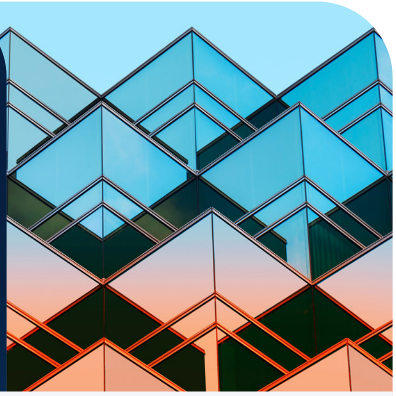
Chapter Zero
The UK Directors' Climate Forum

FROM REGULATION TO STRATEGIC ADVANTAGE:

5 recommendations for NEDs on integrating new sustainability-related disclosure requirements



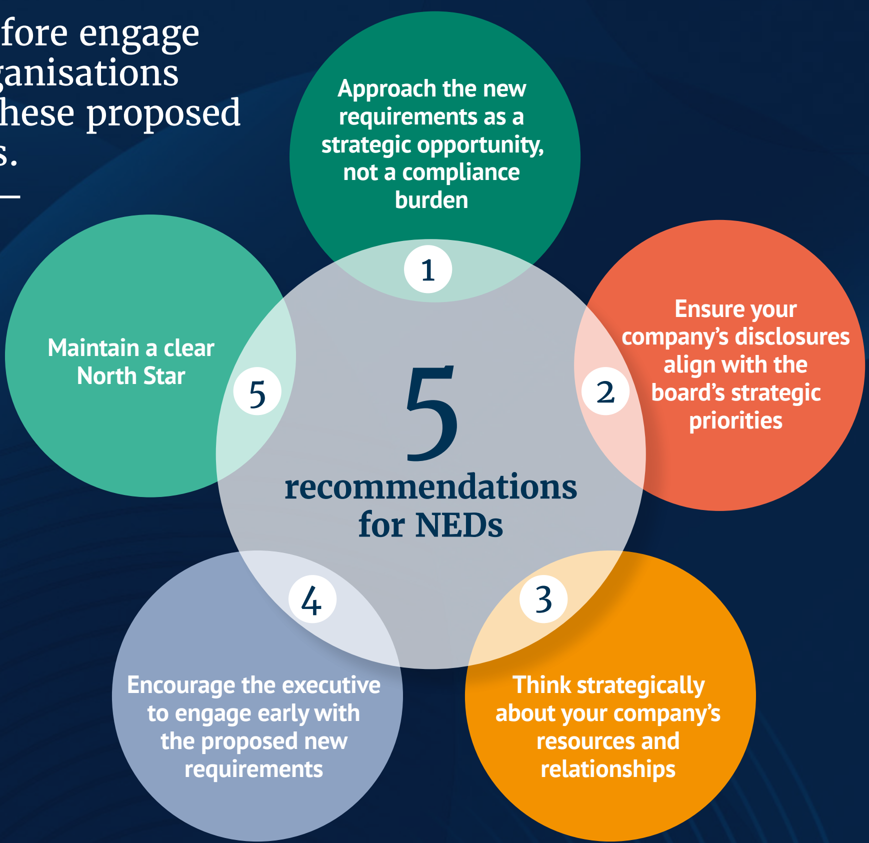
12 minute read

A game-changer...

Speaking at COP 26 in Glasgow in November 2021, the CEO of the UK Financial Conduct Authority (FCA), Nikhil Rathi, described the launch of the IFRS Foundation's International Sustainability Standards Board (ISSB) as *"a game-changer and a crucial development in creating trust through transparency. The ISSB will set, for the first time, a global baseline of complete, consistent and comparable sustainability reporting standards."*

A little more than four years on, **around 40 jurisdictions have either adopted, or are on the journey to adopt**, the ISSB's inaugural standards, IFRS S1 and IFRS S2 (see box 1). The UK is among this group of early adopters. The UK government has just published its UK Sustainability Reporting Standards (UK SRS S1 and S2), based on the ISSB Standards and endorsing this global reporting baseline. While these standards are currently voluntary, the FCA has issued a consultation paper, which proposes rules for listed companies that will require disclosure against these standards (see box 2). **Disclosures against UK SRS will be included in companies' annual reports, so they will be subject to board oversight. All NEDs will need to be familiar with the required disclosures.** Audit and Risk Committee chairs and members, in particular, will need to scrutinise their organisations' disclosures closely.

NEDs should therefore engage with how their organisations are preparing for these proposed regulatory changes.



1 Approach the new requirements as a strategic opportunity, not a compliance burden

The ISSB Standards refer to the disclosure of information about **sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects** – that is, its cash flows, its access to finance or cost of capital. The core audience of the standards is investors and other providers of capital, and the primary aim is to enable capital markets to price assets and allocate capital efficiently.

The requirements are therefore firmly directed towards **improving transparency about *business risks and opportunities and value creation* for the benefit of investors.** Depending on their materiality (significance) to corporate value over the short, medium and long term, this could include information about any number of strategic issues – for instance, information about how a company is:

- building resilience as physical climate risks intensify, both in its own operations and in its supply chain
- capturing opportunities to improve energy efficiency, reorient its business model, or open new markets as the economy decarbonises
- managing water scarcity in drought-prone geographies
- improving soil health by exploring regenerative agricultural techniques
- enhancing human capital risk management processes to reduce the risk of labour shortages, improve productivity, and minimise compliance costs.

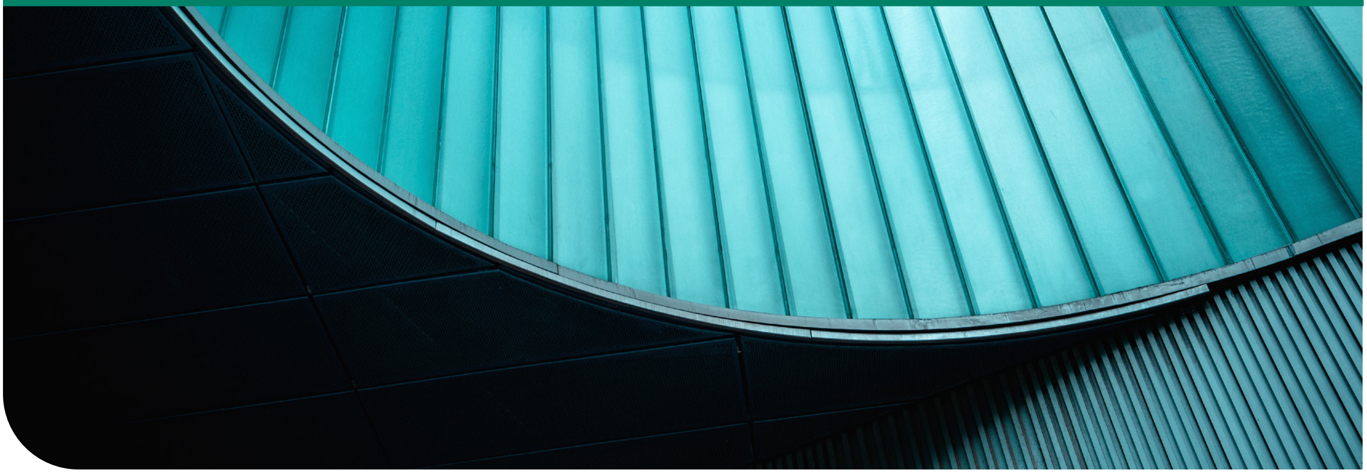
A company's disclosures are therefore likely to include forward-looking information on its plans and its actions to protect and enhance value by responding and contributing to the transition to a low-GHG emissions, climate-resilient economy; that is, information on any transition plan that it has developed.[1]

Being responsive to investors can help a company focus its attention, and its actions, on those sustainability-related issues that are strategically relevant and important for value creation – i.e., those that are truly important to build resilience and capture opportunity.

So, NEDs can help the executive to view the proposed new requirements as a strategic opportunity to deepen focus on what matters most, rather than as a compliance burden.

Box 1: IFRS Sustainability Standards

- **IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*** sets out general requirements to support companies' disclosure of information about the sustainability-related risks and opportunities they face over the short, medium and long term. The requirements are organised according to the four pillars of the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations: governance, strategy, risk management, and metrics and targets.
- **IFRS S2 *Climate-related Disclosures*** sets out specific climate-related disclosure requirements for a company to disclose information about its climate-related risks and opportunities. IFRS S2 builds on the requirements and conceptual foundations set out in IFRS S1 and fully integrates the TCFD recommendations.



[1] The IFRS Foundation has developed guidance on disclosing information about a company's climate-related transition, including information about transition plans, drawing on the Transition Plan Taskforce Disclosure Framework.

2 Ensure your company's disclosures align with the board's strategic priorities

Critically, **the matters covered by a company's sustainability-related disclosures should be a subset of the long-term strategic issues considered by the board** – i.e., the strategic drivers of value. This is an important discipline. If a matter is not sufficiently relevant to value creation to justify the board's attention, it is probably neither decision-useful for providers of capital, nor sufficiently material to be included in the company's disclosures.

If a business can communicate in a focused way around the drivers of value, it should – other things being equal – improve its access to, and lower the cost of, capital. In this way, reporting can be a source of strategic advantage.

The materiality lens of the ISSB Standards, and hence UK SRS, supports this strategic alignment of disclosures. In accordance with the standards, the definition of materiality is grounded in the extent to which the information can be expected to influence investors' economic decisions.[2]

By applying a strategic focus, the company should also be well placed to keep the annual report streamlined and decision-useful for capital providers. NEDs should therefore guard against the growing length and expanding coverage of sustainability disclosures observed in the first round of reporting under the EU's Corporate Sustainability Reporting Directive. Analysis by Deloitte observed that sustainability disclosures averaged 130 pages, with some extending beyond 400 pages.[3]

> "Bluntly, if your disclosure under UK SRS does not align with your board's strategic priorities, then you're doing it wrong. The point is to provide your investors with material information, no more and no less."
>
> **Richard Barker**
> Chapter Zero Fellow and Board Member, International Sustainability Standards Board

Box 2: Consultation paper 26/5: Aligning listed issuers' sustainability disclosures with international standards – a summary of the FCA's proposals

The FCA proposes to replace its existing "comply or explain" TCFD-based climate-related disclosures rules for UK-listed companies. The proposals:

- align climate-related disclosures with climate disclosure requirements in UK SRS;
- bring these disclosures onto a mandatory footing – with the exception of the disclosure of Scope 3 GHG emissions, which it is proposed will remain on a "comply or explain" basis;
- introduce disclosures about sustainability-related topics other than climate on a "comply or explain" basis, with reference to UK SRS – requiring, if an entity chooses to explain, transparency of any sustainability-related risks and opportunities that the company has identified that could reasonably be expected to affect its prospects;
- add transparency as to whether and where in-scope listed companies have published a transition plan, or the reason why not; and
- bring transparency to any assurance obtained over listed companies' disclosures related to UK SRS.

It is proposed that the rules will come into force on 1 January 2027. The new rules would then apply to accounting periods beginning on or after 1 January 2027.

The FCA's proposals are designed primarily to advance the FCA's objective of protecting and enhancing the integrity of the UK financial system. Through these proposals, the FCA aims to improve the quantity, quality, and comparability of sustainability disclosures across global markets. The FCA further notes potential benefits to consumer protection and public confidence in financial markets.

[2] IFRS S1 defines material information as follows: *information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity.*

[3] See Deloitte's analysis of first-wave CSRD reports.

3 Think strategically about your company's resources and relationships

A company's disclosures should also recognise that **every business operates as part of a wider system**. Climate- and other sustainability-related risks and opportunities arise throughout the value chain, not just within a company's own operations.

As the ISSB's General Requirements standard (IFRS S1, paragraph 2) observes:

... an entity's ability to generate cash flows over the short, medium and long term is inextricably linked to the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain. Together, the entity and the resources and relationships throughout its value chain form an interdependent system in which the entity operates. The entity's dependencies on those resources and relationships and its impacts on those resources and relationships give rise to sustainability-related risks and opportunities for the entity.

To maximise strategic value, NEDs should therefore encourage executives to:

- think about the system in which the company operates and **build an understanding of its resources and relationships** – see Figure 1 for examples
- **identify the company's dependencies and impacts** on those resources and relationships and the **sustainability-related risks and opportunities that could arise**
- **consider how these sustainability-related risks and opportunities could affect the company's prospects** and take steps to **address them**[4]
- **communicate material information about these risks and opportunities** in the company's general purpose financial reports in accordance with ISSB Standards and UK SRS to support the economic decisions of capital providers.

Figure 1. Examples of resources and relationships

Human	Intellectual	Financial	Natural	Manufactured	Social
• Entity's workforce • Workers in supply chains	• Patents • Copyrights • Trademarks	• Cash • Investments • Access to financial resources	• Land • Water • Minerals • Raw materials	• Machinery • Equipment • Buildings • Infrastructure	• Stakeholder relationships • Customers • Indigenous communities

Recreated from source: IFRS Foundation Sustainability-related risks and opportunities and the disclosure of material information, p25

[4] See also (forthcoming) WBCSD-Chapter Zero brief on transition plan dependencies, based on WBCSD's Practical Guide.

4 Encourage the executive to engage early with the proposed new requirements

As noted above, the ISSB Standards, and hence UK SRS, are anchored in the TCFD recommendations.

The TCFD recommendations and recommended disclosures also form the basis for existing climate-related disclosure requirements in the UK, so listed companies will generally be familiar with the core content of the climate standard, UK SRS S2. This should make implementation easier for most companies, leaving them well positioned for a smooth transition to the proposed new requirements.

However, in moving beyond the existing TCFD-aligned disclosure requirements, companies will need to understand the conceptual framework underpinning ISSB Standards and UK SRS, and become familiar with any areas in which additional or more detailed information is required. The IFRS Foundation has published guidance on transitioning from TCFD recommendations to ISSB Standards, including a comparison of IFRS S2 with the TCFD Recommendations.

The proposed timeframe for bringing the new rules into force also gives companies sufficient time to familiarise themselves with the detail of the new requirements and to build operational capacity to make high-quality disclosures against the new standards. The proposed "comply or explain" compliance basis for disclosure of information on sustainability-related risks and opportunities other than climate also recognises that this may be new for some companies.

NEDs should challenge executives to use the additional preparation time wisely, in order to ensure that their companies are ready for high-quality reporting and that they are well positioned to derive strategic advantage from implementing the proposed new requirements.

NEDs should encourage executives to build capacity early, challenging them to move quickly to establish the controls, systems, operational processes and procedures necessary for well-targeted, decision-useful reporting.

5 Maintain a clear North Star

The proposed new requirements are clearly being introduced against a challenging backdrop, with some jurisdictions' – most notably the US – and some companies' commitment to climate-related goals weakening.

However, it is important to note that **while some are retreating, others continue to advance**. A survey of climate policies in 37 jurisdictions, published by the University of Oxford ahead of COP 30, found that "the direction of change remains firmly pointed toward transition. Climate policies continue to increase and strengthen around the world, particularly in the Asia Pacific region and the Global South." [5]

Furthermore, **the fundamentals haven't changed.** While the politics are shifting in some jurisdictions, the signals from the science, the incidence of extreme weather events, and the economic transformation on the ground all continue to underpin – and even strengthen – the business case for climate action.

The economics are beginning to shift in favour of rapid decarbonisation, as clean energy solutions are deployed at scale. An expanding share of the world economy is cutting carbon emissions even as economic growth continues.[6] And, as a recent investor briefing from PRI notes, "[t]he transition to a net zero economy is now a defining force shaping markets and investment flows.

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Following the 2015 Paris Agreement, the transition accelerated markedly. In 2024, global investment in the energy transition hit a record US$2.1 trillion, climbing 11% from the previous year."[7] The UK is no exception: Turnover in the UK's low-carbon and renewable energy economy almost doubled between 2015 and 2024, increasing almost 12% year-on-year in 2024 alone.[8]

At the same time, exposure to physical climate risk continues to rise. A recent large-scale global study found that more than half of companies are already heavily exposed to physical risk hazards, underscoring the increasing relevance of climate change to companies' prospects.[9]

So, NEDs are encouraged to maintain a North Star, guided by risks and opportunities for the business and strategic value creation.

[5] Oxford Climate Policy Hub (2025), Oxford Climate Policy Monitor - 2025 Annual Review.
[6] Energy and Climate Intelligence Unit (2026) 92% of the global economy is decoupling emissions from growth.
[7] PRI (2026) Towards Transition Intelligence: Navigating a Multi-speed Transition through Investor Transition Planning.
[8] ONS (2026) Low carbon and renewable energy economy, UK - Office for National Statistics.
[9] MSCI (2025), Hidden in Plain Sight: Physical Risk in Asset Owners' Portfolios.