

Emmanuel Faber, Chair
International Sustainability Standards Board (ISSB)
Columbus Building
7 Westferry Circus
Canary Wharf
London, E14 4HD

26 September 2023

Dear Emmanuel,

Re: Proposed IFRS Taxonomy – IFRS Sustainability Disclosure Taxonomy

The Financial Reporting Council (FRC) welcomes the opportunity to engage with the ISSB on the development of the IFRS Sustainability Disclosure Taxonomy. We believe that ensuring that ISSB disclosures can be digitally reported and consumed is key to optimising the usability and usefulness of sustainability-related reporting. We consider the development of this taxonomy as a key step in achieving the overall goal.

The FRC regulates auditors, accountants and actuaries, issues accounting, audit, assurance, ethical and actuarial standards and guidance and sets the Corporate Governance and Stewardship Codes in the UK. We also enable digital reporting in the UK through the development, hosting and maintenance of digital reporting taxonomies on behalf of the UK business register, UK tax authorities, the securities regulator, the charities regulator and the Irish tax authorities.

The FRC has, through the FRC Taxonomies Suite, enabled the digitisation of Streamlined Energy & Carbon Reporting (SECR), Taskforce on Climate-related Financial Disclosures (TCFD) and other non-financial reporting, such as Gender Pay Gap and Diversity and Inclusion reporting in the UK. Hence, we have extensive experience in this area. In addition, our FRC Lab has been closely monitoring the implementation of structured reporting in the UK for listed companies and has researched ESG data production, distribution and consumption. The combination of these activities gives us valuable insight into digital reporting by UK entities in areas covered by the proposed IFRS Sustainability Disclosure Taxonomy.

This letter highlights some overarching comments for consideration during the development of the taxonomy. We reiterate some of the views included in [our comment](#)

[letter on the earlier staff request for feedback](#). It is followed by **Appendix A**, which includes our detailed responses to the specific questions posed in the consultation document. We hope that by providing these comments, we can help the ISSB further strengthen the effectiveness of the proposed taxonomy and support high-quality, consistent, and comparable reporting.

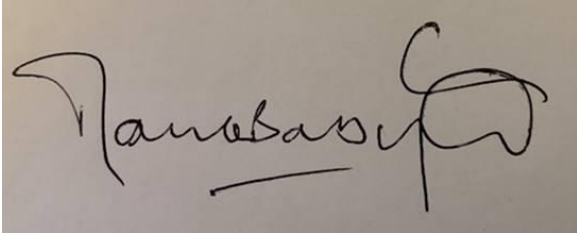
High-level comments

Overall, we support international standardisation of digital reporting and welcome the IFRS Sustainability Disclosure Taxonomy. In our view it broadly reflects the requirements in IFRS S1 and IFRS S2 but is limited to the disclosure requirements in the standards. We believe it is important that taxonomy modelling considers how the tags are expected to be used in practice to best serve the end user. One area that we suggest would benefit from design improvements is entity-specific metrics and targets as outlined under our response to question 2. In the following bullets, we highlight some overall suggestions to consider:

- **Field trials and common practice review** – Reporting on sustainability and using any resultant data is a new area and it remains uncertain what disclosures will look like in practice and what data modelling would best meet users' needs. Therefore, we recommended in our response to the staff request for feedback that field trials be undertaken. We appreciate that timelines may not allow for extensive field trials before the taxonomy is finalised. However, we believe that field trials should be encouraged with the support of jurisdictions during the implementation phase. Furthermore, a regular review of emerging reporting practice should start as soon as the taxonomy is issued. Lessons from field trials and practice review could form the basis for continuous improvement. Initially, it may be useful to review whether any lessons can be learnt from current TCFD reporting. We would be happy to contribute to the work in this area.
- **An ecosystems approach** – We strongly support the work and plans set out in the consultation to facilitate digital reporting of sustainability-related financial disclosures globally. We think the ISSB (in consort with others) has an important role to play in facilitating and convening discussions and actions across the digital reporting ecosystem, for example producers, standard-setters, software vendors, users and regulators. We would be happy to engage in relevant activity and research that supports this approach.

We welcome the opportunity to continue to work with the Board and staff in developing the taxonomy. If you would like to discuss these comments in more detail, please contact Phil Fitz-Gerald (P.Fitz-Gerald@frc.org.uk).

Yours sincerely,

A handwritten signature in black ink on a light-colored background. The signature is cursive and appears to read 'Mark Babington'.

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Appendix A: Specific areas where the ISSB is seeking feedback

Question 1 – Appropriate reflection of disclosure requirements in IFRS S1 and IFRS S2

Do you agree that the Proposed IFRS Sustainability Disclosure Taxonomy appropriately reflects the disclosure requirements in:

- (a) IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*; and**
- (b) IFRS S2 *Climate-related Disclosures*?**

Why or why not? If not, please specify what changes you suggest and why.

In our view the proposed taxonomy broadly reflects the requirements in IFRS S1 and IFRS S2 but is limited to the disclosure requirements in the standards. We believe it is important that taxonomy modelling considers how the tags are expected to be used in practice to best serve the end user. One area that we suggest would benefit from design improvements is entity-specific metrics and targets as outlined under our response to question 2.

Reporting on sustainability and using any resultant data is a new area and it remains uncertain what disclosures will look like in practice and what data modelling would best meet users' needs. Therefore, we recommended in our response to the staff request for feedback that field trials be undertaken. We appreciate that timelines may not allow for extensive field trials before the taxonomy is finalised. However, we believe that field trials should be encouraged with the support of jurisdictions during the implementation phase. Furthermore, a regular review of emerging reporting practice should start as soon as the taxonomy is issued. Lessons from field trials and practice review could form the basis for continuous improvement. Initially, it may be useful to review whether any lessons can be learnt from current TCFD reporting. We would be happy to contribute to the work in this area.

Question 2 – Usability of the IFRS Sustainability Disclosure Taxonomy

Do you agree that the Proposed IFRS Sustainability Disclosure Taxonomy will facilitate:

- (a) users of general purpose financial reports to consume sustainability-related financial information digitally;**
- (b) regulators to require the digital reporting of sustainability-related financial information; and**

(c) preparers to implement digital reporting of sustainability-related financial information, enabling tagging without undue cost?

Why or why not? If not, please specify what changes you suggest and why.

We believe that ensuring that IFRS Sustainability disclosures can be digitally reported and consumed is key to facilitating and optimising the usability and usefulness of sustainability-related reporting for users, regulators and preparers.

As explained in our response to question 1, we consider that the taxonomy should be continuously tested and take account of emerging practice. Evidence from these activities should feed into a rapid and continuous cycle of improvement. This will ensure it is fit for purpose for users, regulators and preparers.

There are some suggested areas where we think the proposed taxonomy modelling could be improved to facilitate consumption of information by users.

Modelling for entity-specific metrics

For each sustainability-related risk and opportunity that could reasonably be expected to affect the entity's prospects, IFRS S1 paragraph 46(b) requires disclosure of metrics the entity uses to measure and monitor:

- (i) that sustainability-related risk or opportunity; and
- (ii) its performance in relation to that sustainability-related risk or opportunity, including progress towards any targets the entity has set, and any targets it is required to meet by law or regulation.

Based on our research into ESG data consumption and distribution, we understand users and data aggregators want to be able to extract the value of such metrics easily – particularly for quantitative metrics.

The proposed taxonomy provides tags for the value of metrics that are specifically required by the standards or appear in industry-based guidance. However, there are no tags for the value of any entity-specific metrics, which means entities need to create extensions to tag them. In our view, such extensions would be difficult for users to consume, as they would need to rely on anchoring or table structures to find such metrics. We would prefer the taxonomy to be more complete in its provision of tags and provide quantitative concepts, to be used in combination with the 'metrics' dimension, so users are clear on which concept to extract.

Modelling for targets

In the proposed taxonomy, only a text block tag is available to tag the value of quantitative targets. We suggest adding a quantitative concept (or concepts) to the taxonomy. This will allow the value of a target to be tagged more precisely, with the appropriate units, and make it easier to extract and compare.

We also suggest the relationship between targets and related metrics ('Disclosure of metric(s) used to set target and to monitor progress [text block]') should be modelled in a more structured, machine-readable way (e.g. an extensible enumeration) rather than a text block element.

Other disclosures about risk management

The documentation label of the 'Other disclosures about risk management' tag appears to be very broad in scope: 'Other disclosure(s) (that are not included in other elements) about the entity's processes to identify, assess, prioritise and monitor sustainability-related risks and opportunities (including climate-related risks and opportunities), or about the entity's overall risk profile and risk management process.' [emphasis added]. This seems to imply the tag should also be used for risk reporting on non-sustainability-related risks. We are unsure whether this is the intention of IFRS S1.43(b). Such a tag would have a very broad scope, making it difficult to tag for preparers and not very useful for users.

Question 3 - Other comments on the general features of the Proposed IFRS Sustainability Disclosure Taxonomy

Do you have any other comments on:

(a) the general features of the Proposed IFRS Sustainability Disclosure Taxonomy (paragraphs 1–41)?

(i) In particular, do you agree with the specific proposed categorical elements and their properties? (See Appendix F—General features of the Proposed IFRS Sustainability Disclosure Taxonomy—List of categorical elements).

(ii) Why or why not? If not, please suggest changes to the elements or their properties.

(b) specific IFRS Sustainability Disclosure Taxonomy elements or the groups of elements to which they relate (see the Proposed IFRS Sustainability Disclosure Taxonomy files or its visual representation in IFRS Taxonomy Illustrated)?

Use of categorical elements

We agree with the proposal to use categorical elements for narrative disclosures. In the UK, we already extensively use Boolean tags for narrative disclosure, and we find they facilitate efficient analysis of tagged data.

Connection between disclosures

We consider that the IFRS Sustainability Disclosure Taxonomy should include a specific technical mechanism to capture connections between related pieces of information in the same report digitally.

We believe that it is essential that information is easy to navigate within and between disclosures, as this is fundamental to using sustainability-related reporting for filers and for data users. If a digitally connected approach is not used, we believe that this will make the paper (PDF) document the default for use.

Question 4 - Reflecting the relationship between IFRS S1 and IFRS S2

Do you agree with the ISSB's proposal to create a single set of elements to reflect the corresponding disclosure requirements relating to the core content in IFRS S1 and IFRS S2 (paragraphs 42–55)?

Why or why not? If not, please specify what changes you suggest and why.

We agree with the proposed approach as this will prevent duplication of elements. We think the approach is helpful to avoid multi-tagging when entities provide integrated disclosures, while allowing tagging with different members of the 'risks and opportunities' dimension if separate disclosures are provided.

Question 5 – Granularity of narrative disclosures

(a) Do you agree with the ISSB's proposal that, as a principle, distinct taxonomy elements should be created for narrative information that is expected to be both separately understandable to users of general purpose financial reports and readily identifiable for tagging (paragraph 65)? Why or why not? If not, what principle would be more appropriate?

(b) Do you agree that creating elements that represent the first-level subparagraphs of IFRS S1 and IFRS S2 (for example, paragraph 30(a) or 30(c) of IFRS S1 (see paragraph 67)) would generally be consistent with this principle? Why or why not?

If not:

(i) should taxonomy elements generally represent narrative data sets that are more detailed or less detailed than the first-level subparagraphs. Why?

- (ii) should the elements suggested in response to (i) be provided in addition to the proposed elements (creating a hierarchical structure) or as an alternative to the proposed elements? Why?**
- (c) In which, if any, cases do you think elements representing another level of disclosure requirement instead of the first-level subparagraphs in IFRS S1 and IFRS S2 would be more appropriate? Why?**

We support the proposed principle and approach for determining the appropriate granularity of narrative tags as it avoids unnecessary multi-tagging. We believe that a similar granularity modelling principle should be applied to the IFRS Accounting Taxonomy to ensure consistency in design approach.

Question 6 —Facilitating digital reporting of sustainability-related financial disclosures globally

- (a) Are there any aspects of the proposals related to the Proposed IFRS Sustainability Disclosure Taxonomy that should be changed to enhance the IFRS Sustainability Disclosure Taxonomy’s ability to facilitate digital reporting of sustainability-related financial disclosures globally? If so, please specify what changes you suggest and why.**
- (b) What implementation guidance and supporting materials and other resources, if any, would be useful to those using the IFRS Sustainability Disclosure Taxonomy, what issues do you think they should focus on and why?**

We agree with the ISSB developing guidance and suggest focusing on:

- guidance for preparers—including realistic tagged examples. We also think additional guidance is needed to clarify where preparers are expected to create extension concepts.
- assisting regulators in adopting the IFRS Sustainability Disclosure Taxonomy in their jurisdictions. In particular it would be helpful for the ISSB to provide guidance on the optimal architecture for regulatory extension taxonomies or contribute to the development of such guidance by XBRL International.
- guidance for regulators on best practice for distributing and connecting tagged reporting would also be helpful, for example on how to use cross-referencing when financial and sustainability-related information are part of same reporting package as a single report or when published separately.

- contributing to the harmonisation of filing rules globally—differences in filing rules between jurisdictions currently impose a burden on software vendors and on companies with listings in multiple countries.
- mapping files between taxonomies to facilitate interoperability once the underlying standards are finalised and relevant taxonomies are further advanced.
- guidance labels—we suggest the ISSB staff engage with software vendors to encourage them to display such labels more prominently in their tools.

Question 7 – Other comments

Do you have any other comments or suggestions on the Proposed IFRS Sustainability Disclosure Taxonomy?

Consultation and encouraging feedback

Many issues will likely be identified as preparers and software providers begin to experiment with and implement these taxonomies.

In our view it is crucial to encourage wide and deep feedback from jurisdictions, software companies, tagging service providers, data aggregators and emerging FinTech and SupTech firms on taxonomy related aspects of the standards. We note that the original staff draft received limited responses from some of these groups compared to the underlying standards. Therefore, different approaches to outreach and communication on taxonomy-related aspects may need to be considered. In the UK we have regular engagement with software providers (and through the FRC Lab’s work with other relevant groups), which are valuable sources of input into our process.

We also recommend the ISSB provide a mechanism or forum for regulators and standard-setters in jurisdictions that have implemented the IFRS Sustainability Disclosure Taxonomy to discuss reporting practice and to feed back suggested improvements. This may be through the already established Jurisdictional Working Group.

In the UK, we have also adopted an open consultation model which allows people to comment on the taxonomy on an ongoing basis. We combine this approach with time-limited consultations to allow regular taxonomy updates. We use a taxonomy consultation platform to support this approach. As well as allowing more regular feedback, it provides a more intuitive and insightful way for people to review and explore the taxonomy than via PDF or spreadsheets. We recommend that the ISSB consider such tools and approaches.