

## **IRSG response to the FCA consultation on aligning listed issuers' sustainability disclosures with international standards.**

The International Regulatory Strategy Group (IRSG) is a joint venture between the City of London Corporation and TheCityUK. Its remit is to provide a cross-sectoral voice to shape the development of a globally coherent regulatory framework that will facilitate open and competitive cross-border financial services. It is comprised of practitioners from the UK-based financial and related professional services industry who provide policy expertise and thought leadership across a broad range of regulatory issues.

This submission builds on the IRSG's March 2025 report, [Harmonising Sustainability Disclosures: A Roadmap for the Adoption of ISSB Standards](#) (with Clifford Chance) (hereinafter "IRSG ISSB Report"), as well as previous IRSG consultation responses submitted to the UK Government on exposure drafts for UK Sustainability Reporting Standards (UK SRS) and on Transition Plan Requirements.

### **Key messages:**

- The majority of IRSG members support the proposed scope of the FCA rules and consider it appropriate to maintain consistency by focusing on companies that are already subject to TCFD requirements. Some members would favour aligning the scope with international approaches, such as those in the EU, and for the application of the rules to be proportionate to company size.
- The IRSG is fully supportive of jurisdictions aligning local sustainability reporting frameworks with the ISSB standards.
- The majority of IRSG members support applying UK SRS S2 on a mandatory basis, provided listed companies are given sufficient time to familiarise themselves with the new disclosure standards. Some members instead favour a phased implementation based on company size.
- The IRSG would like to ensure that there is a level playing field between listed and non-listed companies. Without clarity on UK SRS for non-listed companies, some members believe mandatory rules for listed firms risk creating an uneven playing field.
- The IRSG supports a 'comply or explain' approach for scope 3 emissions, while stating that the requirement to "explain" should be accompanied by clear guidance to ensure meaningful and decision-useful disclosures.
- The majority of IRSG supports a 'comply or explain' approach to UK SRS S1 non-climate reporting requirements, recognising that it is proportionate. While a minority favour a voluntary approach.

- The IRSG supports the option 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, reinforcing the IRSG's majority position in the previous government consultation on transition plan requirements.
- The FCA's approach to transition plans should align with government policy and the global landscape, avoiding divergence that could disadvantage UK-listed firms or create uneven treatment between UK listed and non-listed companies.
- The IRSG supports the proposal for transparency where third-party assurance over sustainability disclosures has been obtained on a voluntary basis. We do not think it is appropriate to impose mandatory assurance requirements for sustainability disclosures at this time.
- The IRSG recognises the benefits of digital tagging, however, the market is not ready for the digitalisation of sustainability reports to be mandated at this stage.

## Responses:

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

The majority of IRSG members support the proposed scope of the FCA's rules. They consider it important, at this early stage of climate and sustainability reporting, to maintain consistency by focusing on listed companies already subject to TCFD-aligned requirements. These companies typically have established processes for climate disclosures, which should support a smoother transition to the UK SRS.

Some members consider that alternative, size-based scope definitions, similar to Singapore's staged reporting or the EU's voluntary framework for listed SMEs, may reduce competitive distortion. To address this, these members recommend that the FCA monitor international developments and, if needed, introduce a proportionate size-based phase-in, ensuring UK issuers remain competitive while maintaining reporting quality.

**Question 2:** 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?

As noted in the IRSG ISSB Report, we support jurisdictions fully aligning local sustainability reporting frameworks with the ISSB standards. Accordingly, we support the replacement of the current TCFD-aligned rules and guidance with the UK SRS, which are aligned with the ISSB standards.

The introduction of the UK SRS is also an opportunity to retire or consolidate overlapping reporting requirements that currently apply to listed companies. In particular, the climate-related financial disclosures required under sections 414CA and 414CB of the Companies Act 2006, along with the Streamlined Energy and Carbon Reporting (SECR) regime, cover much of the same ground as the new UK SRS. We encourage the FCA to work with the government to remove these legacy obligations as the UK SRS takes effect, so that listed companies face a single, coherent framework rather than an additional reporting layer.

**Question 3:** 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?

The majority of IRSG members support the UK SRS S2 being applied on a mandatory basis. Mandatory UK SRS S2 reporting (aside from scope 3) will enhance comparability, as investors will know that all in-scope companies need to provide core climate information.

If the FCA proceeds with a mandatory approach, listed companies will need enough time to familiarise themselves with the new standards and reporting requirements. This is particularly important for financial institutions operating across multiple jurisdictions, as it takes time to build the data infrastructure, governance and controls needed to meet new requirements. The FCA should therefore provide a minimum preparation period between finalising the UK SRS and the first mandatory reporting date. This would support proportionality and give firms greater certainty, regardless of their previous experience with TCFD-aligned reporting.

Furthermore, regarding the requirement for quantitative disclosures of the impacts of climate-related scenario analysis, it is widely recognised that existing scenarios, data

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and methodologies do not yet adequately capture physical climate risks. Given these limitations, further FCA guidance on the presentation of quantitative results is necessary before mandatory implementation.

While most IRSG members support the proposal, some consider the immediate mandatory application of UK SRS S2 to all listed companies to be disproportionate. They would prefer a phased approach, for example based on company size, aligned with other international approaches as outlined in response to Question 1.

A level playing field between listed and non-listed companies is also important. The FCA should therefore work closely with DBT on the government's approach to applying the UK SRS to non-listed companies. Without a clear approach, mandatory requirements for listed companies could create misalignment with non-listed companies of similar size and complexity, particularly if the government decides not to introduce a mandatory regime for non-listed companies.

**Question 4:** 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?

As set out in the IRSG ISSB Report, we consider that flexibility is needed for scope 3 emissions, given the practical challenges organisations face in collating data across their value chains and in producing comprehensive and decision-useful disclosures. We note the particular difficulty with scope 3 Category 15 investment associated emissions, where methodologies for calculating these emissions remain underdeveloped globally. The IRSG therefore supports a 'comply or explain' approach to UK SRS S2 scope 3 reporting.

Moreover, the requirement to "explain" should be supported by clear guidance to ensure disclosures are meaningful and decision useful. The guidance should recognise that 'comply or explain' is a meaningful form of disclosure, and that decision-useful explanations require time and resources. The FCA could also refer to the Financial Reporting Council (FRC) UK Corporate Governance Code 2024, which provides updated guidance on 'comply or explain' reporting and should help companies use the "explain" option with greater clarity and confidence.

Some members note that alternative metrics can sometimes be used to explain the management of climate-related risks and opportunities more effectively than scope 3 emissions alone. For example, reporting on supply chain emissions (scope 3 Categories 1 and 2) often relies on industry-average emissions factors, which may not reflect lower-

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emissions procurement choices (such as selecting suppliers that are decarbonising). In such cases, metrics such as the percentage of supply chain spend with suppliers that have validated science-based targets may be more decision-useful. These members therefore encourage the FCA to confirm whether using such alternative information, and not disclosing scope 3 on that basis, would be an appropriate use of the ‘explain’ option.

**Question 5:** 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?

The IRSG considers that, where feasible, sustainability disclosures should be prepared and presented within the same reporting framework as financial statements. Moreover, we support the proposed flexibility to allow companies to meet requirements by cross-referencing to other reports, including a standalone sustainability report, where the relevant conditions are met. There is a risk that extensive sustainability disclosures could disproportionately dominate the strategic report, reducing its balance and usability. Allowing cross-referencing mitigates this by enabling issuers to present sustainability information clearly without over-burdening the strategic report.

**Question 6:** 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?

The majority of IRSG members support the application of UK SRS S1 non-climate reporting requirements on a ‘comply or explain’ basis. These members consider this approach to be proportionate and pragmatic, recognising both the current state of reporting practices and the challenges associated with the introduction of sustainability disclosure requirements beyond climate.

Outside of climate-related disclosures already covered by UK SRS S2, many UK SRS S1 requirements are not yet well developed in practice. While more general areas, such as governance, can often be demonstrated by firms, this is not consistently the case for metrics and targets where approaches and data are still evolving.

Moreover, sustainability standards beyond climate, including nature- and social-related topics, remain under development. Requiring companies to address non-climate topics with the same level of rigour as climate disclosures under UK SRS S2 would, at this stage, present significant operational challenges for firms.

Therefore, a ‘comply or explain’ approach appropriately balances the objective of improving the quality and comparability of sustainability-related disclosures with the need to allow companies sufficient time to develop the necessary processes for reporting.

Nonetheless, a minority of IRSG members would favour a voluntary approach. They consider that allowing voluntary application would better reflect differing levels of readiness of in scope listed companies for non-climate sustainability reporting.

The IRSG would like further clarification on paragraph 5.12 of the proposal which states that companies choosing to ‘explain’ rather than ‘comply’ may not be able to say they are fully compliant with the UK SRS. This could create confusion for both companies and investors about how to accurately describe their reporting status. We would welcome clearer guidance from the FCA on how companies should communicate their position when they have chosen to explain rather than comply with reporting under UK SRS S1.

**Question 7:** 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?

As stated in response to Question 5, the IRSG considers that, where feasible, sustainability disclosures should be prepared and presented within the same reporting framework as financial statements. We also support the proposed flexibility to allow companies to meet these requirements by cross-referencing to other reports, including a standalone sustainability report, where the relevant conditions are met. There are risks that sustainability disclosures outweigh wider strategic reporting content, leading to unbalanced reporting, as such allowing cross referencing can help to mitigate these risks.

**Question 8:** 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?

The majority of IRSG members support the proposal 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. This approach strikes the right balance between elevating the importance and expectations of transition planning

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by requiring companies to explain non-disclosure, while avoiding the challenges associated with mandating transition plans.

This view reflects the IRSG's response to the government's consultation on transition plan requirements. A majority of members supported an approach requiring companies to explain why they have not disclosed a transition plan (or related information), while a minority favoured phasing in mandatory transition reporting over time.

For a more comprehensive account of our views on transition plans, please refer to the [IRSG response to the DESNZ consultation on transition plan requirements](#).

Overall, the IRSG considers that a coherent domestic approach to transition plan disclosure requirements is important. The FCA's approach should be aligned with the government's approach under the UK SRS and wider policy on transition plans. The existence of parallel or divergent policies and regulatory requirements would not be desirable and could lead to different treatment of listed and non-listed firms, creating an unlevel playing field.

The FCA and UK government should also consider the challenges multinational companies face in navigating a complex set of global requirements. The FCA should ensure its final position is flexible and interoperable, so that UK listed companies are not placed at a competitive disadvantage.

**Question 9:** 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?

The IRSG agrees with this approach. The ISSB standards are intended to provide a global baseline for sustainability reporting, it is therefore appropriate for companies to be able to refer to globally developed guidance. Signposting the IFRS Educational Material would support consistent application across jurisdictions and enhance comparability.

**Question 10:** 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 support the FCA's proposals to require transparency where third-party assurance over sustainability disclosures has been obtained on a voluntary basis. Members do not think it is appropriate to impose mandatory assurance requirements for sustainability

disclosures at this time. Therefore, the voluntary approach proposed by the FCA is considered most suitable. The FCA should not make decisions about moving to mandatory assurance until the ecosystem for providing assurance and third-party data is more mature and sufficiently robust.

**Question 11:** 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.

As noted in response to Question 10, the IRSG supports the proposed approach of requiring transparency where third-party assurance over sustainability disclosures has been obtained voluntarily. Clear disclosure of whether assurance has been applied, and to what extent, can enhance the decision-usefulness of sustainability information for investors and other users, and provides important context regarding the reliability and robustness of reported data.

However, this needs to be balanced against other considerations. In particular, the sustainability assurance market remains relatively nascent, and assurance is currently the single largest cost driver for most members in relation to sustainability reporting. Against this backdrop, the IRSG does not consider it appropriate at this stage to introduce mandatory assurance requirements for sustainability disclosures. Members believe that the FCA should refrain from making decisions on a move to mandatory assurance until the wider assurance and third-party data ecosystem is more mature and sufficiently robust.

If, in future, the FCA wants to introduce mandatory assurance once the market has matured, it should do so in phases—starting with voluntary assurance and then moving to mandatory limited assurance. Mandatory reasonable assurance should remain a longer-term goal and only be considered after assessing whether voluntary or limited assurance already provides the level of confidence and credibility that companies and investors need.

**Question 12:** 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.

In developing the policy framework around assurance, there will need to be clear guidance and robust standards for assurance providers. This is important to ensure consistency, reduce unnecessary burdens on firms, and support meaningful comparability within and across sectors. In addition, where sustainability information is directly linked to financial information—for example, in cases involving restatements or where transition plan assumptions affect financial reporting—we suggest that assurance providers should have appropriate financial reporting competence.

Future policy development should also place a strong emphasis on materiality and proportionality, with the primary objective of enhancing the reliability and comparability of material disclosures, rather than creating a parallel compliance exercise. If assurance is to be mandated, this will require robust and practical assurance standards, alongside clear and usable guidance.

The EU's experience under the CSRD offers a useful cautionary lesson. Assurance has often become overly conservative and checklist-driven, reflecting prescriptive requirements and limited practical guidance for providers. This has increased costs and uncertainty and may reduce the value of disclosures for investors if assurance focuses on process compliance rather than the reliability of the most decision-relevant information.

Another lesson to be drawn from the EU's experience under CSRD is the challenges associated with moving to mandatory assurance. These included, but are not limited to, cost, lack of assurance guidelines leading to assurers overreaching, and a lack of adequate capability and capacity within the assurance industry. Considering these points, we support the proposed voluntary approach to third party assurance.

Finally, some members are increasingly concerned that the assurance burden falls disproportionately on preparers of sustainability reports, particularly given that external ESG data is not subject to equivalent assurance requirements. Given the high costs associated with validating third-party data, some members consider it would be more efficient to place greater responsibility on primary data generators and/or ESG data aggregators to assure the information they provide to reporting entities.

**Question 13:** 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?

The IRSG notes that the proposed timeline is tight, especially for the implementation of UK SRS S2, given that the final rules are expected to be published in autumn 2026, with

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mandatory application from 2027. This may present challenges for some firms in terms of implementation readiness.

Furthermore, some members encourage the FCA to take a more flexible approach based on company size. The EU's experience under the CSRD is instructive: the initial low threshold brought many companies into scope and created undue burdens. The EU later raised the threshold and removed listed SMEs from mandatory reporting, recognising that a "one size fits all" approach is not appropriate. Some members therefore urge the FCA to apply proportionality and avoid applying the same UK SRS requirements to listed companies of all sizes.

Moreover, many UK-listed preparers operate in the EU and are expected to be in scope for group-level CSRD reporting from FY2028. As the CSRD does not include a 'comply or explain' option, these firms may face higher, duplicative requirements that could reduce the value of UK SRS transitional relief. While equivalence is a matter for the UK government, we would welcome an equivalence decision for sustainability reporting requirements as it would avoid duplication and ensure proportionate global reporting.

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

The IRSG will not itself be an early adopter, as it is not subject to the reporting requirements under the proposed FCA's rules. Nonetheless in principle we encourage early voluntary adoption of new reporting requirements where possible. Early implementation can help familiarise preparers with the reporting framework and support improvements in data quality and comparability ahead of mandatory compliance dates.

However, we believe the lack of transitional reliefs for early adopters is likely to be prohibitive for many companies. In paragraph 8.11 the proposal states "where a listed company wishes to comply with the proposed new rules early, the transitional reliefs in the UK SRS would not be available". We understand this to mean that early adopters would have to disclose UK SRS S1 non-climate related matters from the start, as well as report climate related matters under UK SRS S2, including scope 3 emissions immediately. We believe this would discourage early adoption as the FCA would in effect be holding early adopters to a higher standard than those commencing reporting after 1 January 2027.

To avoid penalising early adopters, the IRSG recommends that the FCA allow early adopters to apply transitional reliefs in the same way as firms beginning reporting in 2027, with clear disclosure of any reliefs used.

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**Question 15:** Do you agree with our proposals for companies in the secondary listing category and the depositary 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?

We welcome the flexibility in this approach for secondary listing and depositary receipt categories. It would not be appropriate or proportionate to mandate that these companies disclose against the UK SRS. However, there would need to be a pragmatic implementation of this policy by the FCA, given that overseas climate and sustainability standards can vary significantly. We also welcome the requirement for issuers to disclose which standards they have chosen to adopt voluntarily, for example where they are already reporting against the ISSB standards.

**Question 16:** 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?

As mentioned in Question 10, the IRSG supports the proposals around transparency for third party assurance, where it has been obtained, including for companies in the secondary listing category and the depositary receipts category.

**Question 17:** 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?

The IRSG supports the FCA's proposal 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. We encourage removing any duplication of reporting which can be burdensome for companies.

**Question 18:** 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

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find digital tagging most useful, and how would the information be used? Please be specific in your response.

The IRSG notes the following benefits to digital tagging of sustainability information:

- Digital tagging through XBRL enables efficient, high-quality reporting, helping reporting entities maximise the value of their disclosures. For corporates investing in sustainability reporting processes, it strengthens the data lifecycle, making information more accessible and decision-useful for investors.
- Sustainability data is inherently complex, combining qualitative narratives, scenario analysis, forward-looking information and sector-specific metrics. XBRL tagging helps reduce this complexity by structuring the data in a coherent, consistent and usable way.
- XBRL digital tagging has been standard practice in financial reporting for some years, resulting in structured, machine-readable disclosures. This means corporates are starting from a strong baseline as sustainability reporting moves into a more digital, comparable format.
- Disclosures under UK SRS such as scope 1, 2, 3 climate metrics would be useful for digital tagging, enabling consistent tracking of emission performance across reporting periods.

**Question 19:** 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?

The IRSG supports the idea of digital reporting for sustainability disclosures with the report being provided in both machine-readable (XBRL) and human-readable (HTML or PDF) formats. The use of Inline XBRL (iXBRL) would allow structured data tags to be embedded directly within a document that can also be read in a standard browser.

However, the market is not ready for digital reporting (including digital tagging) of sustainability reports to be mandated at this stage. While digital reporting has the potential to deliver benefits in the future, as outlined in the Question 18, its successful implementation depends on two critical factors: (i) the adoption of digital reporting for the entire annual financial report, and (ii) the establishment or adoption of a robust digital tagging infrastructure by the UK government.

Without these two foundational elements, mandating digital reporting or tagging for sustainability reporting could impose undue costs and operational challenges for companies. It would therefore be prudent to defer the requirement for digital reporting of

sustainability reports until digital reporting of financial statements is standard practice and the government has provided clear infrastructure and guidance.

With the implementation difficulties that have become apparent in the EU in relation to digital reporting, this experience should be considered to ensure the effective implementation of any digital reporting approach.

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

No proposed response.

**Question 21:** Do you have any comments on our cost benefit analysis?

No proposed response

**Question 22:** Do you have any comments on the assumptions made in our cost benefit analysis?

We encourage the FCA to provide greater clarity on the assumptions underpinning the estimated £519.2m in benefits, particularly the methodologies employed in adjusting the underlying data to arrive at this figure.

**Question 23:** 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.

No proposed response.

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