

20 March 2026



CP26/5: Aligning listed issuers' sustainability disclosures with international standards

Response from ICAS

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ICAS responses to Consultation Paper CP26/5 Questions

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

Yes, we agree with the proposed scope for the revised rules.

We support the principle that sustainability disclosures should be proportionate.

It is important that decision-useful disclosures do not go backwards i.e. that the revised rules do not result in less decision-useful disclosures than are currently required. Not only is it not helpful for report users, but it also sends the wrong signal about the related topics that are, in general, increasing in urgency.

This has been a very unfortunate outcome of the Omnibus 1 in the EU, whereby the scope of the CSRD (Corporate Sustainability Reporting Directive) is less than its predecessor, the NFRD (Non-Financial Reporting Directive). It seems the reporting regime under the CSRD is out of step with the EU's aspirations set out in the European Green Deal.

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 with the proposal to replace the FCA's current TCFD-aligned rule and guidance with requirements to report against UK SRS S2 and relevant aspects of UK SRS S1. Obviously, this is contingent upon there being a clear, smooth and seamless transition between the old and new reporting requirements.

It is important that UK issuers disclose details about climate according to the best and latest thinking on this topic; that is critical to support understanding about climate and facilitate positive action for the stability of the planet.

We recommend that this approach "to report against UK SRS S2 (and relevant aspects of UK SRS S1)" is clearly explained, as this could be perceived as contradicting the overall strategic application of IFRS S (which sets out in IFRS S1 para 5 "An entity shall apply this Standard in preparing and reporting sustainability-related financial disclosures in accordance with IFRS Sustainability Disclosure Standards."). That is to say, this partial application of UK SRS S1 is fundamentally different from IFRS S and is worth highlighting as it could be perceived as being at odds with the claim that the UK SRS are closely based on IFRS S.

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 should be applied on a mandatory basis.

We understand UK SRS S2 is to be mandated for the same issuers that currently apply FCA's TCFD Recommendations, and that the majority of currently in scope issuers comply rather than explain. Therefore, given the core content requirements of climate disclosures in TCFD and UK SRS S2 are very similar, the transition to the new rules should not be a stretch for most issuers.

It is important that decision-useful disclosure requirements of issuers do not go backwards i.e. the new rules should not result in less decision-useful disclosures. The FCA requirements should drive reporters to keep making progress in disclosing decision-useful data.

While permitting the exclusion of Scope 3 emissions is understandable as it can be difficult to obtain quality data of sufficient granularity and in good time, providing this relief undermines the goal stated in paragraph 4.4 of the FCA's Consultation paper "We consider this will lead to greater transparency and improve the quantity, quality, and comparability of information available to investors". For many sectors and reporters, including group situations, emissions data is incomplete, meaningless, misrepresentative and therefore of poor quality without Scope 3 emissions (we expand on this in our response to Q4).

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?

We support mandating Scope 3 disclosures in a reasonable time period of about 3 to 5 years, during which time appropriate data collection processes and controls can be developed and refined.

The FCA should monitor developments in disclosures made by companies in relation to this with a view to help inform best practice in the marketplace. This will include reviewing and assessing the quality of explanations where an entity has decided to explain rather than comply.

Scope 3 is widely understood as being a very difficult figure to accurately compile, however reporters should be encouraged to disclose what they can, with clear explanations of data sources, calculations, basis for estimations etc.

The proposals, if adopted as drafted, will result in issues concerning the Statement of compliance and comparability in the UK as well as globally. The value of adopting the IFRS S global baseline is undermined if the UK version of the global baseline affords so many reliefs.

Furthermore, the proposals appear to be an adverse change in the trajectory of disclosures in the UK, from progressive first mover world leaders (as per TPT, TCFD etc) to being less ambitious and potentially laggards. This seems out of step with UK government goals and ambition to "retain the UK's position as a world leader in sustainable finance and supporting UK competitiveness and growth." (per para 1.9 of the FCA Consultation).

To support ICAS' suggested approach, while preparers should be motivated to disclose all 15 Categories of its Scope 3 emissions (per the Greenhouse Gas Protocol), the different Categories bring about various challenges in sourcing accurate figures. Where it is reasonable to do so (in terms of cost, availability of data etc) reporters should be encouraged to report on each of the applicable 15

separate Categories that comprise Scope 3 i.e. Scope 3 should not be seen as an all or nothing disclosure; instead, it should be considered as the 15 separate constituents of Scope 3.

All Scope 3 disclosure requirements should be kept under continuing review. Data range/depth/accuracy/granularity are evolving at pace, through technology and more, so the disclosure rules should keep pace with the latest data that is available and accessible on a commercial basis. For example, it could be that reliefs permitted today should not be allowed on an ongoing basis.

Scope 3 disclosures should be credible and support transition plan targets of the reporter. For example, it would be inappropriate for a reporter to have a public commitment to net zero, but then 'explain' rather than 'comply' with Scope 3 disclosures.

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 proposed location of the UK SRS S2 climate-related disclosures.

In general, we support a principles-based over rules-based approach.

We also support the integration and connectivity of sustainability disclosures with financial data – this combination facilitates a more joined up and comprehensive understanding of a business' approach, progress, plans etc.

We support clear disclosures that do not duplicate, so agree with the proposals around the use of cross-references. We think it is sufficient to use an index, in which reporters specify where to find in the annual financial reports key figures like climate-related disclosures.

Reporters must be given the flexibility to report on their business progress, results and plans in a way that they believe is most useful for their key stakeholders i.e. tell their own story. For some reporters, this may include more disclosures about the impacts of the business on people and planet as determined by the needs of their investors and other stakeholders. We note that UK SRS S2 contains several disclosures that are 'impact' in nature. While we support DBT endorsing UK SRS we will continue to push for UK Sustainability Reporting Standards to include material impacts as well as sustainability-related financial disclosures as we firmly believe such reporting as per the 'double materiality' approach is more useful and provides better quality decision-useful information for more investors and other stakeholders. This is a public Sustainability policy position that ICAS will continue to promote.

The location of disclosures must also align with, and be logically alongside, whatever changes may arise from other consultations like the forthcoming DBT one on Modernisation of Corporate Reporting Review including definitions e.g. economically significant enterprises as used in DESNZ's *Consultation seeking views on implementation routes for transition plan requirements.*

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?

While we understand the priority being given to climate disclosures because of the legacy disclosure requirements, knowledge about climate in the market and relative ease with which reporters will be able to adopt the new requirements, we strongly disagree with the proposals to deprioritise non-climate reporting.

Reporters are likely to have many other non-climate sustainability topics that are material, financially and impact wise, and will be decision-useful for report users. However, the proposed application approach could result in these non-climate items not being sufficiently reported on an ongoing basis.

We suggest non-climate reporting is mandated in 3 to 5 years. The FCA should monitor developments in disclosures made by companies in relation to this with a view to help inform best practice in the marketplace. This will include reviewing and assessing the quality of explanations where an entity has decided to explain rather than comply.

To have disclosure rules that only cover climate could mislead reporters to disclose only one dimension of sustainability that is significant to their business and therefore not provide balanced and reasonable decision useful information. The proposed application of the standards could therefore increase reporters' risk of potential claims of greenwashing.

As stated in answer 1, it is important that the requirements do not inadvertently drive less decision-useful disclosures. Not only is it not helpful for report users, it also sends the wrong signal about the related topics that are, in general, increasing in urgency.

UK SRS state that they will follow developments by ISSB. We already know that later in 2026 ISSB plan to expose a new standard on Biodiversity, ecosystem and ecosystem services and we know that more standards are likely to be released in due course. It would appear that the FCA's intention is for these standards to be adopted on a comply or explain basis. If so, as more standards are released, the UK runs the risk of becoming out of step and less comparable with the IFRS S global baseline.

The proposals, if adopted as drafted, will result in issues concerning the Statement of compliance and comparability, in the UK as well as globally. The value of adopting the IFRS S global baseline is undermined if the UK version of the global baseline affords so many reliefs. Furthermore, the proposals appear to be an adverse change in the trajectory of disclosures in the UK, from progressive first mover world leaders (as per TPT, TCFD etc) to being less ambitious and potentially laggards. This seems out of step with UK government goals and ambition to "retain the UK's position as a world leader in sustainable finance and supporting UK competitiveness and growth." (per para 1.9 of the FCA Consultation).

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 presume that this question refers to the disclosures arising from UK SRS S1, that is sustainability-related **financial** disclosures.

We agree with the proposed location of the UK SRS S2 climate-related disclosures.

In general, we support a principles-based over rules-based approach.

We also support the integration and connectivity of sustainability disclosures with financial data – this combination facilitates a more joined up and comprehensive understanding of a business' approach, progress, plans etc.

We support clear disclosures that do not duplicate, so agree with the proposals around the use of cross-references. We think it is sufficient to use an index, in which reporters specify where to find in the annual financial reports key figures like climate-related disclosures.

Reporters must be given the flexibility to report on their business progress, results and plans in a way that they believe is most useful for their key stakeholders. For some reporters, this may include more disclosures about the impacts of the business on people and planet as determined by the needs of their investors and other stakeholders. We note that UK SRS S2 contains several disclosures that are 'impact' in nature. While we support DBT endorsing UK SRS we will continue to push for UK sustainability reporting standards to include material impacts as well as sustainability-related financial

disclosures as we firmly believe such reporting as per the 'double materiality' approach is more useful and provides better quality decision useful information for investors and other stakeholders. This is a public Sustainability policy position that ICAS will continue to promote.

The location of disclosures must also align with and be logically alongside whatever changes may arise from other consultations like the forthcoming DBT one on the Modernisation of Corporate Reporting Review including definitions e.g. economically significant enterprises as used in DESNZ's *Consultation seeking views on implementation routes for transition plan requirements.*

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 best approach depends on when DESNZ will announce the next steps arising from their consultation *Transition plan requirements: implementation routes* that closed in September 2025; if soon, then we support no change to current FCA guidance. If, however, this is not expected until the medium term or later, then modified FCA guidance may be appropriate.

We are concerned at the potential level of duplication/lack of dovetailing between UK SRS S2 and potential transition plan requirements. An assessment of duplication should be undertaken and where possible, entities should only be required to disclose information once and then be able to cross-refer where applicable.

These disclosures must also align with and be logically alongside whatever changes may arise from other consultations like Modernisation of Corporate Reporting Review.

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 proposal to note in guidance that listed companies may wish to use the IFRS Educational Material.

We encourage FCA to signpost other quality, relevant support and training materials, like those produced by LSEG and from other jurisdictions. LSEG should be encouraged to revise their publication YOUR GUIDE TO SUSTAINABILITY REPORTING to reflect the new UK regime.

FCA should track market feedback and stakeholder needs and develop quality supporting materials to address guidance gaps. This will likely include the appropriate use of AI and other technology for data measuring and gathering.

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 proposals for transparency about third-party assurance where it has been obtained voluntarily.

In the longer term, assurance is essential so that sustainability disclosures are credible, on an equal footing to financial disclosures, and so are trusted by investors and other stakeholders. We

encourage FCA to do what it can to drive issuers to obtain and disclose assurance from qualified practitioners applying appropriate standards. This will need to be achieved over time and in separate phases.

We suggest the following are listed as disclosure requirements in addition to the details stated in the FCA Consultation paper paragraph 7.7:

- Name of the assurance provider (name of individual or firm)
- In time, whether that provider is included in the voluntary register that is being built by FRC (per the consultation outcome of Developing an oversight regime for assurance of sustainability-related financial disclosures)

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.

Benefits include:

- Improved trust in data and disclosures
- More confidence and credibility in sustainability disclosures
- Depending on the level of assurance mandated, this could make sustainability disclosures subject to the same rigour as financial equivalents, something that ICAS fully supports
- Better data for internal reporting and decision-making
- Obtaining assurance is another way to better secure attention for sustainability matters by Board members

Costs include:

- Additional fees for external qualified assurance providers
- Additional time to prepare for and support assurance process

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.

The approach appears reasonable.

We assume that requirements to follow ISSA (UK) 5000 would be included to ensure ethics and independence requirements are met.

As sustainability assurance is a developing area, we believe that for the moment it should continue to operate on a voluntary basis. The longer-term goal, however, has to be mandated assurance for all in scope entities but this will need to be achieved over time and in separate phases.

We would favour starting this process, at a future date to be determined, with a mandate for assurance of certain categories of companies' disclosures against UK SRS. Such an approach would allow companies to focus on investing to improve the quality of their data, processes and controls in the early years of reporting under UK SRS.

This process could draw upon existing definitions like public interest entity (PIE) or a subset thereof, or lever upcoming terms like economically significant entities (ESE), as long as they can be well defined, and consistently applied. There needs to be some account taken of the impact of entities and their externalities, regardless of their economic significance.

We would suggest that consideration should be given towards mandating assurance of UK SRS disclosures for certain public interest entities in the medium term, and as the market matures increasing the scope of companies subject to assurance in line with those subject to mandatory sustainability reporting. Such assurance provides confidence to stakeholders, including investors, in the veracity of the information reported and will also help put sustainability disclosures on an equal footing to financial statement disclosures over time, which is desirable. We would envisage that as has been the case in the EU, such assurance would be limited in nature, at least in the early years.

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?

While we note and don't disagree with the Policy intention set out in paragraph 8.3, that affected listed companies have sufficient time to prepare and implement the proposed new rules, we believe it is a question of balance. The FCA has a role to play in driving better disclosures while also being sensitive to commercial pressures like the time and cost required to meet new disclosure requirements.

As presented by FCA, we fear that the transitional reliefs may be misused as a way to make less decision-useful disclosures, so that sustainability disclosures remain unbalanced, incomplete and skewed towards climate for some time, because only climate disclosures are mandated. We suggest non-climate reporting is mandated in 3 to 5 years, with earlier adoption encouraged.

The UK SRS empowers the FCA, among other authorities, to prescribe application of the standards and reliefs, and as the first mover in defining these requirements the FCA will be setting the tone for the market that other authoritative sources listed in UK SRS, like the Companies Act, will likely emulate following consultation in due course.

The FCA may also want to consider what is an appropriate approach given the Main market of the London Stock Exchange (LSE) is a globally significant capital market and the UK's role to date in being a global leader which influenced and instigated more disclosures (like TCFD and Transition Plans).

We support a phased in approach with sustainability disclosure requirements that start with large issuers. In time, it may be appropriate to roll out proportionate disclosure requirements for other issuers such as those on AIM.

It could be appropriate for preparatory steps towards the sustainability disclosures required of issuers to be included in the prelisting Listing Rules i.e. that is those applying to list on any market of the LSE will be required to meet at least some of the sustainability disclosures that would be required upon listing. It would be important to strike a balance of requiring appropriate levels of sustainability disclosures in pre listing formalities to serve as preparation for the full compliance requirements upon listing, and not making such pre listing requirements so onerous to discourage listing in the UK.

The proposals bring about issues around the Statement of compliance and comparability, in the UK as well as globally. The value of adopting the IFRS S global baseline is undermined if the UK version of the global baseline affords so many reliefs. Furthermore, the proposals appear to be an adverse change in trajectory of disclosures in UK, from progressive first mover world leaders (per TPT, TCFD etc) to being less ambitious and laggards. This seems out of step with UK government goals and ambition to "retain the UK's position as a world leader in sustainable finance and supporting UK competitiveness and growth." (per para 1.9 of the FCA Consultation).

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?

N/a

Question 15: Do you agree with our proposals for companies in the secondary listing category and the depository 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 with the proposals for companies in the secondary listing category and the depository receipts category not to disclose against the UK SRS, but instead to disclose which overseas climate and sustainability standard(s) they are subject to.

In general, we support disclosures that are not onerous to produce and are clear and have minimal duplication.

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 depository receipts category. If not, what alternative approach would you suggest and why?

We agree with proposals for transparency about third-party assurance where it has been obtained voluntarily.

We believe that implementation should be sensitive to the assurance requirements of the market of the primary listing of a reporter, so that UK requirements leverage assurance already required so that compliance requirements are not onerous.

We also query the significance of “related information they have provided” and seek clarification as to what this refers.

In the longer term, assurance is essential so that sustainability disclosures are credible, on an equal footing to financial disclosures, and so are trusted by investors and other stakeholders. We encourage FCA to do what it can to drive issuers to obtain and disclose assurance from qualified practitioners applying appropriate standards. This will need to be achieved over time and in separate phases.

We suggest the following are listed as disclosure requirements in addition to the details stated in the FCA Consultation paper paragraph 9.9:

- Name of the assurance provider (name of individual or firm)
- In time, whether that provider is included in the voluntary register that is being built by FRC (per the consultation outcome of Developing an oversight regime for assurance of sustainability-related financial disclosures)

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.

We support clear, succinct disclosures with minimum duplication.

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

Benefits include efficient reporting, transparency, ready comparability.

Costs include: additional step that will require processes to be developed, people to be trained etc.

Digital tagging would be most useful for:

- Quantitative disclosures, like GHG
- Specific, discreet items like policies, assurance opinion

It would be efficient to lever existing data disclosure platforms like CDP, so as not to add another burden to current practices. We support interoperability of disclosure frameworks/standards and ultimately the principle of equivalence (whereby disclosures per, for example, UK SRS and GRI are recognised as complying with ESRS).

Any digital tagging must also align with and be logically alongside whatever changes may arise from other consultations like Modernisation of Corporate Reporting Review.

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?

We note digitalisation is a fast moving area, so what is meant by digital reporting today, could morph to be something quite different and even more value adding in the future.

It is vital that there is a transition to digital reporting at an appropriate future time, probably including functionality like XBRL tagging, or its successor.

Ideally the reports would be in open-source registers to facilitate ready access to disclosures by analysts, potential investors, shareholders and other stakeholders, including for scraping and analysis by AI and other tools.

Given the pace of adoption of AI and other technologies, digital sustainability reporting may be practical within 3-5 years for large issuers, with a phased in approach for others with less sophisticated systems and resources to implement digital reporting.

Market research would inform market readiness to make this change. It is likely to be highly variable across issuers.

Any digital reporting must also align with and be logical alongside whatever changes may arise from other consultations like Modernisation of Corporate Reporting Review.

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

The supervisory strategy should focus on providing clear guidance, supporting issuers during the transition, and ensuring proportional enforcement. The emphasis should be one of constructive criticism rather than enforcement. Collaboration with the FRC and other stakeholders will be critical to ensure effective monitoring and compliance. The end game for all stakeholders has to be the reporting of high-quality information.

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

No

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

No

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. The impact on SMEs should be closely monitored, as they may face higher relative costs due to limited resources.

Awareness raising around the new/increasing expectations from supply chain partners e.g. if small players supply to in-scope issuers, they can expect more questions about their operations including on their carbon footprint. In order to ensure a proportionate impact, a similar proposal to the VSME Standard adopted in the EU which limits the information that can be requested to a pre-defined list or to a certain size of entity, could be considered. This concept, to protect SMEs from onerous data requests, could be one consideration in the forthcoming Modernisation of Corporate Reporting Review consultation.

We understand that assurance is an evolving area, with some enterprises taking progressive steps towards a reasonable assurance opinion, starting with pre-assurance, assurance of processes and controls, assurance of only certain data points. This changing/evolving engagement has budgetary implications.



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