

PRI RESPONSE

FRC CALL FOR EVIDENCE ON ISSB STANDARDS

11 October 2023

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To inform this response, the following investor group has been consulted: PRI Global Policy Reference Group (GPRG). This consultation is not an endorsement or acknowledgement of the views expressed in this response.

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United Nations
Global Compact

ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the UK Sustainability Disclosure Technical Advisory Committee (TAC) [call for evidence](#) to inform the proposed endorsement of IFRS Foundation International Sustainability Standards Board (ISSB) Standards in the UK.

ABOUT THIS CONSULTATION

The ISSB aims to deliver a global baseline of sustainability-related financial disclosure standards that meet the information needs of an entity's investors, creditors and other lenders, building on established sustainability reporting initiatives. In June 2023 the ISSB issued its inaugural standards:

- [IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#) – contains reporting requirements on sustainability-related risks and opportunities across all sustainability issues, and how to prepare and report sustainability-related financial disclosures.
- [IFRS S2 Climate-related Disclosures](#) – contains reporting requirements on climate-related risks and opportunities.

The UK Government has committed to assess and endorse the ISSB Standards for use in the UK. The UK Sustainability Disclosure Technical Advisory Committee (TAC) will provide recommendations to inform this process and has issued this call for evidence to collect views. Decisions on the scope mandatory reporting against UK-endorsed versions of IFRS S1 and S2 will be subject to consultation by the FCA for UK listed companies, and by the Government for UK registered companies.

PRI signatories are encouraged to provide feedback on our draft response via email to DMD@unpri.org and louisa.guy@unpri.org. The PRI has previously provided views and recommendations on international sustainability reporting standard setting through [consultation responses](#) and [public statements](#).

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KEY RECOMMENDATIONS

The PRI's key recommendations for this call for evidence are for the UK Government to:

- **Endorse the ISSB Standards and transpose them into UK regulatory requirements as soon as practicable.** This is needed to provide investors with decision-useful information on risks and opportunities across sustainability issues, and to ensure interoperability with sustainability disclosure requirements across jurisdictions.
- **Adopt the ISSB Standards – IFRS S1 and IFRS S2 – together,** as entities must implement IFRS S1 to appropriately report against IFRS S2 and future ISSB Standards.
- **Establish an endorsement mechanism for current and future ISSB Standards to become part of UK law,** since investors require information on a wide range of sustainability topics that are material to investment decisions.
- **Consider adopting disclosure requirements additional to the ISSB Standards – in line with the IFRS Foundation's “building blocks approach” – that capture further information on companies' sustainability impacts,** as investors may need further information to fully assess and interpret a company's sustainability performance or their alignment with sustainability goals and thresholds.

PRI RESPONSE

BENEFITS OF ISSB STANDARDS FOR INVESTORS

As the world's leading proponent of responsible investment, the PRI advocates for decision-useful¹ corporate sustainability reporting. Investors currently lack such information across their portfolios, including the most basic sustainability-related data.² This makes it more difficult for them to allocate capital efficiently, accounting for sustainability-related financial risks and opportunities and addressing sustainability goals. A global system of comparable data can address this need, creating a strong baseline of reliable information.

Policymakers have an essential role to play in addressing this challenge through the introduction of disclosure requirements. For this reason, PRI has called on jurisdictions to adopt the ISSB Standards by 2025 at the latest.

The ISSB Standards are underpinned by the structure and concepts of accounting standards from the International Accounting Standards Board (IASB), build on the framework established by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) – and other well-established voluntary sustainability reporting initiatives – and have now been endorsed by the International Organization of Securities Commissions (IOSCO).³

¹ As set out in the PRI's [Investor Data Needs framework](#), to be decision-useful, sustainability information must be available, accessible, verifiable, comparable across multiple dimensions, a faithful representation and relevant to investors.

² For example, FTSE Russell found that of the 4,000 large and mid-size constituents in the FTSE All World index, 58% disclose both Scope 1 and 2 carbon emissions. Source – [Mind the gaps: Clarifying corporate carbon](#) (2022).

³ IOSCO's [endorsement](#) recommends that its member jurisdictions consider ways in which they might adopt, apply or otherwise be informed by the standards.

Several jurisdictions are currently taking steps to adopt the ISSB Standards, including but not limited to: Australia, Canada, the European Union, Ghana, Hong Kong, Japan, Malaysia, New Zealand, Nigeria and Singapore. In this regard, we recommend that the UK Government endorse the ISSB Standards, which set out a global baseline for company reporting on sustainability-related risks and opportunities, and transpose them into UK regulatory requirements as soon as practicable. Aligning UK reporting requirements to international standards offers the transparency investors need to manage climate and sustainability-related risks and opportunities. ISSB adoption in the UK is crucial to achieve global interoperability⁴ of corporate sustainability disclosure requirements – promoting comparable data across investment portfolios – and to build on existing progress in reporting on sustainability-related risks and opportunities.

SCOPE AND IMPLEMENTATION SUPPORT

Since investors need sustainability data from all portfolio companies, the PRI [has called for](#) economy-wide implementation of the ISSB Standards across jurisdictions by 2025 at the latest. Further, it is important that **IFRS S1 and IFRS S2 are adopted together**, since entities must implement IFRS S1 to appropriately report against IFRS S2 and any future ISSB Standards.

We recognise existing work to build on ISSB Standards, such as the Transition Plan Taskforce developing a standard for private sector climate transition plans. We support an endorsement mechanism for current and future ISSB standards to become part of UK law, and continued engagement with the ISSB Jurisdictional Working Group to promote interoperability.

We acknowledge this will require relief provisions in line with those included within IFRS S1 and S2, as well as capacity building among preparers, users and auditors of sustainability reporting. The PRI is a partner to the IFRS Foundation's Partnership Framework for Capacity Building and stands ready to support these efforts.

INVESTOR DATA NEEDS

REPORTING ON NON-CLIMATE ESG ISSUES

Investors require information on a wide range of sustainability topics that are material to investment decisions. We recommend that the UK Government **acknowledges from the outset the need to bring other areas of sustainability reporting in scope over time**, and looks to **adopt future issue-specific ISSB Standards** and guidance materials as these are issued.

REPORTING ON IMPACTS AND DEPENDENCIES

All investors need sustainability-related information to inform their assessment of companies' risks and opportunities, but investors also increasingly need information to assess and interpret a company's impacts and their alignment with sustainability goals and thresholds. While the ISSB Standards are expected to enable disclosure of some of this information, it is unlikely they will provide investors with all the information they need on a company's impacts and dependencies.

⁴ Interoperability between jurisdictional reporting requirements – allowing companies to collect and report in a manner that effectively serves both local and global requirements – is a key concern for investors who allocate capital globally and require comparable sustainability-related information across their portfolios.

In this context, and in line with the IFRS Foundation’s “building blocks” approach, the UK Government should consider adopting disclosure requirements additional to the ISSB Standards that capture further information on companies’ sustainability impacts, building on requirements within the GRI Standards and European Sustainability Reporting Standards (ESRS).

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of the FRC on ISSB standards.

Please send any questions or comments to policy@unpri.org.

More information on www.unpri.org