



IFOA RESPONSE TO FCA CP26/5

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 34,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers. Actuaries are big-picture thinkers who use mathematical and risk analysis, behavioural insight and business acumen to draw insight from complexity. Our rigorous approach and expertise help the organisations, communities and governments we work with to make better-informed decisions. In an increasingly uncertain world, it allows them to act in a way that makes sense of the present and plans for the future.

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the FCA consultation paper CP26/5 on aligning listed issuers' sustainability disclosures with international standards. This response is prepared by the IFoA Sustainability Board. It is written in the public interest.

The IFoA agrees with the FCA's proposals to align listed issuers' sustainability disclosures with ISSB standards. We encourage that

- proportionate expectations are rolled out across the full economy in the long term
- a clear bar is set for an explanation if Scope 3 emissions are not disclosed, and with a planned pathway to disclosure of material Scope 3 emissions
- We would strongly encourage the FCA to develop its approach further towards mandatory third-party assurance
- We would encourage a longer-term strategic review of the usefulness of all of these disclosures and the information requested within to inform policyholders

Actuaries have a crucial role to play in promoting the understanding and integration of climate risks and opportunities within decision-making, and in making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. By evaluating systemic sustainability impacts on the financial systems, actuaries are involved in assessing how sustainability topics and the transition to net zero may impact on our assessment of future liabilities and the adequacy of returns to meet these future liabilities.

Beijing	Room 512 · 5/F Block A · Landgentbldg Center · No. 20 East Middle 3rd Ring Road · Chaoyang District Beijing · 100022 · People's Republic of China	Tel: + 86 10 5878 3008
Edinburgh	Space · 1 Lochrin Square · 92-94 Fountainbridge · Edinburgh · EH3 9QA	Tel: +44 (0) 7632 2100
London (registered office)	1-3 Staple Inn Hall · High Holborn · London · WC1V 7QJ	Tel: +44 (0) 7632 2100
Malaysia	Arcc Spaces · Level 30 · Vancouver suite · The Gardens North Tower · Lingkaran Syed Putra · 59200 Kuala Lumpur	Tel: +60 12 591 3032
Oxford	Belsyre Court · 1st Floor · 57 Woodstock Road · Oxford · OX2 6HJ	Tel: +44 (0) 7632 2100
Singapore	Pacific Tech Centre · 1 Jln Kilang Timor · #06-01 · Singapore 159303	Tel: +65 8778 1784

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

We agree the scope is appropriate for now but recommend that proportionate expectations are rolled out across the full economy in the long term. To ensure a comparable level playing field, expectations should eventually be extended to SMEs and other exempted companies, whilst recognising that there should not be undue reporting burden. SMEs are still a significant part of the economy and part of the supply chain for larger companies reporting on Scope 3 emissions.

If that were done, that would reduce costs of compliance and increase accuracy of reporting for the larger companies, who must have a difficult job in assessing sustainability of suppliers and downstream activities. You could still have a de minimis exemption for small companies who do not deal with large reporting companies.

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?

We agree that reporting against UK SRS S2 should replace TCFD reporting. This ensures greater consistency as ISSB is adopted globally, as well as better integration of climate-related financial disclosures into financial reporting.

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?

We agree that UK SRS S2 reporting requirements should apply on a mandatory basis.

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?

Scope 3 is a vital tool for measuring decarbonisation progress and inadequate disclosure may blind stakeholders to efficient decarbonisation options and other transition risks.

Today’s data quality makes the use of Scope 3 challenging for investors. Reporting standards, setting out clear expectations for the disclosure of scope 3 emissions, will be vital to addressing these challenges. In recognition of these challenges, the UK SRS S2 has allowed for transitional reliefs from disclosing Scope 3 greenhouse gas emissions.

Scope 3 seeks to measure and understand all the other emissions that result from a company’s activities. These are separate from the emissions from their direct operations and indirect emissions from purchased electricity. Scope 3 emissions of an entity are those generated by their suppliers and are vital to understand. There are also emissions associated with activities downstream, for example when products are transported to the consumer, which are also referred to as ‘Scope 3’.

Simply because a company outsources manufacturing does not mean they are not financially exposed to the risks associated with the carbon emissions generated during the manufacturing process. Ignoring, for instance, the emissions from a company that outsources the manufacturing of their products (which fall under Scope 3), whilst counting the emissions of a company that controls

its own manufacturing processes, would clearly leave an investor with a distorted view of the company's exposure to climate risks.

Accounting for Scope 3 emissions can help asset owners to understand the high-emitting activities within their investment portfolio and gain insight into transition risk exposure. This is why Scope 3 emissions reporting is integrated into the disclosure framework. Furthermore, inclusion of Scope 3 in target setting for companies is viewed by some as best practice.

There should be clear expectations that, for the comply or explain to support proportional, improving disclosures, the bar for an explanation should be clearly set and with a planned pathway to disclosure of material Scope 3 emissions. All material and measurable Scope 3 emissions should be included under comply and explain.

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?

We agree with the location of UK SRS S2 disclosures in the company's annual financial report. This is consistent with current TCFD practice, UK SRS S1 paragraph 60, and what other countries adopting ISSB standards have done.

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?

We agree with the comply or explain approach, although if it is material companies should disclose it.

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?

We agree with the location of UK SRS S2 disclosures in the company's annual financial report.

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?

We agree with FCA proposals for listed companies to include a statement in their annual financial report explaining whether they have disclosed a climate-related transition plan and if not, why not. This provides transparency for investors and stakeholders.

There may be legitimate reasons for not disclosing a transition plan, for example, if a firm is already aligned with net zero outcomes. Firms with foreign parents may find it harder to publish a transition plan compatible with UK law because their parent may have an overall plan which is difficult to segment.

Recent IFoA research found that most large financial and industrial organisations still struggle with ensuring that their transition plans are both transparent and easily digestible¹. Requiring companies to disclose transition plans if they have them will improve practice. Any additional reporting burden for firms can be ameliorated through proportionate expectations, for example, allowing transition

¹ [International practices in climate transition plan reporting: Lost in translation?](#)

plans to focus on the business structure and strategy and key metrics that can be used to measure delivery of plans.

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?

We agree with the FCA's proposal to note in guidance that listed companies may wish to use the IFRS Educational Material.

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 agree with the FCA's proposals for transparency about third-party assurance.

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.

We would strongly encourage the FCA to develop its approach further towards mandatory third-party assurance. Data should be audited to increase user confidence in the information and processes to collect the information. Investors would benefit from knowing whether the Scope 1,2 and 3 information is subject to reasonable assurance (in which the auditor affirms that the information reported is materially correct) or limited assurance (where the auditor is not aware of any material modifications that should be made). Where a benchmark is used, this needs to be part of the disclosure.

Companies should be explicitly allowed to rely on the assurance/ audit of data from suppliers or customers in claiming their figures are audited. This reduces cost and friction in the system. We suggest making it optional to publicly report the entities whose audited data was relied on (and which data) in producing one's own data. However, it should be mandatory to provide this information on request.

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.

Assurance is very important to ensure that these reports are used. If users do not have confidence in the data, disclosures become just an unnecessary reporting burden.

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 agree that the FCA's approach regarding companies in the secondary listing category is a pragmatic one, given that the majority of these companies are in countries that are aligning with ISSB standards. Being able to get consistent comparable data across an investment universe provides useful insight.

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?

We agree with the FCA's proposals for transparency about third-party assurance 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?

We agree this is a pragmatic step as it minimises duplicative reporting while the FCA carries out work to consider the longer-term sustainability disclosure framework for these firms.

We would encourage a longer-term strategic review of the usefulness of all of these disclosures and the information requested within to inform policyholders.

Should you wish to discuss any of these points further, please contact IFoA Policy Manager Caroline Winchester in the first instance, caroline.winchester@actuaries.org.uk