



By email to UKSustainabilityTAC@frc.org.uk

10 October 2023

Re: Call for Evidence Regarding UK Endorsement of IFRS S1 and IFRS S2

T. Rowe Price¹ welcomes the opportunity to submit our firm's feedback on the **Call for Evidence: UK Endorsement of IFRS S1 and IFRS S2**, published by the Financial Reporting Council (FRC) in its role as the secretariat for the UK Sustainability Disclosure Technical Advisory Committee (TAC).

Support for the endorsement. We support the United Kingdom's adoption of the IFRS S1 and S2 standards published by the International Sustainability Standards Board (ISSB), subject to the following observations on the timing of adoption and reporting of greenhouse gas (GHG) emissions. For several years, T. Rowe Price has advocated that our investee companies adopt Sustainability Accounting Standards Board (SASB) and Taskforce on Climate-related Financial Disclosures (TCFD) reporting standards. Given the ISSB's incorporation of these two standards in its framework, we are now recommending that our investee companies look to adopting the ISSB disclosure in the future. Our support for ISSB is based on its emphasis on providing environmental and social disclosures centered on financial materiality, which also includes industry-specific provisions. We believe that our clients benefit from the provision of sustainability disclosures, as they help us quantify environmental and social risks and opportunities. Additionally, qualitative disclosures aid our analysis of the management team's management of risks and strategic approach in these areas.

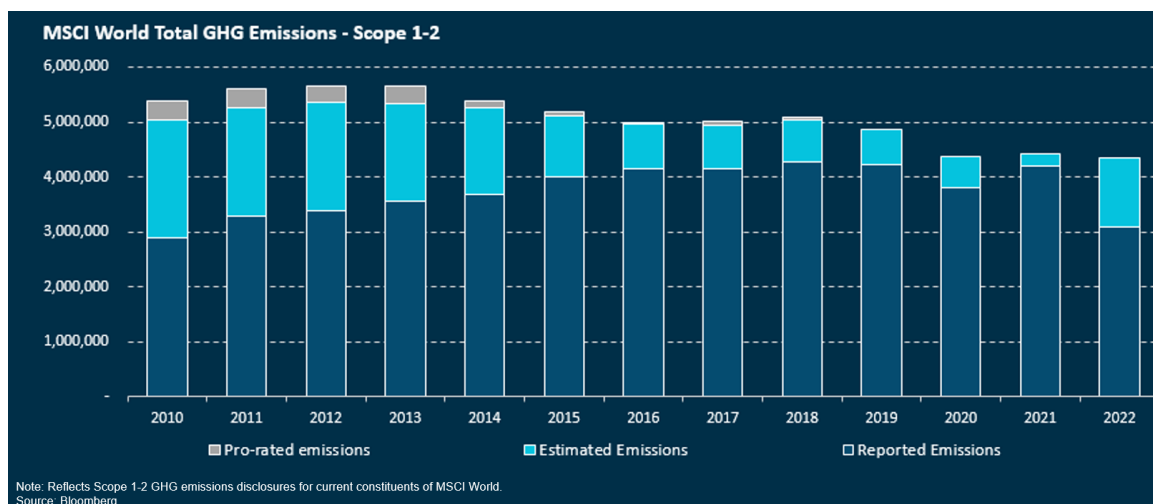
Sufficient time for adoption. As the IFRS S1 and S2 standards become effective in January 2024, we anticipate that the most ambitious companies will use these ISSB standards for year-end 2024 reports, issued in 2025, but that most of our investee companies will require a longer period of time to transition. During this period of transition, we expect that many of our investee companies will continue to report using SASB and TCFD standards. The UK Government should provide an adequate period of time for adoption, as many companies have invested in the infrastructure to prepare SASB and TCFD reporting. Forcing them to change reporting standards in a short period of time may be an undue burden. We also recognize that other corporate sustainability disclosures will be required by other jurisdictions at around the same time, such as by the European Union.

In our view, large capitalization companies should not be required to make ISSB disclosures any earlier than 2026 (capturing year-end 2025 disclosures); allowing a longer transition period for companies already using SASB and TCFD disclosures could be reasonable. Additionally, smaller capitalization companies should be given a longer transition period than their larger peers.

Greenhouse gas emissions – Scope 1-2 reporting. Publicly listed corporate issuers should disclose scope 1-2 GHG emissions at the same time as, or relatively close to, their financial results. In our experience, publicly listed company disclosure of scope 1-2 GHG emissions data is fairly good; however, it is not ideal that reporting of GHG emissions often occurs much later than financial reporting. The table below illustrates scope 1-2 GHG emissions disclosure for the current constituents of the MSCI World Index. As you can see, most emissions are

¹ T. Rowe Price is a global investment management organization, serving a broad array of clients, from individual savers to large institutions and funds. Headquartered in the United States, T. Rowe Price has offices in 17 jurisdictions around the world, including in the United Kingdom, with global assets under management of \$1.40 trillion as of August 31, 2023.

accounted for with reported data in 2021, but, even as late as September 2023, we are still waiting for a significant amount of emissions to be disclosed for 2022. We believe that our assessment of environmental and social factors affecting our investments would strongly benefit from publicly listed corporate issuers disclosing this data either at the same time or relatively close to their financial results.



Greenhouse gas emissions – Scope 3 reporting. Regulators should consider providing guidance to publicly listed corporate issuers on the use of estimating methodologies for scope 3 GHG emissions. In our experience, one of the most difficult hurdles for publicly listed corporate issuers to overcome is the disclosure of scope 3 GHG emissions. This is supported by the fact that fewer than 2% of companies within the MSCI World Index report a full suite of scope 3 emissions data (covering all 15 categories) or even reliably report on the scope 3 emissions categories most material to their business.

This lack of consistency in scope 3 GHG emissions reporting means that asset managers are forced to rely on estimated scope 3 emissions data. This is problematic, as scope 3 emissions can only accurately be estimated using data not available to asset managers or the third-party data providers who are usually conducting the estimation (MSCI, Sustainalytics, etc.). As such, the estimates are more a reflection of industry averages.

Given the importance that scope 3 emissions play in climate scenario analysis of investment portfolios, the lack of company reported scope 3 data means the exercise is more a reflection of sector or industry allocation rather than security selection. We find this concerning as portfolio level climate scenario analysis is becoming a more commonly requested data point and is a part of TCFD disclosure required for asset managers in the UK. Without a dependable scope 3 emissions data set underlying climate scenario analysis, its output could be misleading.

Based on our discussions with our investee companies, we know that many of them struggle with estimating methodologies for the various categories of scope 3 emissions. This is in part due to the nascency of estimating methodologies, and, often, concerns over legal liability. Regulators could ease these concerns by providing guidance to publicly listed corporate issuers on the use of estimating methodologies for scope 3 GHG emissions.