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Dear DBT colleagues,

**Exposure draft of UK Sustainability Reporting Standards: UK SRS S1 and UK SRS S2**

We welcome the opportunity to respond to your Exposure draft: UK Sustainability Reporting Standards: UK SRS S1 and UK SRS S2.

The Quoted Companies Alliance has examined the proposals and advised on this response from the viewpoint of small and mid-sized quoted companies.

The QCA is broadly in favour of reporting against these standards as we believe that they will help in simplifying sustainability-related disclosures for companies. We know that small companies have a genuine desire to do the right thing in terms of their environmental reporting. Many regard rising expectations in this area as an opportunity to tell their story in a new and engaging way. Moreover, these standards represent an important step so that UK companies can play their part in green economic growth.

We are concerned that too many smaller companies are being held by their investors to a standard higher than regulation requires even though the majority of mandatory ESG reporting requirements only apply to large AIM companies (500+ employees). For instance, QCA research from 2023 shows that investors consider that the expectation of ESG disclosure and management for smaller quoted companies had increased in the previous three years, with around 91% of survey respondents indicating that there had been at least a small increase in expectations[1].

And, as some large companies choose to pare back their disclosures following the US trend, it is small companies who are being left to report extensively even though they have fewest resources. Standardisation and clarity cannot come soon enough.

[1] The Quoted Companies Alliance (QCA). *Asking the Earth?: Investor attitudes to ESG.* (2023). p. 7.

As you will see below, we have produced a shorter response. Instead of responding to each consultation question in turn, we have provided more general observations on the two standards and their adoption in the UK.

<u>Transition reliefs for SRS S1</u>

Many entities, especially smaller entities, will struggle with the requirement to report under SRS S1 and SRS S2 standards on all significant sustainability-related risks and opportunities and it is important that DBT takes the capacity of smaller entities to do so into consideration. Entities will require sufficient time to be able to adhere to the requirements and the extensive number of new disclosures included in the standards. The workload will include addressing data collection, systems, processes and controls, and we believe entities will require a number of years to be fully compliant with this new type of reporting.

As such, we tentatively support this consultation paper's second amendment in extending the transition relief in IFRS S1. Given that TCFD reporting requirements under the listing rules largely covers climate-related risks and opportunity, we also believe that their implementation in year one should not be overly burdensome for listed companies.

However, sustainability related reporting is an area that is particularly onerous for smaller companies and we would recommend greater proportionality in the application of these requirements that factors in company size.

For example, ensuring sustainability reporting is assured is significantly burdensome for businesses. In addition, the cost of seeking assurance is especially pronounced for small and mid-caps, who typically do not have the same level of resource as their larger counterparts. Assurance is also challenging for smaller companies in terms of the time it takes to obtain assurance, particularly as these companies' resources are already stretched in adhering to multiple reporting requirements and deadlines.

Currently, and whilst there are a mix of assurance providers in the UK from both audit and non-audit firms, we do not consider that UK companies have sufficient choice of sustainability assurance providers. In addition, some companies are forced to search overseas to find service providers given issues around cost, capacity and choice within the UK market.

We urge DBT, in conjunction with the FRC, to consider these issues within the UK sustainability assurance market as they proceed with the next phase of implementation and review which companies will be included in the scope of the sustainability reporting requirements. This could take the form of exempting smaller companies from these requirements until the above issues are addressed.

<u>Scope 3 emissions reporting</u>

Similarly, there are difficulties for reporting entities, and in particular, smaller reporting entities relating to the practicalities and costs of collecting, analysing and addressing Scope 3 information. Therefore, the approach to Scope 3 reporting contained within SRS S2 needs to be more flexible and, at a minimum, there should be a phased approach implemented for reporting entities of a smaller size. We believe that a phased approach should exempt smaller entities from reporting their Scope 3 emissions.

Smaller reporting companies require sufficient clarity and consistency, as well as the ability to compare how larger entities implement the requirements before being required to report their Scope 3 emissions information. A phased approach will give smaller reporting companies greater clarity on how to report on the requirements, the assumptions they can apply and how to address issues with data availability and accuracy from their supply chain.

Definition of economically significant entities

With regard to any definition of economically significant entities incorporating private companies, we would encourage the Government to take a proportionate approach to any requirements. This would ensure that smaller companies, whether private or publicly listed, are exempted from any reporting requirements that are particularly onerous, as highlighted already in our response.

Such an approach would signal an effort by the Government to capture those companies that are genuinely large and are of public importance. This forms part of a broader demand to level the playing field between public and private companies with regard to the significantly higher corporate disclosure regime that public companies must navigate compared to private ones. The EU's recent creation of a small mid-cap category provides a workable framework for reducing reporting and administrative burdens for small and mid-cap companies - particularly in the context of the UK's international competitiveness - and is one that merits consideration[2].

Duplication in reporting requirements

There currently exist duplicative reporting requirements for climate related disclosures within the UK's regulatory files. For example, companies listed on the London Stock Exchange's Main Market with 500+ employees have two sets of climate-related reporting obligations to comply with. The Listing Rules require that these disclosures be set out in the annual report while the Companies Act 2006 require that they should be disclosed in the strategic report.

In addition, reporting on Section 172 of the Companies Act 2006 currently imposes proportionate requirements to report on environmental issues. The Government should consider how any new disclosure requirements that may be imposed through these requirements interact with Section 172 in order that they remain proportionate and do not create additional reporting burdens for companies[3].

This issue is particularly pressing as QCA research shows that ESG-related reporting in companies' annual accounts has increased across FTSE 100, FTSE 250 and AIM companies by an average word count of 236% from 2018/19 – 2023/24[4]. The ever-increasing length of annual reports caused by complex and duplicative reporting requirements is a significant driver of the growing costs and regulatory burdens that public companies face.

We commend the Government on its commitment to cutting business red-tape by 25%, and its broader efforts to reduce regulatory burdens through the non-financial reporting review. However, as this consultation makes direct reference to the EU's 'omnibus proposals', it should also be highlighted that those

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[2] EU Commission. *Small mid-caps: Helping Europe's growing business.* (2025). Source: https://ec.europa.eu/commission/presscorner/api/files/attachment/881208/Factsheet%20-%20Small%20mid-caps.pdf
[3] The Quoted Companies Alliance (QCA). *Close the book: It's time to cut annual reports down to size.* (2025). p.18: https://www.theqca.com/wp-content/uploads/2025/05/QCA-Close-the-Book_2025.pdf
[4] Ibid. p. 15.

proposals contain a direct commitment to reduce burdens for SMEs by 35%[5]. A similar approach taken by the Government would be welcome.

If you would like to discuss our response in more detail, please do not hesitate to contact us.

Yours sincerely,

James Ashton.

James Ashton

Chief Executive

[5] EU Commission. *Omnibus package.* Date visited: (15/09/2025): https://finance.ec.europa.eu/news/omnibus-package-2025-04-01_en