

20 March 2026



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Friday 20<sup>th</sup> March 2026

Dear FCA colleagues,

**CP26/5\*\* Aligning listed issuers' sustainability disclosures with international standards**

The Quoted Companies Alliance (QCA) welcomes the opportunity to respond to the FCA's consultation on the UK Sustainability Reporting Standards (UK SRS). The QCA represents the interests of the UK's small and mid-sized quoted companies, and the advisers and investors that support them.

We support the objective of improving the quality, consistency and comparability of sustainability disclosures, and recognise the value that decision useful information can provide to investors. We also welcome the FCA's intention to align the UK framework with international standards, in particular those developed by the ISSB. In this context, we are supportive of the analysis provided by the London Stock Exchange Group on international comparisons, which highlights the importance of ensuring that the UK's approach remains competitive relative to other global markets.

However, the QCA is concerned that aspects of the proposed framework risk imposing disproportionate costs on smaller listed companies and, more broadly, risk undermining the competitiveness of UK public markets. In particular, without clearer provisions on proportionality, targeted exemptions, and implementation, there is a risk that the regime will increase regulatory burden without delivering commensurate benefits, especially for companies where investor demand for such disclosures is limited.

This would sit uneasily alongside both the FCA's secondary objective to support the international competitiveness of the UK economy and the Government's wider ambition to reduce the administrative burden of regulation on businesses. It is therefore important that the UK SRS framework is calibrated in a way that supports transparency while also maintaining the attractiveness of UK markets for growth companies.

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The QCA Accounting, Auditing and Financial Reporting Expert Group and Corporate Governance Expert Group have examined the proposals and advised on this response from the viewpoint of small and mid-sized quoted companies. A list of Expert Group members can be found in Appendix A.

We have responded to the consultation questions thematically, grouping questions where appropriate. We have not responded to every consultation question individually.

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

Yours sincerely,



James Ashton  
Chief Executive

## General Comments

- 1.1. The QCA is largely supportive of the FCA's objective of improving the quality and comparability of sustainability reporting through the shift from existing climate-related disclosures to a new UK Sustainability Reporting Standard. It is essential however that the regime is implemented in a manner that is proportionate, which means internationally competitive, and supportive of the continued strengthening of the UK's public markets.
- 1.2. Although UK SRS1 and SRS2 sit within the FCA Listings Rules framework and therefore do not apply to companies on AIM, there remains a significant risk of indirect impact through market practice. In particular, there is a concern that NOMADs, advisers and investors may begin to treat UK SRS-aligned disclosures as an emerging benchmark, leading to a form of "regulatory creep" whereby AIM companies are expected to comply in substance, if not in law. This would undermine the distinct purpose of the AIM market as a proportionate, growth-focused environment tailored to the needs of smaller companies. There is precedent for this, with the TCFD regime demonstrating clear evidence of similar spillover effects into AIM through evolving market expectations and adviser practices.
- 1.3. The FCA should therefore make clear in its final policy statement that UK SRS disclosures are not intended to establish a benchmark for AIM companies, and should not be treated by market participants as an expectation in the AIM context unless or until the AIM Rules are formally amended.
- 1.4. While AIM companies sit outside the formal scope of the regime, many of the same structural challenges they face are shared by smaller issuers on the Main Market. As such, the question of proportionality is not confined to market boundaries, but goes to the heart of how the regime will operate in practice across the full spectrum of UK listed companies.
- 1.5. Smaller listed companies are disproportionately affected by increases in reporting complexity and cost. Unlike larger issuers, they are less likely to have dedicated sustainability teams or the systems required to collect, verify, and report detailed ESG data. In this context, even incremental increases in disclosure requirements can represent a material diversion of management time and financial resource away from core business activities, including investment and growth. A framework that does not adequately reflect these differences risks imposing a uniform standard on a highly diverse market, with adverse consequences for smaller issuers.
- 1.6. We therefore recommend that the FCA introduce targeted exemptions and modifications for smaller issuers. This should include permanent or long-term relief from the most complex and resource-intensive elements of the framework, such as Scope 3 emissions reporting and detailed quantitative climate scenario analysis. This is particularly important where data availability remains limited and methodologies are still evolving. In such cases, allowing qualitative disclosures or high-level estimates would provide investors with useful insight while maintaining a proportionate approach.

- 1.7. The FCA should also clarify that smaller issuers are not expected to undertake externally validated or quantitatively modelled climate scenario analysis, and that qualitative assessments of climate resilience will be sufficient.
- 1.8. In considering what a “smaller issuer” might be in this context, we recognize the desire to avoid stratifying the main market. We note that the FTSE350 are the majority of the LSE’s market capitalisation, and are likely to account for a significant majority of the combined environmental impact caused by the main market issuers. Limiting the full obligations to FTSE-350 members would deliver the vast majority of the benefits while easing the burden on the majority of issuers. This would support the development of market practices and reduce the risk of unintended consequences, while ensuring that the regime evolves in a way that is both practical and sustainable.
- 1.9. Embedding explicit and effective proportionality within the UK SRS framework will be essential to ensuring that it delivers meaningful disclosures without placing undue strain on smaller listed companies, which remain central to the UK’s growth and competitiveness.
- 1.10. A further critical consideration is the international context in which the UK SRS will operate. While alignment with the ISSB framework is a positive and necessary step toward improving global comparability, it is important to recognise that implementation approaches vary significantly across jurisdictions. In particular, key competitor markets, most notably the United States, are not currently introducing equivalent mandatory sustainability reporting requirements for listed companies. This creates a potential divergence in regulatory burden that could have implications for the competitiveness of UK capital markets.
- 1.11. This divergence is further illustrated by developments in other jurisdictions, many of which are adopting more targeted or phased approaches. For example, the European Union has recently narrowed the scope of its regime to focus on larger companies, while jurisdictions such as Singapore are delaying implementation for smaller issuers and limiting the most complex disclosures to the largest firms.
- 1.12. In this context, the FCA should carefully assess how the UK’s approach compares not only in terms of technical alignment with ISSB, but also in terms of timing, scope, and overall burden. There is a risk that moving ahead with a more comprehensive or accelerated implementation could place UK listed companies at a relative disadvantage when competing for global capital, particularly if investors continue to allocate to markets where such requirements are less onerous. This is especially relevant given that capital is increasingly mobile, and listing decisions are influenced by the cumulative impact of regulatory obligations.
- 1.13. The question of international competitiveness should also be viewed in the context of the UK Government’s wider commitment to reducing regulatory burden. The Chancellor has recently set out a clear ambition to reduce the administrative burden of regulation on UK businesses by 25 percent, equivalent to £6 billion in annual savings. In this context, the design of the UK SRS presents an immediate opportunity to align with that objective. By introducing targeted exemptions for

smaller listed companies, the FCA could deliver a meaningful and immediate reduction in compliance costs for a significant portion of the market, without undermining the overall integrity of the regime.

- 1.14. This is particularly important given the nature of the investor base for smaller companies. Institutional capital and the investors who place the greatest reliance on detailed sustainability disclosures are typically not active in the small to mid-cap segment. As a result, imposing complex and resource intensive reporting requirements on these companies risks creating a burden without a corresponding benefit in terms of capital allocation or investor decision making. In practice, this means smaller issuers may incur significant additional costs to produce disclosures that are of limited relevance to their core investor base.
- 1.15. The FCA should therefore consider incorporating an explicit “investor relevance” filter for smaller issuers, ensuring that disclosure expectations are aligned with the needs of their typical investor base.
- 1.16. A more targeted approach, focused on where these disclosures are most decision useful, would therefore better support both the Government’s burden reduction agenda and the efficient functioning of UK capital markets.
- 1.17. A further important element of the proposed framework is the operation of the “comply or explain” mechanism. In principle, we support a flexible and principles based approach to sustainability reporting, and recognise that “comply or explain” can play a valuable role in accommodating differences in company size, resources, and data availability. However, based on feedback from our members, there is currently insufficient clarity on how this mechanism will operate in practice, and a risk that it does not deliver the intended flexibility.
- 1.18. In particular, there is uncertainty around what constitutes an acceptable explanation, including whether factors such as cost, data limitations, or methodological uncertainty will be considered valid grounds for non-compliance. There is also a lack of clarity on the level of detail expected in explanations and how these will be assessed by regulators, auditors, and investors. In the absence of clear guidance, there is a risk that “comply or explain” becomes “comply in practice”, with companies defaulting to full compliance in order to avoid challenge, thereby undermining the proportionality of the regime.
- 1.19. We therefore recommend that the FCA provide more explicit guidance on the operation of this mechanism, including clear examples of acceptable explanations and confirmation that cost and practicality are legitimate considerations, particularly for smaller issuers. Consideration could also be given to alternative framing, such as a more disclosure focused approach that emphasises transparency over strict compliance. Ensuring that “comply or explain” functions as a genuine flexibility tool will be critical to achieving a proportionate and workable regime. This could include guidance that disclosures based on reasonable estimates, or non-disclosure due to data limitations, will not give rise to enforcement action where clearly explained.

1.20. The question of third-party assurance should also be considered in the context of the well documented challenges in the audit market for smaller quoted companies. As the QCA has previously highlighted, smaller issuers are already facing a “crisis of unaffordable audit”, driven by rising fees, reduced auditor availability, and increasing regulatory complexity. In this environment, introducing or signaling a future expectation of sustainability assurance risks compounding these pressures. The sustainability assurance market itself remains fragmented and relatively immature, with limited capacity and a lack of consistency in standards and approaches. As a result, any move toward mandatory assurance would likely lead to further cost escalation, particularly for smaller companies with fewer provider options.

1.21. It is therefore important that the FCA proceeds with caution in this area. While investor demand for assurance is acknowledged, this demand is not uniform across the market and is significantly less pronounced for smaller companies. Requiring assurance in these cases risks imposing additional costs without a clear corresponding benefit. We therefore support the FCA's current position not to mandate assurance and recommend that any future consideration of assurance requirements is both phased and proportionate, taking into account market readiness, cost implications, and the existing pressures within the audit and assurance ecosystem. This should include confirmation that any future move toward mandatory assurance would be subject to separate consultation and would not be automatically extended to smaller issuers.

### Consultation Questions

**2. Question 1: Do you agree with the proposed scope for our rules? If not, what alternative scope would you suggest and why?**

2.1. The QCA broadly agrees with the FCA's proposed scope insofar as it aligns with the existing TCFD-based regime and avoids a sudden expansion to additional listing categories. However, as linked to the general comments made above, the concern remains about the scope having indirect and unintended consequences for smaller quoted companies and AIM listed companies who are not formally in scope.

**3. Question 2: Do you agree that we should replace our TCFD-aligned rule (which has not been updated since 2023 due to TCFD being disbanded) and guidance with requirements to report against UK SRS S2 (and relevant aspects of UK SRS S1)? This would be for companies with a listing in the commercial companies, non-equity shares and non-voting equity shares, and transition categories. If not, what alternative approach would you suggest and why?**

3.1. Agree in principle that the FCA should replace the TCFD-aligned rules with UK SRS S2, supported by relevant aspects of UK SRS S1. Given that TCFD has been disbanded and ISSB standards are becoming the global baseline, alignment is both logical.

- 3.2. However, for small and mid-sized listed companies, the manner of implementation will be critical. UK SRS S2 is materially more detailed and technically demanding than the existing TCFD framework. Without sufficient flexibility, this risks creating a step-change in cost and complexity for smaller issuers.
- 3.3. Consideration should be given to long-term reliefs from most complex disclosures and clear guidance on how smaller issuers can meet requirements in a pragmatic and scalable way.

**4. Question 3: Do you agree that the UK SRS S2 reporting requirements should apply on a mandatory basis (with the exception of Scope 3 emissions, as addressed in Q4)? If not, what alternative approach would you suggest and why?**

- 4.1. We support the FCA's objective of moving to a more consistent and internationally aligned sustainability reporting framework. However, we have reservations about making UK SRS S2 mandatory for all in-scope issuers without further differentiation by size, resources and market context. UK SRS S2 is materially more detailed and technically demanding than the existing TCFD-based regime, and for smaller listed companies this risks creating a step-change in cost and complexity.
- 4.2. Smaller issuers are less likely to have dedicated sustainability teams, mature internal systems or ready access to external advisers. As a result, a uniform mandatory approach risks diverting management time and financial resource away from investment and growth, without necessarily delivering commensurate benefits for investors. This is particularly relevant where the investor base in smaller quoted companies is less reliant on highly granular sustainability disclosures than is often the case for larger issuers.
- 4.3. We therefore recommend a more proportionate approach. This should include targeted exemptions or long-term reliefs for smaller issuers from the most complex and resource-intensive elements of UK SRS S2, alongside clear guidance on pragmatic and scalable compliance. The FCA should also consider whether fuller obligations should in practice be concentrated on the largest issuers, where the investor relevance, capacity and likely environmental impact are greatest. That would better balance transparency, proportionality and international competitiveness.

**5. Question 5: Do you agree with our proposals regarding the location of UK SRS S2 climate-related disclosures? If not, what alternative approach would you suggest and why?**

- 5.1. There should be flexibility in where disclosures are located within the annual financial report, including the use of cross-referencing. That would be key to avoid unnecessary duplication or excessive report length and link to the wider piece on improvements in corporate reporting (integration and clarity).

**Question 7: Do you agree with our proposals regarding the location of UK SRS S1 sustainability-related disclosures? If not, what alternative approach would you suggest and why?**

5.2. Agree with the proposed approach, including the ability to cross-reference within the annual financial report - strikes an appropriate balance between transparency and flexibility.

**6. Question 8: Do you agree with our proposals for listed companies to disclose whether and where they have published a climate-related transition plan, if they have one, or stating why they have not published one? If not, what alternative approach would you suggest and why?**

6.1. Agree with the FCA's proposal to require companies to disclose whether and where a transition plan has been published, or to explain why not. Mandating the production of transition plans would be premature, particularly for smaller issuers.

**7. Question 9: Do you agree with our proposal to note in guidance that listed companies may wish to use the IFRS Educational Material? If not, what alternative approach would you suggest and why?**

7.1. Agrees that it is appropriate to reference the IFRS Educational Material in guidance, provided its use is clearly optional. The FCA should avoid creating any expectation that listed companies are required to follow this guidance in full.

**8. Question 10: Do you agree with our proposals for transparency about third-party assurance, where it has been obtained voluntarily? If not, what alternative approach would you suggest and why?**

8.1. The QCA supports transparency where assurance has been obtained on a voluntary basis, but would need to caution on any implication that assurance is expected or will become mandatory by default. The rationale for this is set out in the covering letter.

**9. Question 11: What benefits and costs would arise from mandatory assurance requirements for sustainability-related information? Where possible, please include how the benefits and costs could vary depending on factors such as the type of listed company, implementation approach or level of assurance obtained. Please be as specific as possible in your response.**

9.1. For larger issuers, mandatory assurance may provide benefits in the form of increased investor confidence, improved comparability and stronger internal discipline around data quality and reporting systems. However, those benefits are unlikely to be uniform across the market.

9.2. For small and mid-sized listed companies, the costs of mandatory assurance would in our view significantly outweigh the benefits. These issuers are already operating in an environment of rising

audit fees, constrained provider choice and increasing reporting complexity. As the QCA has highlighted previously, smaller quoted companies are already facing a crisis of unaffordable audit. Introducing mandatory sustainability assurance in that context risks compounding existing pressures, particularly where the sustainability assurance market remains fragmented, relatively immature and inconsistent in approach.

- 9.3. The scale of cost will also depend on the level of assurance required and the scope of information covered. Reasonable assurance would be materially more burdensome than limited assurance, and assurance over forward-looking or judgment-heavy disclosures, including scenario analysis and some value-chain metrics, is likely to be especially difficult and expensive. These burdens will fall disproportionately on smaller issuers, which often have fewer provider options and less internal capacity to support assurance work.
- 9.4. We therefore support the FCA's current position not to mandate assurance. Any future move in this direction should be subject to separate consultation, based on demonstrable market readiness, and should not be assumed to apply automatically to smaller issuers.

**10. Question 12: Do you have any further views on sustainability assurance which we should factor into future policy development? For example, any views on the type of information that should be assured, the feasibility of limited and reasonable assurance, or over what timeframe we should revisit our approach.**

- 10.1. Future policy development on sustainability assurance should proceed cautiously and distinguish clearly between larger and smaller listed issuers.
- 10.2. First, any consideration of assurance should be grounded in market readiness. At present, the sustainability assurance market is still developing, with uneven capacity, variable methodologies and limited transparency for users. It would therefore be premature to move quickly toward a mandatory assurance regime, particularly for smaller quoted companies.
- 10.3. Second, if assurance is revisited in future, the FCA should consider a phased approach focused initially, if at all, on more mature, historical and decision-useful disclosures rather than the most judgment-based or forward-looking elements of reporting. Information such as governance, processes and certain historical metrics may be more feasible candidates than complex scenario analysis or value-chain estimates.
- 10.4. Third, the FCA should recognise that even limited assurance may be costly and operationally challenging for smaller issuers. Limited assurance should not be treated as automatically proportionate simply because it is a lower form of assurance than reasonable assurance.
- 10.5. Finally, any future policy development should be accompanied by a fresh consultation and a clear assessment of the interaction with existing pressures in the audit and assurance market.

**11. Question 15: Do you agree with our proposals for companies in the secondary listing category and the depositary receipts category not to disclose against the UK SRS, but instead to disclose which overseas climate and sustainability standard they are subject to, or which they voluntarily adopt? If not, what alternative approach would you suggest and why?**

11.1. Agree with the FCA's proposed approach, which avoids duplicative reporting and recognises the international context of these entities.

**12. Question 16: Do you agree with our proposals for transparency about third-party assurance, where it has been obtained, for companies in the secondary listing category and the depositary receipts category. If not, what alternative approach would you suggest and why?**

12.1. We broadly agree that, where third-party assurance has been obtained, transparency about that fact is appropriate. Investors should be able to understand whether assurance has been obtained, the scope of that assurance and, where relevant, the level of assurance provided.

12.2. However, the FCA should take care to ensure that such transparency does not create a de facto expectation that assurance is normally required or preferred. In practice, disclosure requirements of this kind can create soft pressure through market norms, adviser behaviour and investor expectations, even where assurance remains voluntary. That is particularly important in the current environment, given the cost and capacity constraints in the broader audit and assurance market.

12.3. Accordingly, we support a transparency-based approach, provided the FCA makes clear that disclosure of assurance obtained is intended to inform the market, not to imply that assurance is expected as a matter of course.

**13. Question 17: Do you agree with our consequential amendments to enable asset managers, life insurers and FCA-regulated pension providers in scope of UKLR to cross refer to UK SRS S2 disclosures in their TCFD entity report, where applicable? If not, what alternative approach do you suggest, and why?**

13.1. We have no objection in principle to consequential amendments that reduce duplication and support coherence across the reporting framework. Enabling cross-reference, where appropriate, should help avoid unnecessary repetition and support more integrated reporting.

13.2. That said, the FCA should ensure that any consequential amendments are accompanied by clear guidance and do not create inconsistent expectations across different categories of market participant. The overall approach should remain proportionate and should avoid generating additional complexity or compliance burden without a clear corresponding benefit to end users of the disclosures.

**14. Question 19: What are your views on digital reporting? Are issuers in a position to digitise sustainability reporting, or as a service provider, to support preparers with this? If not, how long do you think it would take?**

14.1. Digital reporting may offer benefits over time in terms of accessibility, comparability and usability of information. However, many issuers, particularly smaller listed companies, are not yet well placed to digitise sustainability reporting to a high standard.

14.2. For smaller issuers, the challenge is not simply the act of tagging or digitisation itself, but the broader question of systems, internal resource, data quality and availability of specialist support. Many do not yet have the internal infrastructure needed to produce the underlying sustainability information in a sufficiently mature or consistent form, let alone digitise it in a robust way.

14.3. We therefore do not think digital reporting expectations should move ahead of market readiness. Any digital reporting requirements should be phased and introduced only after the underlying substantive reporting requirements have bedded in. The FCA should also take account of the additional cost and implementation burden for smaller issuers and avoid assuming that service-provider capacity is uniformly available across the market.

**15. Question 20: Do you have any comments on what we should consider when developing our supervisory strategy for the new requirements?**

15.1. A proportionate and educative supervisory approach will be critical, particularly in the early years of implementation.

15.2. The FCA should recognise that many companies, especially smaller issuers, will be working with immature datasets, evolving methodologies and areas of genuine uncertainty. Supervisory expectations should therefore allow for reasonable estimates, qualitative disclosures and clearly explained gaps where data is unavailable or the cost of obtaining it would be disproportionate.

15.3. This is especially important in relation to the operation of "comply or explain". Unless the FCA provides clear guidance and adopts a supervisory stance that respects legitimate explanations based on cost, practicality and data limitations, there is a real risk that "comply or explain" becomes "comply in practice". That would materially weaken the intended flexibility of the regime.

15.4. We therefore encourage the FCA to develop a supervisory strategy that is clear, proportionate and supportive of good-faith compliance, particularly during the transition period, and that avoids enforcement approaches which would discourage the use of reasonable explanations.

**16. Question 21: Do you have any comments on our cost benefit analysis?**

- 16.1. We have concerns that the cost benefit analysis may understate the burden on smaller listed issuers and may not fully reflect the way the regime will operate in practice across the market.
- 16.2. In particular, the analysis appears to assume a level of internal capability, data availability and investor benefit that may be more realistic for larger issuers than for small and mid-sized quoted companies. For many smaller issuers, compliance will require new systems, external advice, additional governance input and significant management time. Those costs are likely to be proportionately much higher than for larger companies.
- 16.3. We also encourage the FCA to give greater weight to the question of investor relevance. In the smaller company segment, the investor base may place less reliance on highly granular sustainability information than is assumed in a broad market-wide analysis. That raises the risk that costs are incurred without corresponding capital markets benefits.
- 16.4. The FCA should therefore revisit the analysis with a more segmented view of the market and a more explicit focus on proportionality, investor relevance and international competitiveness.

**17. Question 22: Do you have any comments on the assumptions made in our cost benefit analysis?**

- 17.1. Yes. In our view, the assumptions used in the cost benefit analysis should be tested more rigorously against the experience of smaller listed issuers.
- 17.2. In particular, the analysis should not assume that companies already have the necessary systems, personnel, governance processes and external support in place to move from the existing TCFD-aligned regime to UK SRS with limited additional effort. For many smaller issuers, this will represent a substantial uplift in complexity and a need for new processes and external input.
- 17.3. The assumptions should also better reflect uncertainty around data availability, especially for more complex disclosures, and should account for the fact that some issuers may need to rely on estimates, qualitative disclosures or staged implementation. In addition, the FCA should test whether the assumed benefits are evenly distributed across the market, as this is unlikely to be the case.
- 17.4. A more differentiated set of assumptions, by issuer size and capability, would improve the realism and usefulness of the analysis.

**18. Question 23: Do you have any comments on our assessment of the estimated costs to listed companies? Please provide evidence to support your response to this question.**

- 18.1. We are concerned that the estimated costs to listed companies are likely to understate the impact on smaller issuers.
- 18.2. The move to UK SRS is not simply an incremental adjustment for many companies. It may require investment in data gathering, internal controls, governance processes, external advice, staff training and potentially assurance-related preparation, even where assurance is not mandatory. These costs will be felt most acutely by smaller issuers, which are less likely to have existing sustainability functions or reporting infrastructure.
- 18.3. There is also a risk that the FCA's estimates do not fully capture indirect and behavioural costs. For example, if "comply or explain" is not seen as a workable flexibility mechanism, issuers may feel compelled to attempt fuller compliance than is proportionate. Likewise, where voluntary assurance disclosure creates market pressure, companies may face additional costs in practice even without a formal mandate.
- 18.4. The QCA's broader work on reporting and assurance for smaller quoted companies points to a market already under strain from rising compliance and assurance costs. In that context, the FCA should take a cautious approach to estimated cost assumptions and engage further with smaller issuers and their advisers to validate the likely real-world impact.

**Appendix A**

**The Quoted Companies Alliance Accounting, Auditing and Financial Reporting Expert Group can be found here: <https://www.theqca.com/accounting-audit-financial-reporting-expert-group/>**

**The Quoted Companies Alliance Corporate Governance Expert Group can be found here: <https://www.theqca.com/corporate-governance-expert-group/>**