that are applicable when applying UK SRS S2. Please also see our comments related to Question 15 and Question 17.

Question 3: UK SRS S2 Mandatory – Do you agree that the UK SRS S2 reporting requirements should apply on a mandatory basis (with the exception of Scope 3 emissions, as addressed in Q4)? If not, what alternative approach would you suggest and why?

We agree with the proposal to make the UK SRS S2 reporting requirements mandatory, but believe additional consideration needs to be given to the materiality of climate-related matters.

It is becoming increasingly difficult for any company to assert that climate change is not an issue for their business when considering the effects it can have, at the very least, on their exposure to transition-related risks and the exposure they face through their supply chains. In fact, for investors, disclosure that something is *not* material is in fact material information when it pertains to something they would otherwise expect to be material. Otherwise, investors are left wondering whether the company has ignored an exposure that could be detrimental financially once found out.

We note, however, that ***a mandatory approach to applying UK SRS S2 is not consistent with the principle in UK SRS S1 that companies should report material information about relevant SRROs identified.*** There are examples of UK companies that include TCFD information in their annual reports when the issue is clearly not material to their business. Making UK SRS S2 mandatory potentially will make all companies feel they must disclose reams of climate-related information to meet the requirements. ***There is therefore a risk that a mandatory approach will result in pages of detail on climate that is not particularly relevant or useful for investors' understanding of a business's prospects or its risk exposure.***

Having said that, if companies apply the principles in UK SRS S1 to report *only material information* about climate-related matters (and any other sustainability matter), the climate-related disclosures for a company for which climate-related risks and opportunities are not in fact relevant would focus on the information that explains that climate is not an issue for the company, how they reached that conclusion and how they monitor their potential exposure on an ongoing basis. In other words, ***we would expect companies only to make disclosures in the core content areas that are relevant to their circumstances, not all of them.*** We also would expect that they would not obscure material information with immaterial information, as required by UK SRS S1.

We believe that, in principle and if the above approach to materiality is followed, a mandatory approach to climate-related disclosures is an improvement over today's comply-or-explain approach for the TCFD-aligned rules. In our experience, companies' compliance has been variable, and we believe this is in part because the requirements technically were not mandatory (aside from the high-level requirements in the Companies Act 2006). ***UK SRS S2, as a standard and not a set of recommendations, has more robust and detailed requirements than the TCFD framework that we expect will provide helpful guidance to companies applying it, which we expect will improve reporting quality overall and minimise the variability of its application.***

Question 4: UK SRS S2 Scope 3 Comply-or-Explain – Do you agree that UK SRS S2 Scope 3 reporting should apply on a ‘comply or explain’ basis, for companies with a listing in the commercial companies, non-equity shares and non-voting equity shares, or transition categories? If not, what alternative approach would you suggest and why?

We agree with the proposal to delay Scope 3 emissions reporting by one year following the introduction of UK SRS S2. This is consistent with IFRS S2 and was proposed in the draft UK SRS S2.

However, *we don’t support what is effectively an indefinite voluntary disclosure regime for Scope 3 GHG emissions* by introducing them on a comply-or-explain basis with no indication of when there will be a review of the market’s readiness for their disclosure to be mandatory. Many UK companies make these disclosures today, and most use the Greenhouse Gas Protocol’s standards to do so (which are also incorporated into UK SRS S2).

To the extent UK companies “explain”, there would be a reduction in global comparability for investors (across sectors and across borders) trying to understand the risk exposure of UK companies when it comes to decarbonisation and adaptation activities (including operational changes needed, customer pressure faced etc). Many companies in other jurisdictions applying IFRS Sustainability Disclosure Standards will be providing such disclosures, even if many of those jurisdictions have implemented longer phase-in periods. ***A lack of transparency could lead to the inefficient allocation of capital because investors may take on investment risk that they are not aware of.***

Scope 3 emissions reporting, while far from perfect, has the potential to provide important information about the GHG emissions in a company’s value chain, helping companies to identify where their emissions come from and then to manage them, for example by changing suppliers. It also helps them see the effect their products and services are having on their supply chain and downstream value chain (customers and end users). Such information helps companies see where they may need to alter the configuration of a product portfolio to reduce their own contribution to global emissions and potential indirect risk exposures. Scope 3 emissions disclosures also can give the UK government information about emissions across the economy. Only by having such information can it take action (by creating policies and implementing other measures) to reduce the UK’s national emissions in line with decarbonisation commitments, such as commitments made under the Paris Agreement.

The ISSB recognised, when developing IFRS S2, the practical issues that companies often face when preparing Scope 3 estimates and disclosures. As part of the UK government’s endorsement process, the UK Sustainability Disclosure Technical Advisory Committee (“TAC”) discussed the practical issues with Scope 3 emissions reporting at length and concluded that ***IFRS S2 has sufficient reliefs and guidance built in that do not justify a departure from its requirements.*** The TAC therefore was satisfied with, and recommended to retain, a one-year deferral on reporting Scope 3 information (although the TAC did recommend additional reliefs for financed emissions, which the government included in the final UK SRS S2). However, this one-year deferral before mandatory disclosure is not reflected in the final UK SRS.

The guidance and reliefs in UK SRS S2 (and IFRS S2), which the TAC considered in developing its recommendations to the government, are intended to help companies deal with some of the known challenges with measuring Scope 3 GHG emissions. These include:

- a measurement framework (from paragraph B38)
- a relief to address the challenges with getting information from entities in a company's value chain (paragraph B19)
- a relief that explains what to disclose if it is impracticable to reliably estimate Scope 3 emissions (paragraph B57)
- a number of references to using “all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort”
- additional reliefs for financed emissions, allowing companies in asset management, commercial banking and insurance to apply the financed emissions requirements on a comply-or-explain basis.

We would support a comply-or-explain approach for an initial period, even if it extends beyond what the draft UK SRS S2 proposed. However, ***that initial period needs to have a clear timetable for review with an aim to make the disclosure mandatory when the FCA deems the market to be ready for it.*** We have significant concerns that by not eventually requiring companies to prepare Scope 3 emissions disclosures, their flaws will continue indefinitely, limiting their usefulness even further.

Clearly there are measurement challenges associated with Scope 3 emissions and, although many companies report this metric, anecdotally we understand that very few, if any, companies find it useful to prepare and find it difficult to rely on it for decision making (although it may still be used in target setting). ***The concerns regularly expressed about Scope 3 emissions disclosures, alongside their potential to in fact be useful, in our view are a sign that it may be time to find a more accurate and robust approach,*** such as the one developed by the [E-Ledgers Institute](#), that is aligned to accounting principles, particularly the definition of control and the recognition criteria.

Question 5: UK SRS S2 Location – Do you agree with our proposals regarding the location of UK SRS S2 climate-related disclosures? If not, what alternative approach would you suggest and why?

Investors expect to be able to find information that is material to their decision-making within the annual report; accordingly, ***we believe that the climate-related disclosures should be included in the annual report.***

However, we understand that some companies may want to publish them outside the annual report and cross-refer to them. ***Sustainability-related disclosures, wherever they are, need to be in the scope of the statutory auditor's review of 'other information'.*** If a company includes the disclosures in its annual report by cross-reference, as permitted by UK SRS S1, ***we expect that a cross-referenced report for this purpose would be considered to form part of the annual report and therefore would be subject to the statutory auditor's requirement to read the 'other information' included in the annual report*** in ISA (UK) 720 (The Auditor's Responsibilities Relating to Other Information).

Given the connectivity between sustainability-related (including climate) disclosures and information reported in a company's financial statements, ***investors need to be confident that the reported climate and other sustainability-related information is not inconsistent with the information in the financial statements.*** The auditor's review of the rest of the annual report during the financial statement audit gives investors comfort about this internal

consistency. *The location of a company’s UK SRS disclosures should not affect the auditor’s responsibilities in relation to them.*

Question 6: UK SRS S1 Comply-or-Explain – Do you agree that UK SRS S1 non-climate reporting requirements should apply on a ‘comply or explain’ basis for companies with a listing in the commercial companies, non-equity shares and non-voting equity shares, or transition categories? If not, what alternative approach would you suggest and why?

We do not agree with this proposal.

We think ***UK SRS S1 should be mandatory two years after the application of UK SRS S2, as proposed in the draft UK SRS S1.*** The ISSB considered this sequencing with UK SRS S2 when determining the initial application requirements for IFRS S1. It decided to require climate-related disclosures first, with disclosures about non-climate matters being required one year later. The TAC also discussed this and recommended delaying the one-year deferral by an additional year so that UK companies would have more time to prepare (although recognising that UK listed companies already prepare sustainability-related information, as noted above).

Implementing UK SRS S1 on a comply-or-explain basis also raises the question of why the references to the Sustainability Accounting Standards Board’s (SASB) standards needed to be changed from “shall refer to and consider” to “may refer to and consider”. We are not sure whether a company not referring to them is complying or explaining. We are also not sure what a company’s unreserved statement of compliance, as required by UK SRS S1, would say in a comply-or-explain regime.

We urge the FCA to require listed companies to apply UK SRS S1’s non-climate reporting requirements on a mandatory, rather than comply-or-explain, basis from 1 January 2029.

If UK SRS S1 must initially be implemented on a comply-or-explain basis, the FCA should develop and publish a roadmap for when it will make UK SRS S1 mandatory for listed companies and make it a requirement as soon as the market is deemed to be ready for it.³ We find it difficult to accept that the market is not currently prepared for implementation, given the prevalence of sustainability reporting by UK listed companies today, and we certainly cannot see why it wouldn’t be in 2029.

Our concerns about implementing an indefinite comply-or-explain approach for UK SRS S1 are as follows:

- ***The “alphabet soup” approach to sustainability reporting will continue to cause problems for investors:*** UK SRS S1, once applied, will improve global comparability (across border and sectors) for investors because companies will have to comply with UK SRS S1 in its entirety, not pick and choose what to apply, if anything, and simply “explain” when it hasn’t doesn’t so. We are concerned, however, that ***bringing UK SRS S1 into the Listing Rules on a comply-or-explain basis does not address the current “choose your own adventure approach” to sustainability reporting.*** There is

³ Effectively, this is what’s happened with climate disclosures. TCFD reporting was originally implemented on a comply-or-explain basis, and now is proposed to be mandated through UK SRS S2. Although there was no explicit roadmap to mandating climate disclosures (that we are aware of), the situation with non-climate related disclosures is very different from where we were with TCFD reporting in the early 2020s. The majority of, if not all, UK listed companies already prepare sustainability-related information, either for inclusion in their annual reports or as a separate sustainability report.

a risk that the “alphabet soup” of standards and metrics will continue to proliferate as long as companies are able to choose amongst the various metrics and standards – those which they like – to tell their story. This does not serve investors because the information is currently not, and as proposed is not likely ever to be, comparable, consistent or necessarily financially value relevant.

- ***Investors will lose out on the rigour that comes from the ISSB’s approach to reporting standards:*** Unfortunately for investors, much of the information disclosed today is not relevant to the business in question, is inconsistently applied, is not subject to external assurance and is not generally used by the company’s board or leadership. The rigour, consistency and comparability that UK SRS S1 brings therefore should be mandated (to benefit both companies and their investors). ***UK SRS S1 also provides much more robust and clear reporting requirements and principles that would significantly improve the quality and consistency of sustainability reporting*** (companies are already doing it, but without the help of the principles and guidance in UK SRS S1), making it useful for investors in assessing a company’s future prospects and understanding and pricing its risk exposures.
- ***Investors will get less information about sustainability than they do today:*** Many, indeed most, UK listed companies already prepare sustainability information that is included in their annual reports or in a separate sustainability report. As such, we are not sure why they need more time beyond the two-year “climate-first” approach that was proposed for UK SRS S1. ***UK SRS S1 gives companies helpful clarity and guidance thorough its principles so they can apply it consistently, raising the quality and relevance of the resulting disclosures and giving investors much-needed information for their decision making*** about capital allocation, company engagement and voting activities.
- ***A comply-or-explain approach to UK SRS S1 will require more work for investors:*** To understand sustainability disclosures, investors will need to be experts in many different sustainability frameworks, if they even attempt to understand what companies report at all. The “alphabet soup” does not just affect the many combinations of disclosures companies can prepare to suit them. It also requires investors to be experts in all of the various frameworks, including the UK SRS standards, so they are able to understand reported corporate sustainability information. It takes a lot of work for investors to interpret and understand disclosures even when companies don’t have the option to choose what they want to do (such as with most financial reporting). ***A comply-or-explain approach for UK SRS S1 will require investors to use time that should be dedicated to making decisions about allocating capital to instead understanding what the various standards and frameworks that underpin the disclosures mean in the first place. This is not a characteristic of a well-functioning capital market.***

The comply-or-explain approach also has the potential to cause practical challenges for companies, because:

- ***“Explaining” will bring more questions from investors than “complying” – that’s why most neither comply nor explain:*** It is helpful for investors that the FCA proposes requiring disclosure of the relevant non-climate SRROs identified using the principles of UK SRS S1 by those companies that “explain”. But we expect such disclosures to – rightfully, in our view – raise questions about how those identified risks and opportunities are overseen, monitored and managed. ***Without requiring the UK SRS S1 core content disclosures about identified SRROs, investors will be forced to fill in the gaps of missing information and companies will receive requests***

for information not disclosed (from investors and also from suppliers, customers and others who may need this information for their own disclosures or to decide whether to do business with the company). Companies will need to prepare for such questions for their engagement activities with investors. As such, a delay in making UK SRS S1 mandatory adds uncertainty for companies because the market is likely effectively to require such disclosures.

- ***It does not in fact address the reporting “burden”:*** While the disclosure requirements of UK SRS 1 are more detailed and prescriptive than what’s done in practice today (i.e., companies using the “alphabet soup” to choose what to report on, what information to report about it and how much detail to provide) ***the new disclosures are intended to require companies to focus on what matters to investors, which is likely to be what also matters to the company in running the business.*** Accordingly, if UK SRS S1 is applied as intended – with a focus on the relevant SRROs that could reasonably be expected to affect a company’s future cash flows, access to finance and cost of capital – ***companies should in fact identify fewer, but more relevant, sustainability topics and provide only material information about those topics.*** As such, the perceived reporting “burden” does not reflect reality. In our view, ***the rigour that UK SRS S1 brings in terms of identifying relevant SRROs would in fact relieve many companies from the “burden” of sustainability reporting because it would focus only on what is financially relevant to their business today and over time.***

Question 7: Location – UK SRS S1 Location – Do you agree with our proposals regarding the location of UK SRS S1 sustainability-related disclosures? If not, what alternative approach would you suggest and why?

Please see our response to Question 5.

Question 8: Disclose if Climate Transition Plan – Do you agree with our proposals for listed companies to disclose whether and where they have published a climate-related transition plan, if they have one, or stating why they have not published one? If not, what alternative approach would you suggest and why?

We agree with this proposal and believe it is a useful addition to the global baseline set out in IFRS S2 (and in UK SRS S2). We look forward to hearing about the government’s future approach to transition plan requirements in due course.

Such disclosures will facilitate investors’ understanding of whether the company has a plan and, if so, whether it may be effective in the short, medium and long term in achieving such a transition. We also believe any ***transition plan disclosure should be linked to and consistent with what’s in a company’s risk disclosures.***

Question 9: IFRS Educational Material – Do you agree with our proposal to note in guidance that listed companies may wish to use the IFRS Educational Material? If not, what alternative approach would you suggest and why?

We agree with this proposal.

However, we wonder why FCA Handbook Guidance would only cover transition plans when the IFRS Foundation has developed educational material on other topics relevant to the

application of their sustainability disclosure standards that would also be useful to UK companies when applying UK SRS.

Question 10: Third-party Assurance Transparency – Do you agree with our proposals for transparency about third-party assurance, where it has been obtained voluntarily? If not, what alternative approach would you suggest and why?

We agree with the proposal to require listed companies to provide transparency about third-party assurance voluntarily obtained. However, there are two critical points missing from the list in Paragraph 7.7:

- ***Requirement to state if assurance has NOT been obtained:*** We think it is important for companies to disclose explicitly whether they have or have not obtained independent external assurance and the type of assurance and by whom the assurance has been provided. Otherwise, there is a risk that companies will mention internal assurance, third party verification and similar terms that imply to investors – who generally are not assurance experts – that an independent assurance report of some form has been performed when that is not the case. ***A positive statement regarding whether assurance has been provided, the nature of the assurance, the provider or the outcome is needed.***
- ***Requirement to publish the opinion:*** Although there is no legal requirement to make the auditor’s or assurance provider’s report publicly available because the assurance is voluntary/non-statutory, ***we are concerned that there is a risk that companies will not publish an assurance report with an opinion at all or certainly when the opinion is anything other than unmodified.*** Therefore, if a company obtains assurance voluntarily or privately, and it does not make the assurance report available, ***the company should also be obliged to state the outcome of the auditor’s or assurance provider’s opinion (i.e., whether it is unmodified, qualified, adverse or a disclaimer of opinion) and any emphases of matter or other information that is fundamental to the user’s understanding of the disclosures.***⁴ This would prevent the situation of investors automatically assuming that an unpublished opinion is unmodified. Should this turn out not to be the case, investors would hesitate to trust any company’s sustainability disclosures, which would have significant negative consequences for the UK capital markets and investors’ perceptions of the UK as a place to invest.

Question 11: Mandatory Assurance Costs vs. Benefits – What benefits and costs would arise from mandatory assurance requirements for sustainability-related information? Where possible, please include how the benefits and costs could vary depending on factors such as the type of listed company, implementation approach or level of assurance obtained. Please be as specific as possible in your response.

We expect that assurance over sustainability disclosures will need to be mandatory at some point. For sustainability-related financial disclosures to have the same level of quality and calibre of financial statements they will need to be audited to the same standard (ultimately, mandatory reasonable assurance). This consistency in quality across both types of reporting is particularly important given the requirements in UK SRS on, for example, the reporting entity, the time period covered by the report and the current and anticipated financial effects,

⁴ This also raises the question of whether a company should be able to obtain private assurance on its sustainability-related financial disclosures without publishing the associated report in full.

all of which link directly with a company's financial statements (or future financial statements in the case of anticipated effects).

The value of assurance comes not just from the reliability it can bring, but from the relevance of the information that's subject to the assurance (which, in turn, supports the need for it to be reliable). Decades of speaking with investors tells us that relevance always takes precedence over perfect reliability. ***Investors do not want, or want to wait for, perfectly reliable information at the cost of not receiving relevant information in a timely manner.***⁵ For mandatory assurance to be necessary, the following therefore needs to happen:

- ***Investors*** will need to find the sustainability-related financial disclosures to be relevant to their capital allocation, engagement and voting decisions.
- ***Assurance providers*** must have the necessary skills, experience, qualifications (including independence) and regulatory requirements. Only then will investors be able to trust the assurance practitioner and the assurance process.
- ***Companies*** will need to have systems and processes in place, like they do with financial information, to, for example: capture data systematically and consistently across the organisation; document reporting policies and the application of judgements made; and ensure sufficient oversight of the reporting process and outcomes.

We think requiring limited assurance before reasonable assurance would be a sensible approach. This would give companies and assurance providers an opportunity to get ready gradually, reducing the cost and improving the chances that the assurance can be done on a complete set of sustainability disclosures, thereby increasing investors' confidence in the information.

We want to emphasise that 'cost' in this context is not just about the direct cost to companies of preparing reporting or obtaining assurance, which is actually ultimately borne by investors. The 'cost' of assurance, and disclosure more broadly, also reflects the cost to investors of not having information they can rely on to make capital allocation decisions (as noted in the FCA's cost benefit analysis of the proposals). That brings a significant additional, although indirect, cost to UK companies and to the UK economy.

Question 12: Additional Views on Assurance – Do you have any further views on sustainability assurance which we should factor into future policy development? For example, any views on the type of information that should be assured, the feasibility of limited and reasonable assurance, or over what timeframe we should revisit our approach.

See our response to Question 11.

⁵ An exception to this is with regard to Scope 3 emissions disclosures. We do not support making assurance of Scope 3 emissions mandatory given the significant level of estimation and measurement uncertainty associated with them.

Question 13: Implementation and Transition – Do you agree with our proposed implementation approach and transitional arrangements for the commercial companies, non-equity shares and non-voting equity shares, and transition categories? If not, what alternative approach would you suggest and why?

As mentioned in our response to Question 6, ***we can accept an initial comply-or-explain approach to implementing UK SRS S1’s non-climate disclosures but believe they should become mandatory in the near term.*** If the FCA proceeds with an indefinite comply-or-explain approach to UK SRS S1 and Scope 3 emissions reporting, we would certainly not want the transition periods to be extended further.

Question 14: Early Adoption – Would you expect to be an early adopter of our proposed new rules? If so, do you have any comments on our proposed approach?

This is not applicable for us, but we are hopeful that listed UK companies will voluntarily early adopt UK SRS.

Question 15: Lack of Applicability to Secondaries and Depository Receipts – Do you agree with our proposals for companies in the secondary listing category and the depository receipts category not to disclose against the UK SRS, but instead to disclose which overseas climate and sustainability standard they are subject to, or which they voluntarily adopt? If not, what alternative approach would you suggest and why?

Although we can understand the allure (i.e., not to “create a barrier to listing in the UK”) of reducing the disclosures required by non-UK companies, ***we believe that it does not serve investors in UK capital markets, nor those companies, to have a different level of transparency about sustainability-related financial information,*** particularly given that the focus of the UK SRS is on financially material and relevant sustainability-related risks and opportunities.

Such an approach does not promote the UK as an attractive place to invest; quite the contrary – not having sustainability information about some listed companies, because they are headquartered overseas, puts investors in those companies, and those companies themselves as a result, at a disadvantage because of a loss of transparency. Indeed, if non-UK companies want finance from UK investors, they need to adhere to the rules here to create a level playing field.

This is also different from the approach taken with the TCFD-aligned rules, which currently apply to non-UK companies listed here. ***Investors in the UK capital markets have received climate-related information for a few years now, and they have an expectation to see this information.*** Although “sustainability” has fallen out of political favour in some parts of the world, investors globally know there are financially material and relevant sustainability-related risks and opportunities that require consideration and that they need to price (and, indeed, it would be irresponsible to ignore them). ***The UK should not go backwards.***

Moreover, although many non-UK companies prepare TCFD reports, the TCFD recommendations have been superseded by UK SRS S2, which is a more robust version informed by market feedback. As noted in the Consultation, the TCFD recommendations are eventually likely to become obsolete. Using TCFD as a reporting framework indefinitely will become a disadvantage to overseas companies over time.

A better approach would be to have an equivalence model that determines what would be acceptable from another jurisdiction’s reporting regime, ensuring that investors have access to a comprehensive set of sustainability disclosures without them being duplicative, overlapping or, most concerningly, contradictory. Determining whether a non-UK company’s sustainability-related disclosures are “equivalent” could include criteria such as:

- The quality and completeness of the reporting standards used;
- The ability to produce financially material, decision useful information for investors using those standards;
- The standards produce information broadly comparable to UK SRS outcomes;
- The rigour of the promulgating body’s standard setting process; and
- The consistency of the standards’ application in practice.

Such an approach would allow UK investors to have high quality sustainability-related disclosures regardless of where the UK listed company is based. It would mean that any company listed on a UK exchange, subject to the scope covered in Question 1, would provide investors either with UK SRS disclosures or a high quality alternative that is required in their jurisdiction (such as another jurisdiction’s version of the ISSB’s standards or the European Sustainability Reporting Standards’ (ESRS) financially material requirements) – but *they would not be able to provide nothing just because the jurisdiction where they are based doesn’t require such disclosures, and they would not be able to fall back on the voluntary “alphabet soup” available to them and that does not serve investors.*

However, if the FCA decides to move forward with this as proposed, it should explicitly encourage voluntary application of UK SRS by these companies.

Question 16: Third Party Assurance Transparency – Do you agree with our proposals for transparency about third-party assurance, where it has been obtained, for companies in the secondary listing category and the depositary receipts category. If not, what alternative approach would you suggest and why?

We agree with the proposals, with the additions noted in Question 10.

Question 17: Lack of Applicability to Asset Managers, Insurers, and Pension Providers – Do you agree with our consequential amendments to enable asset managers, life insurers and FCA-regulated pension providers in scope of UKLR to cross refer to UK SRS S2 disclosures in their TCFD entity report, where applicable? If not, what alternative approach do you suggest, and why?

Although we understand why the FCA is proposing this, we encourage the FCA to work quickly to consider the longer-term sustainability disclosure framework for such firms as mentioned in Paragraph 10.5. We note that UK SRS S1 and UK SRS S2 are written to be applicable to financial and real economy entities and encourage the FCA to require UK SRS for this purpose. As noted in the consultation, the TCFD recommendations are likely to become obsolete over time.

Requiring UK SRS also allows consistently prepared and comparable information to flow through the value chain, including with regard to financed emissions and, in the future, facilitated and insured emissions. It also will help bring consistency and clarity in the

information reported through the investment chain, increasing the credibility of the investment labels covered by the Sustainability Disclosure Requirements (SDR) regime.

Question 18: Digital Tagging Costs vs. Benefits – What are the benefits and costs of digital tagging of sustainability information? For example, are there any disclosures under UK SRS for which you would find digital tagging most useful, and how would the information be used? Please be specific in your response.

This is an important question given many investors get information from data aggregators, who are users of digitally tagged information.

This will become even more important as investors make greater use of artificial intelligence (AI) tools to find and digest large volumes of company-reported data. Digital tagging of information promotes consistency in how the AI models will interpret the data.

Because the UK SRS are very closely aligned to, with minimal deviation from, the IFRS Sustainability Disclosure Standards issued by the ISSB, ***we encourage the FCA to use the ISSB’s digital taxonomy*** for this purpose. To do otherwise risks global investors not being able to compare across borders and introduces risks when it comes to investment analysis being done using AI tools.

Question 19: Views on Digital Reporting – What are your views on digital reporting? Are issuers in a position to digitise sustainability reporting, or as a service provider, to support preparers with this? If not, how long do you think it would take?

In our experience, issuers are in a position to do anything required of them. We believe digital reporting and digital tagging is important for transparency, consistency and comparability and, therefore, that the FCA should create the environment for investors to get information in that way.

Question 20: Supervisory Strategy Considerations – Do you have any comments on what we should consider when developing our supervisory strategy for the new requirements?

We encourage the FCA to conduct the following as part of the supervisory strategy:

- ***Thematic reviews on the application of UK SRS:*** The thematic reviews conducted by the FCA and FRC on TCFD reporting, for example, were helpful for improving climate-related disclosures over time. In addition to giving companies examples and reminders for how to prepare the disclosures well, they gave investors ideas for engaging with companies and assisted in their requests to them for better disclosures. Thematic reviews on reporting about others sustainability matters are likely to be helpful to companies and to investors for the same reasons.
- ***An analysis of how the new standards were applied in practice:*** A review 2-3 years after they are implemented could explore all the optionality companies chose to apply (e.g. complying versus explaining, obtaining assurance and the scope and level of that assurance, what sustainability topics were identified beyond climate, etc), by industry and size, and assess why they did so. Such an analysis would inform future adoption decisions and the effectiveness of a reporting regime that allows many options.

Questions 21-23: Costs vs. Benefits – Do you have any comments on our cost benefit analysis? Do you have any comments on the assumptions made in our cost benefit analysis? Do you have any comments on our assessment of the estimated costs to listed companies? Please provide evidence to support your response to this question.

The benefits noted, as well as the potential harms and interventions, are consistent with our own research, what we hear from our members and what we've learned in our engagement with the standard setting process at the international and UK level. **However, we are concerned that the benefits to investors of requiring UK listed companies to apply UK SRS S1's non-climate reporting requirements and to provide Scope 3 GHG emissions disclosures have not been appropriately considered in the analysis.** We believe the cost-benefit analysis has in fact under-estimated the **costs to investors of not having financially material information** and over-estimated the costs to companies of requiring them to prepare such information.

We think it is important also to recognise the following:

- **The cost of reporting and assurance is borne by shareholders:** Investors (shareholders) ultimately bear the cost of reporting and assurance, not companies. **In our experience, when investors find information useful, they are willing pay for it.**
- **The costs of uncertainty associated with a comply-or-explain approach outweigh the benefits that come from its flexibility:** Although comply-or-explain adds flexibility, which some think benefits companies as well as investors, it also has the significant potential to remove financially material information from the market. **This will have the effect of reducing capital formation, limiting comparability across sectors and borders and mispricing risks and opportunities.**
 - **Investors** will still be subject to reporting using the “alphabet soup” of frameworks and standards.
 - **Companies** will still need to spend time deciding which parts of the alphabet to use in preparing sustainability disclosures.
 - **Assurance providers** will need to do more work to determine whether what is reported provides a comprehensive view of a company's performance and prospects.

None of these are characteristics of a well-functioning capital market and do not serve investors – or companies – well.

- **UK SRS S1 requires more detail on fewer, more relevant topics, reducing the reporting “burden”:** If applied as intended, **companies applying UK SRS S1 are likely to report fewer but more relevant sustainability-related topics using UK SRS than they currently do.** This will focus the disclosures made about those topics on what really matters for the business (i.e., are material). Therefore, **while there are more disclosures required in UK SRS, the relevance of the information disclosed is vastly increased**, thereby justifying the cost. It also means that the systems in place to collect data are useful not just for the disclosures but for internal strategic planning and decision making.
- **UK SRS is principle-based yet prescriptive, supporting companies in their application:** This makes the standards more straightforward to apply and the resulting information therefore more useful to investors (externally) and business leaders (internally). It is also a helpful incentive, as noted in the consultation, that the UK SRS are globally comparable.