MSCI

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UK Sustainability Disclosure TAC Secretariat
Financial Reporting Council (FRC)
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Submitted via email: UKSustainabilityTAC@frc.org.uk

UK endorsement of IFRS S1 and IFRS S2: Call for evidence

MSCI ESG Research[1] ("MSCI") welcomes the call for evidence by the UK Sustainability Disclosure Technical Advisory Committee ("TAC") to help inform the proposed endorsement of the IFRS S1 and IFRS S2 standards (the "ISSB Standards") in the UK. We are a leading provider of ESG and climate data to the world's largest financial institutions and have collected climate and ESG related disclosures from thousands of companies globally for over two decades.

With the growing importance of climate, sustainability and wider ESG risks, the reporting of good quality and standardised information by companies is more necessary now than ever. As a user of this information, we believe that such data is critical in allowing investors to better assess how a wide range of sustainability factors may affect a company's performance now and in the future.
We have included some more detailed observations in the Annex.

We hope our feedback is helpful for the TAC in developing its recommendations on how to implement the ISSB Standards in the UK. We welcome further engagement on this over the coming months.

Yours sincerely,

s/
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1 MSCI ESG Ratings, research and data are produced by MSCI ESG Research LLC. MSCI ESG Research (UK) Limited is a subsidiary of MSCI ESG Research LLC.

ANNEX

1. Overall views on the standards

1.1. We are encouraged by the UK's early support for the ISSB Standards, and the commitments that have already been made that they will form a core building block of the UK's future sustainability reporting regime. Timely and consistent implementation of the ISSB Standards will be key in determining their success.

1.2. We are aware that there are multiple efforts already being undertaken in the UK, in varying stages of development, looking to introduce new ISSB-aligned reporting or disclosure rules. This includes the UK Sustainability Disclosure Standards (UK SDS), the proposed Sustainability Disclosure Requirements (SDR) framework currently being proposed by the Financial Conduct Authority ("FCA") and the framework recently published by the UK Transition Plan Taskforce ("TPT").

1.3. We would encourage all UK regulators, policy makers and standard-setting bodies to ensure consistency when it comes to ISSB-aligned reporting expectations for UK firms. This will not only reduce the reporting burden for companies, but also ensure the disclosure of consistent, comparable and decision-useful information for investors and other users of the data.

2. Identifying sustainability-related risks and opportunities

2.1. Disclosure of forward-looking information and metrics by companies will help investors and users assess the extent to which a company's strategy or performance is aligned with international and UK climate goals. This includes the setting of science-based climate or emissions targets which include the granular detail needed to make them robust and comprehensive.

2.2. Assessing whether companies can achieve their climate targets is a critical input for investors aiming to decarbonize investment portfolios and reduce real-economy GHG emissions. Investors need to have access to detailed and credible information on a company's climate targets and ambitions. According to recent MSCI research, while 40% of companies have set climate targets, only 15% of those targets are based on science-based commitments and had the necessary transparency needed by investors.[2]

2.3. A growing number of companies are introducing and implementing sustainability-related transition plans such as those around net-zero. However, there is a need to

[2] MSCI ESG Research, Assessing Science Based Corporate Climate Target Setting, June 2023. Number of companies based on MSCI ACWI Investible Market Index.

have standardised reporting for transition plans and targets to help investors compare across companies. The launch of the UK's Transition Plan Taskforce's framework will help, and this should be brought into the UK's implementation of the ISSB Standards.

3. Application of materiality

3.1. Materiality assessments should not lead to non-disclosure of critical information by companies. The UK's sustainability reporting regime should not permit companies to make a blanket assessment of non-materiality to an entire section of the disclosure requirements contained in the ISSB Standards.

4. Timing and location

4.1. Sustainability information published by companies should be easy to locate, ideally all in one place or report. This makes it easier for users and investors to access and interpret the information they need.

5. Industry-based requirements

5.1. Industry-specific information and metrics are helpful in assessing relative performance of companies within their sector or peer-set. These industry-specific metrics should be well-defined, based on international best-practice such as the SASB standards and result in consistent and comparable disclosure of sustainability information.

5.2. Financial institutions and investment firms have an important role to play in supporting the transition to a more sustainability economy. Disclosing climate-related and sustainability information on their investments and financing activities can help guide them on this journey.

5.3. Industry-based metrics for financial institutions should include the following:

- Portfolio alignment metrics, such as Implied Temperature Rise.
- Financed emissions, as this forms a large part of the carbon footprint of financial institutions. The Partnership for Carbon Accounting Financials ("PCAF")[3] has developed a transparent and consistent methodology to report the financed emissions of investment portfolios.
- Climate value-at-risk metrics, which quantify the financial exposure of the entities from physical and transition risks.

3 The Global GHG Accounting and Reporting Standard for the Financial Industry (carbonaccountingfinancials.com)

6. Cross-industry metrics

6.1. To help support their decision-making around capital allocation, investors and other financial institutions require access to consistent and comparable data. This is best achieved through the disclosure of quantitative information, which supports and enhances the more qualitative narrative reporting found in company reports.

6.2. The requirement on cross-industry metrics should include the company's full carbon footprint and a detailed breakdown of its Scope 3 GHG emissions including all 15 categories listed by the GHG Protocol. Investors seeking to measure their exposure to Scope 3 emissions face a big challenge of scarce and inconsistent disclosed data. The disclosure of GHG emissions will help narrow the reporting and information gap that currently exists.

7. Application of the requirements

7.1. The ISSB is expected to draft and finalise more sustainability reporting standards in the coming years beyond the climate-related disclosures (IFRS S2). This will include new standards on topics such as biodiversity, human rights, human capital and more. Therefore, it is critical that the UK's sustainability reporting regime remains flexible enough to integrate these future developments to ensure the UK remains in line with global best practice.