ICAEW
REPRESENTATION 57/22

GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION

Issued 28 July 2022

ICAEW welcomes the opportunity to comment on exposure draft ED/2022/S1 General Requirements for Disclosure of Sustainability-related Financial Information, published by the ISSB on 31 March 2022, a copy of which is available from this link.

For questions on this response contact our Financial Reporting Faculty at frf@icaew.com quoting REP 57/22.

We are very supportive of the development of a comprehensive global baseline of high-quality sustainability disclosure standards to meet the information needs of investors. We therefore welcome the publication of this exposure draft on General Requirements for Disclosure of Sustainability-related Financial Information and the related proposals on Climate-related Disclosures. Some refinement of the proposals is needed if the Board is to achieve its aim of creating a high quality, widely applied global sustainability reporting framework.

This response of 28 July 2022 has been prepared by ICAEW's Reputation & Influence department, led by its Financial Reporting Faculty. Recognised internationally as a leading authority on corporate reporting, the faculty, through its Financial Reporting and Non-Financial Reporting committees, is responsible for formulating ICAEW policy on corporate reporting issues and makes submissions to standard-setters and other external bodies on behalf of ICAEW. The faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 161,000 chartered accountant members in over 149 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

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KEY POINTS

SUSTAINABILITY AT ICAEW

1. ICAEW has a strong record in sustainability, having been active in this space for over 17 years, and is known as an authoritative voice on the subject. Our activity can be illustrated as follows:
    a. **We advocate for action on sustainability** - ICAEW advocates for the accountancy profession to play its part in tackling the threefold crisis of loss of nature, climate collapse and rapidly growing inequalities. The article by ICAEW's CEO, Crisis with a legacy: can we build something better? was later used by the World Economic Forum for the launch of the 'Build Back Better' campaign. As part of the Accounting Bodies Network of Accounting for Sustainability, ICAEW signed the 2020 call to action on climate change and in March 2022, as a member of the Global Accounting Alliance, ICAEW signed the call to action on loss of biodiversity.
    b. **We develop sustainability resources** – ICAEW develops resources for our members and the wider business community. A Sustainability & Climate Change community was launched in 2020, now with a membership of over 16,000. Further know-how and insight into sustainability topics can be found on a variety of ICAEW sustainability hubs: ESG assurance, Climate, Modern slavery and Diversity and inclusion.
    c. **We provide insight on sustainability matters** – ICAEW runs thought provoking insight campaigns on sustainability topics, ranging from interviews with leading figures such as Sir Patha Dasgupta on his landmark study for the UK Treasury, to debates about key issues such as Paris-aligned accounts and the role chartered accountants have in sustainability.
    d. **We support the Transition Plan Taskforce** – ICAEW is represented on both the steering group and delivery group of the recently established Transition Plan Taskforce (TPT), set up by government to develop a 'gold standard for transition plans' in the UK.
    e. **We are a member of a number of key sustainability groups** – ICAEW has Special Consultative Status at the Economic and Social Council of the United Nations and is also a member of the United Nations Global Compact UK network. ICAEW is also a signatory to the Green Finance Education Charter developed as part of the UK government's Green Finance Strategy. The charter commits us to ensure that our members are professionally competent on green finance and to promote best practice and the adoption of relevant standards and frameworks.
    f. **We boldly embrace sustainability** – ICAEW's 2020-2030 strategy demonstrates our commitment to delivering Sustainable Development Goals. In 2020, we believe ICAEW became the first professional body to become carbon neutral and in 2021 we published our first carbon neutral report. Since then, along with the other professional bodies in the Accounting for Sustainability Accounting Bodies Network, we have committed to become net zero.
2. The urgent need to develop a global framework for the reporting of climate-related and other sustainability matters, and the infrastructure required for its effective implementation, is a major focus of ICAEW's wide-ranging programme of work in support of the Paris Agreement and the United Nations' Sustainable Development Goals. We are longstanding supporters of widely applied, high quality international reporting standards and believe that global alignment is critical to efforts to meet the increasing demand from investors and other users of company reports for consistent, comparable and reliable information on sustainability matters.

OUR GUIDING PRINCIPLES

3. To assist in our assessment of global and jurisdictional proposals for new requirements for the reporting of sustainability matters in mainstream financial reporting, we make reference to a number of broad, inter-related principles, as follows:
    a. Due process is transparent and of sufficient quality; proposals are preceded by effective outreach, are clear and accessible, and constituents have sufficient opportunity to provide effective input.
    b. The proposals are likely to enhance significantly the availability to investors of high quality and consistent information on sustainability matters.
    c. The new or enhanced information will be published at the same time as the financial statements, to encourage connectivity and investor understanding.
    d. Implementation dates have due regard to the degree of preparedness of reporting entities within scope and the practical challenges of implementation.
    e. The new or enhanced information proposed will be capable of being subjected to a third-party assurance regime to enhance investor confidence in the reliability of the reported information.
    f. The proposals contribute to the global alignment of sustainability reporting requirements, including definitions and language, to minimise in particular the challenges of compliance for reporting entities subject to more than one regulatory regime.
4. It is in this context that we have undertaken our review of the Board’s proposals, drawing on our experience of similar reporting innovations and following conversations with a broad range of stakeholders about the proposals.

GOOD PROGRESS HAS BEEN MADE BUT SOME REFINEMENT IS NEEDED

5. We are very supportive of the development of a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors’ information needs. Moreover, we believe that the IFRS Foundation is the right body to develop such standards.
6. We welcome the publication of the exposure draft on General Requirements for Disclosure of Sustainability-related Financial Information and the related exposure draft on Climate-related Disclosures. Good progress has been made in a short time. The Board are to be applauded for successfully bringing together components of the frameworks and standards of a wide range of international sustainability bodies into a coherent set of proposals.
7. We welcome the approach of building on the work of existing investor-focused initiatives. It is helpful that the proposals are closely aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and that the core content is structured around the familiar pillars of governance, strategy, risk management, and metrics and targets.
8. We are also supportive of the requirement to disclose material information about significant sustainability-related risks and opportunities that is useful in assessing enterprise value. This link between the proposed disclosures and enterprise value is important as it creates a clear investor focus.
9. We understand that the Board’s intention is that an entity’s impacts on society and the environment should be disclosed to the extent that such information influences users’ assessments of enterprise value, but this isn’t clearly stated. We believe that the final standard should clearly acknowledge the link between such impacts and enterprise value. Disclosure of such impacts should be explicitly required where they have the potential to affect enterprise value.
10. Overall, we broadly support the Board’s objectives and agree that the final standard should be published on a timely basis. There are, however, areas where we believe some refinement is needed if the Board is to achieve its aim of creating a high quality, global sustainability reporting framework. We have included suggested improvements that we

consider to be 'mission critical' to the success of the proposals below, with more detailed points included in the responses to the individual questions that follow.

SMALLER ENTITIES

11. The implementation of the Board's proposals will no doubt give rise to significant challenges for many businesses, assurance providers and regulators – although larger entities in the UK are already familiar with the TCFD approach on which the exposure draft builds.
12. While the proposals as drafted may be suitable for larger corporates, their implementation is likely to be more challenging for mid-market and smaller listed companies which may not have sufficient resources or experience to apply them as intended. Significant challenges will also arise for any unlisted entities required to apply the standards.
13. Companies will need time to create or adjust their internal systems and control procedures to ensure that they are able to meet the requirements of the proposed standards, particularly as some information may need to be disclosed that is not otherwise used to manage the business. It may take some time before a company is able to fully comply with the standards.
14. While the Board's proposals should aim to be ambitious, they should also be written in a way that facilitates wider application and makes it possible for companies to adopt them in the near term. This could be achieved by acknowledging that reporting under the new framework should be seen as a journey, with companies moving towards full compliance over time. Investors and regulators are likely to support such an approach, particularly if companies are required to be transparent and clear about where they are on this journey, allowing their progress to be scrutinised over time and compared to that of their peers.
15. See our response to Questions 12, 13 and 17 below for more details.

DEFINITIONS

16. While we are supportive of what the Board is trying to achieve, we do not believe that the objective of disclosing sustainability-related financial information is clear as currently drafted. The lack of clarity is perhaps, understandable, given how quickly the standards were developed.
17. The proposals require disclosure of information about 'significant sustainability-related risks and opportunities that is useful… when assessing enterprise value' but do not define 'significant' or 'sustainability-related'. Moreover, some may be confused about what is meant by 'enterprise value' as the exposure draft seems to offer two different articulations of what it means.
18. While we acknowledge that doing so is not always easy, we nonetheless believe that it is critical that these key terms are clearly defined to remove any confusion and to ensure that the standard is applied consistently.
19. It is particularly important that the term 'sustainability-related' is clearly defined and understood. The term could be interpreted in a number of different ways. For example, it is unclear if it is referring to the information typically included in traditional ESG reporting or if it should be interpreted in the broader sense of providing information about whether or not an entity has a sustainable business model that can create value in the long-term.
20. The lack of a clear definition makes it hard to understand what activities will be captured by the standard and to envisage how wide-reaching its implications will be. This is an issue for reporting entities, assurance providers and regulators. A clear definition or more guidance on what the term is intended to capture is needed so that limits of what needs to be disclosed can be more easily understood.
21. See our response to Question 2 below for more details.

CONNECTIVITY

22. We agree that an entity should be required to provide information to enable investors and other users to understand the connections between information disclosed. Connectivity is a very important concept so it would be helpful if the final standard could explain it more fully

and include additional illustrative examples of the types of disclosures the Board are envisaging.

23. The proposals specifically highlight the importance of explaining connections between various pieces of sustainability-related information and between them and other information in the financial statements. There does not, however, appear to be any specific requirement to disclose connections between this information and the broader contextual information about the external environment and the entity's business model, strategy, resources, relationships and so on that is often included in an entity's strategic report or management commentary. Similarly, disclosure of connectivity to wider business risks is not explicitly required.

24. Without providing these connections, it will be difficult for investors to fully assess the effect of sustainability-related risks and opportunities on the entity's future prospects. In our view, the concept of connectivity should therefore apply to all information included within an entity's general purpose financial reporting.

25. See our response to Question 6 below for more details.

LINKING TO SASB AND OTHER STANDARDS

26. The proposals come across as requiring management to consider a wide range of literature when identifying sustainability-related risks and opportunities, including SASB and other inherited standards that have not themselves been subject to ISSB due process.

27. From discussions with the ISSB staff, we understand that the intention is that the application of SASB and other standards is intended to be non-mandatory, but this isn't very clear, meaning that some may assume that companies will have to adopt SASB and other standards to be compliant with the proposed ISSB standards. This is potentially a fatal flaw in the standards and may restrict adoption globally unless it is remedied. It should be made clear that these additional sources of information are non-mandatory guidance and that there is no requirement to apply them.

28. See our response to Question 7 below for more details.

QUANTIFYING THE IMPACT OF SUSTAINABILITY-RELATED RISKS AND OPPORTUNITIES

29. The exposure draft requires companies to disclose information that enables users to understand the effects of significant sustainability-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period and the anticipated effects over the short, medium and long-term. It goes on to say that an entity should disclose quantitative information unless it is unable to do so.

30. Providing quantitative information will be challenging for some companies, as it may be difficult for them to meaningfully quantify how their performance will change in response to sustainability-related matters. This could result in misleading information being disclosed.

31. We suggest that the proposals in this area are reconsidered, so that the baseline is set in a way that requires companies to provide qualitative information and perhaps some specific quantitative information, with additional quantitative information only required where reliable information can be provided without undue cost or effort.

32. See our response to Question 4 below for more details.

SCALABILITY AND WIDER APPLICATION OF THE PROPOSED STANDARDS

33. We encourage the Board to consider the scalability of its standards. As noted above, their implementation is likely to be challenging for mid-market and smaller listed companies. Similar issues are likely to arise where individual jurisdictions decide to extend the application of the standards to SMEs and other unlisted entities, and not-for-profit entities. Ideally, the standards should be written in a way that facilitates wider application. Acknowledging that reporting under the new framework is a journey and phasing in some disclosures would make it easier for such entities to apply the standards.

THE IMPORTANCE OF DUE PROCESS

34. There will undoubtedly be pressure from some quarters for the Board to finalise this and its Climate-related Disclosures standard as soon as possible given the urgent need for global standards. While we agree that it is important that the final standards are published as soon as possible, it is also important that they are of the high quality we have come to expect from the IFRS Foundation. The need for speed should be carefully weighed against the importance of achieving a true and enduring step-change in the quality of reporting in this critical area. We believe that it is imperative that the Board follows due process and allows itself sufficient time to address the comments it receives so that these standards become the global baseline.

INTERNATIONAL COLLABORATION

35. It is important that the Board and other relevant bodies continue to prioritise global agreement to allow for consistency and comparability on a worldwide scale. Many entities will fall within the scope of two or more sets of climate-related disclosure rules. If a high degree of alignment is not achieved, compliance for such entities could be unduly costly, the risk of errors may increase, and the end result may prove to be unnecessarily lengthy reports of questionable value to investors. We therefore strongly support the recent establishment by the Board of a working party of key standard-setters to consider these issues, and strongly encourage on-going collaboration.

ANSWERS TO SPECIFIC QUESTIONS

<u>Question 1 – Overall approach</u>

The Exposure Draft sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it.

Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value.

- ***a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?***
- ***b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?***
- ***c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 Climate-related Disclosures? Why or why not? If not, what aspects of the proposals are unclear?***
- ***d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?***

36. We welcome the publication of this exposure draft on General Requirements for Disclosure of Sustainability-related Financial Information and the related proposals on Climate-related Disclosures.

37. There are, however, areas where we believe some refinement is needed if the Board is to achieve its aim of creating a high quality, widely applied global sustainability reporting

framework. We have included suggested improvements to the draft standard's objective and the proposed requirements in the detailed responses to the individual questions that follow. Our response to this question focuses on the proposed standard's overall approach, what is meant by material information about significant sustainability-related risks and opportunities, the interaction between this standard and other sustainability-related disclosure standards, and the auditability of the proposals.

Overall approach

38. The proposed standard combines general principles with what could be described as 'default' sustainability-related disclosures that will apply to a wide range of issues until more topic-specific standards are developed. We think that this is rather confusing.

39. It may, therefore, be better to split the draft standard into two with the general principles drawn from the IASB's conceptual framework, IAS 1 and IAS 8 in one standard and the 'default' disclosure requirements in another.

40. If the Board does not feel that splitting the draft standard in two is appropriate, we suggest that it is instead split into two more distinct parts so that users are able to distinguish between its general principles and its 'default' disclosure requirements.

41. We understand that the Board's intention is that an entity's impacts on society and the environment should be disclosed to the extent that such information influences users' assessments of enterprise value, but this isn't clearly stated. We believe that the final standard should clearly acknowledge the link between such impacts and enterprise value. Disclosure of such impacts should be explicitly required only where they have the potential to affect enterprise value. Additional text could, perhaps, be added to paragraph 17 of the standard to make it clear that these impacts must be disclosed.

Material information about significant sustainability-related risks and opportunities

42. We understand that the intention is that companies should follow a two-step process whereby they:
    a. first identify significant sustainability-related risks and opportunities; and
    b. then consider what information relating to those matters is considered to be material to enterprise value.

43. For the avoidance of doubt, it would be helpful if the Board would confirm our understanding and ensure that this two-step process is stated more clearly. It would also be helpful to explicitly state that no disclosures are needed about those matters that are not considered to be significant. More guidance is also needed on what is meant by 'significant' as discussed in our response to Question 2 below.

Interaction with other sustainability-related disclosure standards

44. The draft standard builds on the TCFD framework and sets out a series of 'default' disclosures that will be required for all significant sustainability-related risks and opportunities. These are then expanded upon in the draft standard on Climate-related Disclosures.

45. There is, however, a lot of repetition between the core requirements in this exposure draft and the requirements in the separate proposals on Climate-related Disclosures. This seems unnecessary. Rather than repeat these requirements, it may be better for the Climate-related Disclosures standard and other topic-specific standards to simply set out the additional disclosures that are required over and above those in the General Requirements for Disclosure of Sustainability-related Financial Information standard.

46. The required disclosures relating to governance and risk management are likely to be very similar for all sustainability-related topics. It may therefore be better for topic-related standards to focus on expanding upon the disclosures relating to strategy, and metrics and targets as extra information on these matters is likely to be of most use to investors and other

users of financial reporting. Topic-specific standards could also usefully provide additional implementation guidance on the application of the General Requirements for Disclosure of Sustainability-related Financial Information standard to the specific risks and opportunities that they address.

47. Retaining the current approach will presumably result in a suite of sustainability disclosure standards with each of them repeating the same basic requirements before adding extra disclosures as appropriate. This approach is not only unwieldy but also risks creating a ‘silo’ mentality whereby each set of sustainability-related disclosures are produced in isolation. The revised structure we have suggested would streamline the process and result in more focussed standards. It would also encourage preparers to take a more holistic approach to developing their sustainability disclosures. If the current proposals are retained, topic-related standards should separately identify the ‘default’ disclosures that are carried over from the General Requirements for Disclosure of Sustainability-related Financial Information standard and those disclosures that are required in addition to them.

Auditability

48. Our ongoing engagement with investors and other stakeholders strongly suggests a growing demand from investor for enhanced requirements for the provision of external assurance over sustainability information.

49. The Board’s proposals require disclosures about a broad range of sustainability-related topics, meaning auditors and regulators may find it challenging to provide assurance on the completeness of the information disclosed. It will also be challenging to provide assurance on forward-looking information or on the scope of the value chain. While we believe that the accountancy profession is generally well placed to provide that assurance, we nonetheless believe that some refinement to the proposals is needed before the proposals can provide what we would consider to be a suitable basis for auditors and regulators to determine whether an entity has complied with them.

50. However, if the key drafting issues and other matters we identify below – most notably around the lack of key definitions – are adequately addressed, it should be possible for the proposals to provide a good basis for assurance and regulatory enforcement.

51. It would be helpful to require companies to explicitly disclose what they consider to be significant sustainability-related risks and opportunities, and why. Auditors and regulators would then be better able to assess whether all relevant disclosures had been made.

52. We encourage the Board to work closely with auditing and assurance standard-setters including the International Auditing and Assurance Standards Board (IAASB), which is currently working on a standard focussing on assurance on sustainability reporting.

<u>Question 2 – Objective (paragraphs 1-7)</u>

The Exposure Draft sets out proposed requirements for entities to disclose sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities on an entity’s enterprise value.

Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity’s risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information in an entity’s financial statements and sustainability-related financial information. Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Sustainability-related financial information should, therefore, include information about the entity’s governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that

could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements. Sustainability-related financial information also depicts the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy, or about the entity's development of knowledge-based assets.

The Exposure Draft focuses on information about significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity's enterprise value.

a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?

b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

53. While we are supportive of what the Board is trying to achieve, we do not believe that the objective of disclosing sustainability-related financial information set out in paragraph 1 of the exposure draft is articulated clearly. The proposals require disclosure of information about 'significant sustainability-related risks and opportunities that is useful… when assessing enterprise value' but do not define 'significant' or 'sustainability-related'. Moreover, some may be confused about what is meant by 'enterprise value' as the exposure draft seems to offer two different articulations of what it means. See paragraphs 57-74 below for more information.

54. While we acknowledge that doing so is not always easy, we nonetheless believe that it is critical that these key terms are clearly defined or more guidance provided to remove any confusion and to ensure that the draft standard is applied consistently.

55. While not as critical, it may also be useful for the standard to define terms such as 'risks and opportunities', 'resources' and 'impractical'. Where appropriate, definitions should be aligned with those in IFRS Accounting Standards.

56. We also have concerns around the qualitative characteristics of the information disclosed and the requirements relating to comparable information. See paragraphs 75-82 below for more information.

The meaning of 'significant'

57. We agree that an entity should disclose material information about all of the 'significant' sustainability-related risks and opportunities to which it is exposed. It is, however, important that the term 'significant' is clearly defined and understood.

58. There is some discussion about what is meant by 'significant' in paragraph BC40 in the Basis for Conclusions. This paragraph explains that an entity should identify significant risks and opportunities by applying their risk management processes, meaning that such risks and opportunities are entity-specific. It goes on to say that significant risks are those risks that are seen as priorities for management and that could disrupt the entity's business model or strategy in the short, medium or long-term. It is, however, unclear whether risks that are not priorities for management could be seen as significant if, for example, other entities in the sector or external stakeholders see them as such. Additional guidance is also needed to clarify what opportunities are considered significant.

59. On the whole, the information in the Basis for Conclusions is helpful and provides additional clarity. It would, however, be useful to explain how the terms 'significant' and 'material' interact with one another. There is an apparent mismatch between the two, with significance assessed from the perspective of the company's management and materiality assessed from a user perspective.

60. Overall, we believe that the information in the Basis for Conclusions – particularly the discussion in paragraph BC40 – provides a good starting point for developing the definition of 'significant' that is currently lacking. We strongly recommend that this guidance is included within the body of the final standard. The IASB's management commentary exposure draft

also includes some useful draft guidance on identifying material information about key matters that could be useful in this context.

61. Whatever definition is provided, it should be clear that a high threshold must be met before something is considered to be ‘significant’. Setting the bar too low risks creating an unnecessary burden on preparers and overloading users with vast quantities of information.

62. To avoid confusion between significance and materiality, it may be better to require disclosure of ‘principal’ rather than ‘significant’ risks and opportunities. Doing so would emphasise the message set out in BC40 ie, that disclosures are only required about those risks that management see as a priority.

The meaning of ‘sustainability-related’

63. The draft standard defines ‘sustainability-related financial disclosures’ and ‘sustainability-related financial information’ but does not provide a definition of what is meant by ‘sustainability-related’ itself. The term could be interpreted in a number of different ways. For example, it is unclear if it is referring to the information typically included in traditional ESG reporting or if it should be interpreted in the broader sense of providing information about whether or not an entity has a sustainable business model that can create value in the long-term.

64. It is important that the term ‘sustainability-related’ is clearly defined and understood. The lack of a clear definition makes it hard to understand what activities will be captured by the standard and to envisage how wide-reaching its implications will be. This will be an issue for reporting entities, assurance providers and regulators.

65. As drafted, the standard requires entities to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. This requires disclosure of information that is useful to investors and other stakeholders when assessing enterprise value. A clear definition of ‘sustainability-related’ or more guidance on what the term is intended to capture is needed so that limits of what needs to be disclosed can be more easily understood.

66. While it will not be possible or desirable to include an exhaustive list of sustainability-related topics, it may be useful to include a discrete list highlighting some of the most common sustainability-related issues as part of the final standard.

67. Paragraph 6 of the exposure draft tries to expand on what is meant by ‘sustainability-related’ information but isn’t easy to follow without a clear definition of ‘sustainability-related’. We find the reference in paragraph 6(d) to the ‘development of knowledge-based assets’ particularly hard to understand.

The meaning of ‘enterprise value’

68. The objective goes on to talk about providing information that is useful to users of financial reporting when they ‘assess enterprise value and decide whether to provide resources to the entity’.

69. We are supportive of the link between the proposed disclosures and enterprise value as this creates a clear investor focus. There is, however, potential for confusion about what is meant by ‘enterprise value’ as the exposure draft seems to offer different articulations of what it means.

70. Paragraph 5 of the exposure draft explains that enterprise value reflects expectations about the amount, timing and certainty of future cash flows over the short, medium and long-term and the value of those cash flows in the light of the entity’s risk profile and its access to finance and cost of capital. If this ‘predicted’ enterprise value is used, it is clear how sustainability-related financial information will help investors and other users assess it. As such, it helps support the proposal’s overall objective. Moreover, this way of looking at enterprise value has the advantage of being consistent with both the IASB’s management commentary proposals – which talk about an entity’s activities creating value if ‘they enhance

or preserve the present value of the entity's future cash flows' – and its conceptual framework.

71. Appendix A, on the other hand, provides a definition of what could be described as the 'observed' enterprise value ie, 'the sum of the value of the entity's market capitalisation and the value of the entity's net debt'. In theory, this should be equal to the 'predicted' enterprise value derived using the drivers discussed above but, in reality, this would only be the case if there was a perfect market and the cash flow model used incorporated all of the market's assumptions.

72. If the definition in Appendix A is used, it is less clear how sustainability-related financial information will help investors and other users assess enterprise value. Moreover, it would be impossible to apply in practice if jurisdictions decided to require unlisted entities to apply the ISSB's standards unless changes were made.

73. To ensure consistency and reduce the potential for confusion, we believe that the current definition of enterprise value should be replaced with something akin to the wording in paragraph 5 of the exposure draft.

74. The reference to using the information provided to 'decide whether to provide resources to the entity' at the end of the objective seems a little odd, particularly as it does not appear to be referred to or expanded upon anywhere else in the exposure draft. We suggest that this text should be deleted or – at the very least – preceded by 'and/or' rather than 'and'.

Qualitative characteristics

75. Paragraph 3 of the exposure draft refers to providing a 'complete, neutral and accurate' depiction of an entity's sustainability-related financial information. This draws on some of the content of Appendix C on the qualitative characteristics of useful sustainability-related financial information, which in turn is based on elements of the IASB's conceptual framework. It would be useful to cross refer to this appendix.

76. Moreover, it seems odd that just these three characteristics are highlighted in this paragraph while the other fundamental and enhancing qualitative characteristics set out in the conceptual framework – such as relevance, comparability and understandability – are not mentioned.

77. We note that the IASB has developed guidance on applying these concepts to the selection and presentation of non-financial information as part of its management commentary project. This guidance would be useful for preparers of sustainability-related disclosures and could helpfully be included in the draft standard.

78. We also note that much of the information in the section of the conceptual framework dealing with the objective, usefulness and limitations of general purpose financial statements has not been brought into the proposals. This section of the conceptual framework includes useful information on – among other things – the information needs of the primary users of financial statements. For example, it explains how primary users 'use' the information provided directly to them alongside pertinent information from other sources to make their decisions about things like exercising voting rights and assessing management's stewardship of the entity's economic resources. It would be helpful for the final standard to include something similar in the context of sustainability-related financial disclosures.

Comparability

79. Ensuring comparability in an area where metrics and methodologies are constantly evolving is always going to be a challenge. In finalising its disclosures, the Board should always bear in mind that what investors ultimately want is information to enable them to understand how metrics are measured and sufficient details about the methodology applied so that they have the ability to compare one company against another.

80. Paragraph 7(a) of the exposure draft talks about providing information that is comparable to that provided in previous periods and that provided by other entities. It does not, however, make it clear that the information disclosed should not only be comparable to that provided

by others but should also be relevant to the entity itself. The importance of providing relevant information – and the potential conflict with the desire to provide comparable information – should be acknowledged in the standard.

81. Comparability with previous periods is, of course, desirable – but care must be taken to avoid giving the impression that companies will meet the proposed requirements by simply replicating disclosures from previous years. Significant sustainability-related risks and opportunities are likely to change over time and this should be reflected in the disclosures made. It may be worth explicitly stating this, otherwise some may conclude that the assessment of risks and opportunities only needs to happen in the year of adoption, which clearly isn't the intention.

82. It is also helpful to provide information that is comparable with sustainability-related information from other entities so that users can benchmark one entity against another. It would be helpful to be clear on what is meant by 'other entities' in this context. Presumably, it is referring to entities with similar activities or operating in the same industry, but this is not clear.

TCFD principles for effective disclosure

83. To underpin its recommendations, the TCFD developed seven principles for effective disclosure which organisations are encouraged to consider as they develop climate-related financial disclosures. These principles are largely consistent with the conceptual framework and are designed to assist organisations in making clear the linkages between sustainability-related issues and their governance, strategy, risk management, and metrics and targets.

84. The Board may wish to refer to these principles in the ISSB's General Requirements for Disclosure of Sustainability-related Financial Information standard as they are not only very helpful but are also familiar to existing users of the TCFD framework.

<u>Question 3 – Scope (paragraphs 8-10)</u>

Proposals in the Exposure Draft would apply to the preparation and disclosure of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Sustainability-related risks and opportunities that cannot reasonably be expected to affect users' assessments of the entity's enterprise value are outside the scope of sustainability-related financial disclosures.

The Exposure Draft proposals were developed to be applied by entities preparing their general purpose financial statements with any jurisdiction's GAAP (so with IFRS Accounting Standards or other GAAP).

Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

85. We agree that the proposed standards have been developed in a way that allows them to be applied by entities preparing their financial statements in accordance with any jurisdiction's GAAP. We are supportive of this approach.

Clashes with local guidance

86. We are, however, concerned that some of the concepts included within the proposals that are aligned with or based on IFRS Accounting Standards could be interpreted inconsistently by different jurisdictions or may clash with their existing guidance.

87. For example, investments in subsidiaries, associates and joint ventures will be accounted for differently depending on which GAAP is applied. This could mean that the proposals will require different information to be disclosed by entities operating in different jurisdictions. This could be potentially significant, especially in sectors such as oil and gas where such investments are commonplace and where a large part of the entity's greenhouse gas

emissions could be present in their non-consolidated operations. Additional implementation guidance would be helpful. See our response to Question 5 below for more details.

Not-for-profit entities

88. Paragraph 10 of the exposure draft acknowledges that the proposals are focussed on profit-orientated entities and goes on to say that amendments may be needed if they are to be applied by not-for-profit entities.

89. It is likely that any such amendments would need to shift the focus from the impact of significant sustainability-related risks and opportunities on enterprise value, as this measure is not relevant to such entities. Users of the financial reporting by such entities – including those in the public sector – are more likely to be interested in outward-looking information highlighting the wider impact of the entity's business model and strategies on society and the environment.

90. It would be helpful in due course for the Board to provide more specific guidance on how the proposals could be applied by public and private sector not-for-profit entities.

<u>Question 4 – Core content (paragraphs 11-35)</u>

The Exposure Draft includes proposals that entities disclose information that enables primary users to assess enterprise value. The information required would represent core aspects of the way in which an entity operates.

This approach reflects stakeholder feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting, and builds upon the well-established work of the TCFD.

<u>Governance</u>

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on governance would be:

to enable the primary users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities.

<u>Strategy</u>

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on strategy would be:

to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.

<u>Risk management</u>

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on risk management would be:

to enable the users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall also enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.

<u>Metrics and targets</u>

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on metrics and targets would be:

to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.

a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

91. The proliferation of climate and other sustainability reporting frameworks around the world has become a major obstacle to efforts to improve the ability of investors to understand and compare reported information in this area.

92. It is therefore helpful that the core content of the ISSB's proposals is closely aligned with the TCFD recommendations as it is a framework that is widely understood and accepted. We are generally supportive of the approach adopted. We would, however, encourage the Board to keep differences between the two models to a minimum wherever possible.

Differences between the ISSB's proposals and the TCFD framework

93. We note that there are some important differences between the ISSB's proposals and the more familiar TCFD framework. The ISSB staff have highlighted that these differences take three forms:
    a. instances where the exposure drafts use different wording to capture the same information;
    b. instances where the exposure drafts require additional, more granular information than the TCFD recommendations; and
    c. instances where the exposure drafts require additional specific disclosures.

94. We are unclear why the Board has decided to use different wording to the TCFD if the intention is to capture the same information. This will only serve to confuse those familiar with the TCFD framework and will undoubtedly generate much debate about the subtleties and nuances of the slightly different language used. In our view, it would be better to retain the wording used by the TCFD unless there is a specific intention to capture different information.

95. We comment on those instances where additional, more granular information or additional specific disclosures are required either below or in our response to the Board's separate proposals on Climate-related Disclosures as appropriate.

Linking the overall objective with the individual disclosure objectives and detailed requirements

96. There does not always seem to be a clear link between the draft standard's overall objective – which is defined in terms of providing information that is useful when assessing enterprise value – and the individual disclosure objectives and the detailed disclosures that lie beneath them.

97. This is most apparent with the metrics and targets objective, which refers to disclosing information that an entity uses to measure, monitor and manage its significant sustainability-related risks and opportunities. Depending on what is measured and monitored, disclosing this information alone will not always provide investors and other users with all the information they need to assess enterprise value. This is, presumably why, on our reading of the requirements, the proposed Climate-related Disclosure standard seems to go on to require disclosure of GHG emissions and relevant industry-specific metrics even where such measures are not used by management. This is fine insofar as it means that investors get all the information that they need to assess enterprise value, but if other topic-specific standards require similar mandatory disclosures, the burden could be high, with companies required to disclose lots of metrics that are not used to manage the business. It would be easier to understand what needs to be disclosed and why if there was a more evident link between the overall disclosure objective, the individual disclosure objectives and the detailed disclosure requirements.

Disclosure objectives

98. Overall, the disclosure objectives as drafted are clear and appropriately defined though – as noted above – there isn't always a clear link between them and the overall disclosure objective.

99. There is some overlap between the governance and risk management objectives as both refer to the processes used to manage sustainability-related risks. Experience shows that companies applying the TCFD framework tend to refer to the same risk management disclosures for both elements and often struggle to articulate the governance aspect beyond stating where responsibility lies. We encourage the Board to find a better way of distinguishing between the governance and risk management objectives or – if this is not possible – consider combining them.

Disclosure requirements – governance

100. Good governance is the basis for everything that follows, so these disclosures are very important. Companies applying the TCFD framework or other local corporate governance requirements too often produce boilerplate text when responding to the recommended disclosures on governance issues so we are pleased to note that the proposals include disclosure of additional information in this area.

101. These additional requirements are designed to draw out more detail and should enable users to better understand the company's governance processes, controls and procedures. They could – unfortunately – result in further lengthy boilerplate text that is simply repeated each year. More useful information may be garnered by specifically requiring disclosure of the actions and activities undertaken by the governance body during the reporting period.

102. Requiring disclosure of the identity of the body or individual within a body responsible for oversight of sustainability-related risks and opportunities is a helpful new disclosure. It is unclear, however, whether the reference to an individual means that companies would need to identify the role or job title of the person responsible or actually name the individual themselves.

103. Consideration should be given to how the proposed disclosures could interact with or be integrated into local corporate governance disclosure requirements as many jurisdictions currently have existing codes and listing rules with extensive governance disclosure requirements.

Disclosure requirements – strategy

104. We note that the disclosures around strategy are broadly aligned with those in the TCFD framework, although additional granular information is required in some areas.

105. The more detailed disclosures on the value chain, trade-offs and financial impact are useful but could be difficult for some entities to apply in practice, especially in the absence of a supporting IFRS Sustainability Disclosure Standard.

106. Paragraph 16 of the exposure draft refers to disclosing information about significant sustainability-related risks and opportunities that could reasonably be expected to affect the entity's business model, strategy, cash flows and so on. This suggests that disclosure would be necessary regardless of the extent of the impact on these items. The wording should be tightened to avoid companies having to disclose instances where the effect is likely to be insignificant.

107. Paragraph 22 of the exposure draft requires companies to disclose information that enables users to understand the effects of significant sustainability-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period and the anticipated effects over the short, medium and long-term. It goes on to say that an entity should disclose quantitative information unless it is unable to do so.

108. We believe the requirement to disclose quantitative information about the financial effects of sustainability-related risks and opportunities may pose an unreasonable challenge to many

companies. Methodologies and acceptable assumptions are still evolving in this area and are not well established, therefore we are concerned that it may be difficult for companies to meaningfully quantify how their performance will change in response to sustainability-related matters. This could result in misleading information being disclosed.

109. We suggest that the proposals in this area are reconsidered, so that the baseline is set in a way that requires companies to provide qualitative information and perhaps some specific quantitative information, with additional quantitative information only required where reliable information can be provided without undue cost or effort. Before quantitative requirements are put in place, we strongly encourage further and thorough field testing and research into user needs, in order to reach the point whereby methodologies and appropriate assumptions are agreed widely and common approaches are established.

110. As drafted, this paragraph requires companies to disclose quantitative information unless they are unable to do so. If this requirement is retained, it would be helpful to set out the circumstances in which it would be acceptable not to provide such information. It would also be helpful to provide examples or illustrations showing the nature and level of the disclosures required.

111. Paragraphs 23-24 of the exposure draft discuss disclosure of information about the resilience of an entity's strategy and cashflows. No detailed guidance is given on how this analysis should be undertaken, other than to say that other IFRS Sustainability Disclosure Standards will specify the type of information an entity is required to disclose, such as when scenario analysis shall be used. While we do not believe that detailed scenario analysis is necessary for all sustainability-related risks, it would nonetheless be helpful if the final standard gave clearer guidance on what level of detail is expected where there is no topic-specific standard.

Disclosure requirements – risk management

112. We note that the disclosures around risk management are broadly aligned with those in the TCFD framework, although additional disclosures are required in some areas.

113. One new disclosure requires companies to outline the processes used to identify and prioritise opportunities. In many cases, risks and opportunities will be interconnected, meaning that they will be identified through the same processes. For example, the decline in demand for petrol cars is a risk for a car manufacturer, but it also creates an opportunity for them to develop electric cars. Providing disclosures about the processes used to identify such opportunities should therefore be relatively straightforward.

114. It may, however, be more difficult for entities to make meaningful disclosures about how opportunities that are not the flipside of a risk are identified, as entities may not have any formal processes in place. Information about such opportunities may also be seen as sensitive. In such instances, it may therefore be more beneficial to require higher-level disclosures on the entity's overall approach to identifying such opportunities as part of the governance or strategy pillars.

Disclosure requirements – metrics and targets

115. We note that the disclosures around metrics and targets are broadly aligned with those in the TCFD framework, although additional disclosures are required in some areas.

116. Sustainability-related information is, by its nature, often subject to estimation. This is particularly relevant when thinking about metrics and targets, many of which will inevitably require significant estimation. The proposals already require disclosure of sources of estimation and outcome uncertainty, but it would be helpful to specifically cross-refer to this guidance from the metrics and targets section.

117. Paragraph 30 of the exposure draft requires disclosure of the metrics that are used to manage sustainability-related risks and opportunities and to measure performance. We are supportive of this approach but are unclear about what disclosures – if any – are needed if an entity does not use metrics in this way.

118. Investors and other users are likely to be particularly interested in some metrics – such as those relating to GHG emissions – so it may be necessary to require certain disclosures even if they are not used by management. Such metrics are, however, likely to be topic-specific and it therefore makes sense to include them in individual IFRS Sustainability Disclosure Standards rather than in the General Requirements for Disclosure of Sustainability-related Financial Information standard. It would be helpful if entities were required to clearly distinguish between those metrics that are used by management and those that are provided to meet disclosure requirements or for other reasons.

119. Paragraph 31 of the exposure draft refers to disclosing whether the measurement of the metric is validated by an external body. We recommend more guidance is provided on what this may mean in practice eg, who can provide such validation, what level of assurance is needed and whether the outcome needs to be publicly available. While validation is relatively straightforward in some cases (eg, CO_2e measures, water consumption), it will be more challenging in other instances (eg, some social and governance issues) where practice is still developing.

Question 5 – Reporting entity (paragraphs 37-41)

The Exposure Draft proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements. The Exposure Draft proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Such risks and opportunities relate to activities, interactions and relationships and use of resources along its value chain such as:

- ***its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain;***
- ***the assets it controls (such as a production facility that relies on scarce water resources);***
- ***investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and***
- ***sources of finance.***

The Exposure Draft also proposes that an entity disclose the financial statements to which sustainability-related financial disclosures relate.

a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?

b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

120. We agree that sustainability-related financial information should be required to be provided for the same reporting entity as the financial statements. There are, however, some challenges that we believe the Board need to address when finalising these proposals.

Consolidated financial statements

121. As noted in our response to Question 3 above, we have some concerns about the consistent application of the proposals in consolidated financial statements as subsidiaries, associates and joint ventures may be accounted for differently depending on which GAAP is applied. Further clarity is needed about what disclosures are required where the financial reporting entity is a group.

122. Even where IFRS Accounting Standards are applied, it isn't always entirely clear what information must be disclosed. For example, it is unclear what information would need to be disclosed in the consolidated financial statements of an investment entity that has subsidiaries that it controls but does not consolidate.

Legal restrictions

123. Some challenges are also foreseen in jurisdictions where for legal reasons entities might not be able to disclose certain information required by the proposals. It is unclear how such situations would be dealt with. In such circumstances, it may be helpful to require additional disclosures highlighting where the boundaries of sustainability-related reporting are different to financial statements and explaining why.

Foreign currencies

124. Paragraph 39 of the exposure draft says that when currency is specified as the unit of measure, the entity shall use the presentation currency of its financial statements. It does not, however, explain how to deal with metrics which are required by local requirements to be reported in a currency other than the presentation currency.

Value chain

125. We agree that reporting on the full value chain is important for providing relevant information. However, doing so is judgemental and will be complex to determine for some entities.
126. We suggest that the Board provides further advice on the application of these requirements including guidance on:
    a. how to scope the value chain analysis, including how far up or down the value chain entities have to go;
    b. whether or not entities should include value chains of entities they don't control, such as joint ventures and associates; and
    c. what entities should do when they do not have access to all of the information across its value chain.
127. Any additional guidance could also helpfully reiterate that only material information needs to be disclosed.
128. In some instances, management may not have access to the required information or be in a position to take responsibility for its accuracy. It would be helpful if the proposals addressed what disclosures are required in such circumstances. For example, it may be useful to require disclosure of how management is monitoring or managing the related risks. Smaller entities may find it difficult to apply the proposals along their value chain as they typically lack resources for data collection and have less authority to demand information. Moreover, measurement techniques and models for capturing the full value chain are still under development in some sectors. Inconsistent application of the value chain concept is therefore likely.
129. We, therefore, recommend that the Board requires explicit disclosure about the methodology used by an entity to determine its value chain, any assumptions underlying that methodology and what level of assurance the entity has obtained about the accuracy of information provided to it by third parties so that users can evaluate the completeness and accuracy of the disclosures provided.

<u>Question 6 – Connected information (paragraphs 42-44)</u>

The Exposure Draft proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between (a) various sustainability-related risks and opportunities; (b) the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets;

and (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements.

a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?

b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

130. We agree that an entity should be required to provide information to enable investors and other users to understand the connections between information disclosed. Connectivity is a very important concept so it would be helpful if the final standard could explain it more fully and include additional illustrative examples of the types of disclosures the Board are envisaging. It would be particularly helpful if the standard more clearly explained that an entity's impacts on society and the environment can have a direct connection to its enterprise value. Including a reference to the TCFD principles for effective disclosure – which are referred to in paragraphs 83-84 above – within the standard would be a good starting point.

Expanding on the concept of connectivity

131. Information is difficult to use if it is fragmented or cannot be reconciled with other information provided by the reporting entity. Providing disclosures in a connected way is therefore essential if investors are to be provided with a comprehensive and cohesive reporting package.
132. The proposals specifically highlight the importance of explaining connections between various pieces of sustainability-related information and between them and other information in the financial statements. There does not, however, appear to be any specific requirement to disclose connections between this information and the broader contextual information about the external environment and the entity's business model, strategy, resources, relationships and so on that is often included in an entity's strategic report or management commentary.
133. Similarly, disclosure of connectivity to wider business risks is not explicitly required. In practice, most sustainability risks will manifest as part of wider business risks meaning it will be difficult to interpret information about them in isolation.
134. Without providing these connections, it will be difficult for investors to fully assess the effect of sustainability-related risks and opportunities on the entity's future prospects. In our view, the concept of connectivity should therefore apply to all information included within an entity's general purpose financial reporting.

Coherence

135. The IASB's proposals in relation to management commentary include a requirement for the information that is provided to be coherent. They are also proposing that information should be provided in a way that it can be related to other information published by the company and that any apparent inconsistencies are explained.
136. These concepts are equally applicable to sustainability-related disclosures. We, therefore, suggest that the Board incorporate them into its final standard.

Trade-offs

137. Requiring disclosures explaining options that were evaluated and trade-offs considered is potentially helpful, but companies may be reluctant to disclose this information in some instances. We suggest that companies are allowed to choose whether or not such information is disclosed.

Illustrative examples

138. The proposals as drafted will be difficult to digest, particularly by entities in jurisdictions that are not familiar with the concept of integrated reporting. The inclusion of additional illustrative examples highlighting how sustainability-related information connects to other information in the financial statements and elsewhere would therefore be helpful.
139. It is also unclear how the proposals should be connected to any segmental reporting provided by the entity. Some additional guidance considering how segments form part of connectivity may also be useful
140. Some of the additional information provided in the Basis for Conclusions is helpful and could usefully be brought forward into the standard itself.

<u>Question 7 – Fair presentation (paragraphs 45-55)</u>

The Exposure Draft proposes that a complete set of sustainability-related financial disclosures would be required to present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation would require the faithful representation of sustainability-related risks and opportunities in accordance with the proposed principles set out in the Exposure Draft. Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation.

To identify significant sustainability-related risks and opportunities, an entity would apply IFRS Sustainability Disclosure Standards. In addition to IFRS Sustainability Disclosure Standards to identify sustainability-related risks and opportunities, the entity shall consider the disclosure topics in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

To identify disclosures, including metrics, that are likely to be helpful in assessing how sustainability-related risks and opportunities to which it is exposed could affect its enterprise value, an entity would apply the relevant IFRS Sustainability Disclosure Standards. In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk and opportunity, an entity shall use its judgement in identifying disclosures that (a) are relevant to the decision-making needs of users of general purpose financial reporting; (b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and (c) are neutral. In making that judgement, entities would consider the same sources identified in the preceding paragraph, to the extent that they do not conflict with an IFRS Sustainability Disclosure Standard.

- ***a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?***
- ***b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.***

141. The proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed is clear, though an explicit link to Appendix C on qualitative characteristics and further guidance on aggregation would be helpful. We do have some particular concerns, however, about the guidance on identifying sustainability-related risks and opportunities.

Identifying sustainability-related risks and opportunities

142. Paragraphs 51-54 of the exposure draft require management to consider a wide range of literature when identifying sustainability-related risks and opportunities, including SASB and other inherited standards that have not themselves been subject to ISSB due process.
143. It seems odd to us to suggest that management should look to this literature to identify their significant sustainability-related risks and opportunities. As described elsewhere in the exposure draft, entities should have processes in place to identify, assess and prioritise such risks and opportunities. In our view, it would make more sense for the final standard to say that management should look to this literature to identify what they may need to disclose once they themselves have identified their significant risks and opportunities.
144. From discussions with the ISSB staff, we understand that the intention is that the application of SASB and other standards is intended to be non-mandatory, but this isn't very clear, meaning that some may assume that companies will have to adopt SASB and other standards to be compliant with the proposed ISSB standards. This is potentially a fatal flaw in the draft standard and may restrict adoption globally unless it is remedied.
145. Jurisdictions that have existing sustainability and non-financial reporting requirements may be reluctant to adopt the ISSB's standards if they appear to require the adoption of detailed requirements in other frameworks that may contradict what they already have in place. Meanwhile, jurisdictions with little or no experience of sustainability and non-financial reporting may feel overwhelmed and conclude that the burden of adopting the ISSB's standards is too great if entities have to look to these additional sources of guidance.
146. Moreover, auditors and regulators may find it challenging to assess whether an entity has performed a thorough assessment against these sources of guidance in order to determine the completeness of identified risks, opportunities and disclosures. This could result in protracted debate between companies and their assurance providers about which topics are relevant to them. This could, ultimately, result in companies being pushed to disclose additional disclosure on topics that they do not consider significant, potentially obscuring information about key issues.
147. These challenges would be overcome if it is made clear that the SASB's standards and the other additional sources of information listed in paragraph 51 of the exposure draft are non-mandatory guidance and that there is no requirement to apply them. Changing the wording in paragraphs 51 and 54 of the exposure draft from 'shall consider' to 'may consider' would help to emphasise that this guidance is non-mandatory.
148. Overall, there needs to be more emphasis on applying management judgement when identifying sustainability-related risks and opportunities and a clearer link to their significance and the materiality of the related disclosures; otherwise, there is a clear risk of an overload of generic disclosures which lack relevance. Disclosures about the judgements that management has made, similar to those required by IAS 1, may also be helpful.
149. Having said all that, paragraph 51 of the exposure draft is helpful insofar as it provides a useful list of possible sources of non-mandatory guidance. Indeed, other useful sources of guidance – such as existing local jurisdictional non-financial reporting requirements – could be added to the list. It would also be helpful to provide further direction on when preparers should refer to the hierarchy and how they should use it identify relevant guidance.
150. We note that there is no explicit guidance on how often an entity should seek to identify its significant sustainability-related risks and opportunities. It is also unclear whether they are required to initially identify all such risks and opportunities and then determine which are significant. More clarity on these matters would be helpful.

Additional guidance

151. We would also welcome more guidance on:
    a. the identification of significant risks and opportunities; and

b. determining what information about those significant risks and opportunities is considered material and should therefore be disclosed.

152. We would also welcome guidance on how to aggregate information and how to assess the materiality of information about uncertain future events. The IASB's management commentary exposure draft again includes some helpful draft guidance that could be useful here.

Additional disclosures

153. It would be helpful to specifically require disclosure of the approach the entity has adopted where there is no specific IFRS Sustainability Disclosure Standard available, including identification of any additional guidance – such as SASB standards – that has been followed where appropriate.

<u>Question 8 – Materiality (paragraphs 56-62)</u>

The Exposure Draft defines material information in alignment with the definition in IASB's Conceptual Framework for General Purpose Financial Reporting and IAS 1. Information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'.

However, the materiality judgements will vary because the nature of sustainability-related financial information is different to information included in financial statements. Whether information is material also needs to be assessed in relation to enterprise value.

Material sustainability-related financial information disclosed by an entity may change from one reporting period to another as circumstances and assumptions change, and as expectations from the primary users of reporting change. Therefore, an entity would be required to use judgement to identify what is material, and materiality judgements are reassessed at each reporting date. The Exposure Draft proposes that even if a specific IFRS Sustainability Disclosure Standard contained specific disclosure requirements, an entity would need not to provide that disclosure if the resulting information was not material. Equally, when the specific requirements would be insufficient to meet users' information needs, an entity would be required to consider whether to disclose additional information. This approach is consistent with the requirements of IAS 1.

The Exposure Draft also proposes that an entity need not disclose information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. In such a case, an entity shall identify the type of information not disclosed and explain the source of the restriction.

a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?

b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?

c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?

d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

154. We are pleased to note that the proposals broadly reflect the definition of materiality in the IASB's conceptual framework. We do, however, have some concerns about this section of the exposure draft.

Defining materiality

155. Paragraph 56 of the exposure draft provides a definition of materiality that is based on the conceptual framework. Paragraph 57 of the exposure draft expands on this, explaining that material sustainability-related financial information provides insights into factors that could reasonably be expected to influence primary users' assessments of an entity's enterprise value. The language in this paragraph is complex and as such may be confusing to both preparers and users of financial reporting. Moreover, the reference in the final sentence of this paragraph to 'low-probability and high-impact outcomes' doesn't seem to make sense.
156. It would be helpful to make it clear that paragraph 57 is explaining how to apply the existing concept of materiality in the context of sustainability-related information.
157. It may also be helpful to clarify how preparers might comply with the standard when they have yet to address a matter through any significant aspect of their governance, strategy, risk management, or metrics or targets. For example, it could be emphasised that material information about a significant sustainability-related matter could include a statement that a policy or measure on a matter assessed as material by the entity is not yet developed, along with a timeframe in which the entity will prepare and report on it.
158. The section on materiality in the prototype document that preceded this exposure draft included some useful information that has not been carried forward into the current proposals. In particular, it explained that an entity's impacts on society and the environment will influence users' assessment of enterprise value if those impacts could reasonably be expected to affect the entity's future cash flows. We believe that it is important to include a reference to this point in the final standard so that it is clear that disclosure of such impacts is required where they could materially influence users' assessment of enterprise value.
159. As noted in our response to Question 2 above, we are concerned that the distinction between 'significant' and 'material' is not clear. More guidance is needed.

Practice statement

160. Materiality judgements are, of course, still likely to be very difficult in practice. IFRS Practice Statement 2: *Making Materiality Judgements* provides companies with guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with IFRS Accounting Standards.
161. It may be helpful to update this practice statement so that it also covers materiality in ISSB standards or to issue a complementary practice statement specifically looking at materiality judgements in the context of sustainability-related matters. The IASB's management commentary exposure draft includes some helpful draft guidance on making materiality judgements that could be useful in this context.

Additional disclosures

162. We recommend that the Board requires disclosure of how an entity has determined whether or not information relating to significant sustainability-related risks and opportunities is material.

Local laws and regulations

163. We understand why the proposals include a caveat allowing entities not to disclose information where it is prohibited from doing so by local law and regulations, although we are not aware of any specific situations where this exception would apply. If this exception is applied, we agree that an entity should be required to identify the type of information not disclosed and the source of the restriction.

Question 9 – Frequency of reporting (paragraphs 66-71)

The Exposure Draft proposes that an entity be required to report its sustainability-related financial disclosures at the same time as its related financial statements, and the

sustainability-related financial disclosures shall be for the same reporting period as the financial statements.

Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

164. We agree that sustainability-related financial disclosures should be provided at the same time as the financial statements to which they relate. However, this isn't always the case at the moment and moving to concurrent reporting dates may be a challenge for some. But making this change is essential so that users of financial reporting can fully appreciate the connectivity between financial, sustainability-related and other disclosures.

165. While we are supportive of these proposals, we are also aware that the change involved will not always be easy and may in some cases result in the publication of the financial statements being delayed. Entities will need time to adapt if they are to produce high quality information. This will need to be borne in mind when determining the effective date of the ISSB's standards, as discussed in our response to Question 13 below.

166. It is not clear whether the proposals are designed to apply to annual reporting or whether the intention is that they should also be applied in interim periods eg, quarterly or half-yearly reports. In our view, requiring this information on an annual basis is sufficient. It may be appropriate to develop a separate standard along the lines of IAS 34 *Interim Financial Reporting* at a later date.

167. Paragraph 71 of the exposure draft discusses the need to disclose information about transactions, other events and conditions that occur after the end of the reporting period. This guidance is, however, very high level. It may be worth including more detailed guidance in this area, drawing on the requirements of IAS 10 *Events after the Reporting Period*.

Question 10 – Location of information (paragraphs 72-78)

The Exposure Draft proposes that an entity be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting—ie as part of the same package of reporting that is targeted at investors and other providers of financial capital.

However, the Exposure Draft deliberately avoids requiring the information to be provided in a particular location within the general purpose financial reporting so as not to limit an entity's ability to communicate information in an effective and coherent manner, and to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting.

The proposal permits an entity to disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. However, the entity would be required to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information.

Information required by an IFRS Sustainability Disclosure Standard could also be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements.

The Exposure Draft also proposes that when IFRS Sustainability Disclosure Standards require a disclosure of common items of information, an entity shall avoid unnecessary duplication.

a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?

b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?

c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced? Why or why not?

d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

168. We understand that the proposed standard is deliberately high-level so that it can accommodate different jurisdictional needs and nuances – but a clearer statement suggesting where and how information should ideally be disclosed would be helpful as it would aid comparability.

Location of disclosures

169. The current proposals suggest that companies can include the required information wherever they see fit so long as it is part of their general purpose financial reporting. We would, however, prefer such information to be included as part of the same document as the financial statements, ideally as part of the entity's management commentary, management discussion & analysis or similar. We acknowledge that this will not be possible in all jurisdictions and that it would therefore be impossible to mandate it. The Board could, nonetheless, provide some indication of where and how it believes such information should ideally be disclosed.

170. Doing so will more effectively allow and encourage company directors and senior executives to understand the implications of such information on their overall business. It will convey to them and to others, either directly or indirectly, that sustainability reporting is not supplementary information, but rather integral and material to the company's financial performance and overall viability.

Clearly identifiable and not obscured

171. Paragraph 74 of the exposure draft says that sustainability-related financial disclosures shall be 'clearly identifiable and not obscured by… additional information'. It does not, however, give any guidance on what is meant by this or provide any examples of how an entity could clearly identify this information.

172. Moreover, this requirement does not make a great deal of sense if investors are to be provided with a comprehensive and cohesive reporting package. As noted in paragraphs 131-134 above, we believe that it is important for entities to disclose connections between sustainability-related information and the broader contextual information about the external environment and the entity's business model, strategy, resources, relationships and so on. Requiring sustainability-related information to be disclosed separately from this information does not make for coherent financial reporting.

Cross referencing

173. While we are generally not in favour of doing so, we acknowledge that permitting disclosures outside the annual report with specific cross-references can work. However, experience shows that in practice the cross-referencing entities provide is not always sufficiently specific. It can therefore be difficult for users to find the information they need or to distinguish it from other information.

174. We suggest a requirement to disclose why information is disclosed elsewhere if it is not presented as part of same document as the financial statements. Doing so would reiterate

that it is best practice to put all the relevant information in one place and would further encourage preparers to do so when permitted by local legislation.

175. Additional disclosures should be required if some but not all sustainability-related information is included as part of same document as the financial statements. This may be necessary where, for example, a company chooses to disclose only material sustainability-related information in its financial statements but also produces a separate, more-comprehensive sustainability report. Clear signposting is important in such circumstances so that users know where to find this additional information.

176. Paragraph 76 of the exposure draft says that material information can be included by cross-reference. We do not agree with this approach. We firmly believe that all material information should be included as part of same document as the financial statements. If this is not possible – as may be the case in some jurisdictions – we suggest that the final standard only allows disclosures to be made outside the annual report where specific and precise cross references are provided.

Integrated disclosures

177. We are supportive of providing all investor-relevant information in an integrated annual reporting package as this will make disclosures easier to understand and avoid unnecessary duplication. Paragraph 78 of the exposure draft briefly addresses this issue, but it is not very clear. We believe the issue of integrated reporting should be expanded on and given greater prominence. Moreover, it may sit better in the section of the standard dealing with connected information.

<u>Question 11 – Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)</u>

The Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8. However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable —ie the comparatives would be restated to reflect the better estimate.

The Exposure Draft also includes a proposed requirement that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements, to the extent possible.

- ***a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?***
- ***b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?***
- ***c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?***

178. We are pleased to note that these proposals are based on the corresponding concepts for financial statements contained in IAS 1 and IAS 8. We do, however, have some comments on the detail of the proposals, which are set out below.

Comparative information

179. The proposed approach to comparative information is different to that used when applying IFRS Accounting Standards. Rather than requiring a change in an estimate to be reported

prospectively, the exposure draft proposes that comparative information should be restated to reflect updated estimates unless doing so would be impracticable.

180. Many sustainability-related metrics are immature, with estimation techniques still evolving. A case can therefore be made for requiring comparative information to be restated when updated estimates are available. Doing so may be helpful for users of financial reporting as it will result in more accurate and up-to-date information being disclosed as estimation techniques improve over time. This requirement could, however, be quite onerous in practice – especially if the intention is that entities will need to restate their comparative information whenever estimates are updated.

181. Paragraph BC 82 in the Basis for Conclusions seems to suggest that this is the case as it says that 'all changes in estimates… would be corrected by restating any comparative information provided'. Paragraph BC83, however, refers to disclosures about 'any material changes' in estimates.

182. In our view, entities should only be required to restate comparatives where an estimate has changed materially from that used in the comparative period. If it is not possible for them to restate, we suggest that entities should be required to disclose why they are unable to do so. Clarification around whether materiality in this context refers to what was material in the prior year or what is material in the current year would also be helpful.

183. A change in estimate may arise because of a change in input or a change in estimation technique. We suggest retrospective restatement should only be required where there has been a material change in an estimation technique and it is possible to apply the new technique retrospectively. If estimates relating to inputs have changed, it may be better to simply require companies to provide an explanation of why the estimate has changed from one year to the next rather than requiring full retrospective restatement. This would not only reduce complexity but would also ensure that companies do not apply hindsight when restating prior year amounts.

184. Guidance on how entities should deal with metrics which change as a result of amendments to local legislation would also be helpful for preparers.

185. Requiring retrospective restatements for some or all changes in estimates will inevitably add complexity, which may be a concern for auditors – who do not normally give an opinion on comparatives – and regulators.

Sources of estimation and outcome uncertainty

186. Sustainability-related information is by its nature subject to estimation. It is therefore useful to require disclosure of sources of estimation and outcome uncertainty so users of financial reporting can understand where judgements have been taken. We note, however, that exposure draft refers to 'significant' estimation uncertainty. This is potentially confusing as 'significant' is used in this context in a way that does not align with how it is used elsewhere in the draft standard.

187. As noted above, we agree with restating comparative information to reflect updated estimates even though this approach is not consistent with that adopted in the financial statements.

188. Paragraph 82 of the exposure draft refers to the need to consider 'low probability and high-impact' outcomes when determining what information to disclose about possible future events. We are not clear what is meant by 'high-impact' and wonder whether it is intended to be taken as being from a purely financial perspective or whether it is intended to have broader implications.

Errors

189. We are happy with the proposed requirements relating to material prior period errors, which are consistent with the equivalent requirements in IFRS Accounting Standards.

Consistency with corresponding financial data and assumptions

190. We agree that, to the extent possible, the financial data and assumptions used within sustainability-related financial disclosures should be consistent with corresponding financial data and assumptions used in the entity's financial statements.

191. This may not, however, always be possible as for good reasons some IFRS Accounting Standards impose specific measurement models that do not align with those used to prepare sustainability-related information. Indeed, some of the most useful information is likely to be in plans and budgets that wouldn't naturally be prepared under IFRS principles. For example, IAS 36 *Impairment of Assets* restricts the use of cash flows related to enhancements and restructuring in value-in-use impairment models, but these same cash flows could form part of business forecasts used for sustainability reporting purposes. Similarly, some fair value measurement techniques could result in differences between financial and sustainability-related reporting. With this in mind, the standard should make it clear that – at a minimum – information used in both instances should be based on a consistent management view of the facts and circumstances affecting the entity.

192. It may be helpful to require entities to disclose differences in assumptions, scenarios and estimates that have been used to prepare the financial statements and those used for sustainability-related financial disclosures.

193. The proposals are silent on what happens where there is a change in financial data and assumptions used in the preparation of financial information. Guidance on this matter would be helpful.

<u>Question 12 – Statement of compliance (paragraphs 91-92)</u>

The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements.

The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

194. We agree that an entity should be required to comply with all of the requirements of IFRS Sustainability Disclosure Standards if it is to claim full compliance with them.

195. However, the requirements are quite onerous and it will – in many instances – be challenging for companies to fully comply with them. It may therefore be difficult for many companies to include an 'explicit and unqualified' statement that they have complied with all of the requirements, particularly in the early years of implementation. Moreover, including such a requirement may only serve to encourage a checklist-driven approach to compliance and the inclusion of meaningless boilerplate text.

196. It would be better to initially allow companies to include a statement explaining where they are on this journey, explicitly highlighting which requirements have not yet been met, why they haven't been met and how the company is planning to move towards full compliance in the future. We talk more about the importance of acknowledging that full compliance is something that companies journey towards over time and what the Board could do to facilitate that journey in our response to Question 13 below.

197. Over time we would expect that more and more companies would be able to fully comply with the requirements and there would be less need for such qualified statements of compliance. We therefore recommend that the Board allows such qualified statements of compliance for a limited period of time.

198. We are not supportive of the proposed relief allowing companies to claim full compliance if local laws or regulations prohibit the entity from disclosing certain information. Doing so may

result in companies in some jurisdictions seeking to persuade their governments to change local laws to enable them to avoid disclosures, which may over time result in a gradual erosion of the global baseline and reduced comparability.

Question 13 – Effective date (Appendix B)

The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard.

- ***a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.***
- ***b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?***

199. The implementation of the Board's proposals will no doubt give rise to significant challenges for many businesses, assurance providers and regulators – although larger entities in the UK are already familiar with the TCFD approach on which the exposure draft builds.

200. While the proposals as drafted may be suitable for larger corporates, their implementation is likely to be more challenging for mid-market and smaller listed companies which may not have sufficient resources or experience to apply them as intended. Significant challenges will also arise for any unlisted entities required to apply the standards.

201. Companies will need time to create or adjust their internal systems and control procedures to ensure that they are able to meet the requirements of the proposed standards, particularly as some information may need to be disclosed that is not otherwise used to manage the business. It may take some time before a company is able to fully comply with the standards.

202. While the Board's proposals should aim to be ambitious, they should also be written in a way that facilitates wider application and makes it possible for companies to adopt them in the near term. This could be achieved by acknowledging that reporting under the new framework should be seen as a journey, with companies moving towards full compliance over time. Investors and regulators are likely to support such an approach, particularly if companies are required to be transparent and clear about where they are on this journey, allowing their progress to be scrutinised over time and compared to that of their peers.

203. If the Board accepts that reporting under its framework should be seen as a journey, we recommend that it categorises its proposed disclosures into three groups, namely:
   a. Core disclosures: disclosures that are considered urgent and should be made by all companies when the standards first become effective;
   b. Additional disclosures: disclosures that should be added over time, with all companies required to disclose them by a later date; and
   c. Supplementary disclosures: any disclosures that are considered desirable but not mandatory.

204. Requiring all companies to disclose certain core items would ensure a degree of consistency by requiring all companies to disclose a minimum amount of information in year one. Companies should also be encouraged to provide the disclosures categorised as additional or supplementary as soon as it is possible for them to do so.

205. As noted in our response to Question 12 above, we recommend that companies are required to highlight which requirements have not yet been met, why they haven't been met and how the company is planning to move towards full compliance in the future. While we suggest that all core disclosures would be mandatory from when the standards first become effective, we suggest that the disclosure of additional and supplementary items should initially be made on a comply or explain basis.

206. Given the current focus on and the importance of climate-related disclosures, the Board may wish to prioritise such disclosures. This could involve mandating such disclosures at an earlier date than disclosures about other sustainability-related issues.

207. The approach discussed above would enable some jurisdictions to adopt the Board's standards and begin their journey towards full compliance at an earlier date than might otherwise be possible. This, in turn, should help to facilitate the widespread adoption that is critical to the success of this project.

208. Such an approach also recognises the steep learning curve that lies ahead for many preparers, users and regulators. At this stage, it is difficult to predict what a workable, useful and acceptable 'global baseline' will look like. Much will be learned during the implementation stage and through iterative feedback processes. It is therefore important that the Board accepts that it may need to continue to adapt and amend its standards in the years ahead as experience grows and capabilities build.

209. While individual jurisdictions will make their own decisions regarding effective dates, we recognise that the dates assigned by the ISSB may influence these decisions. Failure to allow entities sufficient time to prepare for the implementation of the final standards may mean that the requirements are seen as a burden by reporting entities in those jurisdictions that choose to adopt them. This, in turn, could lead to a checklist-driven approach to reporting and an abundance of boilerplate text.

210. We are supportive of providing relief from disclosing comparatives in the first year of application.

<u>Question 14 – Global baseline</u>

IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of sustainability-related risks and opportunities. Those needs may be met by requirements set by others, including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

211. Overall, we believe that the Board's proposals have the potential to provide a global baseline that can be built upon by others, so long as the drafting issues and other matters that we have identified elsewhere in this response are adequately addressed.

212. In particular, it is important that the Board clarifies that its intention is that the application of SASB and other standards is intended to be non-mandatory otherwise the requirements may be seen as being too onerous to serve as a global baseline.

213. There is a risk that the possibility of setting a global baseline may be reduced by the ongoing work by regulators in other jurisdictions – most notably the US and EU – who are developing their own sustainability disclosure requirements. See paragraph 223 below for more discussion about the importance of international collaboration.

214. In addition, we understand the term 'global baseline' used by the Board is intended to mean a comprehensive set of sustainability disclosure requirements that meet the needs of primary users (ie, investors), rather than the needs of wider stakeholders, that can be applied globally. We are concerned that some interpret the term to mean, a set of 'bare minimum' disclosure requirements that all jurisdictions (including those with very limited sustainability reporting experience), are capable of complying with. This confusion may not help to unite the approach taken by the Board with the approach taken by other standard-setters. This interpretation of 'global baseline' is also not conducive to an ambition to drive forward improvements to sustainability reporting.

Question 15 – Digital reporting

The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption as compared to paper-based consumption is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S2 Climate-related Disclosures Standards are the sources for the Taxonomy.

It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

215. We agree that it would be useful for the Board to publish a taxonomy to facilitate digital consumption of information provided by its proposed standards. The development of a taxonomy should not, however, be seen as a high priority at this stage. In our view, it may be better to wait until the proposed standards are finalised before beginning to develop such a taxonomy.

Question 16 – Costs, benefits and likely effects

The ISSB is committed to ensuring that implementing the Exposure Draft proposals appropriately balances costs and benefits.

Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?

Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

216. We are supportive of the introduction of global sustainability standards and the creation of a global baseline as we believe that doing so will bring significant benefits that will far outweigh the related costs in the long-term. However, as noted elsewhere in this response, the proposals as drafted will require some refinement if the Board is to achieve its aim of creating a high quality, global sustainability reporting framework

217. The costs of implementing the proposals as drafted will, however, be high for some companies – particularly during the first year of application in jurisdictions with little or no experience of sustainability reporting. These costs would, however, be reduced were the Board to implement some or all of the changes to the exposure draft that we have suggested elsewhere in this response.

218. Another factor to consider is the wider global context that entities are already having to manage. Global recovery is ongoing from the devastating effects of the pandemic, many economies are dealing with a high inflationary environment, and geopolitical tensions are impacting the way in which businesses are managed. The benefits of implementing the Board’s proposals are likely to be great but the rising costs companies already face should not be ignored.

Question 17 – Other comments

Do you have any other comments on the proposals set out in the Exposure Draft?

219. We have the following additional comments:

Scalability and wider application of the proposed standards

220. We encourage the Board to consider the scalability of its standards. As noted above, their implementation is likely to be challenging for mid-market and smaller listed companies. Similar issues are likely to arise where individual jurisdictions decide to extend the application of the standards to SMEs and other unlisted entities, and not-for-profit entities. Ideally, the standards should be written in a way that facilitates wider application. Acknowledging that reporting under the new framework is a journey and phasing in some disclosures would make it easier for such entities to apply the standards.

221. The exposure draft acknowledges that the proposals are focussed on profit-orientated entities and goes on to say that amendments may be needed if they are to be applied by not-for-profit entities. More specific guidance on how the proposals could be applied by public and private sector not-for-profit entities would be helpful.

The importance of due process

222. There will undoubtedly be pressure from some quarters for the Board to finalise this and its Climate-related Disclosures standard as soon as possible given the urgent need for global standards. While we agree that it is important that the final standards are published as soon as possible, it is also important that they are of the high quality we have come to expect from the IFRS Foundation. The need for speed should be carefully weighed against the importance of achieving a true and enduring step-change in the quality of reporting in this critical area. We believe that it is imperative that the Board follows due process and allows itself sufficient time to address the comments it receives so that these standards become the global baseline.

International collaboration

223. It is important that the Board and other relevant bodies continue to prioritise global agreement to allow for consistency and comparability on a worldwide scale. Many entities will fall within the scope of two or more sets of climate-related disclosure rules. If a high degree of alignment is not achieved, compliance for such entities could be unduly costly, the risk of errors may increase, and the end result may prove to be unnecessarily lengthy reports of questionable value to investors. We therefore strongly support the recent establishment by the Board of a working party of key standard-setters to consider these issues, and strongly encourage on-going collaboration.

Further proposals

224. We encourage the Board to publish consultations on additional sustainability-related topics as soon as practicable.