Mr Faber
International Sustainability Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
commentletters@ifrs.org

29 July 2022

Dear Mr Faber,

BVCA feedback on the International Sustainability Standards Board's (ISSB) Exposure Drafts - *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (General Requirements ED)* and *IFRS S2 Climate-related Disclosures (Climate ED)*

We are writing on behalf of the British Private Equity and Venture Capital Association, which is the industry body and public policy advocate for the private equity and venture capital industry in the UK. With a membership of over 700 firms, we represent the vast majority of all UK-based private equity and venture capital (PE/VC) firms, as well as their professional advisers and investors. Between 2017 and 2021, BVCA members invested over £57bn into around 3,900 UK businesses, in sectors across the UK economy. Companies backed by PE/VC currently employ over 2m people in the UK and 90% of the businesses our members invest in are SMEs.

The UK's PE/VC industry has a leading role to play in global efforts to eliminate the causes and combat the effects of climate change. As either majority or significant minority owners, principally of unlisted, fast-growing SMEs, private capital funds managed by BVCA member firms are well-placed to drive transition in areas of the UK and global economies that public markets cannot reach. This includes backing innovation that creates the technology needed to fight climate change and supporting businesses to transition to a low carbon economy.

Support for a global baseline for sustainability disclosures

The PE/VC industry is international and invests and operates across borders. The BVCA therefore supports the ISSB's work in creating a global baseline for sustainability disclosures that relate to an entity's enterprise value, as this will enable consistency in reporting and better comparability across businesses which in turn should support the functioning of capital markets internationally. We support the priority work on climate and look forward to engaging on other sustainability topics in the future.

In the UK, the government is implementing the Taskforce on Climate-related Financial Disclosures (TCFD) framework across the economy. In practice this means that over the coming years, investors in PE/VC funds, larger PE/VC asset managers and larger PE/VC-backed businesses (also referred to as portfolio companies) will need to report under the TCFD framework (including as part of the statutory financial reporting process and to investors). The UK government intends to implement the ISSB's standards under the UK's Sustainability Disclosure Requirements (SDR) framework for corporates, which could be relevant for larger PE/VC-backed businesses and listed PE/VC managers. We are therefore supportive of the ISSB's approach in the General Requirements and Climate EDs to build upon the TCFD framework given the work already underway by our members.

Feedback on development and implementation of standards

The introduction of IFRS S1, S2 and future sustainability standards will require companies and asset managers to invest further to evolve their investment and reporting processes and will entail significant costs (noting that the market for service providers with specialist expertise and products/services is still also nascent in places).

The EDs also rightly recognise that sustainability and climate reporting is a developing area, so our feedback sets out general points to consider as the standards are implemented, and we defer to standard setters (e.g. the FRC) and others on detailed drafting points.

- **Regular dialogue as standards are developed:** We look forward to meeting with members of the ISSB's team to discuss the perspectives the PE/VC industry, the investment structures we use, current market practice and guidance under development (see more below), and the challenges related to the data collection and reporting process.

- **International coordination:** We welcome the work of the ISSB's Jurisdictional Working Group in engaging with EU and US authorities such as the European Financial Reporting Advisory Group and US Securities and Exchange Commission. Many PE/VC firms have asset management and advisory entities, funds and portfolio companies in different jurisdictions and will have to comply with regulation and reporting standards in the UK, EU and US. We are already starting to see similar but divergent reporting and regulatory requirements which will ultimately lead to higher costs and multiple forms of reporting. Deeper co-ordination between international standard setters should help to ease the challenges of complying with multiple regimes.

- **Implementation and phasing:** Developing a global baseline quickly will help with international coordination as highlighted above. With respect to the implementation of the standards themselves, we will consult with UK authorities (FRC, BEIS, etc) to ensure businesses and asset managers have adequate time to implement the required reporting systems and processes. Linked to this, the market for service providers and advisors on climate and sustainability matters is also evolving and growing as they seek to deepen expertise and offerings. Costs are always higher in the first year of implementing any new standard as external advisors, auditors and preparers of financial statements familiarise themselves with requirements and expectations of users of the accounts (including suppliers and customers). Given the subjective, forward-looking and qualitative nature of some of the disclosures, costs associated with assurance or verification of disclosures and judgements made will also be high. The EDs recognise these points and we would recommend phasing in of more difficult requirements where methodologies are still being developed e.g. the requirement to conduct climate-related scenario analysis (or alternative analysis) to assess an entity's climate resilience. The EDs also recognise that in some areas it will not be practical to provide quantitative analysis and qualitative information can be presented instead e.g. on the current and anticipated affects of climate-related risk and opportunities, including on the value chain. We also welcome the use of estimates and range rather than single values where quantitative analysis is possible.

- **Developing market practice and terms used in the EDs:** Over the coming years methodologies to report on items referred to in the EDs will evolve and reporting expectations will become clearer, so it is likely to take a few reporting cycles for businesses and asset managers to implement the standards fully as market guidelines develop, and further guidance may be required from the ISSB as well. We welcome the focus on matters that are material to enterprise value but significant work will still be required on the judgements that need to be made in sustainable reporting, such as:

    - determining materiality;
    - what constitutes a significant sustainability risk and opportunity;
    - how to determine an anticipated financial effect;
    - setting of time horizons (short, medium and long term);
    - what is included within the value chain; and
    - the inclusion of forward-looking information.

  Furthermore, reporting on transition plans (and linked to this, developing areas such as carbon credits and offsets), will be an iterative process as industry guidance on expectations and requirements develops. Proportionality embedded within reporting requirements set out in the EDs will assist reporting entities e.g. explanations for partial inclusion/non-inclusion of information and work underway to develop it, qualitative analysis where quantitative information is unavailable, etc. Over time, an equivalent of the IFRS for SMEs standard would also be beneficial for smaller businesses.

- **Greenhouse gas emissions and industry-based requirements:** In relation to the Climate ED, we agree with the use of the GHG Protocol to measure greenhouse gas (GHG) emissions. Initiative Climat International (iCI) and ERM have recently launched a new standard that for the first time sets out a consistent approach to GHG emissions disclosure across the private equity sector. The standard represents a practical application of the GHG Protocol and the Partnership for Carbon Accounting Financials Global GHG Accounting and Reporting Standard to private equity investing. The standard covers areas proposed in the Climate ED such as the accounting of financed emissions and measurement of absolute emissions and emissions intensity metrics. We agree that entities should separately disclose Scope 1 and 2 emissions for the consolidated entity and for any associates, joint ventures, unconsolidated subsidiaries and affiliates. The Climate ED acknowledges the difficulties in obtaining Scope 3 emissions and the iCI standard sets out how PE/VC firms can approach and report on this area. The ISSB could also consider further transitional arrangements for reporting on scope 3 emissions.

Please do not hesitate to contact us should you wish to discuss our feedback in greater detail (please contact Ciarán Harris: charris@bvca.co.uk)

Yours sincerely,

GKManku

Gurpreet Manku
Deputy Director General & Director of Policy, British Private Equity & Venture Capital Association