

IRSG response to the UK Government's Consultation on the 'Endorsement of the International Sustainability Standards Board (ISSB) Standards in the UK'

The International Regulatory Strategy Group (IRSG) is a practitioner-led body comprising senior representatives from across the UK-based financial and professional services industry. It is an advisory body to both the City of London Corporation and TheCityUK. The IRSG brings together cross-sectoral expertise to develop policy positions that support the creation of a globally coherent, open, and competitive regulatory framework for financial services.

The IRSG welcomes the opportunity to respond to this consultation. This submission builds on our March 2025 report, *Harmonising Sustainability Disclosures: A Roadmap for the Adoption of ISSB Standards* (with Clifford Chance), and on member insights. It emphasises the need to minimise divergence from the global baseline, ensure clear transitional pathways, and provide preparers with the certainty and support required to deliver high-quality, decision-useful sustainability disclosures across the UK economy.

Key points

- We **support endorsement of the ISSB standards in the UK**, with minimal divergence from the global baseline and proportionate implementation.
- We **support clear transitional arrangements**, including removal of the one-year reporting delay relief, provided the climate-first approach is retained and firms are given adequate preparation time.
- We **support interoperability with other global regimes and flexibility in industry classification**, endorsing the TAC's approach over the ISSB's rigid GICS requirement.
- We **broadly support the ISSB's amendments to IFRS S2**, including clarifications and reliefs, while noting that some members view facilitated emissions disclosures as decision-useful and propose time-limited reliefs with transparency on challenges.
- We **support transparent disclosure of carbon credit use** and recommend proportionate, consistent standards to overcome barriers and enable comparability, including substituted compliance for multinationals.
- We **support timely, detailed guidance on Scope 3, transition planning, materiality, and social and climate modelling**, made available at least 12 months before reporting begins to ensure effective implementation.

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

We broadly support the UK government's four proposed amendments as a pragmatic and proportionate approach to implementing the ISSB Standards in the UK. However, we recommend a more nuanced treatment of Amendment 1 (removal of transition relief that permits disclosures made in accordance with the ISSB Standards/UK Sustainability Reporting Standards (UK SRS) to be published later than the financial statements in the first year).

While we recognise the TAC's rationale that many UK firms already report climate-related information under TCFD in their annual reports (i.e. at the same time as their financial statements), IFRS S1 and S2 represent a significant uplift in scope and capability, particularly in non-climate disclosures. In addition, the scope of UK SRS has not yet been finalised, meaning some firms with no prior TCFD experience may ultimately be in scope. For these reasons, a blanket removal of the ISSB's one-year transition relief that permits delayed reporting in the first year could create disproportionate challenges for some companies.

At the same time, we acknowledge that the UK is relatively well-prepared compared with other jurisdictions, and that FCA consultation and legislative processes are likely to mean that UK SRS implementation is at least **two years away (and, assuming that it is retained, that the government's proposed extension of the 'climate first' approach will mean that companies have an additional two years to prepare for reporting on non-climate topics)**. This provides firms with an effective "runway" for preparation, and there is merit in the UK demonstrating international leadership by aligning quickly with the ISSB.

We therefore suggest a compromise position:

- Support the government's removal of the transition relief that permits delayed reporting in the first year **provided Amendment 2 (extension of the 'climate-first' approach) is retained**, ensuring coherence and avoiding backtracking.
- To ensure that companies have sufficient time to familiarise themselves with the new disclosure standards and reporting requirements, the government should guarantee a **minimum preparation period** between finalisation of UK SRS rules (scope and requirements) and the first mandatory reporting date. This would strike a balance between leadership and proportionality, and would provide clarity for firms regardless of their TCFD experience.

We strongly support the other three amendments.

We particularly welcome:

- **Interoperability:** Ensuring consistency with other global regimes to reduce fragmentation and reporting burden.

- **Proportionate implementation:** Allowing companies flexibility and avoiding duplication.
- **Clear transitional arrangements:** Providing clarity and predictability for preparers.
- **Flexibility on industry classification:** Supporting the option to use alternatives to the GICS taxonomy is important, given not all entities use this classification. We endorse the TAC's approach over the ISSB's proposed hierarchy, which is more rigid and may be less practical for UK firms.

In particular, the requirement to align sustainability reporting with financial reporting from the outset is a sensible departure from the ISSB's transitional relief. Most UK companies are already accustomed to publishing climate disclosures alongside financial statements under TCFD or similar frameworks, and requiring alignment from year one ensures coherence and avoids backtracking on current practices.

We also encourage relevant regulators to adopt supervisory strategies that focus on capacity-building during initial implementation phases and an enforcement approach similar to the UK's phased model for TCFD-aligned disclosures. Finally, we suggest introducing equivalence or substituted compliance for multinational entities to avoid duplicative reporting under multiple frameworks (e.g., ISSB and ESRS).

2. Do you agree or disagree that using balance sheet data from a previous period to calculate financed emissions results in decision-useful information, and what additional guidance might be useful?

We agree. For many financial institutions, financed emissions data is not immediately available at the close of a reporting period. Using historical balance sheet data is therefore often the only practicable solution and can yield decision-useful information if applied transparently.

We recommend that any guidance issued should stress the importance of disclosing the basis and assumptions used, including the time period of data, and encourage consistency across reporting periods. This would help support investor understanding and ensure a smoother transition to more real-time data availability in future. Additionally, the most important aspect is when data is accompanied by a trend analysis, which allows investors to understand changes in emissions reporting from one year to the next. This contextualisation enhances the decision-usefulness of the data and supports more informed assessments of progress and risk.

3. For entities subject to financed emissions disclosure requirements, what is the impact of revising comparative data and what guidance might be helpful?

We agree with the statement that revising comparative data, where feasible, enhances consistency and comparability of financed emissions disclosures. However, companies should not be subject to a requirement that leads to constant restatements due to immaterial changes.

If comparative data were to be revised annually to reflect updated client information, this would effectively result in a rolling revision process. Over time, comparative and current year emissions would converge, as both would be based on the same underlying emissions data, applied with a one-year lag.

The only remaining driver of change between years would be shifts in the reporting entity's share of exposure to those clients (i.e. changes in portfolio composition or lending volumes), rather than changes in the emissions data itself. Such a practice risks diluting the significance of formal restatements, which are generally reserved for factual errors or omissions of data.

We support the development of pragmatic guidance to help preparers judge when restatements are warranted. As the standards already embed a materiality threshold, guidance should reinforce that restatements are only necessary when this threshold is exceeded. For example, a 5% benchmark could serve as a practical reference point, helping to clarify expectations while minimising unnecessary compliance burdens. Clear guidance should also confirm that a one-year time lag is permissible for financed emissions disclosures, as this would significantly reduce back-and-forth with assurance providers and mitigate uncertainty around data availability.

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

We support the TAC's recommendations in full. The emphasis on international interoperability, a phased and proportionate approach to implementation, and the proposal for legal safe harbours is aligned with our own recommendations to policymakers globally.

We also support the extension of certain transition reliefs as suggested by the TAC. While encouraging progress on data collection and reporting is important, it is equally critical that relief periods function as intended—providing preparers with the necessary time to build capacity, especially for non-climate sustainability topics where data and reporting processes are still at a very early stage. Preparers should be encouraged, but not required, to share available data and their plans for improving data quality over time.

The removal of the explicit effective date of January 2024 onwards is clearly necessary. However, the omission of any effective date introduces uncertainty for businesses in planning for compliance. While the amendment notes that “the timetable for applying the standards depended on subsequent rules or regulations put in place by government or the FCA,” it would be ideal for some indication of an effective date to be proposed, even if subject to change.

To sum up, the TAC's practical and principles-based recommendations strike a suitable balance between ambition and deliverability, and we commend the Committee for its work.

5. Do you agree or disagree that ‘shall’ should be amended to ‘may’ in the reference to SASB materials? Please explain.

Most members agree. Amending ‘shall’ to ‘may’ allows preparers discretion in determining whether and how to use SASB materials, acknowledging that these may not always be relevant or up to date.

Given that SASB standards are still undergoing internationalisation, it is appropriate that preparers are not mandated to apply them. This change supports more proportionate, context-sensitive reporting while retaining the option to use SASB metrics where appropriate.

We would recommend that all references to SASB be amended from “shall” to “may” to ensure consistency. Notably, the draft standards still include “shall” in paragraph S2 B65(d), which should be updated accordingly.

6. Do you agree or disagree with the proposal to link the use of transitional reliefs to the date that reporting requirements come into force?

We agree. Linking transition relief to the effective date of mandatory requirements allows for orderly implementation and does not discourage early voluntary adoption which may be helpful to allow preparers to familiarise themselves with the reporting requirements and improve their disclosures over time. It supports phased adoption and enhances the quality of initial disclosures.

7. What are your views on disclosing the purchase and use of carbon credits, barriers to doing so, and any additional disclosures that might be useful?

We support the disclosure of the purchase and use of carbon credits. Transparent reporting in this area helps investors understand the role of carbon credits in a company’s net zero strategy and allows for fairer comparisons between companies. It also contributes to market integrity and supports the scaling of voluntary carbon markets by providing legitimacy and demand signalling.

Barriers to disclosure include inconsistent classification and valuation of credits, limited market transparency, and the associated costs of data collection and verification. While basic information should be available, comparability is undermined in the absence of a clear and consistent disclosure standard. Reputational concerns and uncertainty around regulatory expectations may also deter companies from disclosing.

We note that the UK government has separately consulted on the implementation of its principles for voluntary carbon and nature market integrity. Disclosure of the purchase and use of carbon credits would be consistent with principle 3 as set out in that consultation, which goes

somewhat further by proposing to update the ERG by reflecting the disclosure elements set out in the VCMI Claims Code of Practice.

We also support the introduction of equivalence or substituted compliance for multinational entities to avoid duplicative reporting. This would help streamline disclosure obligations across jurisdictions while maintaining transparency and comparability.

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

We broadly support the ISSB's proposed amendments to IFRS S2. Enhancing Scope 3 disclosures, particularly Category 15 (financed emissions), and clarifying treatment of insurance and derivative exposures are sensible and reflect market realities. The proposed reliefs, such as excluding derivatives, insurance associated emissions, and facilitated emissions, acknowledge the operational complexity and limited usefulness of some disclosures. While the majority of members, as noted above, support the proposed reliefs, others stressed that information on facilitated emissions, in particular, remains highly decision useful. Such disclosures can help investors understand the direct risk to their portfolios and, in some instances, systemic market-wide risks (e.g. within the banking sector). For investors, it is important to understand both the company-level and system-level impact of these activities. Some members propose that where preparers make use of the reliefs, they should be required to explain the challenges they face in providing disclosures and why information cannot currently be reported; and indicate when they expect to be able to move towards fuller disclosure, recognising the need for a time-limited relief.

Most members do not support the proposal to disclose information about the magnitude of derivatives and excluded financial activities. Such disclosures may introduce unnecessary complexity without delivering meaningful insights for users of the information.

Most members also support excluding derivatives due to double counting risks and a lack of methodology, but encourage the ISSB to clarify what constitutes a derivative to avoid inconsistent application.

Most members expressed support for allowing greater flexibility in the use of GICS, along with the other proposed changes regarding jurisdictional relief from applying the GHG Protocol Corporate Standard and the use of jurisdictional relief for global warming potential (GWP) values. Members emphasised that entities should have the ability to choose the classification system that best fits their organisation, rather than being mandated to use GICS. This approach helps ensure that disclosures remain meaningful and aligned with how firms structure and report their operations.

Nonetheless, a minority of members noted that, as a global baseline standard, the ISSB seeks to promote consistent application of industry classification systems. From this standpoint, amendments to ISSB standards that could reduce global consistency should be avoided.

9. Do you have any other comments on the UK government's two amendments based on the PIC's conclusions?

We support the UK government's proposed amendments in this area, notably:

- **The introduction of safe harbours** to protect directors acting in good faith from liability for forward-looking sustainability disclosures; and
- **The establishment of a clear and predictable regulatory timetable**, which will provide businesses with certainty and confidence in planning their implementation.

These measures will be essential in enabling preparers to report meaningful and decision-useful information without excessive fear of litigation.

10. Do you agree that the UK government should endorse the ISSB standards subject to the amendments described?

Yes, we support endorsement of the ISSB standards, subject to the amendments proposed by the UK government. No further amendments are necessary at this time.

We also recommend the UK continues to advocate internationally for minimal jurisdictional divergence to ensure global interoperability. The UK should champion consistent implementation worldwide to support comparability and reduce fragmentation.

Some members also recommend that the UK SRS framework require sustainability disclosures to be 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 in a document that can also be read in a standard browser. This approach would build on the UK's existing digital reporting infrastructure for financial statements, support efficient data use by investors, regulators and other stakeholders, and align with international developments such as the EU's European Single Electronic Format (ESEF) requirements. It would also be consistent with the UK government's broader National AI Strategy, which emphasises the importance of high-quality, accessible datasets as a foundation for innovation.

11. Explain the direct and indirect benefits you expect from the use of UK SRS S1 and S2.

Direct benefits from the use of UK SRS S1 and S2 include enhanced consistency, credibility, and comparability of sustainability disclosures, which will improve investor decision-making and

capital allocation. We would also stress that the standards promote connectivity between the front end of the Annual Report and the financial statements, which is important to investors as it ensures that any current or anticipated financial effects of sustainability-related risks or opportunities are reflected not only in narrative disclosures but also in a company's financial position.

Indirectly, the standards are expected to strengthen the UK's leadership in sustainable finance and encourage earlier and more effective integration of ESG risks into corporate governance. Over time, this could contribute to reducing capital costs and enhancing the UK's attractiveness as a listing jurisdiction. By establishing a global baseline that goes beyond current UK reporting requirements, the standards will help to future-proof the market and support long-term resilience and competitiveness.

12. Explain the direct and indirect costs you expect from using UK SRS S1 and S2.

Direct costs include data collection, system upgrades, internal controls, and training. Indirect costs may include the temporary increase in administrative burden during transition and the need to align legacy processes.

Resource and assurance costs are also expected, as organisations will need to allocate skilled personnel and potentially engage third-party assurance providers to support implementation and maintain compliance. Over time, we foresee that costs would need to be allocated to assurance requirements as well.

However, these costs can be effectively mitigated through phased implementation, proportionate regulation for smaller entities, and the availability of transitional reliefs. The long-term efficiency gains from streamlining reporting are expected to outweigh these upfront costs.

13. What are your views on the merits of economically significant private companies reporting against UK SRS?

We believe there is a strong case for requiring economically significant private companies to report against UK SRS. This would enhance transparency and accountability, and help create a more level playing field between listed and economically significant non-listed entities. It would also support investor confidence and improve the comparability of sustainability information across the market.

While this brings added costs—particularly in integrating reporting into governance structures—these should be proportionate and designed with flexibility. This is especially important for subsidiaries of large groups and companies already reporting under other regimes, where duplication should be avoided.

We also note that requiring economically significant private companies to adopt UK SRS would align the UK's approach with other jurisdictions such as Singapore, Hong Kong, and several African markets, where public accountability entities (PAEs), including non-listed companies, are in scope for climate disclosure requirements. This consistency would deliver significant benefits in terms of data availability—particularly around carbon emissions, risk assessments, and opportunity analysis—and foster the integration of climate risk assessment throughout the financial value chain. This includes Scope 3 emissions reporting across Categories 1–14 for non-financial entities and Categories 1–15 for financial entities.

14. For non-listed entities, what are your views on readiness to report, particularly under UK SRS S1?

We recommend that non-listed entities currently making disclosures under the Climate-related Financial Disclosure (CFD) framework be granted additional time to prepare for reporting against the non-climate aspects of UK SRS S1. In line with the phased approach adopted for TCFD disclosures, we suggest that these requirements be introduced initially for listed companies. Non-listed entities are likely to require new resources, including sustainability professionals, enhanced data collection processes, and upgraded IT systems, to meet the demands of non-climate disclosures under UK SRS S1. A staggered implementation would support a more effective and proportionate transition.

15. What opportunities exist to simplify or rationalise UK climate-related disclosure requirements if private companies report under UK SRS?

We believe there is significant opportunity to simplify and streamline existing UK climate-related disclosure requirements, including emissions reporting, if economically significant private companies are required to disclose against UK SRS.

Alignment with UK SRS could reduce duplication and administrative burden by consolidating multiple frameworks. In particular, we anticipate that climate-related disclosures under UK SRS would replace existing requirements under the Streamlined Energy and Carbon Reporting (SECR) regime and the climate-related financial disclosures currently required under TCFD-aligned regulations.

We understand that this issue is being considered by the UK government as part of its broader Future of Corporate Reporting initiative and its review of non-financial reporting more generally. In relation to non-climate topics, UK SRS disclosures could also rationalise elements of the strategic report and the non-financial and sustainability information statement — for example, disclosures relating to employees, social matters, respect for human rights, and anti-corruption and anti-bribery.

To avoid duplication, we suggest that the strategic report contain higher-level narrative, while more granular disclosures are housed within a dedicated sustainability statement. This would ensure clarity for users while reducing overlap and complexity for preparers.

16. Which other sustainability disclosure frameworks does your organisation report against, and how does this affect your assessment of UK SRS?

Many organisations already report under frameworks such as TCFD, CDP, and CSRD. Where alignment with these frameworks exists, the marginal cost of adopting UK SRS will be reduced. To minimise unnecessary duplication, the UK SRS should remain interoperable and aligned with global standards, including the ISSB baseline and (where applicable) ESRS.

17. What support from government or regulators might be useful for SMEs?

Practical support will be essential to enable SMEs to meet sustainability disclosure expectations in a proportionate and effective manner. We recommend that the government and regulators provide clear, accessible guidance — including standardised templates, illustrative reporting examples, and a materiality framework — to help SMEs understand what is expected and how to prioritise relevant disclosures.

A safe harbour regime for early adopters would offer legal reassurance and encourage voluntary participation without fear of liability. Alternatively, exemptions from mandatory reporting could be considered, with voluntary reporting encouraged through supportive guidance. These measures would help reduce compliance costs while promoting high-quality, decision-useful disclosures.

We also see value in leveraging and expanding existing support from industry bodies and professional services. Government efforts should aim to complement, rather than duplicate, the resources already available in the market. Authorities should actively signpost these resources to ensure SMEs can access high-quality guidance efficiently.

We encourage the government to consider the EU’s approach, particularly the development of voluntary SME reporting standards and the limitation of information that can be requested from SMEs, as a useful reference point for designing a proportionate UK regime.

18. What are the legal implications of using UK SRS and what is your assessment of section 463 of the Companies Act?

We consider that the legal implications of disclosing in accordance with UK SRS can be appropriately managed within the existing legal framework. Section 463 of the Companies Act 2006 — which limits liability for statements in the strategic report and directors’ report to those

made negligently, knowingly false, or dishonest — provides a reasonable and proportionate safeguard for directors.

It would, however, be helpful for the government or regulators to clarify that the protections under Section 463 apply equally to UK SRS disclosures, whether these are included within the strategic report or presented in a separate sustainability statement within the annual report. This clarification would reinforce confidence among preparers and directors, particularly as the structure and location of sustainability disclosures evolve.

Our view is that the Section 463 safe harbour strikes the right balance between protecting directors from undue liability and encouraging open, transparent, and decision-useful disclosures for investors. For a more detailed legal analysis, we refer to the ClientEarth legal opinion on potential liability for climate-related transition plan disclosures, which we believe is equally applicable to broader sustainability disclosures under UK SRS.

19. Do you have any other comments on the potential costs and benefits of UK SRS for any stakeholders?

The IRSG recognises the importance of managing the burden on SMEs in the value chain while ensuring that the broader ecosystem is not excluded from the sustainability reporting framework. We support limiting the scope of the UK SRS to large companies during the early years of adoption to help build capacity and foster the development of the ecosystem.

However, it is essential that larger companies retain the flexibility to engage with smaller suppliers to encourage voluntary disclosures, such as basic emissions data under SECR, where such requests are reasonable and aligned with the company's materiality assessment. This approach should be driven by demand pull rather than regulatory push.

To protect smaller companies, we recommend that safeguards be incorporated into guidance for larger issuers. These could include discouraging expectations of 100% value chain coverage, particularly in the first five years, and providing explicit caveats for instances where data may not be obtainable.

We caution against the introduction of a regulated value chain cap, as this could impose additional liability on companies within the scope of the ISSB standards and hinder the development of a competitive market for sustainability disclosures among SMEs. For example, nature is a material risk for many investors, and large cap investee companies may seek to adopt the TNFD risk management and reporting framework. A value chain cap could significantly restrict these companies' ability to request voluntary data from smaller suppliers, thereby undermining effective risk management. It is also important that SMEs retain the right to decline data provision where collection is not feasible.

An inclusive approach for SMEs is also vital to ensure they can continue to access funding and investment as financial institutions decarbonise their portfolios. A one-size-fits-all framework risks being burdensome and ineffective; encouraging trade bodies to develop sector-specific best practices would better support genuine improvements while reducing the burden on individual businesses.

20. What are your views on the quality and availability of existing guidance, and what further guidance would be helpful?

Further guidance is needed in several key areas to support effective implementation of the UK SRS. In particular, additional clarity is required on Scope 3 emissions, including how to define boundaries and apply estimation methods. Transition planning would also benefit from clearer definitions and examples of best practices. Materiality assessment remains a complex area, and guidance should address the application of both single and double materiality approaches. Moreover, aligning the UK SRS with existing UK disclosure frameworks will be essential to avoid duplication and confusion.

We recommend that all such guidance be made available at least 12 months in advance of any reporting requirements coming into force, to ensure that preparers have sufficient time to understand and apply the standards effectively.

Finally, the integration of social and climate risks should be explored further. Additional guidance on modelling expectations would be helpful, particularly in relation to climate impacts on society—such as health and demographic changes—and how insurers and other entities should consider these effects in their disclosures.