Shell International B.V.
P.O. Box 162
2501 AN The Hague
The Netherlands
Website: www.shell.com

Secretariat, Financial Reporting Council
UK Sustainability Disclosure Technical Advisory Committee
125 London Wall, 8th Floor
London
EC2Y 5AS

11 October 2023

Call for Evidence Response on UK Endorsement of IFRS S1 and S2

Dear Secretariat,

We would like to thank the UK Sustainability Disclosure Technical Advisory Committee (TAC) for the opportunity to comment on the proposed endorsement of the International Sustainability Standards Board's (ISSB) International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards (SDS), i.e., General Requirements for Disclosure of Sustainability-related Financial Information (S1) and Climate-related Disclosures (S2). This response is consistent with our previous consultation replies[1] to the IFRS regarding the development of the ISSB (21st December 2020) and the initial ISSB SDS exposure drafts (29th July 2022), in addition to replies to the Transition Plan Taskforce's (TPT) proposed Disclosure Framework and Implementation Guidance (31st March 2023) and the UK's review of non-financial reporting (NFR) requirements (16th August 2023).

Shell[2] has a strong sustainability focus, and a long history of reporting on sustainability- and climate-related matters. We believe the development of global sustainability disclosure standards is of paramount importance in providing investors and other stakeholders with relevant and useful information. We support the ISSB's efforts in establishing this comprehensive global baseline of sustainability-related disclosures aimed at providing consistent, comparable, and verifiable decision-useful information to meet the needs of investors.

The ISSB's principles-based standards and investor focus, combined with their aims at connectivity of sustainability reporting with financial reporting and the incorporation of decision useful information for users, form a sound basis for sustainability disclosures. We also support their approach to build on existing standards and guidelines, specifically the Task Force on Climate-related Financial

1 Shell responses to IFRS Foundation Consultation Paper on Sustainability Reporting, IFRS S1 General Requirements and S2 Climate-related Disclosures Exposure Drafts. Responses to UK TPT and NFR Requirements are not publicly available, can be provided on request.
2 The companies in which Shell plc directly and indirectly owns investments are separate legal entities. In this content "Shell", "Shell Group" and "Group" are sometimes used for convenience where references are made to Shell plc and its subsidiaries in general. Likewise, the words "we", "us" and "our" are also used to refer to Shell plc and its subsidiaries in general or to those who work for them.

Disclosures (TCFD) Recommendations for both structure and content, as we believe that this will improve the efficiency and speed with which adoption and implementation of the SDSs can take place. Further, we believe the ISSB's use of the TCFD approach incorporating the narrative context in addition to metrics and targets brings holistic disclosures providing more valuable insights to inform investors. We are supportive of the UK's adoption of the ISSB standards, provided that measures taken are proportionate, don't lead to duplication, and are not unduly burdensome nor lead to excessive reporting obligations.

Our view is that reporting in line with IFRS SDSs will result in more understandable, relevant, reliable and comparable disclosures for investors. However, we would like to inform the TAC of some concerns and challenges that remain with the application of the IFRS SDSs. As part of this consultation, we are providing direct responses to certain consultation questions below, followed by more general comments of particular importance, for your consideration. We believe that taking these considerations into account in the UK's adoption of ISSB Standards will support preparers in their implementation, providing benefits that are proportionate to the costs likely to be incurred.

- *Regarding* ***identifying sustainability-related risks and opportunities*** *(per IFRS S1 paragraphs 54-55 and S2 paragraphs 10-12), have you used, or do you plan to use, the sources of guidance in IFRS S1 and the disclosure topics in IFRS S2 to identify sustainability-related and climate-related risks and opportunities?*

  We have used some of the external sources of guidance and disclosure topics in the SDSs in the identification of sustainability- and climate-related risks and opportunities, among other internal and external inputs and processes. However, we are not supportive of the incorporation of requirements by cross-reference to external standards and guidelines. In our view, content should be developed for inclusion directly within the SDSs as opposed to cross-referenced to others. Our rationale is that many issues arise when cross-referenced materials are used but are not developed using the same conceptual framework, leading to confusing and sometimes conflicting requirements. As these external standards and guidelines change over time, this may lead to further misalignment. For example, it is expected that the GHG Protocol, which the ISSB mandates the use of for the measurement of GHG emissions metrics, will undergo updates that may impact these standards in the coming years.

- *Regarding* ***reporting approach*** *(per IFRS S1 paragraph 20), is there sufficient guidance on how to identify the value chain and on how to prepare and present information about sustainability-related risks and opportunities in the value chain?*

  We have concerns with respect to identifying, preparing and reporting sustainability-related risks and opportunities in the value chain. There are not yet clear definitions and guidance for how to do this beyond those related to Scope 3 GHG emissions in IFRS S2. We expect definitions and guidelines on these topics to be developed over time in parallel with additional topical standards as is currently being discussed by the ISSB[3].

  Value chain currently encompasses *"the full range of interactions, resources and relationships related to a reporting entity's business model and the external environment in which it operates"*[4]. As defined, these requirements bring significant growth in volume and complexity of disclosures and present certain

3 Request for Information: Consultation on Agenda Priorities (ifrs.org)
4 Per IFRS S1 definition provided in Appendix A Defined Terms

challenges in application, e.g., obtaining, calculating, assessing and assuring such information in a timely manner. Without clear definitions and robust guidance on and methods to obtain and calculate the information and data, reporting across the full value chain is also unlikely to result in consistent and comparable reports. For example, it is unclear how a reporting entity should disclose metrics from throughout the value chain that are indivisible, such as safety incidents or spills, where proportional or equity share may not be meaningful.

Further, reporting entities will rely heavily on others in their value chain to provide sustainability-related data. In some cases, small- and medium-enterprises in the reporting entity's value chain may not yet be equipped to gather this level or type of data. This will create a significant burden for the reporting entity to meet disclosure obligations, potentially impacting the availability and accuracy of the data and timeliness of reporting. Some in the value chain may also object to sharing information and data with reporting entities due to legal, confidentiality or other reasons. As such, the reporting from the value chain is likely to be one of the most challenging aspects of the proposed approach to sustainability reporting.

To support preparers in dealing with these challenges, we believe that allowances should be provided when necessary for data and information from 3rd parties outside of a company's control which may not be readily available or is otherwise highly uncertain. Similarly, reliefs should be provided for disclosures such as performance metrics and targets which are outside of the control of the reporting entity, so as to not create additional risks for companies that are but one part of the broader economy.

- *Regarding **financial impacts and connectivity** (per IFRS S1 paragraphs 21–24 and 34–40, and S2 paragraphs 15–21), how easy or difficult is it to interpret the requirements for preparing and disclosing information about the current and anticipated effects of sustainability-related information on the financial position, financial performance and cash flows? What, if any, are the challenges in preparing disclosures that connect sustainability-related information to the financial statements?*

  We believe that, at this time, there will be some difficulty in preparing and disclosing information about current and anticipated effects of sustainability information on the financial position, performance and cash flows, as well as connecting sustainability-related information to the financial statements. This is in part because sustainability-related information involves judgement and higher degrees of uncertainty, especially about future outcomes and forward-looking statements. This is also in part due to the fact that understanding the financial impacts and connectivity of sustainability matters is an area in development, recognising there is work planned or ongoing by both the ISSB and the International Accounting Standards Board (IASB), with the aim to ensure their respective requirements are compatible and complementary. Consideration should be given to this work, which will require time and flexibility as standard setters, preparers and investors learn and evolve over the years.

- *Regarding both **cross-industry metrics** (per IFRS S2 paragraph 29) and **industry-based requirements** (per IFRS S1 paragraphs 54–59 and S2 paragraphs 12 and 32), what, if any, are the challenges in preparing and disclosing information about the cross-industry metrics? Should the standards stipulate which guidance and industry-based topics and metrics a company should disclose?*

We anticipate challenges to meeting requirements for reporting on certain cross-industry and industry-specific topics and metrics. Overall, we see a need to correct the current trend in standards setting that appears to focus primarily on prescribing what topics and metrics to disclose (the "what"), rather than how to determine, measure and calculate (the "how").

- For cross-industry and industry-specific topics and metrics, some sustainability topics may still be in development and/or preparers may need additional time to evaluate and determine which metrics are relevant to disclose, and to identify and collect data and information needed to calculate these. In such cases, allowances including the use of qualitative information where quantitative information is not yet available or mature should be provided.

- We do not support incorporation of external standards and guidelines by cross-reference for determining which guidance, topics and metrics preparers should disclose, as stated previously. If external guidance references are made, these should remain a consideration rather than be stipulated as a requirement, as is the case with the ISSB Standards. If any jurisdictional requirements are made that are more prescriptive, these should be built to be compatible with the overall framework provided by the ISSB Standards.

Specifically for industry-based requirements, we believe that where a principles-based approach is applied and financial materiality is considered, there is limited need for these. We are uncertain of the applicability and value of an industry-based approach to sustainability-related matters, which could further complicate reporting for companies that span multiple industries and/or geographies. With this in mind, as well as above comments related to incorporation by cross-reference and preparer flexibility in the selection of metrics, sources such as Sustainability Accounting Standards Board's (SASB) industry-specific standards should be developed for inclusion directly in the standards and remain a consideration rather than made a prescriptive requirement.

In addition to the responses to certain consultation questions above, please refer to the following general considerations for the UK's endorsement and adoption of ISSB standards. In adopting the ISSB Standards, the UK should allow for consolidated group-level reporting by companies, rather than subsidiary-level reporting. This approach is not only more feasible for issuers, but also better serves the information needs of the capital markets.

On the subject of assurance, we believe this helps build trust in and increase investors' use of reported information to inform their decision-making. However, the ISSB Standards do not mandate assurance, and sustainability assurance standards are currently in development by the International Auditing and Assurance Standards Board (IAASB). Therefore, any assurance requirements should be phased in following the establishment of robust international standards, starting with limited assurance and moving to reasonable assurance over time and considering feedback from preparers and auditors alike on the feasibility of reasonable assurance requirements.

Finally, it should be recognised that any deviation from or addition to the ISSB Standards could lead to divergent reporting practices and undermine global progress towards ensuring the disclosure of consistent and comparable financially material sustainability information. Further, any deviations may impact the modified disclosure standard's interoperability with other jurisdictional requirements that multinational companies may be subject to. The justification for deviation from the ISSB Standards must therefore meet a high bar, with clear, specific and transparent rationale.

We appreciate the opportunity to provide our views on this important standard adoption and implementation effort and thank you for your thoughtful consideration of the matters raised in this response. If you have any questions or would like additional information, please do feel free to contact us and we would be pleased to further engage.

Sincerely,

/s/ Remko Boer

Vice President Group Reporting, Deputy Controller