

The Board  
International Sustainability Standards Board  
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**29 July 2022**

Dear Board Members,

**SSE response to ISSB Exposure Drafts IFRS S1 (General Requirements Disclosure Draft) and IFRS S2 (Climate Exposure draft) consultation**

SSE welcomes the International Sustainability Standards Board's ('ISSB') publication of the Exposure Drafts IFRS S1 and IFRS S2 ('EDs') and the opportunity to provide comment and feedback. This response provides high-level comment covering both EDs.

SSE is a UK-listed energy company with operations and investments across the UK and Ireland and renewable developments that have now extended to carefully selected international markets. It develops, builds, operates, and invests in low-carbon infrastructure in support of the transition to net zero, including onshore and offshore wind, hydro power, electricity transmission and distribution networks, alongside providing energy products and services to customers.

As an energy company, SSE provides an essential service and has a responsibility to ensure that it does so in a way that creates value for shareholders and society. It is at the forefront of the transition to net zero in the UK and Ireland and is acutely aware that the **way** in which we reach net zero, considering the wider environmental and social consequences, is also of utmost importance. As a result, sustainability is at the heart of SSE's strategy as a business, with four core business goals for 2030 directly linked to the UN's Sustainable Development Goals.

SSE has been making comprehensive environmental and social disclosures on a voluntary basis for many years, to help stakeholders understand how key sustainability-related opportunities and risks are managed. However, SSE recognises a need for increased standardisation in sustainability-related disclosures to allow for better comparability and decision making for

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investors and other stakeholders assessing company performance. SSE looks forward to greater standardisation in the future, as the basis for high quality stewardship engagement with its investors and shareholders.

SSE agrees, overall, with the objectives and the general principles of the EDs, however there are elements which we believe could be improved through further clarification and consideration, as set out below.

### **1. Alignment with existing frameworks**

The consideration of existing sustainability reporting frameworks in the EDs, such as TCFD and SASB Standards, is welcomed by SSE. The ISSB should consider further alignment to other existing sustainability-reporting standards which are already widely implemented, such as the Global Reporting Initiative ('GRI'). SSE also encourages alignment with the EU Corporate Sustainability Reporting Directive ('CSRD') which is currently in the approval stages.

### **2. A more holistic consideration of materiality**

SSE notes that the ISSB has used the 'enterprise value' as a basis to determine materiality. A company's financial performance is intrinsically linked with the non-financial impacts it has on the societies in which it operates. The ISSB could require the consideration of both financial materiality and impact materiality, acknowledging that they are interdependent. SSE believes that the consideration of 'double materiality' in the proposed EU CSRD provides a more meaningful consideration of materiality for a company.

### **3. Include a requirement for a 'basis of preparation'**

The assumptions used in the preparation of the 'ISSB Sustainability disclosures' and the 'IFRS financial disclosures' will not be aligned. For instance, IAS 36 and IAS 37 require the financial statements to be prepared in a manner inconsistent with proposed assumptions under the EDs. There is a risk that inconsistency in the bases of preparation could create confusion for users of the general purpose financial information. A requirement for a 'basis of preparation' applied under IFRS Sustainability Disclosure Standards similar to the current IFRS reporting requirements could address this concern and aid transparency for users.

### **4. Clarity of key definitions**

To ensure that the EDs are implemented as consistently as possible by different preparers, it would be beneficial if key terms including "materiality," "enterprise value" and "significant" are defined within the standards. Without explicit definition within the standards, key terms will be open to interpretation, which brings the risk that disclosures will be prepared on an inconsistent basis across companies.

## 5. Use of the SASB Standards

SSE's experience of standardised frameworks is that they tend to be more effective at a sector level, and it welcomes the decision by the ISSB to use the industry-specific SASB Standards as the basis for the reporting. It would be beneficial for the ISSB to clarify whether the relevant SASB Standards industry-based volume disclosures in Appendix B to Exposure Draft S2 are requirements, or guidance only. A method describing how to identify which volumes of SASB Standard industry-based disclosure requirements would be applied by a reporting entity, if required, would be useful. Without further guidance there is a risk that the applicability of these disclosures is open to interpretation and could also result in a "double-counting" of volumes across the supply chain.

## 6. Transitional guidance for early years adoption

While SSE welcomes the EDs and their move towards a global baseline for sustainability reporting, the work involved in satisfying the requirements of the EDs, plus future standards, will be challenging and will require substantial effort. SSE is supportive of the intention for the sustainability-related disclosures to be published at the same time as a company's financial disclosures, however, remains mindful of the significant work required to fully adopt the proposals set out in the EDs. In addition, companies will have to comply with country specific requirements for assurance. It would be beneficial if the Board recognises the effort required when proposing the timeframe and transitional guidance for first time adoption.

## 7. Consideration of the interconnected nature of sustainability issues

SSE agrees with prioritising climate standards due to the urgency, but encourages that considerations of social elements are not neglected, as they are closely interlinked. The interaction between climate and social risks are in danger of being underestimated within climate discourse. The removal of the socially-focused metrics from the Electric Utilities and Power Generators SASB Standards (e.g. IF-EU-240a.1-4) in the IFRS S2 Appendix B is an example of this. In addition, separate consideration of environmental and social issues could result in the cumulative impact of these issues not being fully considered. The ISSB should outline its intentions to ensure that there will be a mechanism to allow the cumulative impact of different sustainability-related opportunities and risks to be considered through the disclosures.

**Finally, SSE has a decade of experience, not only of voluntarily preparing high quality disclosure points, but also of engaging with the users of that data. We continue to believe that each business is unique, and while comparability between organisation can be useful to stakeholders and shareholders, there will also be a need for qualitative narrative and enhanced engagement. The truth is, when it comes to sophisticated decision making on**

the complex trade-offs between social, environmental, and economic impacts, not everything can be reduced to a single technocratic data point. The danger is that, too much emphasis on standard data points may mean both the providers of data and the users, fail to ‘see the wood for the trees’. While not an argument against standardised sustainability disclosures, we believe the ISSB should carefully monitor the way the data is used and watch for unintended consequences.

We look forward to the next iterations of the drafts and guidance and will be keen to implement the spirit and letter of the guidance as soon as we can.

Yours sincerely



**Gregor Alexander**  
Finance Director