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

AREF's response was submitted online on 17 September 2025

2. Proposed amendments to IFRS S1 and IFRS S2 – recommendations from the UK Sustainability Disclosure Technical Advisory Committee

Question 1

Do you agree or disagree with the UK government's 4 amendments based on the TAC's recommendations? Provide your rationale.

Amendment 1 – removal of the transition relief in IFRS S1 that permits delayed reporting in the first year

We agree with this amendment, subject to government giving sufficient time for reporting entities, who are subject to mandatory reporting, to prepare.

Real estate funds, already subject to the FCA's Sustainability Disclosure Requirements (SDR), are expected to have foundational systems in place. These include entity-level and product-level disclosures, investment product labelling and classification and alignment with international standards like IFRS S1 and S2. While SDR compliance provides a baseline, UK SRS S1 and S2 may demand greater granularity in disclosures, broader scope (e.g., nature and biodiversity metrics) and more robust internal controls and assurance processes. To be able to meet these additional reporting requirements supporting technical guidance should be provided.

The simultaneous reporting requirement compresses timelines for data collection and validation, internal review and governance and external assurance (if required). This could strain resources, especially during year-end reporting cycles. Also, it could inadvertently undermine investor expectations and market signalling if disclosures are rushed and lack robustness.

Amendment 2 – extension of the transition relief in IFRS S1 that permits a 'climate-first' approach

The phased implementation of reporting will be particularly helpful for smaller real estate funds or those early in their sustainability journey.

Amendment 3 – removal of the requirement to use the Global Industry Classification Standard (GICS) in IFRS S2

Many real estate funds do not currently use GICS for internal or external reporting and therefore we welcome the removal of the requirement to use GICs.

Funds will be able to align their disclosures with sector-specific frameworks and ESG reporting structures already in place for SDR or SFDR compliance. This flexibility supports consistency across reporting regimes and reduces duplication.

Amendment 4 – removal of the 'effective date' clauses in IFRS S1 and IFRS S2 (with PIC consideration)

We agree with removing the effective date' clauses in IFRS S1 and IFRS S2.

Additional discussion on the practicality of calculating financed emissions for the given reporting period

Question 2

Industry practice is to use the balance sheet for loans and investments from a previous period to calculate financed emissions (where it is impracticable to provide the information for the current reporting period end). Do you agree or disagree that this results in decision-useful information, and what additional guidance might be useful?

Emissions' data collection can take several months for real estate funds as they are relying on some of this data to come from their tenants and other third parties.

Employing prior-period data could be acceptable as an interim or fallback method when collection of current-period data is impracticable. It can produce decision-useful information, especially for external comparability, risk disclosure, and strategy setting. This should be transparently disclosed i.e. method, limitations, which line items included, which are excluded.

Real estate funds may need to produce revised data (alongside the original figures), due to tenants' incorrect data provision or changes in proxy data, due to changes in providers' methodology. This is important to ensure meaningful data comparability.

Question 3

For entities subject to financed disclosure requirements, what is the impact of revising comparative data for financed emissions calculations and what additional guidance might be useful?

We have no response to this question.

Question 4

Do you have any other comments on the TAC's final report and recommendations? Include any supporting evidence.

We have no further comments to make.

3. Proposed amendments to IFRS S1 and IFRS S2 – recommendations from the UK Sustainability Disclosure Policy and Implementation Committee

Amendment 5 – references to the SASB materials in IFRS S1 and IFRS S2

Question 5

Do you agree or disagree that 'shall' should be amended to 'may' in "shall refer to and consider the applicability of… [SASB materials]"? Provide your rationale, including any views you have on the timing of the review of the amendment.

We agree with the proposed amendment to change "shall" to "may" in the phrase "shall refer to and consider the applicability of… [SASB materials]" within UK SRS S1 and S2. This change supports the use of more relevant, sector-specific frameworks. Real estate funds typically rely on more specialised and decision-useful frameworks, including: GRESB (Global Real Estate Sustainability Benchmark), CRREM (Carbon Risk Real Estate Monitor) and PCAF (Partnership for Carbon Accounting Financials). These frameworks offer more relevant metrics and methodologies than the generic SASB standards.

Amendment 6 – treatment of transition reliefs

Question 6

Do you agree or disagree with the proposal to link the reporting periods in which a transition relief can be used to the date of any reporting requirements coming into force? Provide your rationale.

We agree with the proposal to amend the wording on reliefs so that they are explicitly linked to the introduction of any mandatory reporting requirements. We also welcome those reporting on a voluntary basis would not be bound by any restriction on applying transition reliefs. We agree, however, that those reporting on a voluntary basis should be able to apply the transition reliefs, including the ability to initially prepare simplified reporting requirements.

Additional discussion on the requirements on carbon credits in IFRS S2

Question 7

Explain your views on:
a) whether disclosure of the purchase and use of carbon credits in the current period would be useful information
b) what the barriers to companies being able to produce this information are (including the availability of the information required for reporting and the associated costs)
c) whether (and how) any further disclosures would be useful

We support the inclusion of disclosures on the purchase and use of carbon credits within the UK SRS framework, particularly under UK SRS S2. For real estate funds, such disclosures are increasingly important for transparency, credibility, and alignment with investor and regulatory expectations. However, as explained below, there are challenges around the availability of data and there is a need for on the methodology, and regarding regulations. Additional guidance—particularly on credit quality, disclosure format, and integration with broader transition plans—would help ensure these disclosures are both credible and decision-useful.

a) Usefulness of Carbon Credit Disclosures

Carbon credit disclosures are useful for real estate funds in several key respects:

- **Demonstrating Climate Strategy Execution**
  These disclosures help illustrate how funds are addressing residual emissions that cannot be abated through operational improvements or asset refurbishment. This is especially relevant for funds pursuing net-zero targets.

- **Supporting Investor Due Diligence**
  Investors are increasingly scrutinising the quality and credibility of offsetting strategies. Disclosures about the type, source, and verification of credits (e.g. nature-based vs. technological removals) support informed decision-making.

- **Aligning with Regulatory Expectations**
  Both UK and European regulators (e.g. ESMA, EFRAG) are moving toward requiring more granular disclosures on carbon credit use, making such reporting increasingly necessary.

- **Enhancing Comparability**
  Standardised disclosures allow investors to compare funds' reliance on offsets versus direct emissions reductions, which is key to assessing the credibility of transition strategies.

b) Barriers to Producing This Information

Despite their usefulness, several barriers exist for real estate funds:

- **Data Availability and Verification**
  Funds often lack direct control over tenant emissions and may struggle to verify the emissions they are offsetting, complicating the justification for credit purchases.

- **Accounting Complexity**
  There is no universally accepted methodology for accounting for carbon credits in financed emissions or net-zero pathways, leading to inconsistency and potential greenwashing.

- **Regulatory Ambiguity**
  Legal clarity is lacking on how carbon credits should be treated under SFDR and UK SRS S2, creating uncertainty for preparers.

- **Market Integrity Concerns**
  The UK Government's ongoing consultation on voluntary carbon market integrity highlights concerns about the quality and permanence of some credits. Funds must navigate this evolving landscape carefully.

- **Investor Scepticism**
  Some investors view heavy reliance on offsets as indicative of a weak decarbonisation strategy. Disclosures must therefore be accompanied by clear explanations of how credits fit into a broader transition plan.

c) Additional Disclosures That Would Be Useful

To support meaningful and credible disclosures, we recommend the following:

- **Clarify what constitutes "high-quality" credits**
  Guidance should define attributes such as permanence, additionality, and third-party verification.

- **Encourage narrative disclosures**
  Funds should explain how credits are used within their overall net-zero strategy, including rationale and limitations.

- **Standardise metrics**
  Suggested metrics include tonnes of CO_2 offset per £m invested, or percentage of residual emissions covered by credits.

- **Align with sector-specific frameworks**
  Disclosures should be compatible with CRREM, GRESB, EPRA sBPR, and the UK Net Zero Carbon Buildings Standard.

- **Provide illustrative examples**
  Case studies showing how to disclose credit use in annual reports or sustainability statements would support implementation.

Consideration of ongoing work by the ISSB

Question 8

What are your views on the potential amendments to IFRS S2 proposed by the ISSB at this time?

The ISSB's proposed amendments offer welcome flexibility for real estate funds, particularly in simplifying Scope 3 disclosures and aligning with UK regulatory frameworks. However, funds will need to ensure transparency and comparability through robust narrative disclosures and consistent methodologies. Additional guidance will be essential to support effective implementation and maintain investor confidence.

Real estate funds often do not use Global Industry Classification Standard (GICS) industry-level code. Allowing alternative classification systems (e.g. MSCI's GRACS or internal taxonomies) reduces compliance burden and better reflects how real estate portfolios are structured. Although, allowing different classification systems and methodologies may reduce comparability across funds and jurisdictions unless accompanied by clear disclosure of methods used.

Real estate funds typically have limited exposure to derivatives or insurance-related emissions. Excluding these, under Scope 3, Category 15 emissions, simplifies reporting and focuses attention on material emissions sources—primarily operational and embodied carbon in buildings.

The ability to use GWP values or GHG methodologies required by UK regulators (e.g. BEIS or UK ETS) supports alignment with national frameworks and avoids duplication.

Amendment 5 (references to the SASB materials in IFRS S1 and IFRS S2) & Amendment 6 (treatment of transition reliefs)

Question 9

Do you have any other comments (including any supporting evidence you would like to share) on the UK government's 2 amendments based on the PIC's conclusions (Amendments 5 & 6)? Explain them here.

We do not have any comments.

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Question 10

Overall, do you agree that the UK government should endorse the standards, subject to the amendments proposed? Explain any other amendments that you judge to be necessary for endorsement and why.

We support the UK Government's proposal to endorse the ISSB standards, subject to the amendments outlined in the consultation. The UK Government's approach to minor amendments ensures that UK SRS remains interoperable with global standards while reflecting domestic priorities. This is particularly important for real estate funds that operate across borders and must meet global investor expectations and already report under frameworks such as TCFD, SDR, and SFDR, which are converging with ISSB standards. For real estate funds, this approach offers a balanced and pragmatic framework that preserves international alignment while addressing UK-specific regulatory and market needs. It supports the evolution of a coherent, transparent, and investor-relevant sustainability disclosure regime. We would like 'ESG metrics for real estate'[1] developed by AREF and other industry bodies incorporated into UK SRS guidance to ensure relevance and decision-usefulness for real estate funds.

4. Implementation – understanding the benefits and costs of UK SRS

Benefits

Question 11

Explain the direct and indirect benefits that you are expecting to result from the use of UK SRS S1 and UK SRS S2. Include an assessment of those benefits which are additional to benefits arising from current reporting practices.

UK SRS S1 and S2 offer a significant step forward in sustainability reporting for real estate funds. They provide a consistent, internationally aligned framework that supports transparency, comparability, and strategic planning.

UK SRS S1 and S2, based on the ISSB's IFRS S1 and S2, establish a global baseline for sustainability disclosures. For real estate funds, this enables greater comparability across funds and jurisdictions; easier benchmarking of climate-related performance and risk exposure, and alignment with investor expectations for standardised, decision-useful data.

The requirement to disclose sustainability-related information alongside financial statements ensures timely, integrated reporting, better alignment between financial and non-financial risks and enhanced credibility of ESG disclosures.

UK SRS S2 disclosures—particularly around climate-related risks, opportunities, and transition plans—help real estate funds demonstrate alignment with net-zero targets and communicate decarbonisation strategies to investors.

Real estate funds currently navigate multiple overlapping frameworks (e.g. TCFD, SFDR, GRESB, CRREM). A harmonised framework that consolidates key elements of these standards will reduce duplication and enable more efficient reporting processes.

By aligning with international standards and embedding climate risk into mainstream reporting, UK SRS can improve investor confidence in real estate funds' ESG credentials and support access to green capital and sustainable finance products.

Costs

Question 12

Explain the direct and indirect costs that you are expecting to result from the use of UK SRS S1 and UK SRS S2. Include an assessment of those costs which are additional to costs arising from existing reporting practices.

The implementation of UK Sustainability Reporting Standards (UK SRS S1 and S2) will introduce both direct and indirect costs for real estate funds. These costs arise from the need to meet new disclosure

[1] https://www.aref.org.uk/resource/esg-metrics-for-real-estate.html

requirements, adapt internal systems, and align with evolving regulatory expectations. Below is a detailed breakdown of these costs, including those that go beyond current reporting practices such as TCFD, SDR, and GRESB.

Direct Costs

We advocate data collection legislative solutions (involving tenants and other occupiers) on a two phased UK-wide basis[2] aligned with government intending "*to take a more pragmatic, proportionate, and realistic approach to reaching net zero*"[3].

Real estate funds will need to enhance their data infrastructure to capture and report on:

- Climate-related risks and opportunities across the value chain.
- Scope 3 emissions, including tenant and supply chain data.
- Dependencies and impacts on natural and social capital 1.

This may involve upgrading ESG data platforms, integrating sustainability metrics into financial reporting systems, and procuring third-party data services for emissions and asset-level performance.

If the proposal is taken forward for a voluntary assurance regime for sustainability disclosures, with a planned Audit, Reporting and Governance Authority (ARGA) potentially overseeing third-party assurance providers there may be additional costs for real estate funds. These may include fees for external assurance services and internal costs for preparing auditable disclosures. This is a new cost layer not typically required under existing frameworks like GRESB or SDR.

Staff across finance, risk, and sustainability functions will require training on UK SRS requirements and materiality definitions and integration of sustainability into financial planning and reporting. This represents a transitional cost as firms build internal expertise.

Indirect Costs

UK SRS S1 and S2 require disclosures to be made at the same time and for the same period as financial statements. This creates pressure to align ESG and financial reporting cycles and coordinate across departments and external data providers. This is more demanding than current practices, where ESG reports are often published separately. This is particularly challenging for private markets real estate funds, which do not have legislative levers for asset level data collection from tenants.

Boards and investment committees may need to reassess risk frameworks to incorporate sustainability-related financial risks and update fund strategies to reflect climate transition pathways and dependencies. These governance shifts may require external advisory support and internal restructuring.

Evidence on the value of reporting by private entities and capability to report on non-climate matters

Question 13

What are your views on the merits of economically-significant private companies reporting against UK SRS? Explain your assessment of direct and indirect benefits and costs.

We support the adoption of the UK SRS framework for economically significant private companies, as we believe it offers a range of direct and indirect benefits to stakeholders.

Direct Benefits:

- **Improved Transparency**: Consistent reporting enhances the clarity of financial information, supporting better decision-making for investors, lenders, and other stakeholders.

[2] https://www.smf.co.uk/commentary_podcasts/we-need-mandatory-sharing-of-real-estate-energy-consumption-data-in-the-uk/
[3] https://www.gov.uk/government/news/pm-recommits-uk-to-net-zero-by-2050-and-pledges-a-fairer-path-to-achieving-target-to-ease-the-financial-burden-on-british-families

- **Comparability**: Applying UK SRS allows for more consistent comparison across private companies, helping investors benchmark performance and assess risk more effectively.
- **Regulatory Alignment**: Reporting under a recognised standard reduces the need for ad hoc disclosures and ensures alignment with UK corporate governance expectations.

Indirect Benefits:

- **Investor Confidence**: Clear and consistent financial reporting promotes trust in the market and may support increased investment in private companies.
- **Market Efficiency**: Standardised reporting reduces information asymmetry and may lower the cost of capital over time.
- **Economic Growth**: By supporting informed investment decisions, enhanced reporting can contribute to the growth and stability of the wider economy.

Question 14

For non-listed entities, what are your views on your readiness to report against UK SRS – particularly UK SRS S1, which covers non-climate reporting? Explain whether you require additional resources to report on UK SRS, beyond resources used for existing climate or sustainability-related reporting, and what these resources would be.

We have no response to this question.

Question 15

What (if any) would be the opportunities to simplify or rationalise existing UK climate-related disclosures requirements, including emissions reporting, if economically-significant private companies are required to disclose against UK SRS? Consider how duplication in reporting can be avoided. Responses to this question will support the government's review of the UK's non-financial reporting framework.

We have no response to this question.

Sustainability reporting by pension schemes

Question 16

Explain which other sustainability-related requirements your organisation currently reports against or expects to report against. How does this affect your assessment of associated costs and benefits for any UK SRS reporting?

We have no response to this question.

Support for small and medium-sized enterprises (SMEs)

Question 17

What support from UK government or regulators may be useful for SMEs and what support is already available within the market? Explain which costs could be mitigated and/or which benefits could be realised through this support.

We have no response to this question.

Legal implications of sustainability-related reporting

Question 18

Explain your assessment of the legal implications of using UK SRS and your assessment of the existing provisions in section 463 of the Companies Act.

We have no response to this question.

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Question 19

If you have any other comments (including any supporting evidence) on the potential costs and benefits of UK SRS for any stakeholder, including any comments on sector-specific impacts, explain them here.

We have no response to this question.

5. Additional guidance or educational materials

Question 20

What are your views on the quality and availability of existing guidance for the topics listed in paragraph 5.4? Explain what additional guidance – particularly on a global basis – would be helpful and why..

We have no response to this question.