

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

1. Overarching comments

Q1. Do you agree with the proposed scope for our rules? If not, what alternative scope would you suggest and why?

The CLLS agrees with the proposed scope for the rules – companies which are currently subject to reporting obligations aligned with the TCFD are likely to have the institutional knowledge and experience which will facilitate the adjustment to reporting under the ISSB-aligned UK SRS.

2. Climate-related disclosures

Q2. 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?

The CLLS agrees with the proposal to replace the existing TCFD-aligned rule and guidance with UK SRS S2 requirements. The disbandment of the TCFD in 2023 and the subsequent cessation of updates to the framework means that continued alignment with TCFD risks regulatory stagnation and divergence from evolving international best practice which is now informed by broader sustainability-related considerations beyond climate.

UK SRS S2 provides a coherent, domestically-tailored framework that builds upon the ISSB reporting standard (which in turn incorporates the TCFD framework) whilst addressing UK-specific considerations, offering greater legal certainty for preparers and users of climate-related disclosures. The ISSB's standards and guidance are maintained in response to market developments and user feedback (such as the recent amendments to IFRS S2 which the ISSB consulted on earlier in 2025¹). This will be a useful reference point to ensure that the UK SRS continue to reflect market needs and practices.

As the ISSB's standards have been endorsed (or are in the process of being endorsed) by over 30 jurisdictions,² this transition supports international comparability given the alignment between UK SRS S2 and IFRS S2, which should facilitate cross-border investment and reduce the reporting burden for groups operating in the UK and other jurisdictions.

Q3. 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?

¹ [IFRS - ISSB issues targeted amendments to IFRS S2 to support implementation.](#)

² [IFRS - Use of IFRS Sustainability Disclosure Standards by jurisdiction.](#)

The CLLS understands the rationale for the mandatory application of UK SRS S2 reporting requirements (excluding Scope 3 emissions). Mandatory requirements ensure consistency and comparability of disclosures across the market, which are essential for informed capital allocation decisions.

- A mandatory approach levels the playing field and prevents a race to the bottom whereby companies with less favourable climate profiles might otherwise elect not to disclose, thereby undermining market transparency and disincentivising data collection.
- Mandatory reporting using the UK SRS builds appropriately on the existing climate-related financial disclosures in the UKLR and the Companies Act 2006 that are aligned with/ based on the TCFD's recommendations, meaning that in-scope companies should already have the systems, processes, and governance structures in place to adapt without disproportionate burden.

However, we would also see merit in a 'comply or explain' approach, which could potentially be applied to all UK SRS S2 disclosures for an initial phase-in period for any company which comes within scope of the reporting requirements, prior to it being required to apply the requirements on a mandatory basis in later reporting cycles, particularly in relation to smaller listed companies. This is because an initial 'comply or explain' period may:

- provide greater flexibility for companies facing sector-specific or entity-specific challenges in meeting all requirements immediately, whilst still driving meaningful disclosure and transparency through the need to articulate reasons why particular disclosures cannot be made;
- encourage more thoughtful and proportionate disclosures, as companies would have the option of actively engaging with the requirements and articulating genuine barriers to compliance, whereas a mandatory requirement may be met with a box-checking approach with formulaic statements in place of quality disclosures that may be of limited utility to investors;
- reduce compliance costs and potential litigation risk for smaller or less mature companies within scope, possibly encouraging more companies to seek UK listings without fear of disproportionate regulatory burden; and
- allow companies additional time to prepare by developing internal processes, gathering further necessary data, and building the expertise required to produce greater quality disclosures once mandatory application commences.

Q4. 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?

The CLLS agrees that Scope 3 reporting should apply on a ‘comply or explain’ basis at this stage. While we acknowledge Scope 3 emissions data can be relevant to investor decision making, we agree that Scope 3 emissions present unique methodological challenges, including reliance on estimated data from third parties across complex value chains, which may not be readily available or verifiable.

A ‘comply or explain’ approach appropriately balances transparency with practicality, encouraging disclosure where feasible whilst acknowledging legitimate constraints, particularly for companies with extensive or fragmented supply chains. While we acknowledge the complexity of Scope 3 reporting, this issue has received considerable attention as a result of the decision in *Finch*.³ There will be some sectors (for example, companies in the energy sector, or in the manufacturing sector producing raw materials) for which Scope 3 emissions may be highly material and/or that will not face the same supply chain challenges regarding data collection. The risk of leaving compliance to a company’s discretion is that by using that relief, certain companies may elect not to disclose under a generic argument of complexity whether that complexity exists or not.

To create a reporting regime that delivers the data needed by investors, the FCA should therefore provide guidance on reporting expectations following the approach taken in the UKLR as regards expected TCFD disclosures. This would help companies understand precisely what level of disclosure is appropriate in the context of materiality considerations and allow for sectoral nuances. This will be particularly beneficial for investors in companies with significant Scope 3 emissions.

This approach – with an appropriate transition period – allows companies to build internal capabilities and engage with suppliers to improve data quality progressively, thereby enhancing the availability, reliability and usefulness of Scope 3 disclosures over time. The approach is consistent with international practice, including the phased implementation timelines adopted in other major jurisdictions, and avoids placing UK-listed companies at a competitive disadvantage.

It will also be important that the FCA’s proposed approach concerning the interaction of the UK SRS S1 statement of compliance provisions with Scope 3 disclosures should clarify how the ‘comply or explain’ approach may apply to Scope 3 disclosures over time.

Q5: 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 CLLS considers that integration of climate-related financial disclosures with the annual report facilitates connectivity between climate-related information and broader financial reporting, reinforcing the principle that climate risks may also be financial risks. This is consistent with international market practice and views on parallels and alignment between the materiality of general-purpose financial/corporate disclosures and non-financial (including sustainability-related) disclosures.

- This approach also supports the eventual extension of assurance requirements, as disclosures within or alongside audited financial statements are more readily subject to existing audit and assurance frameworks.

³ [R \(on the application of Finch on behalf of the Weald Action Group\) \(Appellant\) v Surrey County Council and others \(Respondents\) - UK Supreme Court](#). Also see the UK Government’s updated guidance as a result of the *Finch* decision: [Environmental Impact Assessment \(EIA\) - Assessing effects of downstream scope 3 emissions on climate \(June 2025\)](#).

- It is also important that sustainability-related disclosures cover the same reporting period as the related financial statements to ensure that investors receive a complete picture of the company's financial and sustainability position and strategy simultaneously.

In a UK context, we note the criticality of Government and regulators working together to develop and maintain a unified framework that clearly sets out the expectations pursuant to, and/or interaction of, sustainability-related disclosure obligations with companies' broader reporting requirements. Therefore, we think the location of UK SRS S2 climate-related disclosures for listed companies should be aligned with the baseline proposed in the forthcoming Government reforms to the Companies Act 2006.

Noting the general principle above, the CLLS supports the proposals regarding the location of UK SRS S2 climate-related disclosures, and we note that this approach would be consistent with other jurisdictions which adopt IFRS S2 without substantial amendment. Requiring disclosures within the annual report (or a clearly cross-referenced standalone document) ensures accessibility and prominence for investors and other stakeholders. However, allowing companies to clearly cross-refer to a standalone document provides companies with flexibility to decide how best to present the disclosures and avoid duplication across multiple reports.

At the same time, we note that cross-references might impair readability of the overall disclosures. Therefore the FCA might consider providing guidance as to circumstances where the sustainability-related financial disclosures would not be expected to be "made less understandable by including information by cross-reference", as required by paragraph B45 of IFRS S1. This should clarify whether the disclosures are ordinarily expected to be located in the annual report with cross-references as necessary, or whether there are circumstances in which the FCA considers it appropriate for the bulk of the disclosures to be included in a standalone report and incorporated by references.

Clear specification of disclosure location reduces fragmentation and assists users in locating and comparing climate-related information across different issuers efficiently.

3. UK SRS S1 disclosures

Q6: 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 CLLS agrees that listed companies should be required to report on non-climate related sustainability matters on a 'comply or explain' basis. As set out in section 5 of CP26/5, although TCFD reporting requirements have applied to listed companies since 2021, standardised non-climate sustainability-related reporting will be new to many issuers and may present implementation challenges, and it is important to give listed companies time to adjust their processes to comply with the new UK SRS S1 requirements. For the same reasons, the FCA's proposal of an optional 2-year period to transition to a 'comply or explain' standard is also beneficial. However, the flexibility of the 'comply or explain' approach and the transitional reliefs should be set against the interests of regulatory certainty and clear communication and we think it is important to propose a fixed target to listed companies (i.e., 'comply or explain' from January 2029) to give issuers time to consider the new regime and support a stable phasing in of requirements.

We also agree with the specific information which is proposed to be required where an issuer chooses to explain why it has not complied with UK SRS S1, and in particular tying that information to specific sustainability-related

risks and opportunities rather than requiring a line by line explanation of why specific UK SRS S1 reporting requirements have not been disclosed.

The CLLS notes the FCA's comment in CP26/5 paragraph 5.13 that it will provide a follow-up to its consultation, on the interaction of its proposed approach with the UK SRS S1 statement of compliance provisions once the final UK SRS have been published. We support this approach, and as noted in Q5 above, it is critical that Government and regulators should work together to develop and maintain a unified sustainability disclosures framework.

Q7: 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?

Noting the considerations which we discuss in our response to Q5 above, the CLLS supports the proposals regarding the location of UK SRS S1 disclosures.

4. Transition plan disclosures

Q8: 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 CLLS notes that this proposal would, in practice, be akin to a 'comply or explain' requirement in relation to transition plans. This might contradict the FCA's position that it intends to defer the decision to introduce a disclosure requirement in light of the ongoing Government consultation regarding transition plan proposals, and we understand the FCA's concerns that introducing provisions regarding transition plans at this stage may impact on the Government's ongoing deliberations. We are conscious, however, that the existing consultation relates to a wider landscape than listed companies, and it is currently not clear whether or how requirements to develop and publish transition plans will apply to non-listed companies. We also note that being generally larger and better resourced, listed companies are often in the first wave of companies subject to new reporting requirements (as was the case in relation to the existing TCFD-aligned regime). It may therefore be appropriate, particularly owing to their size and also their shareholders' information needs, to apply different requirements to listed companies concerning transition plans.

The CLLS considers that a requirement to disclose a 'transition plan' requires some guardrails, chiefly because the terminology of the disclosure requirement (i.e. 'climate-related transition plan') is undefined and does not rely on a specific reference or disclosure framework or standard. As such, companies may be unclear as to whether their sustainability disclosures, even where these include the constituent elements of a transition plan, actually amount to a transition plan within the meaning of the new rule. Many companies that currently report under the TCFD, and will report under UK SRS S2, have sustainability reports that set out metrics, targets, strategies for implementation

and governance arrangements. However, where the disclosure requirement is not tied to a specific disclosure framework or without further guidance on what disclosures amount to a transition plan, in-scope entities may find it difficult to assess how much more is required to comply with this requirement.

As such, if the FCA is minded to adopt this requirement prior to the outcome of the Government's consultation, it could consider beginning with a soft-touch approach, such as clarifying in the notes to the rule that it is for companies to determine whether they have adopted a 'climate-related transition plan', without requiring reference to any particular disclosure framework or standard. The FCA should also include a commitment in its response to this consultation to review this approach to ensure alignment with the Government's proposals concerning transition plan requirements for non-listed companies, which we anticipate will be published as part of the Modernising Corporate Reporting (MCR) programme later in 2026. Such a review might then consider, based on the approach taken by the Government (and taking into account responses from relevant consultations), whether either:

1. fuller 'comply or explain' disclosures should be required for information on when and how the reporting entity would take steps to be able to make the transition plan disclosures; or
2. stronger or mandatory disclosure requirements around transition plans might be introduced.

Depending on responses to this consultation and the outcome of the Government consultation, the FCA could also consider introducing stronger disclosure requirements by reference to the IFRS Educational Material, which builds on the Transition Plan Taskforce's (TPT) disclosure framework.⁴

As set out in the CLLS's response to the Government's June 2025 transition plan consultation, we agree in principle with a 'comply or explain' requirement to disclose transition plans being introduced for listed companies. It balances investor and broader stakeholder expectations around developing and producing transition plans with the cost to companies of producing such disclosures, ensuring that the requirements fall in the first instance on the companies most able to comply. This also follows the approach taken in the existing FCA Handbook in relation to sustainability disclosures and would be likely to encourage development of transition plans by listed companies. However, given the current uncertainty around the standardisation of the definition of 'transition plans' (as noted in our response to Q9), it will be important that there is appropriate flexibility for issuers in determining the nature of their 'comply or explain' disclosures. This could take the form of a transition period for implementation to allow market practice and expectations to develop, once the Government's transition plan consultation has been completed.

If the FCA chooses to implement a 'comply or explain' requirement, we would highlight two points for further consideration:

1. The current comply-or-explain requirement set out in UKLR 6.6.6(8)R requires a listed company which has not made TCFD-aligned disclosures to explain the reasons why, and the steps it is taking to be able to make those disclosures, including the proposed timeframe. The proposed disclosure requirement in UKLR 6.6.6(8)(e) would only require reasons for not making transition plan disclosures – we consider that this approach should be aligned with the existing approach (i.e. requiring a disclosure of remedial steps and

⁴ Also see the IFRS guidance document "[Disclosing information about an entity's climate-related transition, including information about transition plans, in accordance with IFRS S2](#)" (June 2025) (referred to further below) which builds on the disclosure-specific material authored by the TPT, responsibility for which the IFRS assumed in 2024 to reduce fragmentation.

proposed timeframes), to avoid regressing from current practice and so as to encourage the development of resilient business strategies in the UK's largest corporates.

2. The cross-reference to the IFRS Educational Material would go some way to addressing the definitional issue. We note that this may effectively elevate the IFRS Educational Material to the status of disclosure standard for companies seeking to assert that they have published a transition plan, and suggest that the FCA consider the transitional approaches we have suggested in response to Q9 in light of the complexity of these disclosure requirements.

Comments on drafting of the proposed UKLR under Annex C of Draft Handbook Text

It is unclear how the requirement to 'comply or explain' whether or not the organisation has published a transition plan in draft UKLR 6.6.6R (e) interacts with the requirement in UKLR 6.6.6R (7A) to make climate-related financial disclosures in accordance with UK SRS S2 (excluding Scope 3 emissions information). The Note at the end of the section acknowledges that "Separately, paragraph 14 of UK SRS S2 requires the disclosure by an entity of information about any climate-related transition plan it has, along with annual reporting on progress made against the climate-related transition plan."

We think the clarity of the drafting would be improved if UKLR 6.6.6R(e) acknowledged that compliance was automatically achieved by disclosures made under paragraph 14 of UK SRS S2 in accordance with UKLR 6.6.6R (7A) (which presumably would include information on where to access the transition plan) so that effectively only an explanation would be needed under UKLR 6.6.6R(e) where the entity does not have a climate transition plan.

Q9. 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?

In response to the Government's consultation on the development of requirements in relation to transition plans, the CLLS suggested that the Government should consider the extent to which it can adopt the IFRS June 2025 Guidance on Transition Plans,⁵ which builds on the materials of the TPT and was designed to address "the fragmentation of transition plan disclosures — which is costly for both preparers of information and investors". We understand the FCA's proposed approach (i.e. encouraging rather than requiring use of the IFRS Educational Material) is broadly consistent with other jurisdictions which have adopted IFRS S1/S2, where use of the IFRS Educational Material/TPT Disclosure Framework has not been mandated.

The CLLS would suggest that the FCA should consider requiring, rather than suggesting, that listed companies refer to the IFRS Educational Material where they disclose that they have published a climate-related transition plan. This is particularly because any requirement for companies to disclose whether they have published a climate-related transition plan requires standardisation of the definition of 'transition plan'. Reference to the IFRS Educational Material, which contains such a standardised definition, would therefore promote comparability across disclosures made by different issuers. This would also follow the precedent of the FCA's approach in respect of the TCFD, which incorporated the TCFD's guidance material into the disclosure requirements in the UKLR.

The CLLS considers the TPT's disclosure framework, which has been incorporated into the IFRS Educational Material, to be well suited to companies listed in the UK, particularly in light of the FCA and UK Treasury's involvement in its development. It forms a pragmatic but robust framework for transition plan disclosure

⁵ [Disclosing information about an entity's climate-related transition, including information about transition plans, in accordance with IFRS S2.](#)

requirements. While the IFRS June 2025 Guidance does not directly correspond to the TPT's disclosure framework, there is a high degree of alignment, and incorporation of the TPT's disclosure framework into the IFRS Educational Material means that it is likely to become widely adopted in other jurisdictions. This in turn encourages standardisation of transition plan disclosures and is also likely to increase interoperability between jurisdiction-specific regimes, benefitting companies subject to transition plan disclosure requirements in multiple jurisdictions.

The CLLS considers that the IFRS Educational Material could perhaps be incorporated into the UKLRs in a similar manner to how the TCFD recommendations are currently incorporated. This approach would involve a requirement to include a compliance statement within an issuer's annual financial reports, indicating whether it has published a climate-related transition plan, taking into consideration the IFRS Educational Material, and if not, explaining the reasons for not doing so, or for any departure from the IFRS Educational Material.

The FCA could also build in a number of 'transitional' measures to this compliance statement requirement:

- Similarly to the IFRS S1 and Scope 3 requirements, the requirement to refer to the IFRS Educational Material could be subject to a transitional period, before the 'comply or explain' requirement applies.
- In the recognition that some disclosures may be particularly difficult for companies and require additional preparation time, the FCA might publish further guidance on which disclosures under the TPT's disclosure framework it 'normally expects' companies to provide. This could begin with a limited scope at first and broaden over time, similar to the approach adopted in UKLR 6.6.11G.

Concerning interoperability, the FCA may also consider building in exemptions to this requirement for companies which are disclosing transition plans under other recognised frameworks which it considers to be equally as robust as the TPT's disclosure framework.

5. Assurance

Q.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?

The CLLS broadly supports the proposed rules for transparency of third-party assurance, which require that companies in scope disclose whether or not they have obtained third-party assurance. In our view, this takes appropriate account of the Government's separate consultation around the UK's sustainability assurance market, and also recognises the importance that investors understand and consider the quality and reliability of sustainability information. We also support the overriding objective of developing a UK sustainability assurance market which optimises international alignment, regulatory certainty and competition in order to best serve UK companies, investors, and the broader economy, and we agree that a necessary component of this is transparency.

More broadly, we also support the proposal to introduce assurance rules which focus on transparency only at this stage. As detailed in our response to Q11 below, the introduction of mandatory assurance at this stage would face a range of challenges. In light of this, an initial requirement for companies to disclose if they have undertaken assurance, is a proportionate measure relative to other options, taking account of the costs and administrative burden of assurance, the capacity of the assurance market, and the developing state of many companies' sustainability data-gathering processes.

We would like to emphasise the importance of regulatory certainty in the context of sustainability assurance. The UK has an opportunity to provide a clear roadmap on the future regulation of sustainability reporting and assurance in a way that will promote investment and innovation in both the sustainability reporting capabilities of companies and in the assurance markets. International experience (such as the implementation of the ISSB-based disclosure regime in California) illustrates the practical barriers to introducing mandatory assurance of the companies and assurance providers faced with delivering compliance. Stakeholders need a clear route forward as well as a pragmatic timeline for assurance. To that end, we support the FCA's proposals which can, and should, lead the way with listed companies.

Notwithstanding our broad support, we have suggested below some clarifications and modifications to the transparency proposal, and some areas that we suggest would benefit from further consideration:

Clarifications

Paragraph 7.6 of CP26/5 requires that listed companies specify whether or not they have obtained sustainability assurance over their disclosures "relating to UK SRS". It is unclear whether this includes only the mandatory sustainability disclosure datapoints, or is intended to apply to all UK SRS S1 and S2 disclosures. This should be clarified.

There is currently no indication in CP26/5 or the FCA's commentary as to whether assurance requirements will be introduced on a staggered basis, in line with the introduction of mandatory disclosures themselves, nor whether this will be on a limited, reasonable, or other assurance standard over time. We consider that the FCA's proposals in this regard should be clarified as soon as possible, in the interests of regulatory certainty.

Promoting transparency and enforcement

We would suggest adding to the wording requiring companies to indicate "the assurance standards used", a requirement for companies to also confirm whether any such assurance standard is aligned to any sustainability assurance standard which may be promulgated by the UK, in the event that such a standard is adopted.

We would also note that to enable sufficient participation in the voluntary market, enforcement should not be a barrier to entry but be proportionate and transparent, to maintain the quality of provision of assurance services.

Avoiding unintended incentives and effects

Whilst we believe that the FCA's proposals for voluntary assurance with mandatory transparency are proportionate and appropriate, we recognise that this approach will reduce the speed at which companies adopt assurance of their sustainability disclosures, relative to jurisdictions with mandatory assurance regimes. This could, in turn, risk negatively impacting the relative credibility of UK sustainability disclosures. To that end, as detailed in our response to Q.11 below, we believe that the listing rule should optimise the attractiveness to companies of assuring the full scope of their UK SRS disclosures voluntarily. As well as mitigating the risks noted above around relative credibility on an international basis, maximising assurance could also help to mitigate inconsistencies in the quality of disclosures and the potential for greenwashing. This view is informed in part by international experience – including, for example, as outlined in the US Society for Corporate Governance (US SCG) submission in relation to the California climate disclosure legislation, and the assurance roadmap in the Singaporean Accounting and Corporate Regulatory Authority (ACRA)'s consultation on implementation of the Sustainability Reporting Advisory Committee's Recommendation.

In order to make assurance more attractive to companies, one suggestion is to make the disclosure requirements easier to fulfil where a company has procured assurance, compared to the disclosure requirements when they have not. This might include, for example:

- Where the entire scope of sustainability disclosures has been assured, allowing companies to meet all of the assurance-related disclosure requirements through a simple cross-reference to a publicly available, third-party assurance report, which could exempt them from providing the specific details of assurance required by the rules;
- Confirming explicitly that such exemption permits a cross-reference to an assurance report which also covers the group's sustainability disclosures in other jurisdictions (where foreign disclosure rules and relevant assurance standards allow for this). This may allow company groups with foreign sustainability assurance obligations to take advantage of the efficiencies of a global approach. There is a helpful precedent to this approach in the UK's agreement to allow combined modern slavery reporting with the Australian and Canadian regimes (see [here](#)), which has had very strong take-up by global corporate groups;
- Requiring companies which do not assure their full scope of disclosures to provide specific reasons for not doing so, and to disclose any plans and timelines for doing so in the future. In addition to expanding the disclosure requirements for non-assurers, this may nudge companies to consider more thoughtfully if and how they might adopt assurance, and also facilitate benchmarking against their peers; and/or
- As discussed in more detail in our responses to Q.11 and Q.12 below, providing specific information regarding the conditions under which mandatory assurance requirements might be implemented (for example, by reference to the UK and international market, the available technology and wider Government policy). This would provide companies with greater certainty around future investment in assurance capability.

More specifically, there may be a risk that the specific requirement for listed companies to disclose "which of the climate-related financial disclosures, sustainability-related financial disclosures and/or information (as applicable) has been assured", could have the unintended consequence of reducing the apparent quality of their sustainability disclosures which are not assured. This may, in turn, disincentivise companies from taking a phased-in approach to assurance and, instead, not assure their sustainability disclosures at all until they can achieve assurance of the full scope.

A potential way to mitigate this risk may, again, be to require listed companies to provide specific reasons for not seeking assurance in respect of the relevant part of sustainability disclosures, and to disclose any plans and timelines for doing so in the future. We consider that there is benefit in encouraging transparency concerning the practical challenges faced by companies as they build to full assurance. This could help to explain to investors and other stakeholders that reasons for non-assurance of that specific part include practical challenges and market capacity constraints, and to negate any unhelpful assumptions that such a lack of assurance may be driven by a reluctance to subject the quality of those specific sustainability disclosures to scrutiny. Though companies could provide these reasons voluntarily, there is a risk that many will not do so in the absence of a mandatory requirement.

Q.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.

The primary cost associated with mandatory sustainability assurance would be the direct financial burden. While there are differences in assurance markets as between jurisdictions, feedback from US companies considering compliance with California's climate disclosure law SB 253 provides a useful indication of the potential scale of this financial burden. For example, in the US SCG's response to the California Air Resources Board's relevant consultation on implementation of SB 253, it notes that feedback from US SCG members indicated that current assurance costs for disclosed emissions among those respondents that obtain assurance generally range from \$15,000 to \$300,000, predominantly at the limited assurance level and on a voluntary basis. It also notes that, based on interviews with US SCG members, assurance costs are expected to increase significantly for mandatory disclosure, saying: "*Nearly one-quarter (24%) of respondents to the Society Survey whose companies obtained third-party assurance reported that they believe their assurance provider does not or may not meet potential independence and expertise requirements under SB 253, indicating that they believe they may need to hire a new and potentially more costly assurance provider*".

Additional costs may be incurred over time as assurance methods may need to be revised as the role of auditors and current reporting practices develop, including the development of market practice and industry standards. A universal, immediate mandate to assure would therefore impose a disproportionate burden, particularly on smaller listed companies. Longer-term, the cost of sustainability assurance (whether driven by a voluntary or mandatory standard) might be expected to fall, including as a result of increased operational efficiency, familiarity with regulatory compliance and potentially lower capital costs as investors will likely prefer, and may expect, verified data.

International alignment

It will be of particular importance to UK companies with multijurisdictional operations (and investors who are present in, or considering investing into, the UK) that a UK sustainability assurance scheme recognises providers as being capable of providing high-quality assurance over multiple reporting standards (including ESRS and ISSB). This would facilitate global reporting across divergent standards and avoid the compliance cost of separate assurance for their various global sustainability reports. In other words, a UK assurance provider should be able to assure not only against the forthcoming UK SRS and legacy TCFD recommendations, but also against the EU's ESRS and other ISSB-based standards being adopted globally, including for example in California and Australia. This should lead to lower overall costs and burdens, and facilitate UK market participants being able to compete effectively internationally. In order to achieve this, continuation of good working relationships between the FCA, the FRC and the International Auditing and Assurance Standards Board, IOSCO and EFRAG would be particularly beneficial, focusing on the International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements.

Other factors that would affect the balance of benefits and costs

The extent of the costs and benefits associated with mandatory assurance will turn on the level of assurance required, the size of the company subject to assurance required, the scope of the information that needs to be assured, and the timing for the introduction of mandatory assurance. Limited assurance will be less burdensome than reasonable assurance; large listed companies will typically find it easier to move towards obtaining assurance than their smaller counterparts; assuring UK SRS S2 (minus Scope 3 emissions) only would be less burdensome than assuring UK SRS S1 and Scope 3 emissions too; and introducing mandatory assurance now would be more burdensome than introducing mandatory assurance two or more years from now. As noted in Q.10 above, enforcement-related costs and benefits should also be considered, in the context of mandatory assurance.

Based on the above, we are supportive of the potential for the future, phased implementation of mandatory limited assurance, whereby the regime begins by:

- (a) mandating limited assurance before considering a potential move to reasonable assurance in the medium term if appropriate and aligned with international best practice (although we note that the EU has recently elected to remove the possibility for assurance under the CSRD regime to evolve from limited to reasonable assurance in future);
- (b) applying assurance requirements only to listed companies satisfying a specific turnover threshold in the first instance before eventually applying to all listed companies; and
- (c) applying assurance requirements only to UK SRS S2 (minus Scope 3 emissions data) disclosures in the first instance and then extending to UK SRS S1 and Scope 3 emissions in the future.

Benefits of mandatory assurance

The principal benefits of mandatory assurance include enhanced market integrity and investor confidence, which may become an increasingly important factor in global competition, as more countries adopt mandatory sustainability assurance requirements (including the EU and California, amongst others). Mandatory assurance could provide a reliable baseline for disclosures, reduce greenwashing risk and potentially support the ultimate objective of more efficient capital allocation. It also has the potential to improve issuers' internal governance and create a level playing field by ensuring all major companies adhere to a consistent standard of verification. The initial voluntary framework, together with insights gained internationally, will offer valuable experience, cost-benefit analysis and inform the effectiveness of any future shift to mandatory assurance requirements.

The UK sustainability assurance audit market

There is a risk that the UK assurance market may lack sufficient capacity to properly service a sudden mandate for all listed issuers. This capacity constraint is in part driven by a shortage of professionals with the specific expertise required for sustainability assurance, but also by an absence of robust and consistent assurance methodologies. For companies operating in multiple jurisdictions, sustainability assurance is not universally available at present, particularly for Scope 3 Greenhouse Gas emissions. The US SCG's response to the Californian consultation cites a 2024 study by the Center for Audit Quality, which found that less than half of S&P 500 companies obtained external assurance over any categories of Scope 3 emissions. The lack of current capacity is likely to lead to increased costs associated with sustainability assurance. We would therefore suggest that introducing mandatory assurance with a narrow scope at first (as we have suggested above) would give the assurance market time to grow and to bolster provider capacity.

We would also support any measures that would increase the number of suitable providers, particularly for use by larger UK multi-nationals and for the benefit of listed companies under the remit of the FCA. A registration regime, provided it is designed with a global outlook, should provide a suitable quality standard for the market and indirectly improve data reliability and internal risk management within businesses. We note that the Government has confirmed (pursuant to its specific consultation and response) that it will establish a registration and oversight regime for sustainability assurance providers, and we would support any FCA measures aimed at aligning with this approach. We also note the Government's commitment to include capacity-building activities in the regime, such as issuing guidance and sharing best practice, to promote high standards for sustainability assurance engagements across the market.

As noted above, we also support measures aimed at international alignment and which facilitate compliance with multiple global sustainability assurance requirements regimes. In addition to facilitating efficiencies for companies,

such measures could also allow registered UK sustainability assurance market participants to compete on a global basis, which may also help to expand the market available to UK listed companies.

Q.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 our view, listed companies should be given as much notice as possible, and at least two years after the first mandatory UK SRS reporting year, before any mandatory obligations to obtain assurance over such reporting are considered. The sequencing should take account of assurance requirements internationally, capacity of the UK assurance market, and the progress of listed companies toward the establishment of sufficiently robust data collection and reporting processes.

It may be useful to look to jurisdictions which have already implemented ISSB standards for guidance on the approach to assurance and in particular any phasing from no assurance, to a “limited” and a “reasonable” assurance standard. For example, Hong Kong has not required assurance since the reporting requirement was adopted and will not review the position until 2027; and Mexico does not require assurance for reports published in 2026 for FY25, but is moving to limited assurance for FY26 and reasonable assurance for FY27. Similarly, in Australia there is a phased introduction of mandatory assurance relative to mandatory disclosures, whereby in year 1 only specified disclosures (governance, strategy and Scope 1 and 2 emissions) need limited assurance, with all mandatory disclosures requiring limited assurance from year 2, and reasonable assurance required from year 4. Note also that California has waived, as a matter of enforcement discretion, assurance requirements for year one reporting for companies that do not already have assured emissions. These examples demonstrate that there is a broad consensus on staggering the introduction of mandatory reporting and mandatory assurance. In our view, the FCA would ideally publish and adhere to a specific timeline and/or specific conditions for the introduction of mandatory assurance, and potentially hold at a consistent limited assurance standard for reasons of regulatory certainty and compatibility with the EU CSRD (also see below), subject to specified conditions.

Scope and level of assurance

Linked to the above, our view is that, at this stage, it would be inappropriate to require assurance for Scope 3 emissions, or to require future reasonable assurance for Scope 1 and 2 emissions. Given the extent of Scope 3 emissions data and the challenges associated with the collection and quality of such data, it would be premature to require the assurance of Scope 3 data. Similarly, in line with the EU’s decision to remove the possibility of a move to reasonable assurance under the EU CSRD due to the small number of assurance providers that can provide reasonable assurance for GHG emissions data and the lack of methodological consensus, we believe it is also premature for the FCA to prescribe any assurance beyond limited assurance for Scope 1 and 2 emissions disclosures.

6. Implementation approach

Q.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 CLLS notes that the proposed implementation approach and transitional arrangements take account of the fact that certain aspects of the UK SRS introduce new reporting requirements for companies for which additional time may be needed to ensure compliance. We also note that the FCA's proposals align with the proposals drafted under the UK SRS. We are supportive of this approach, which should give companies sufficient time for preparation.

However, the consultation proposes that companies with an accounting period beginning before 1 January 2027 would be able to voluntarily comply with the proposed new UK SRS-related reporting requirements, without being able to take advantage of the proposed transitional reliefs, since the reliefs will not come into force until 1 January 2027. The CLLS recommends that the transitional reliefs be made available to any issuers adopting early reporting, regardless of the company's accounting date, to ensure consistency across reporting in the first few years of adoption. In contrast, the FCA's current proposal may give rise to several issues:

1. The lack of availability for companies choosing to report early acts in effect as a penalty for voluntary early adopters. Given that the consultation acknowledges that the TCFD might be deemed out of date, which should incentivise early reporting using the UK SRS, the FCA should consider enabling early reporters to take advantage of reliefs that will be available when reporting becomes mandatory.
2. It is not clear whether a company which chooses to report prior to 1 January 2027 might be able, in a subsequent reporting cycle, to take advantage of the transitional reliefs despite those reliefs not being available for their first report, given the fact that it has already disclosed against the relevant requirements.
3. Additionally, while a company's accounting period might begin before 1 January 2027, its report might only be published after 1 January 2027, at which point the transition reliefs will be in force. The consultation suggests that, in this scenario, a company would not be able to take advantage of the transitional reliefs, which would create an incongruity between companies reporting in 2027 depending on when their accounting reporting dates fall.

7. Secondary listing and depositary receipts categories

Q.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 broadly agree with the approach proposed for companies in the secondary listings and depositary receipts categories. It would be unreasonable to duplicate sustainability reporting requirements for companies that are already subject to sustainability reporting requirements by virtue of their primary listing elsewhere. It would also ensure that sustainability reporting does not become a significant barrier to a secondary listing in the UK, and therefore preserves UK competitiveness. It does this without undermining transparency.

However, we would propose two minor changes to the proposed regime. First, transparency may be improved by requiring those in the secondary listings and depositary receipts categories to disclose a high-level summary of how the applicable reporting standard they have used (if any) map against the UK SRS (or cross-referring to a reputable third-party analysis of the same). That summary would significantly improve comparability for investors without imposing the burden of a full, separate UK SRS report. Second, there is a risk that the scope of the proposed exemption may discourage companies whose primary jurisdiction allows for voluntary reporting (for example, where an EU-listed company is below the CSRD thresholds), to do such voluntary reporting. We would

therefore suggest expanding the exemption for companies with a secondary UK listing to also capture companies which voluntarily undertake sustainability reporting abroad to a standard equivalent to a foreign mandatory regime or the UK SRS.

Lastly, we would also recommend that the FCA considers to what extent the rationale for this exemption still applies in circumstances where the primary jurisdiction of the relevant issuer do not require climate and/or sustainability reporting.

Q.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?

The FCA has proposed that the disclosure requirements related to sustainability assurance for companies in the secondary listing and depositary receipts categories are consistent with the requirement for companies with a primary UK listing. We broadly agree with this approach, and do not consider there to be any overriding reasons for the rules to diverge, but note that some difficulties may arise for companies which are operating in jurisdictions without comparable assurance process, policies or standards. Our suggested changes to the proposal made in response to Q.10 above apply equally to the assurance of disclosures by companies with a secondary listing.

8. Consequential amendments

Q.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 CLLS agrees with the proposed consequential amendments to ESG 2.2.6R, which would allow firms to cross-refer in their TCFD entity reports to their UK SRS S2-related disclosures made in accordance with the updated UKLRs. The FCA is correct to recognise that UK SRS S2 corresponds to (and builds on) the TCFD Recommendations, with the ISSB stating that entities reporting against IFRS S2 will be TCFD-compliant. Therefore, the replacement of the existing UKLR TCFD-aligned climate disclosure rules with UK SRS S2-related disclosure rules does not sever the close content overlaps between the UKLR and ESG sourcebook regimes.

Given the above, we consider that these consequential amendments (i) effectively mitigate the risk of unnecessary and burdensome duplicative reporting, and (ii) help promote consistency and interoperability between separate sustainability disclosure documents. These are important considerations.

We note that the consultation document (at page 29) makes reference to the FCA's separate ongoing work to consider how to streamline and enhance its sustainability reporting framework as a whole. We understand that the future of the TCFD-aligned climate disclosure rules in ESG 2 'Disclosure of climate-related financial information' will form part of that overall review. As we have stated in our response to Q2, we consider that the FCA should continue in the direction of travel of replacing TCFD requirements with disclosure requirements built on the UK SRS S2 framework, given the risks of regulatory stagnation and divergence from evolving international best practice now that the TCFD framework is no longer being maintained. In contrast, the UK SRS S2 provides a coherent, domestically-tailored framework which should also be aligned with international best practice, offering greater legal certainty for preparers and users of climate-related disclosures.

9. Other considerations

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

The CLLS considers that the existing supervisory approach to the 'comply or explain' TCFD disclosure requirement set out in Primary Market bulletin TN/802.2 is equally applicable to the proposed UK SRS disclosure requirements.

We also consider that the existing role played by the FRC in monitoring disclosure practice against the existing TCFD disclosure requirements would be equally appropriate for monitoring and enforcing compliance with the proposed UK SRS and transition plan disclosure requirements. The FRC should continue to adopt a risk-based approach when selecting financial reports for review, and the FCA and FRC should continue to release thematic feedback which identifies areas of concern and suggests areas for improvement, alongside examples of best market practice which are often helpful to guide issuers seeking practical approaches to comply with complex disclosure requirements, and develop reporting market practice.

In light of the extensive nature of the proposed disclosure requirements, which are a significant step up from TCFD reporting, the CLLS emphasises that the FCA should focus on developing market practice and helping companies to identify and disclose information-useful data to stakeholders. We would therefore recommend that the FRC and FCA adopt a lighter touch regulatory approach in the initial years of the disclosure requirements coming into force, which should prioritise education and engagement, and avoid the imposition of sanctions (including the publishing of findings in respect of named issuers) on reporting issuers.