ISSB Exposure Drafts on IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures): FCA response

1. Introduction and Executive Summary

The FCA welcomes the Exposure Drafts of General Sustainability-related Disclosure Requirements ("General Requirements") and Climate-related Disclosure Requirements ("Climate-related Requirements"), published by the International Sustainability Standards Board (ISSB) in March 2022.

A market-led transition to a less carbon-intensive economy and a more sustainable future will require an uplift in the quality and integrity of information on sustainability-related matters. Investors and other providers of capital need internationally consistent, comparable and decision-useful disclosures to help them navigate an uncertain world and make capital allocation decisions aligned with their risk appetite.

Now, more than ever, against the backdrop of an urgent climate threat, geopolitical volatility, and fears of energy price inflation and energy security, we have a once-in-a-generation opportunity to adopt a globally consistent baseline of sustainability disclosures. The ISSB's proposals represent a critical milestone on the path to this new paradigm for corporate reporting.

The FCA has been a strong supporter of the IFRS Foundation's work to establish the ISSB. Consistent with recent strong message from the G7, we welcome the ISSB's excellent progress towards establishing a global baseline and the continued strong momentum in this process. The UK Government signalled last year that it expects the ISSB's standards to "form a core component of the [Sustainability Disclosure Requirements (SDR)] framework, and the backbone of its corporate reporting element". We are committed to consulting on adopting the ISSB's standards into our rules, once finalised and available for use in the UK, and subject to the usual cost-benefit analysis.

The UK Government has asked us, alongside the Financial Reporting Council (FRC) and the UK Endorsement Board (UKEB) to respond to the ISSB's consultation from the perspective of our respective regulatory objectives and functions. In this response, we offer feedback from the standpoint of our role as the UK's securities regulator.

2. Summary of our views

Our response sets out our high-level views on the ISSB's Exposure Drafts. We have not responded to the detailed questions. Instead, we evaluate the ISSB's proposals (across both Exposure Drafts) against a set of criteria relevant to the key outcomes we are pursuing in this area.

These outcomes are set out in our ESG Strategy, 'A strategy for positive change: our ESG priorities', which we published in November 2021 and subsequently integrated into the FCA's wider Strategy 2022 to 2025. In respect of transparency, we are targeting high-quality climate- and wider sustainability-related disclosures, to support accurate market pricing, and in turn help consumers choose sustainable investments and drive fair value.

In our evaluation, we have emphasised, in particular:

- clarity of purpose, including user focus and materiality lens
- connectivity with financial reporting
- interoperability between the ISSB's baseline and jurisdiction-specific requirements

- ease of adoption, for jurisdictions and preparers
- ambition
- the inclusion of investor-focussed, industry-based content

We find that the Exposure Drafts generally meet our expectations in each of these areas. We therefore conclude that the ISSB's Exposure Drafts will help to enhance market quality and integrity and we are strongly supportive of the proposals.

However, we do highlight some targeted matters for consideration by the ISSB. These emphasise steps that the ISSB could consider to encourage widespread adoption of the baseline standards internationally – including by recognising the different levels of familiarity with and maturity in climate- and sustainability reporting across corporates in different jurisdictions. Addressing these matters could help to mitigate implementation challenges, and therefore further enhance the effectiveness of the global baseline.

For instance, we encourage the ISSB to consider:

- refining certain definitions
- developing guidance to improve the consistency of implementation by preparers
- providing for limited flexibilities and scaling and phasing of requirements, while upholding the welcome ambition of the proposals

We also note the importance of interoperability, and encourage the ISSB to consider providing examples to demonstrate how the standards act as a global baseline that can interoperate effectively with additional jurisdiction-specific requirements via a 'building blocks' approach.

During the consultation period, we have welcomed close and active engagement with other UK authorities, other international regulators (through the International Organization of Securities Commissions (IOSCO)) and a range of stakeholders spanning both preparers and users of sustainability-related disclosures. The targeted matters for consideration identified in this paper reflect these discussions, as well as our own analysis of the Exposure Drafts.

3. The FCA's prior engagement with the ISSB's work

In 2020, we joined the UK Government and financial regulators in a statement of support for the IFRS Foundation's assuming a standard-setting role for sustainability-related financial reporting. We also submitted an independent FCA response to the IFRS Foundation's Consultation Paper on Sustainability Reporting, emphasising our view that the Trustees' proposals could "help meet the needs of capital markets and advance securities regulators' objectives in this area". We considered that "in a globally connected financial market, a common international standard would improve the completeness, consistency and comparability of corporate information on sustainability, and the future assurance of this information."

We also explained why we considered that the IFRS Foundation was the right organisation to set international corporate reporting standards, noting that "[t]he Foundation already has widespread international market acceptance in financial reporting, supported by the integrity, independence, transparency and public accountability of its governance arrangements." Furthermore, we saw "considerable benefit in integrating standard-setting for financial and non-financial reporting under a common architecture".

Internationally, we have worked closely with the IFRS Foundation on sustainability-related reporting since 2020. We promoted the establishment of the ISSB through our role as co-chair of IOSCO's workstream on sustainability-related reporting. This year, we are co-leading IOSCO's work to assess the ISSB's Exposure Drafts for potential future endorsement. Endorsement by IOSCO could pave the way for securities regulators around the world to consider how the ISSB's global baseline could be incorporated within their respective sustainability-related disclosure requirements.

Furthermore, recognising that assurance is a key part of the ecosystem to ensuring the reliability and integrity of sustainability-related information, we are also co-leading IOSCO's work to assess how a robust and internationally coordinated audit and assurance framework can be built around the ISSB's standards.

4. Consistency with the FCA's approach

We believe the ISSB's proposals are consistent with the FCA's strategic objective to make markets function well and the goals of our ESG strategy. Transparency is one of five key themes under our strategy and much of our work, both domestically and internationally, has focussed on enhancing climate- and sustainability-related disclosures. More specifically, one of the key outcomes that we are targeting is high-quality climate- and wider sustainability-related disclosures, to support accurate market pricing, and in turn help consumers choose sustainable investments and drive fair value.

In December 2020, we introduced our first climate-related disclosure rule for listed companies, aligned with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). This was part of the UK Government's wider Roadmap towards mandatory climate-related disclosures across the economy by 2025. We introduced our rule initially for companies with a UK premium listing, extending the application of the rule to a wider scope of listed issuers a year later. Our rules require issuers to make TCFD-aligned disclosures on how climate change affects their business, or explain why they have not done so.

Building on this, we are playing our part in the delivery of the UK Government's Roadmap to Sustainable Investing, which includes the SDR. The UK Government plans to consult later in the year on a mechanism for the UK adoption of the ISSB's standards. As signalled when finalising our disclosure rules for listed companies, we remain committed to consulting on adapting our existing rules to reference the final ISSB's standards, as adopted in the UK. We also signalled that this would be an appropriate time to consult on moving from a 'comply or explain' compliance basis to mandatory disclosure requirements for listed issuers.

5. Assessment against key criteria for market quality and integrity

In this section, we consider how the proposals in the ISSB's Exposure Drafts could help to improve market quality and integrity, by setting an effective global baseline of standards to support complete, consistent, comparable and reliable climate- and sustainability-related financial disclosures.

We evaluate the proposals against a set of criteria relevant to our target outcomes. We suggest some matters for consideration by the ISSB that could further encourage broad-based and consistent implementation of the baseline internationally. In particular, we consider whether the proposed standards:

- set an effective global baseline, that has a clear purpose, connectivity with financial reporting, and supports interoperability via a 'building blocks' approach
- support widespread international adoption and 'raise the bar'
- provide for effective investor-focussed, industry-based content

(i) Set an effective global baseline, that has a clear purpose, connectivity with financial reporting and supports interoperability via a 'building blocks' approach

Clear purpose

We applaud the clarity of purpose in the ISSB's proposals, including a strong focus on the user needs of investors and other capital market participants, and a well-defined materiality lens.

The ISSB's mission is clear, and the Exposure Drafts are aligned with that mission: "to provide a comprehensive baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions".

The ISSB grounds its proposals in the observation that sustainability-related risks and opportunities may arise from "an entity's dependencies on resources and its impacts on resources, and the relationships the entity maintains that may be positively or negatively affected by those impacts and dependencies".

The Exposure Draft explains that "when such impacts, dependencies and relationships create risks or opportunities, they can create or erode the value of the enterprise, the financial returns to providers of financial capital, and the assessment of enterprise value by primary users". This is reflected in the materiality assessment, which emphasises whether the information "could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting".

Connectivity with financial reporting

The connections between sustainability-related information and financial information are particularly important for investors' assessment of a company's enterprise value. Designing standards in a way that recognises these connections effectively is a key benefit of bringing sustainability-related and financial reporting standards under the same standard-setting body.

In the case of climate-related disclosures, several studies, such as Carbon Tracker's Flying Blind report, have found that there is considerable room for improvement in how material climate-related matters are incorporated into financial statements – even under existing requirements within International Accounting Standards Board (IASB) standards. Educational material published by the IFRS Foundation in November 2020 clarifies: "IFRS Standards do not refer explicitly to climate-related matters. However, companies must consider climate-related matters in applying IFRS Standards when the effect of those matters is material in the context of the financial statements taken as a whole."

Such studies have also highlighted the need for more detailed and consistent disclosure of relevant assumptions, as well as greater consistency between the climate-related information in the 'narrative' section of companies' annual financial reports (eg, information on climate risks and emissions metrics and targets), and the financial statements.

We therefore welcome the emphasis that the ISSB's proposals place on connectivity between climate- and sustainability-related disclosures and information in the financial statements. This includes requirements to:

- disclose sustainability-related financial information as part of general purpose financial reporting, for the same entity and at the same time as the financial statements
- make the disclosures according to general features that are already familiar to entities that prepare financial statements in accordance with IFRS Accounting Standards
- explain the connections between sustainability-related risks and opportunities and information in the financial statements

Definitions and requirements are intended to be consistent with the IASB's Conceptual Framework for Financial Reporting, IAS1 and IAS8.

The ISSB helpfully draws out instances in which sustainability-related risks and opportunities should be linked to a preparer's financial statements. For example, §43 of the draft General Requirements states that an "entity might need to explain how its use of natural resources and changes within its supply chain could amplify, change or reduce its significant sustainability-related risks and opportunities. The entity may need to link this information to the potential or actual effect on its production costs, its strategic response to mitigate such risks and its related investment in new assets. This information may also need to be linked to information in the financial statements and to specific metrics and targets."

Implementation of the proposed new standards, and the focus on connectivity with the financial statements, should therefore be seen as an opportunity also to promote improvements in reporting on climate- and sustainability-related matters against existing IASB requirements.

Interoperability via a 'building blocks' approach

An effective global baseline must be interoperable with any additional jurisdiction-specific reporting standards that may be added as a 'building block', either to accommodate other public policy priorities, to meet the information needs of a wider range of stakeholders, or to adapt to other regulations or legislation.

We consider that the proposals provide for an effective foundation layer in such a 'building blocks' approach. And we welcome the work that the ISSB is doing, beyond these proposals, to support interoperability – notably, the establishment of a Jurisdiction Working Group, of which the FCA is a member, and the conclusion of a collaboration agreement with the Global Reporting Initiative (GRI).

In this context, there has been much debate about the need to accommodate jurisdiction-specific standards that would require preparers to report on their material external sustainability impacts. We note that the ISSB's proposals require preparers to disclose information that they reasonably expect could affect enterprise value over "the short, medium or long term". We support this approach which – consistent with the IFRS Foundation's mission "to develop standards that bring transparency, accountability and efficiency to financial markets around the world" – is appropriately directed towards the information needs of investors and other capital market participants.

We note that to the extent that a preparer's external sustainability impacts might reasonably be expected to feed back to enterprise value over an extended horizon, disclosure of material sustainability impacts would already be required under the proposals in these Exposure Drafts. IOSCO's report on sustainability-related issuer disclosures, published in June 2021, states that: "Impacts on people and the natural environment may not be captured on company balance sheets, but often may be critical for investors… to assess companies' ability to create value in the future. Many of a company's external impacts, including how the company ensures the preservation of social and environmental systems, could therefore be expected to influence investors' decisions."

Matters for consideration

Clear definitions and supporting assumptions are essential to assist preparers in producing consistent and comparable sustainability-related disclosures. Clarity is also a prerequisite for effective audit and assurance of disclosures against the reporting standards. In our analysis of the Exposure Drafts and engagement with stakeholders, some areas for potential elaboration have been identified. We set out some examples below, while noting that other examples are provided in comment letters from the FRC (see responses for S1 and S2).

For example:

- *'Significant' versus 'material'*. We understand that the Exposure Drafts intend the term 'material' to apply in relation to the information to be disclosed, and 'significant' in relation to sustainability-related risks and opportunities. However, there appears to be some variability in how the 'significant' and 'material' qualifiers are applied throughout the Exposure Drafts. For example, §1 of the draft General Requirements refers to information being "useful" rather than material: "…disclose information about its significant sustainability-related risks and opportunities that is useful to the primary users of general purpose financial reporting…". Further, §4 makes no reference to the materiality of either the risks and opportunities or the information: "…disclose sustainability-related financial information in order to provide the users of that information with a sufficient basis to assess the implications of sustainability-related risks and opportunities…". Inconsistent application of these concepts could create difficulties for preparers when carrying out their materiality assessments, also presenting challenges for assurance providers.

- *Materiality assessments*. More generally, we acknowledge and welcome the steps taken to align the definition of materiality in the Exposure Drafts with the Conceptual Framework for Financial Reporting. This will help to set a familiar reference point for preparers and promote connectivity. However, the ISSB could consider providing further guidance to preparers on how to carry out their materiality assessments in practice. With capabilities in respect of sustainability-related reporting still developing, many preparers may not be well equipped to judge whether a given piece of information is likely to influence the decisions of primary users. And, recognising the dynamic nature of materiality, the ISSB could usefully elaborate on how preparers may assess the evolving information needs of their primary users over time.
- *Defining the value chain*. We strongly agree that preparers should take into account and report on their external relationships, including those with customers, suppliers, society and nature. As the ISSB acknowledges, these will ultimately have an impact on preparers' ability to generate enterprise value over the short, medium and long term. However, depending on their industry or sector, many preparers will have long and complex value chains. To support an effective baseline, there may be a case for the ISSB to assist preparers, perhaps through guidance, on how they should determine the boundaries of their value chain in a structured and proportionate way – potentially through indicative examples. This should help to promote consistency of approach.
- *Other challenging concepts*. We encourage the ISSB to consider providing further guidance and clarification on other potentially less familiar concepts. One such example is 'trade-offs': in the proposals, preparers are expected to explain the relationships and trade-offs that may arise between various sustainability-related risks and opportunities. In the absence of further direction, preparers may assess trade-offs in very different ways.

In respect of interoperability, we consider that the ISSB could help to promote adoption of the global baseline by demonstrating further how it could work in conjunction with jurisdiction-specific requirements. This could potentially be done through worked examples. Highlighting alignment/divergences in terminology, industry classifications and structure may also help to support users' understanding of how the respective standards can work together.

We therefore encourage the ISSB to continue to work closely with the Jurisdiction Working Group and GRI to further assess and facilitate interoperability with other existing standards (eg, GRI) or proposed jurisdiction-specific standards (eg, those proposed by the European Financial Reporting Advisory Group).

(ii) Support widespread international adoption and raise the bar

Leveraging preparers' familiarity with TCFD

We strongly support the ISSB's proposal to determine a global baseline that builds from the TCFD's globally accepted recommendations – both in the structure of the General Requirements, and in the specific Climate-related Requirements. The TCFD's four pillars – governance, strategy, risk management and metrics and targets – have become the leading framework for the disclosure of climate-related financial information.

Consistent with our own approach in the UK, many jurisdictions have now introduced, or are taking steps to introduce, disclosure requirements based on the TCFD's recommendations into their legal or regulatory frameworks. With many preparers having therefore already invested to build familiarity with the TCFD's recommendations, the ISSB's proposals constitute a natural evolution that will support a smooth transition to new corporate reporting standards.

More broadly, the relative maturity of UK companies' sustainability-related reporting, reflecting the combination of the TCFD's recommendations in the UK, combined with Streamlined Energy and Carbon Reporting (SECR) and non-financial reporting in the Strategic Report, leaves UK companies well positioned to implement the proposed requirements.

We have noted in previous publications (including CP21/18 and PS21/23) that the TCFD's largely principles-based recommendations may not result in consistent and comparable disclosures that fully meet investors' needs for decision-useful information. For this reason, we positioned our TCFD-aligned disclosure requirements as an "important milestone as work continues to establish a common global baseline of corporate reporting standards on climate change and wider sustainability matters". We have advocated for the future implementation of standards that "build on the TCFD's recommendations while adding specificity and granularity to meet the growing and urgent demand for consistent, comparable and reliable corporate sustainability disclosures".

Subject to the target matters for consideration that we set out in this response, we consider that the proposals in the ISSB's Exposure Drafts add the necessary structure, conceptual framework, specificity and granularity to meet this demand.

Welcome ambition: 'raising the bar'

While building from the TCFD's recommendations, the ISSB's proposals also 'raise the bar'. Five years have passed since the TCFD's recommendations were published, and the information needs of primary users of this information have evolved. We therefore welcome the increased ambition reflected in the proposals.

Perhaps the most substantial additions to the TCFD's recommendations are included under the 'Strategy' pillar. In the proposed Climate-related Requirements, the enhancements include additional and more granular information on how the preparer is responding to climate-related risks and opportunities, and how it is working with customers and suppliers. The Climate-related Requirements also include provisions on transition planning, which extend beyond the guidance published by the TCFD in late 2021 and add new disclosures on matters such as emission reduction targets and the use of carbon offsets.

We welcome the recognition that business model changes may arise from the preparer's response to supply and demand changes, its direct and indirect adaptation or mitigation efforts, or pursuit of its own carbon emission reduction targets. We also support the inclusion of detailed disclosure requirements regarding the use of carbon offsets and the quality of those offsets.

This content is broadly consistent with the UK's direction of travel towards disclosure of robust climate transition plans. We have already implemented expectations on transition plan disclosures by referencing the TCFD's guidance on transition plans in our final rules on climate-related disclosures for listed companies (PS21/23) (as well as for asset managers and FCA-regulated asset owners (PS21/24)). And we are actively supporting the work of the UK Government's Transition Plan Taskforce (TPT). We expect to draw on the TPT's outputs and the ISSB's final standards to strengthen our disclosure expectations. We welcome the ISSB's participation on the TPT and hope that the TPT's outputs will influence international reporting standards in this area.

There are also important additions under the 'Metrics & Targets' pillar. In addition to the inclusion of Appendix B, which integrates industry-based content from the Value Reporting Foundation (VRF) (Sustainability Accounting Standards Board (SASB) Standards) (see below), there is a general expectation that an entity "shall identify metrics that apply to its activities in line with its business model and in relation to specific sustainability-related risks or opportunities". And under the draft Climate-related Requirements, the ISSB includes a requirement for preparers to disclose Scope 3 emissions, which goes beyond the 'strong encouragement' in the TCFD's recommendations. We welcome these additions.

We agree that Scope 3 emissions are important for investors' assessment of a company's enterprise value. In many cases these are where the highest emissions occur, and where material risks and/or opportunities may arise.

We do acknowledge that companies may face challenges in relation to data availability and methodologies. However, we agree with the ISSB's observation that both the incidence and quality of Scope 3 disclosures are already increasing. We have seen this domestically in our initial analysis of the first disclosures against our TCFD-aligned Listing Rule. A mandatory disclosure requirement will support further developments. We also note the helpful acknowledgement in the proposed General Requirements that the "use of reasonable estimates is an essential part of preparing sustainability-related metrics". The proposal explicitly states that this "does not undermine the usefulness of the information if the estimates are accurately described and explained".

Matters for consideration

While we strongly support the ambition in the Exposure Drafts, we recognise that the technical readiness of preparers varies by the size of organisation, their industry, and their jurisdiction. We therefore encourage the ISSB to consider potential opportunities to assist broad-based, inclusive, consistent and timely adoption of the global baseline, including by:

- providing for limited flexibilities
- developing additional implementation guidance and worked examples to support preparers' readiness and to help promote consistency

A good example of this is disclosure of Scope 3 emissions. Many preparers may not yet have the capability, past experience or data from their value chain relationships to be able to effectively report on their Scope 3 emissions. For this reason, we believe that some limited flexibility could be considered for this element.

One option to achieve this may be to consider a time-bounded 'comply or explain' provision for this element of the proposal. This could potentially be targeted at certain preparer types or those for whom it may objectively not be 'practicable' to meet the requirements (eg, based on the size of the company).

There is precedent within the draft Climate-related Requirements, which specifies that "an entity be required to use climate-related scenario analysis to assess its climate resilience *unless it is unable to do so* [emphasis added]", going on to say that "[i]f an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience." It may also be helpful to explicitly emphasise that it is acceptable to use "reasonable estimates" (§79 in the draft General Requirements).

Limited and time-bounded flexibility would recognise the importance of Scope 3 disclosures, while also allowing more time for data and methodologies to improve. This would not dilute the ambition of the standards, nor undermine the ultimate objectives of comparability and international consistency.

(iii) Incorporation of investor-focussed, industry-based content

With the VRF to be consolidated into the IFRS Foundation with effect from 1 August, the ISSB has committed to "embed the industry-based approach used by the SASB into its standard-setting process". This approach identifies disclosure topics that are most likely to be material to enterprise value creation in each of 77 industry sectors.

An industry-based approach to setting sustainability-related reporting requirements is highly valued by investors, who often compare and benchmark companies within a given sector of focus. We have heard this view repeatedly in our own engagement with investors. This view also aligns with IOSCO's findings in its 2021 report on issuers' sustainability-related disclosures. And it was reiterated by a group of international investors, representing more than US$53 trillion in assets, in a letter of support for the incorporation of the SASB Standards in the ISSB's proposals.

In its proposals, the ISSB incorporates industry-based content drawn from SASB Standards in two main ways:

- First, the draft General Requirements sets the expectation that "[t]o identify sustainability-related risks and opportunities and to disclose information about them, entities are directed to consider sources that include the disclosure topics in the industry-based… [SASB] Standards…, the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies."
- Second, the climate-related industry-based content from the SASB Standards has been extracted, internationalised and included in Appendix B to the draft Climate-related Requirements. This content runs to some 600 pages, and comprises separate volumes for each of the industries in which the SASB Standards include climate-related disclosure topics and metrics. Preparers are required to identify and disclose in accordance with the requirements applicable to their business model and associated activities.

The inclusion of industry-based content from SASB Standards is consistent with our own signal to listed issuers in PS21/23 to consider this content. In PS21/23, we "encourage listed companies to consider the SASB metrics for their sector when making their disclosures against the TCFD's recommendations, as appropriate" and also suggest that "listed companies may also wish to consider the SASB metrics for other sustainability topics when making wider sustainability-related financial disclosures".

Matters for consideration

We remain strongly supportive of the incorporation of industry-based content drawn from SASB Standards in the ISSB's Exposure Drafts. As noted, we recognise that an industry-based approach is highly valued by investors.

We are supportive of the reference under §51 of the General Requirements to consider other sources to support the disclosure of material information which is not addressed by an ISSB standard. This helpfully guides entities to relevant sources and helps to promote consistency and comparability in the information that is disclosed. As noted, this is consistent with our own encouragement to listed companies in PS21/23.

However, we recognise that the extensive and somewhat open-ended nature of the third-party content that preparers would be required to consider could pose challenges from a cost-benefit standpoint. Audit and assurance providers may similarly face challenges in verifying that such consideration has adequately taken place.

In light of these observations, we encourage the ISSB to consider alternative, proportionate options to encourage preparers to consider this rich body of third-party content.

Similar to our observations on 'limited flexibilities' and 'scaling and phasing' above, we also note that to include Appendix B as an integral component of the Climate-related Requirements for all preparers from the outset could be challenging, especially for smaller companies and those in jurisdictions that have less familiarity with sustainability-related reporting. Regulators may also face challenges in integrating the industry-based content within pre-existing legal and regulatory frameworks. Accordingly, there is a risk that this discourages timely and broad-based adoption of the baseline in some jurisdictions.

The ISSB may therefore wish to consider a phased approach to including the industry-based content. For instance, the ISSB could consider providing flexibility for those companies or jurisdictions that are not yet ready to implement the standards as an integral component of the Climate-related Requirements, to implement in the first instance as non-binding guidance. This would enable those companies and jurisdictions to focus on the core content of the standards initially.

As companies around the world become more familiar with reporting on sustainability matters, and good practice examples of reporting begin to emerge, we would expect market discipline to help drive uptake of the industry-based content – even before this was formally adopted.

We also note the following:

- While we recognise that the SASB Standards have undergone a governance and review process, it will be important that the ISSB satisfies itself that a rigorous IFRS Foundation due process has been completed before this content can be considered part of the ISSB’s global baseline.
- Given the large volume – and the novelty – of the industry-based content, the ISSB may wish to pursue a targeted programme of outreach across industries and jurisdictions, and provide indicative examples, educational materials and guidance.

6. Closing messages

Having reviewed the detail, we are strongly supportive of the ISSB’s proposals for the General Requirements and the Climate-related Requirements. We remain committed to consulting on implementing the ISSB’s standards in our rules, once adopted for use in the UK, and subject to the usual cost-benefit analysis.

The matters for consideration by the ISSB that we have identified are aimed at maximising the take-up of the baseline standards internationally. This recognises that individual jurisdictions are at different stages of their journey and many may be constrained by their domestic legal and regulatory frameworks.

Widespread adoption of the global baseline is critical to achieving the aim of promoting consistent, comparable and reliable investor-focussed information on climate- and sustainability-related matters. We believe that with further clarifications and guidance, and consideration of proportionality, scaling and phasing, potential implementation challenges can be mitigated. This will in turn help to achieve our own target outcome for high-quality climate- and wider sustainability-related disclosures to support accurate market pricing.

We will continue to engage closely with the ISSB – both through IOSCO and individually as the FCA – on these and other matters that may be identified in stakeholders’ responses to the consultation. We remain committed to playing our role in influencing and promoting a global baseline of sustainability-related reporting standards that meet the needs of capital markets and serve the public interest.