29 July 2022

Mr. Emmanuel Faber
Chair
International Sustainability Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Mr. Faber,

International Sustainability Standards Board (ISSB) Exposure Drafts

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the following Exposure Drafts:

(a) Exposure Draft ED/2022/S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ("[draft] IFRS S1")

(b) Exposure Draft ED/2022/S2 *Climate-related Disclosures* ("[draft] IFRS S2")

We have considered the proposals in the two Exposure Drafts and our key comments are set out below, while our responses to the respective questions are detailed in the **Appendix I and Appendix II** to this letter.

<u>Compliance with IFRS Sustainability Disclosure Standards</u>

We strongly support the approach that the IFRS Sustainability Disclosure Standards ("Standard/(s)") can be applied independent of the accounting framework used, that is, the IFRS Sustainability Disclosure Standards can be applied regardless of whether the entity's financial statements are prepared in accordance with IFRS Accounting Standards or other GAAP.

We would like to recommend that [draft] IFRS S1 paragraph 8 be expanded to clearly state that compliance with IFRS Sustainability Disclosure Standards is independent of the compliance with IFRS Accounting Standards used in the preparation of an entity's financial statements. This is important, particularly for jurisdictions that currently require the application of IFRS Accounting Standards but need some time to put in place a proper due process and infrastructure or adoption mechanism, which could involve extensive process, including amendments to their existing laws and regulations.

Entities in these jurisdictions that prepare IFRS Accounting Standards-compliant financial statements should not be tainted by the non-compliance with IFRS Sustainability Disclosure Standards while their respective jurisdiction is preparing to put in place a proper infrastructure for the adoption of the latter. We also believe that the suggested additional explanation helps to avoid confusion among entities applying standards issued by the ISSB and IASB in their general purpose financial reporting.

Comprehensive global baseline sustainability disclosure standards

We fully support the objective of ISSB to develop a comprehensive global baseline sustainability disclosure standard designed to meet the information needs of users in assessing enterprise value.

That said, the global baseline should be practical as well as providing sufficient latitude for jurisdiction to implement the baseline and for policymakers to make their jurisdiction-specific requirements fit for their purpose considering the current varying maturity levels of jurisdictions across the world in relation to sustainability reporting.

- *Application of Appendix B of [draft] IFRS S2*

  We believe ISSB should be practical in implementing the requirements in industry volumes in Appendix B of [draft] IFRS S2 which as currently drafted is an integral part of and has the same authority as the Standard. Whilst we appreciate ISSB aims to improve comparability of disclosures, nonetheless, at this juncture there would be differences in industry practices across jurisdictions potentially due to local laws and regulations as well as local norms and therefore, some flexibilities for the implementation of Appendix B are necessary so as not to hinder global adoption on the onset. For example, some of the specialised metrics such as the "*HERS® Index Score*" or the "*ENERGY STAR®*", which are used in certain jurisdictions are not applicable in other jurisdictions. Therefore, to achieve global acceptance, the international applicability particularly the prescribed metrics in the respective industry volumes must be revalidated with a view of allowing alternative or 'national' metrics that could serve the same disclosure objectives to be adopted for a transitional period, that is, until the first post-implementation review (PIR) of the Standard.

  In this regard, Appendix B should allow an entity to apply the specific metrics which are currently the local norm or already required by their pre-existing local laws and regulations for the purpose of asserting compliance with the Standard during the transitional period. This approach is practical and is able to align requirements of the Standard with that of the local laws and regulations, as well as cost effective for entities in jurisdictions with pre-existing practice or specific metrics that are different from that of Appendix B. The ISSB, could then assess during the PIR as to whether Appendix B is working as intended.

  Alternatively, the ISSB may wish to consider a differentiated timeline for implementation of Appendix B, that is, to allow a transitional period before making Appendix B a mandatory requirement which carries the status of a Standard. In other words, during the transitional period, Appendix B should be made as 'best practice' considering at this juncture, there may not be only one universal metric used for each of the industry volumes stated in Appendix B.

Given the different level of developmental phase of sustainability reporting across jurisdictions coupled with current challenges, for example lack in consistent methodology or availability of quality data, a rigid implementation at the onset must be avoided as this would undermine the aspiration of the Standard to serve as a global baseline.

- *Application of the Standard by the small and medium-sized entities*

The Standard should also be ultimately suitable for the smaller and medium entities. The ISSB should consider setting a clear path for smaller and medium entities unless the ISSB plans to have another tier or framework for such entities, similar to the approach taken by its sister board, the IASB which issues the IFRS Accounting Standards and *IFRS for SMEs* Accounting Standard.

This could include an initial minimum set of disclosure within the Standard to be disclosed/reported by the smaller and medium entities for a transition period, and gradually move to full disclosure over time. During the transition period, smaller and medium entities shall be encouraged to provide disclosures outside the identified minimum requirements.

- *Jurisdiction-specific requirements*

Although we support the global baseline and building blocks approach which facilitates the addition of jurisdiction-specific requirements or requirements aimed to meet broader stakeholder information needs, we are unsure of the extent of the latitude provided. For example [draft] IFRS S1 prescribes that an entity need not disclose information as otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. If an entity omits material information for that reason, it shall identify the type of information not disclosed and explain the source of the restriction. However, on the other hand, the Application Guidance states that an entity that wishes to state compliance with IFRS Sustainability Disclosure Standards cannot provide less information than the information required by those Standards, even if local laws and regulations permit it to do so.

Phased approach application

We commend the ISSB for its extraordinary efforts and speed in delivering the [draft] IFRS S1 and [draft] IFRS S2 on 31st March 2022, shortly after only 5 months of its establishment in November 2021. We noted that the ISSB aims to finalise and issue the two Standards by end of the year.

While we understand the urgency for the ISSB to finalise the Standards in view of the strong demand from the users of the general purpose financial reporting for a global set of sustainability-related financial disclosures, nonetheless, obtaining reliable data for the purpose of providing such disclosures is one of the key factors to ensure the users are getting meaningful sustainable report in assessing an entity's enterprise value.

Therefore, given the need for capacity building and the current challenges, including amongst others, limited skill set and technical expertise throughout the reporting chain, lack of consistent methodology, poor data quality or availability, as well as varying maturity levels of jurisdictions across the world in the sustainability reporting space, we strongly recommend a phased approach in the application of the two Standards. This will assist to alleviate some of the burdens and constraints faced by jurisdictions that are not as advanced as some other jurisdictions in the sustainability reporting space.

The ISSB should consider allowing the possibility of different effective dates for application of certain more difficult or complex requirements prescribed in the [draft] IFRS S1 and [draft] IFRS S2, for example the calculation of Scope 3 emissions under the GHG Protocol is still being refined and involves a number of data and methodology challenges for preparers as acknowledged in the Basis for Conclusions on [draft] IFRS S2.

The issue is further aggravated by the proposal that an entity shall report its sustainability-related financial disclosures for the same reporting period and at the same time as its related financial statements as prescribed in [draft] IFRS S1.

Standard for first-time adopter

We suggest ISSB to consider the approach adopted by IASB for first-time adopter of IFRS Accounting Standards and we see merits for the ISSB to issue an equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards* to provide for specific adoption reliefs, exceptions or exemptions to facilitate entities transitioning from another sustainability reporting framework to that of the IFRS Sustainability Disclosure Standards. If this matter has already been considered, we suggest the ISSB's rationale to be included in the Basis for Conclusions on [draft] IFRS S1.

Concepts and principles adapted from IFRS Accounting Standards

We noted [draft] IFRS S1 uses the principles in IFRS Accounting Standards which are derived from the *Conceptual Framework for Financial Reporting*, IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Whilst the preparers of financial statements that have been using IFRS Accounting Standards would be familiar with such principles, nonetheless, this may not be the case for entities that use other GAAP or for those involved in the sustainability reporting space but not in the preparation of the IFRS Accounting Standards-compliant financial statements.

Therefore, we suggest the ISSB to consider developing explanatory materials such as illustrative guidance to illustrate the application of the principles from the perspective of providing sustainability-related financial disclosures, for example on the restatement of comparative information of metrics / sustainability-related information to correct material prior period errors. Alternatively, the ISSB may wish to consider the approach adopted by IASB in its *IFRS for SMEs* Accounting Standard which has been developed based on IFRS Accounting Standards and separate education modules have been developed to assist in better understanding of the *IFRS for SMEs* Accounting Standard.

Last but not least, we hope that our responses to the proposals in the Exposure Drafts will be given due consideration by the ISSB.

If you need further clarification or have any queries regarding this letter, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,

TAN BEE LENG
Executive Director

Appendix I

Question 1—Overall approach

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?

Response

(a) The [draft] IFRS 1 states clearly the requirement whereby an entity shall identify and disclose material information about sustainability-related risks and opportunities to which an entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard. Illustrative Guidance about applying materiality judgements is very useful in supporting entities in applying the concept of materiality.

However, we believe that additional guidance to illustrate how the concepts and principles such as materiality, fair presentation, aggregation and disaggregation as well as restatement of comparative figures commonly used in IFRS Accounting Standards would apply to the IFRS Sustainability Disclosure Standards would be helpful for reasons as stated below:

(i) entities that have been applying IFRS Accounting Standards are expected to be very familiar with the application of those concepts and principles from the perspective of the preparation of financial statements but applying it from the perspective of sustainability reporting is the first time

for almost all those entities. In addition, not all those that are involved in the sustainability reporting space are involved in the preparation of the IFRS Accounting Standards-compliant financial statements.

(ii) the guidance would be useful for entities that have been applying other GAAP in the preparation of their financial statements and who would be applying the IFRS Sustainability Disclosure Standards for the first time.

Alternatively, the ISSB may wish to consider developing separate education modules, an approach adopted by IASB for its *IFRS for SMEs* Accounting Standard whereby separate education modules were developed to assist in better understanding of the Standard.

(b) We agree that the proposed requirements of the [draft] IFRS S1 would enable entities to provide useful information for primary users to assess their enterprise value.

(c) The interaction is clearly stated that the [draft] IFRS S1 would be applied together with other IFRS Sustainability Disclosure Standards and that the qualitative characteristics of useful information (Appendix C of [draft] IFRS S1) would apply to IFRS Sustainability Disclosure Standards.

(d) We agree that the proposed requirements would provide a suitable basis for auditors and regulators to determine entities' compliance with the Standards.

Question 2—Objective (paragraphs 1–7)

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?

Response

(a) The proposed objective of disclosing sustainability-related financial information is clear in the [draft] IFRS S1.

(b) The definition of 'sustainability-related financial information' is stated clearly in the [draft] IFRS S1 and depicting clearly the disclosure of various material information about the significant sustainability-related risks and opportunities to which entities are exposed in order to meet the objective of the proposed requirements.

Question 3—Scope (paragraphs 8–10)

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?

Response

We strongly support the approach adopted by the ISSB in developing the IFRS Sustainability Disclosure Standards that allows entities to apply the Standards irrespective of the GAAP (IFRS Accounting Standards or other GAAP) applied by such entities in the preparation of their general purpose financial statements.

This approach is important, particularly for jurisdictions currently adopting the IFRS Accounting Standards that might not be ready to immediately adopt the IFRS

Sustainability Disclosure Standards for various valid reasons (for e.g., the authority in the jurisdiction is still working on a proper infrastructure or adoption mechanism); and more importantly, the non-compliance with IFRS Sustainability Disclosure Standards would not taint their assertion on the compliance with IFRS Accounting Standards.

Question 4—Core content (paragraphs 11–35)

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.

Governance

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.

Strategy

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.

Risk management

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.

Metrics and targets

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?

Response

(a) We agree that the disclosure objectives for governance, strategy, risk management and metrics and targets are clear and appropriately defined.

(b) Except for the proposed paragraph 34(c), we agree that the disclosure requirements for governance, strategy, risk management and metrics and targets are appropriate to the stated objective; subject to providing additional explanation on the matters observed below:

(i) "over time"— we suggest improving the drafting in paragraph 22 of [draft] IFRS S1 in explaining the requirements for an entity to disclose how it expects its financial position and financial performance to change "over time".

Clarity is required for the term "over time". As it is currently drafted, it is not clear if "over time" refers to the reporting period (i.e., the 12-month period of a financial year) or the time horizon of "short, medium or long term".

As such it would be helpful if the drafting in paragraphs 22(c) and 22(d) explicitly state the time horizon.

(ii) *resilience* — based on our reading of paragraph 23 of [draft] IFRS S1, the term "resilience" refers to an entity's ability to adjust to the uncertainties arising from sustainability-related risks.

However, we suggest including in Appendix A the definition of "resilience" from the perspective of providing sustainability-related financial information so as to assist entities to apply the concept and the proposed requirements in a consistent and comparable manner.

In addition, the ISSB might consider providing explanatory material in the Illustrative Guidance on the attributes of resilience and the specific information to be provided so as to meet the disclosure objective as stated in paragraph 23 of the [draft] IFRS S1.

With regard to the proposed paragraph 34(c) that requires an entity to "provide restated comparative figures, unless it is impracticable to do so" for a metric or

Appendix I

target that is redefined or replaced, we suggest for the principle to be aligned with that of IAS 8. Please see our detailed response in relation to restated comparative figures in Question 11 *Comparative information, sources of estimation and outcome uncertainty, and errors*.

In addition to the above, our stakeholders also raised concern that entities are likely to be reluctant to provide meaningful information on trade-offs that arise between various sustainability-related risks and opportunities, as proposed in paragraph 21(c) of [draft] IFRS S1. This type of information would open them up to wider stakeholder challenges and criticism. Furthermore, the proposed requirements (e.g., paragraph 21(c) and paragraph 44(b)) appear to be very extensive and could create exposure to commercially sensitive information.

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?

Appendix I

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

Response

(a) We agree, as this would better facilitate the cross-referencing between information in the financial statements and in the sustainability report.

(b) We agree that the proposed disclosure requirements are clear and capable of consistent application.

However, some of our stakeholders raised the following concerns about the proposed boundary of reporting entity (which includes investment in associates and joint ventures), as stated in paragraph 40 of [draft] IFRS S1:

(i) as with the preparation of consolidated financial statements, a holding company might face difficulty in obtaining information about sustainability-related risks and opportunities from associates and joint ventures in a cost-efficient and timely manner.

Providing information about significant sustainability-related risks and opportunities which, amongst others, include information about strategy and decision making, might be construed as providing "insider" information or preferential treatment over the other shareholders if the holding company was provided with the information before other shareholders.

This practical challenge is aggravated if the associate or joint venture is a "smaller" company that might not have the capacity or required resources to furnish the holding company with sustainability-related information.

Although we believe the principle of materiality applies in this situation, nonetheless we think it is important for the ISSB to understand this concern and for further consideration in finalising the boundary of reporting entity.

(ii) in relation to the proposed paragraph 40(c) (read together with paragraph 2) of [draft] IFRS S1, clarification is required on whether the scope only covers joint venture excluding a joint operation. The [draft] IFRS S1 is silent about joint operations.

Entities who have been applying IFRS Accounting Standards would be familiar that a joint arrangement is either a joint operation or a joint venture (paragraph 6 of IFRS 11 *Joint Arrangements*). However, entities who have been applying other GAAP might not be familiar with IFRS 11 and may not include a joint operation within the boundary of the reporting entity.

In this regard, we suggest that the [draft] IFRS S1 includes an explicit reference on whether joint operations are considered in the boundary of a reporting entity.

(iii) the mechanics of providing information for associates and joint ventures i.e., whether the same approach for the preparation of financial statements under IFRS Accounting Standards would apply to the preparation of information about significant sustainability-related risks and opportunities.

In addition to seeking clarification on the boundary of reporting entity, our stakeholders asked for further guidance on the notion of an entity's value chain, for example by including some reference points on the valuation technique such as *cradle to gate* or *cradle to grave*; or some other recognised techniques.

We consider a similar type of educational material on IFRS 13 *Fair Value Measurement*[1] would be helpful to guide entities in understanding the concept of value chain.

(c) We agree with the proposed requirement for identifying related financial information as it enables users of general purpose financial reporting to clearly establish the link between information provided in the financial statements and sustainability report; considering the high level of interdependencies of information between them.

Please also see our concerns raised in response to Question 9 *Frequency of reporting*.

Question 6—Connected information (paragraphs 42–44)

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?

[1] https://www.ifrs.org/content/dam/ifrs/supporting-implementation/ifrs-13/education-ifrs-13-eng.pdf
Illustrative examples to accompany IFRS 13 Fair Value Measurement: Unquoted equity instrument within the scope of IFRS 9 Financial Instruments, accessed on 21 June 2022.

Appendix I

Response

(a) **Yes, the requirement on the need for connectivity between various sustainability-related risks and opportunities is clear.**

(b) **We agree with the proposed requirements as connected information is expected to provide users a better understanding of the relationships between various types of information in general purpose financial reporting.**

However, it would be helpful to provide an illustration of how connected information should be disclosed and presented between financial statements and sustainability report. We foresee entities will face challenges in connecting the information particularly when financial statements focus on quantitative information and sustainability report tends to be qualitatively focused.

In addition, we found the explanation provided in paragraph BC57 is helpful to illustrate the connected information and could be further expanded with figures and notes to be included in the Illustrative Guidance.

Question 7—Fair presentation (paragraphs 45–55)

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.

Response

(a) We think to a certain extent the proposal is clear.

Please see our response in Question 1 *Overall approach* about the need to have additional educational materials or illustrative examples in applying concepts and principles in IFRS Accounting Standards from the perspective of sustainability reporting.

(b) We agree with the sources of guidance as proposed in paragraphs 51 to 53 of [draft] IFRS S1.

Question 8—Materiality (paragraphs 56–62)

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.

Appendix I

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?

Response

(a) The [draft] IFRS S1 seems to imply that “material” and “significant” are used interchangeably. We suggest a single term to be used throughout the [draft] IFRS S1 if it intends to convey the same meaning.

However, if it intended to carry different meaning, we suggest defining or clarifying the meaning of “material” and “significant”, from the perspective of providing sustainability-related financial information to meet the proposed requirements. A significant item will be a material item, but a material item might not be a significant item.

Examples of the use of “material” and “significant” from the [draft] IFRS S1:

> **“An entity shall disclose information that enables users of general purpose financial reporting to understand the effects of <u>significant</u> sustainability-related risks and opportunities on its strategy and decision-making. …” (Paragraph 21, emphasis added)**
>
> **“<u>Material</u> sustainability-related financial information provides insights into factors that could reasonably be expected to influence primary users’ assessments of an entity’s enterprise value. …” (Paragraph 57, emphasis added)**

(b) Please see our response in (a) above. In addition, we acknowledge the fact that materiality varies depending on entities’ facts and circumstances and hence we agree with the approach of keeping the definition of “materiality” broad and principle-based so as to capture the breadth of sustainability-related information to be provided.

Appendix I

(c) **We agree that the [draft] IFRS 1 and related Illustrative Guidance provide a useful reference for entities in identifying material sustainability-related financial information.**

(d) **We strongly support the proposal. The relief would enable local laws and regulations to interact with the IFRS Sustainability Disclosure Standards harmoniously.**

In addition, we suggest improving the drafting of the proposed paragraph 62 of [draft] IFRS S1 and paragraph IG9 so that they can be read in a consistent manner without causing any confusion. Paragraph 62 allows an entity not to disclose any required information if local laws <u>prohibit</u> it; on the other hand, paragraph IG9 states that an entity that wishes to state compliance cannot provide less information than the information required by an IFRS Sustainability Disclosure Standards even if local laws <u>permit</u> it to do so. For example, an alternative drafting of IG9 is as follows:

> ***An entity's general purpose financial reporting shall comply with the requirements in IFRS Sustainability Disclosure Standards, including requirements related to materiality (materiality requirements), for the entity to state its compliance with those Standards. Hence, an entity that wishes to state compliance with IFRS Sustainability Disclosure Standards cannot provide less information than the information required by those Standards, <u>unless providing such information is prohibited by local laws or regulations</u>.***

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?

Response

We see the merits of having to report the sustainability-related financial information at the same time as the financial statements as this would provide investors and users of general purpose financial reporting with an overall view of the entity's financial position and performance as well as the enterprise value. Also, providing both sets of information in a cohesive manner would mitigate the risk of disconnected information if financial statements and sustainability report are published at different times.

However, we wish to highlight concerns raised by some of our stakeholders. The preparation of sustainability-related financial information, especially in the early years of compiling sustainability report, is expected to be very time-consuming and

resource-demanding especially from the perspective of an emerging market where capacity (knowledge and subject-matter experts) is scarce and getting reliable data or input is a problem. These challenges would lead to unnecessary tensions between providing holistic information and timely information in the desire to report sustainability-related financial disclosures at the same time with that of financial statements.

Data readiness and reliability are also a concern from an emerging market perspective. Until the market reaches a point where macroeconomic / climate-risk variables or other assumptions and inputs are readily available in the market; providing reliable sustainability-related financial disclosures is an "uphill battle" for many entities.

In this regard, ISSB may wish to consider a phased approach application, that is, providing a transition period for particularly the smaller and medium entities to publish both documents at the same time rather than mandating it for all entities to publish both documents at the same time when the IFRS Sustainability Disclosure Standards become effective.

Although the above may be applicable only to some jurisdictions and the reporting timelines might ultimately be determined by the regulators, we believe it is important for the ISSB to take the concerns into consideration in its pursuit of establishing a global baseline of sustainability disclosures.

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.

Appendix I

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?

Response

(a) In principle, we support the proposal of including sustainability-related financial disclosures as part of an entity's general purpose financial report.

While we support the proposal, please see the concerns highlighted in our response to Question 9 *Frequency of reporting* about timing of publication of both financial statements and sustainability-related financial disclosures.

(b) We are not aware of any.

(c) We acknowledge the benefits of cross-referencing between reports/statements contained in a general purpose financial report. Please also see our concerns as highlighted in the response to Question 9 *Frequency of reporting* about timing.

In addition, we suggest clarifying what is meant by "another location" in paragraph 77 of [draft] IFRS S1 i.e., whether it refers to report(s) that is beyond a reporting package, for example, a management commentary that is published on an entity's website. In this regard, we suggest the draft to clarify if cross-referencing to a report, or a location, beyond a reporting package is permitted by the Standard.

(d) We support the proposal as it encourages entities to provide integrated disclosures and avoids unnecessary duplications.

Appendix I

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

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?

Response

(a) We are concerned with the proposal in paragraph 64 of [draft] IFRS S1 requiring the disclosure of comparative information to reflect the updated estimates, which is in contrast with IAS 8 that prescribes for such change in estimate to be reported in the current period disclosures. We also think that paragraph 64, as currently drafted is unclear that an entity is required to disclose restated comparative information to reflect the updated estimates, unless it is read together with paragraph BC82, that is not part of the Standard, which clearly explains that all changes in estimate and corrections of errors in previously reported metrics and targets to be corrected by restating any comparative information presented.

The proposal to restate comparative information for changes in estimates is impractical and brings about unnecessary operational complexity. Changes in estimates usually happen due to new information that comes to light and hence, the information should be reflected on a prospective basis. Considering sustainability-related information evolves depending on factors such as government policies, global climate change, etc, it would be an onerous exercise to continuously restate information reported in the previous period for changes in estimates to reflect updated estimates. We also wish to highlight that the different requirements in IAS 8 and the [draft] IFRS S1 in relation to the changes in estimates, bring unwarranted confusion to users of the financial statements.

Additionally, it would make cross-referencing between financial statements and sustainability report challenging and confusing in the case whereby the same estimates were used in both reports.

We urge the ISSB to reconsider the proposal in paragraph 64, and we suggest for the requirement to be aligned to that of IAS 8, that is, for the changes in estimates to be disclosed in the current period instead of the comparative information to reflect the updated estimates.

(b) The drafting should be made more explicit about how entities should account for changes in estimates from prior year, for example by using words from IAS 8.

Please also see our response to Question 4 *Core content* in relation to the proposed paragraph 34(c) regarding restatement of comparative figures.

(c) We suggest that paragraph 88 of [draft] IFRS S1 should be amended to require an entity to provide restated comparatives from the beginning of reporting period, unless it is impracticable to determine the effect of an error on all prior periods presented (i.e., beginning of reporting period) rather than "earliest date practicable". This is to ensure the comparative information presented in the current period is consistent with that of the immediate previous year information – a consistent flow through into the beginning of reporting period from the ending of the previous reporting period.

Question 12—Statement of compliance (paragraphs 91-92)

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?

Response

We support the proposal as it is important for users to understand if the entity has been selective in its approach to reporting sustainability-related financial information or whether the entity has applied all of the requirements.

However, paragraph IG9 states that an entity that wishes to state compliance cannot provide less information than the information required by an IFRS Sustainability Disclosure Standards even if local laws <u>permit</u> it to do so. Such inconsistencies in

drafting will create confusion to the entities applying the IFRS Sustainability Disclosure Standards. The ISSB may want to redraft paragraph IG9 to have a better clarity on the compliance with IFRS Sustainability Disclosure Standards (please see our response to Question 8(d)).

Question 13—Effective date

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?

Response

(a) Similar to other new IFRS Accounting Standards, such as IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*, we suggest a transitional period of three years with early application permitted. This would allow entities to make the necessary preparation to apply the [draft] Standard, including resource requirements as well as system readiness.

However, instead of a single effective date, we strongly recommend a phased approach in the application of the Standard given the need for capacity building as well as the current challenges, including amongst others, limited skill set and technical expertise, lack of consistent methodology, poor data quality or availability, as well as varying maturity levels of jurisdictions across the world in the sustainability reporting space. This will assist to alleviate some of the burdens and constraints faced by jurisdictions that are not as advanced as some other jurisdictions in the sustainability reporting space.

(b) We agree with the proposed relief from disclosing comparatives in the first year of application.

Question 14—Global baseline

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.

Appendix I

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?

Response

We fully support the ISSB's objective to develop a comprehensive global baseline sustainability disclosure standard designed to meet the information needs of users in assessing enterprise value.

That said, we believe the global baseline should be practical with sufficient latitude for jurisdiction to implement the baseline and for policymakers to make their jurisdiction-specific requirements fit for their purpose considering the current varying maturity levels of jurisdictions across the world in relation to sustainability reporting, details as follow:

(a) **Being a global baseline, requirements of the Standards should be flexible enough for it to being applied across all jurisdictions (please see our response to Question 11 of [draft] IFRS S2 in Appendix II in relation to Appendix B of [draft] IFRS S2).**

(b) **As the Standard should also be ultimately suitable for the smaller and medium entities, the ISSB should consider setting a clear path for smaller and medium entities unless it plans to have another tier or framework for such entities, similar to the approach taken by its sister board, the IASB which issues the IFRS Accounting Standards and *IFRS for SMEs* Accounting Standard.**

This could include an initial minimum set of disclosure within the Standard to be disclosed / reported by the smaller and medium entities for a transition period, and gradually move to full disclosure over time. During the transition period, the smaller and medium entities shall be encouraged to provide disclosures outside the identified minimum requirements.

In Malaysia, the effort is ongoing to ensure SMEs are prepared for the Government's sustainability agenda[2]. In addition, SMEs seeking financing from banks or other financial institutions might face additional scrutiny as to whether the funding will be used in a sustainable manner or otherwise, which might ultimately affect their credit scoring.

[2] "The government has outlined two main focus areas to catalyse the recovery of the micro, small and medium enterprises (MSMEs)-they must pursue innovation, digitalisation and use of technology, as well as inculcate sustainability principles comprising environment, social and governance (ESG) over the long term."

Source: News by BERNAMA, 7 December 2021, entitled *MSMEs' recovery hinges on adopting innovation, sustainability principles.* (SME Corporation Malaysia - MSMEs' recovery hinges on adopting innovation, sustainability principles - PM Ismail Sabri)

Therefore, we think it is a matter of time before the users of financial statements would also demand for sustainability-related financial information from the SMEs, particularly those involved in international business dealings.

(c) **Although the building blocks approach 'allows' policymakers to add on their jurisdiction-specific requirements to meet broader stakeholder information needs while at the same time, enables local laws and regulations to interact with the IFRS Sustainability Disclosure Standards harmoniously, we are not clear of the extent of the latitude being provided (see our response to Question 8(d)).**

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)?

Response

We do not have any comments.

Question 16—Costs, benefits and likely effects

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

(a) 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?

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

Appendix I

Response

We are unable to provide specific comments on the cost-benefit analysis at this juncture.

Our stakeholders believe in the benefit of having one framework to report sustainability-related financial information. They envisage that the IFRS Sustainability Disclosure Standards will amalgamate the various sustainability related standards into a global set of standard and to eventually supersede the myriad of standards, frameworks and guidelines when it comes to sustainability reporting which at the moment prove to be confusing, counterproductive and laborious, amongst others.

That said, given the emerging developmental phase of sustainability reporting in many jurisdictions, it is expected that the costs to comply with IFRS Sustainability Disclosure Standards to be significant. Entities may need to incur additional costs to acquire the necessary skills and expertise in the sustainability-reporting space. Data readiness and systems integration are also some of the main concerns that may require entities to incur additional costs. Please also see our response to Question 12 *Costs, benefits and likely effects* of [draft] IFRS S2 in Appendix II.

Question 17—Other comments

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

Response

(a) <u>**Compliance with IFRS Sustainability Disclosure Standards**</u>

We strongly support the approach that the IFRS Sustainability Disclosure Standards can be applied independent of the accounting framework used, be it IFRS Accounting Standards or other GAAP.

This is particularly important so as not to 'taint' the '*IFRS Accounting Standards-compliant jurisdictions'* by the non-compliance with IFRS Sustainability Disclosure Standards which at this juncture, some of these jurisdictions would require some time to put in place a proper due process and infrastructure or adoption mechanism, which could involve extensive process, including amendments to their existing laws and regulations.

In this regard, we would like to recommend that paragraph 8 of [draft] IFRS S1 be expanded to clearly state that compliance with IFRS Sustainability Disclosure Standards is independent of the compliance with IFRS Accounting Standards used in the preparation of an entity's financial statements.

We also believe that this additional explanation helps to avoid confusion among entities applying standards issued by the ISSB and IASB in their general purpose financial reporting.

Appendix I

(b) Standard for first-time adopter

Although entities are not required to provide comparative information in the first period in which [draft] IFRS S1 is applied, nonetheless, we suggest the ISSB to consider the approach adopted by IASB for first-time adopter of IFRS Accounting Standards as we see merits for the ISSB to issue an equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards* to provide for specific adoption reliefs, exceptions or exemptions to facilitate entities transitioning from another sustainability reporting framework to that of the IFRS Sustainability Disclosure Standards. If this matter has already been considered, we suggest the ISSB's rationale to be included in the Basis for Conclusions on [draft] IFRS S1.

(c) Glossary of terms used in IFRS Sustainability Disclosure Standards

Although the principles in IFRS Sustainability Disclosure Standards are adapted from those used in IFRS Accounting Standards, we suggest that the ISSB to consider developing a glossary of terms specifically for the IFRS Sustainability Disclosure Standards as an additional guidance and source of reference for entities applying the Standards.

Whilst the preparers of financial statements that have been using IFRS Accounting Standards would be familiar with such principles, nonetheless, this may not be the case for entities that use other GAAP or for those involved in the sustainability reporting space but not in the preparation of the IFRS Accounting Standards-compliant financial statements.

(d) Jurisdiction's readiness

We are cognisant of the ISSB's mission to provide comprehensive global baseline sustainability disclosure standards. However, the ISSB should take into consideration that some jurisdictions are still in the early stage of sustainability reporting. We acknowledge the need to balance between the need to respond (urgently) to investor demand for sustainability-related financial disclosures and the need to ensure inclusivity of countries around the globe to apply the IFRS Sustainability Disclosure Standards.

From a broader perspective, the timeliness of the adoption of IFRS Sustainability Disclosure Standards would largely depend on jurisdictional state of affairs of putting in place a process or a legal framework around the adoption of the Standards. For example, the establishment of ISSB as a sister body of IASB has prompted many national standard-setters to examine their legal frameworks and interactions with other local laws, particularly in deciding whether a separate board (a mirror body of ISSB) should be established; or to expand the remit of those national standard-setters; or to place ISSB-related matters under another regulator instead of the national standard-setters.

Appendix I

The decision-making process for the above may take a longer time as it might potentially involve changing the current laws or legislations surrounding the corporate reporting landscape involving various bodies; which might not coincide with the speed and accelerated phase of ISSB work programme.

Although we are fully aware that these are jurisdictional-specific issues, we are hopeful that ISSB could consider them and phase out its work programme to allow for a “truly” global set of baseline disclosures to work around the globe, including that of the developing countries.

Appendix II

Question 1—Objective of the Exposure Draft

Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting:

- to assess the effects of climate-related risks and opportunities on the entity's enterprise value;
- to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and
- to evaluate the entity's ability to adapt its planning, business model and operations to climate-related risks and opportunities.

Paragraphs BC21–BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?

(b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?

(c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

Response

(a) We agree with the proposed objective of the [draft] IFRS S2 that focuses on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities.

The proposed paragraph 1(b) uses four attributes of "input", "activities", "outputs" and "outcomes" in explaining the objective of the [draft] IFRS S2. Although our stakeholders noted that these attributes are also common in Integrated Reporting Framework, they have suggested for these terminologies to be defined in the [draft] IFRS S2 to help with consistent application.

Please also see our response to Question 17 in Appendix I on the suggestion for ISSB to develop a *Glossary of terms* for IFRS Sustainability Disclosure Standards.

(b) We agree that the proposed objective would enable users to assess the effects of climate-related risks and opportunities on the entity's enterprise value.

Appendix II

(c) **We agree that the proposed disclosure requirements would provide useful information to primary users of general purpose financial reporting.**

Please also see our comments on Appendix B of the [draft] IFRS S2 in Question 11 *Industry-based requirements*.

Question 2—Governance

Paragraphs 4 and 5 of the Exposure Draft propose that an entity be required to disclose information that enables users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. To achieve this objective, the Exposure Draft proposes that an entity be required to disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and a description of management's role regarding climate-related risks and opportunities.

The Exposure Draft's proposed governance disclosure requirements are based on the recommendations of the TCFD, but the Exposure Draft proposes more detailed disclosure on some aspects of climate-related governance and management in order to meet the information needs of users of general purpose financial reporting. For example, the Exposure Draft proposes a requirement for preparers to disclose how the governance body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies. The related TCFD's recommendations are to: describe the board's oversight of climate-related risks and opportunities and management's role in assessing and managing climate-related risks and opportunities.

Paragraphs BC57–BC63 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

Response

We agree with the proposed governance requirements which enable users to understand the role of the board's oversight of climate-related risks and opportunities and management's role in assessing and managing climate-related risks and opportunities.

Question 3—Identification of climate-related risks and opportunities

Paragraph 9 of the Exposure Draft proposes that an entity be required to identify and disclose a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity would be required to refer to the disclosure topics defined in the industry disclosure requirements (Appendix B).

Paragraphs BC64–BC65 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?

(b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

Response

(a) Consistent with our response to Question 8 of [draft] IFRS S1 in Appendix I, the [draft] IFRS S1 seems to use the term "material" and "significant" interchangeably. This is not helpful and may create confusion particularly when the term "significant climate-related risks and opportunities" is not defined in the proposed Appendix A of [draft] IFRS S2. Therefore, we suggest providing additional explanations on their meanings or using one terminology consistently throughout the [draft] Standards.

We take note that the Illustrative Guidance accompanying [draft] IFRS S1 on materiality should be read together with the [draft] IFRS S1 and that the determination of materiality is highly judgmental. Therefore, by providing additional explanation or defining those words would be helpful to ensure consistent application of the proposed requirements among entities.

(b) We agree with the proposed requirements and are of the view that the disclosure topics identified in the industry-based requirements serve as a useful starting point for an entity to consider the specific risks and opportunities it may need to address.

However, we are concerned on the applicability of the required information or metrics in Appendix B which may not be applicable across all jurisdictions. In this regard, some flexibilities for the implementation of Appendix B are necessary for a transitional period so as not to hinder global adoption on the onset, including either in the form of allowance for some degree of 'national' metrics that could serve the same disclosure objectives or a differentiated timeline for implementation of the requirements. See also our response to Question 11 regarding the proposed industry-based requirements.

Appendix II

Question 4—Concentrations of climate-related risks and opportunities in an entity's value chain

Paragraph 12 of the Exposure Draft proposes requiring disclosures that are designed to enable users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on an entity's business model, including in its value chain. The disclosure requirements seek to balance measurement challenges (for example, with respect to physical risks and the availability of reliable, geographically-specific information) with the information necessary for users to understand the effects of significant climate-related risks and opportunities in an entity's value chain.

As a result, the Exposure Draft includes proposals for qualitative disclosure requirements about the current and anticipated effects of significant climate-related risks and opportunities on an entity's value chain. The proposals would also require an entity to disclose where in an entity's value chain significant climate-related risks and opportunities are concentrated.

Paragraphs BC66–BC68 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?

(b) Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

Response

(a) We agree with the proposed disclosure requirements as they enable users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on an entity's business model, including in its value chain.

(b) We agree with the proposal as it balances measurement challenges with the information that users of general purpose financial reporting need to understand where in an entity's value chain climate-related risks and opportunities are concentrated.

Question 5—Transition plans and carbon offsets

Disclosing an entity's transition plan towards a lower-carbon economy is important for enabling users of general purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value.

Appendix II

Paragraph 13 of the Exposure Draft proposes a range of disclosures about an entity's transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general purpose financial reporting to understand the effects of climate-related risks and opportunities on an entity's strategy and decision-making, including its transition plans. This includes information about how it plans to achieve any climate-related targets that it has set (this includes information about the use of carbon offsets); its plans and critical assumptions for legacy assets; and quantitative and qualitative information about the progress of plans previously disclosed by the entity.

An entity's reliance on carbon offsets, how the offsets it uses are generated, and the credibility and integrity of the scheme from which the entity obtains the offsets have implications for the entity's enterprise value over the short, medium and long term. The Exposure Draft therefore includes disclosure requirements about the use of carbon offsets in achieving an entity's emissions targets. This proposal reflects the need for users of general purpose financial reporting to understand an entity's plan for reducing emissions, the role played by carbon offsets and the quality of those offsets.

The Exposure Draft proposes that entities disclose information about the basis of the offsets' carbon removal (nature- or technology-based) and the third-party verification or certification scheme for the offsets. Carbon offsets can be based on avoided emissions. Avoided emissions are the potential lower future emissions of a product, service or project when compared to a situation where the product, service or project did not exist, or when it is compared to a baseline. Avoided-emission approaches in an entity's climate-related strategy are complementary to, but fundamentally different from, the entity's emission-inventory accounting and emission-reduction transition targets. The Exposure Draft therefore proposes to include a requirement for entities to disclose whether the carbon offset amount achieved is through carbon removal or emission avoidance.

The Exposure Draft also proposes that an entity disclose any other significant factors necessary for users of general purpose financial reporting to understand the credibility of the offsets used by the entity such as information about assumptions of the permanence of the offsets.

Paragraphs BC71–BC85 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?

(b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.

(c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?

Appendix II

(d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

Response

(a) We agree with the proposed requirements for transition plans as the disclosure of an entity's transition plan towards a lower-carbon economy is important to enable users of general purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value.

(b) We are not aware of any.

(c) We think that the proposed carbon offset disclosures will enable users of general purpose financial reporting to gain insight into an entity's approach regarding carbon management and the role played by carbon offsets.

(d) We broadly agree that the proposed disclosure requirements appropriately balance costs for preparers. However, carbon offsets is a complex topic and the application might not be well developed in countries where sustainability reporting is at an early stage. In this regard, our stakeholders have expressed concerns on the proposed disclosure requirements. In particular, they noted:

(i) the need to provide additional materials such as by way of illustration guidance on the concepts of carbon offsetting and to illustrate how the proposed disclosure requirements work, for example on the relationship between carbon offsets and net-zero emission and the required disclosures to be provided to explain the relationship.

The additional guidance or clarification in [draft] IFRS S2 is expected to improve the consistent application and comparability of information to be provided on carbon offsets.

(ii) lack of clarity on the requirement for an entity to assess the credibility of carbon offsets through avoided emissions. Since this method is criticised for its challenges to meet the additionality tests, (refer paragraph BC84) clarification is needed on whether the certification scheme (as required by the proposed paragraph 13(b)(iii)(2)) would also be applicable to emission avoidance.

Question 6—Current and anticipated effects

The Exposure Draft proposes requirements for an entity to disclose information about the anticipated future effects of significant climate-related risks and opportunities. The Exposure Draft proposes that, if such information is provided quantitatively, it can be expressed as a single amount or as a range. Disclosing a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value may be more appropriate.

The TCFD's 2021 status report identified the disclosure of anticipated financial effects of climate-related risks and opportunities using the TCFD Recommendations as an area with little disclosure. Challenges include: difficulties of organisational alignment, data, risk evaluation and the attribution of effects in financial accounts; longer time horizons associated with climate-related risks and opportunities compared with business horizons; and securing approval to disclose the results publicly. Disclosing the financial effects of climate-related risks and opportunities is further complicated when an entity provides specific information about the effects of climate-related risks and opportunities on the entity. The financial effects could be due to a combination of other sustainability-related risks and opportunities and not separable for the purposes of climate-related disclosure (for example, if the value of an asset is considered to be at risk it may be difficult to separately identify the effect of climate on the value of the asset in isolation from other risks).

Similar concerns were raised by members of the TRWG in the development of the climate-related disclosure prototype following conversations with some preparers. The difficulty of providing single-point estimates due to the level of uncertainty regarding both climate outcomes and the effect of those outcomes on a particular entity was also highlighted. As a result, the proposals in the Exposure Draft seek to balance these challenges with the provision of information for investors about how climate-related issues affect an entity's financial position and financial performance currently and over the short, medium and long term by allowing anticipated monetary effects to be disclosed as a range or a point estimate.

The Exposure Draft proposes that an entity be required to disclose the effects of significant climate-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—including how climate-related risks and opportunities are included in the entity's financial planning (paragraph 14). The requirements also seek to address potential measurement challenges by requiring disclosure of quantitative information unless an entity is unable to provide the information quantitatively, in which case it shall be provided qualitatively.

Paragraphs BC96–BC100 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?

(b) Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?

(c) Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?

Response

(a) **We agree with the proposal. It allows for the flexibility to adapt to the requirements taking into consideration the aspect of readiness and a phased approach as well as allowing time for entities to organise internal mechanisms and systems to a reasonable level of disclosure.**

We also wish to highlight that in our jurisdiction, modelling techniques for quantitative disclosures are still developing and necessary data sets are evolving in the market. As such, the interpretation of "unable to do" might differ from one entity to another depending on management judgements. The "loose" reading of "unable to do" might be challenging from an audit (or external review) perspective and might further impair the intended comparability of information.

In this regard, it might be useful for the ISSB to consider providing examples to better illustrate the meaning of "unable to do" in a way similar to how paragraph 18 of IFRS 8 *Operating Segments* is drafted, whereby it states (emphasis added):

> ***If an operating segment is identified as a reportable segment in the current period in accordance with the quantitative thresholds, segment data for a prior period presented for comparative purposes shall be restated to reflect the newly reportable segment as a separate segment, even if that segment did not satisfy the criteria for reportability in paragraph 13 in the prior period, unless the <u>necessary information is not available</u> and <u>the cost to develop it would be excessive</u>.***

(b) **We agree with the proposed disclosure requirements on financial effects and suggest the drafting of the proposed paragraph 14(c) be improved to state clearly what "over time" means; i.e., whether "over time" refers to changes from the preceding reporting period to the current reporting period or it refers to the time horizon of "short, medium and long term".**

(c) **We agree with the proposal and on the same note with our response in (b) above, for the purpose of providing disclosures of the future anticipated impacts of climate-related risks and opportunities, it would be helpful for the [draft] IFRS S2 to provide an indication of the time bands for "short, medium and long term".**

Question 7—Climate resilience

The likelihood, magnitude and timing of climate-related risks and opportunities affecting an entity are often complex and uncertain. As a result, users of general purpose financial reporting need to understand the resilience of an entity's strategy (including its business model) to climate change, factoring in the associated uncertainties. Paragraph 15 of the Exposure Draft therefore includes requirements related to an entity's analysis of the resilience of its strategy to climate-related risks. These requirements focus on:

- what the results of the analysis, such as impacts on the entity's decisions and performance, should enable users to understand; and
- whether the analysis has been conducted using:
  - climate-related scenario analysis; or
  - an alternative technique.

Scenario analysis is becoming increasingly well established as a tool to help entities and investors understand the potential effects of climate change on business models, strategies, financial performance and financial position. The work of the TCFD showed that investors have sought to understand the assumptions used in scenario analysis, and how an entity's findings from the analysis inform its strategy and risk-management decisions and plans. The TCFD also found that investors want to understand what the outcomes indicate about the resilience of the entity's strategy, business model and future cash flows to a range of future climate scenarios (including whether the entity has used a scenario aligned with the latest international agreement on climate change). Corporate board committees (notably audit and risk) are also increasingly requesting entity-specific climate-related risks to be included in risk mapping with scenarios reflecting different climate outcomes and the severity of their effects.

Although scenario analysis is a widely accepted process, its application to climate-related matters in business, particularly at an individual entity level, and its application across sectors is still evolving. Some sectors, such as extractives and minerals processing, have used climate-related scenario analysis for many years; others, such as consumer goods or technology and communications, are just beginning to explore applying climate-related scenario analysis to their businesses.

Many entities use scenario analysis in risk management for other purposes. Where robust data and practices have developed, entities thus have the analytical capacity to undertake scenario analysis. However, at this time the application of climate-related scenario analysis for entities is still developing.

Preparers raised other challenges and concerns associated with climate-related scenario analysis, including: the speculative nature of the information that scenario analysis generates, potential legal liability associated with disclosure (or miscommunication) of such information, data availability and disclosure of confidential information about an entity's strategy. Nonetheless, by prompting the consideration of a range of possible outcomes and explicitly incorporating multiple variables, scenario analysis provides valuable information and perspectives as inputs to an entity's strategic decision-making and risk-management processes. Accordingly, information about an entity's scenario analysis of significant climate-related risks is important for users in assessing enterprise value.
The Exposure Draft proposes that an entity be required to use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience.

Requiring disclosure of information about climate-related scenario analysis as the only tool to assess an entity's climate resilience may be considered a challenging request from the perspective of a number of preparers at this time—particularly in some sectors. Therefore, the proposed requirements are designed to accommodate alternative approaches to resilience assessment, such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests. This approach would provide preparers, including smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, represents an iterative learning process, and may take multiple planning cycles to achieve. The Exposure Draft proposes that when an entity uses an approach other than scenario analysis, it disclose similar information to that generated by scenario analysis to provide investors with the information they need to understand the approach used and the key underlying assumptions and parameters associated with the approach and associated implications for the entity's resilience over the short, medium and long term.

It is, however, recommended that scenario analysis for significant climate-related risks (and opportunities) should become the preferred option to meet the information needs of users to understand the resilience of an entity's strategy to significant climate-related risks. As a result, the Exposure Draft proposes that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted. Consideration was also given to whether climate-related scenario analysis should be required by all entities with a later effective date than other proposals in the Exposure Draft.

Paragraphs BC86–BC95 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?

(b) The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.

   (i) Do you agree with this proposal? Why or why not?

   (ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?

   (iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?

(c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?

(d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?

(e) Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?

Response

(a) We agree with the proposal so as to enable users of general purpose financial reporting to understand the resilience of an entity's strategy (including its business model) to climate change.

(b) We agree with the proposals which (i) allow for an entity to use climate-related scenario analysis or alternative techniques or methods to assess its climate resilience and (ii) require an entity to disclose the reasons why it was unable to use the climate-related scenario analysis. The proposed approach provides a "relief" to entities in coming up with their scenario analysis; taking into account the various details and challenges (data availability, human expertise, etc) to prepare entities to provide the required disclosures.

However, our stakeholders have mixed views on the proposal, as stated below:

(i) View 1 supports the proposal as the approach provides relief for entities to prepare themselves to provide "good" disclosures of climate-related scenario analysis. In other words, entities would only start doing the climate-related scenario analysis when it is "ready to do so".

In this regard, it is suggested for the ISSB to consider including a requirement for an entity to disclose its timeline for disclosures of climate-related scenario analysis so as to avoid a "continuous relief".

(ii) View 2 suggests for climate-related scenario analysis be required in all circumstances and no alternative techniques should be permitted. This is largely due to the alignments with TCFD Recommendation and hence entities are expected to have the information required to meet the disclosure requirements relating to the climate-related scenario analysis.

We believe that entities should aim to move towards providing disclosures based on scenario analysis.

Given the issues surrounding the availability of reliable data, the ISSB may wish to consider providing transition relief for first-time adopters to be exempted from providing climate-related scenario analysis, similar to the proposed relief for first-time adopters to provide comparatives.

Alternatively, the ISSB to consider a phased approach, that is, to have different effective dates on requirements where there would be foreseeable challenges in obtaining quality data (see our response to Question 13(b) of [draft] IFRS 1 in Appendix I). Although this could arguably hamper the comparatives of information disclosed and might not meet the investors need for climate-related information immediately, we believe that in time, comparability would be achieved and investors would be provided with relevant and useful information to make informed investment decision-making.

(c) We agree with the proposed disclosures relating to climate-related scenario analysis.

(d) We agree with the proposed disclosure about alternative techniques as that would enable users of general purpose financial reporting to understand the technique used and the rationale for not using scenario analysis.

Please also see the mixed responses we received from our stakeholders as stated in (b) above.

(e) We generally find that the proposals balance the costs of applying the requirements with the benefits of information to be provided about an entity's strategic resilience to climate change. In addition, the proposals balance the need for providing comparable disclosures and allowing entities to select approaches that are appropriate based on their facts and circumstances.

Question 8—Risk management

An objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities, to enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise value. Such disclosures include information for users to understand the process, or processes, that an entity uses to identify, assess and manage not only climate-related risks, but also climate-related opportunities.

Paragraphs 16 and 17 of the Exposure Draft would extend the remit of disclosures about risk management beyond the TCFD Recommendations, which currently only focus on climate-related risks. This proposal reflects both the view that risks and opportunities can relate to or result from the same source of uncertainty, as well as the evolution of common practice in risk management, which increasingly includes opportunities in processes for identification, assessment, prioritisation and response.

Paragraphs BC101–BC104 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

Response

We support the proposal regarding risk management disclosures as it provides information to assure users of general purpose financial reporting that the entity have adequate risk identification, assessment and management processes relating to their climate-related risks and opportunities.

Question 9—Cross-industry metric categories and greenhouse gas emissions

The Exposure Draft proposes incorporating the TCFD's concept of cross-industry metrics and metric categories with the aim of improving the comparability of disclosures across reporting entities regardless of industry. The proposals in the Exposure Draft would require an entity to disclose these metrics and metric categories irrespective of its particular industry or sector (subject to materiality). In proposing these requirements, the TCFD's criteria were considered. These criteria were designed to identify metrics and metric categories that are:

- indicative of basic aspects and drivers of climate-related risks and opportunities;
- useful for understanding how an entity is managing its climate-related risks and opportunities;
- widely requested by climate reporting frameworks, lenders, investors, insurance underwriters and regional and national disclosure requirements; and
- important for estimating the financial effects of climate change on entities.

The Exposure Draft thus proposes seven cross-industry metric categories that all entities would be required to disclose: greenhouse gas (GHG) emissions on an absolute basis and on an intensity basis; transition risks; physical risks; climate-related opportunities; capital deployment towards climate-related risks and opportunities; internal carbon prices; and the percentage of executive management remuneration that is linked to climate-related considerations. The Exposure Draft proposes that the GHG Protocol be applied to measure GHG emissions.

The GHG Protocol allows varied approaches to be taken to determine which emissions an entity includes in the calculation of Scope 1, 2 and 3—including for example, how the emissions of unconsolidated entities such as associates are included. This means that the way in which information is provided about an entity's investments in other entities in their financial statements may not align with how its GHG emissions are calculated. It also means that two entities with identical investments in other entities could report different GHG emissions in relation to those investments by virtue of choices made in applying the GHG Protocol.

To facilitate comparability despite the varied approaches allowed in the GHG Protocol, the Exposure Draft proposes that an entity shall disclose:

- separately Scope 1 and Scope 2 emissions, for:

- the consolidated accounting group (the parent and its subsidiaries);
- the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and

- the approach it used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group (for example, the equity share or operational control method in the GHG Protocol Corporate Standard).

The disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. However, despite these challenges, the disclosure of GHG emissions, including Scope 3 emissions, is becoming more common and the quality of the information provided across all sectors and jurisdictions is improving. This development reflects an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity's carbon footprint.

Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energy-efficient products or seek to enable or incentivise upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to identify the most significant GHG reduction opportunities across an entity's entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs. For Scope 3 emissions, the Exposure Draft proposes that:

- an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;
- an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;
- if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement; and
- if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure.

Aside from the GHG emissions category, the other cross-industry metric categories are defined broadly in the Exposure Draft. However, the Exposure Draft includes non-mandatory Illustrative Guidance for each cross-industry metric category to guide entities.

Appendix II

Paragraphs BC105–BC118 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?

(b) Are there any additional cross-industry metric categories related to climate-related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.

(c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?

(d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3 — expressed in CO_2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH_4) separately from nitrous oxide (NO_2))?

(e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:

(i) the consolidated entity; and

(ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?

(f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

Response

(a) We generally agree with the proposed cross-industry metrics. Our stakeholders noted that the cross-industry metrics are generally common and applicable across sectors.

(b) We are not aware of any.

(c) We agree with the proposal which requires an entity to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions because GHG Protocol is the common reference point by industries and companies around the globe which improves comparability for performance benchmarking purposes.

The GHG Protocol also covers the accounting and reporting for the seven greenhouse gases under the Kyoto Protocol.

(d) **We agree with the proposal requiring entities to disclose aggregation of all seven greenhouse gases for Scope 1, Scope 2 and Scope 3, expressed in CO_2 equivalent so as to help with the comparability of disclosures across entities regardless of industry.**

(e) **We have concerns over the boundary of reporting entity for the purpose of meeting the disclosure requirements for greenhouse gas emissions. Please also see our response to Question 5 *Reporting Entity* of [draft] IFRS S1 in Appendix I.**

As with the preparation of consolidated financial statements, holding companies will face challenges in obtaining information for the purpose of preparation of climate-related disclosures. The proposed disclosure requirements to provide information about Scope 1 and Scope 2 emissions separately for (i) the consolidated entity and (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates might impose additional operational complexity on entities.

In addition, the proposed requirement in paragraph 21(a)(iii) for Scope 1 and Scope 2 emissions is clear with regard to the separate disclosures between the consolidated accounting group and others not included in the consolidated group's disclosures. This is not the case for Scope 3 emissions and hence we suggest the drafting of paragraph 21(a)(vi) to state clearly the required scope /reporting boundary for Scope 3 emissions as currently, it is silent about information of associates, joint ventures, unconsolidated subsidiaries or affiliates.

We also noted the term "affiliate" is used to represent one of the types of unconsolidated entity. This term is neither defined in Appendix A of [draft] IFRS S2 nor in the Glossary of IFRS Accounting Standards. In this regard, we suggest to include the definition of "affiliate" in Appendix A *Defined terms* of [draft] IFRS S2.

(f) **We agree with the proposal for Scope 3 emissions to be included as a cross-industry metric category. As noted in paragraph BC117, there is an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity's carbon footprint.**

However, disclosures of Scope 3 emissions hinge a lot on enabling infrastructure and data and hence entities would require a longer time to prepare themselves for such disclosures, particularly for those who have just started with the process. In this regard, we suggest ISSB takes into consideration the challenges as acknowledged in paragraph BC109, and also the sectors and/or entities' readiness to be able to provide the Scope 3 emissions over a reasonable time frame of a phased approach as stated in the cover letter.

Appendix II

Question 10—Targets

Paragraph 23 of the Exposure Draft proposes that an entity be required to disclose information about its emission-reduction targets, including the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives), as well as information about how the entity's targets compare with those prescribed in the latest international agreement on climate change.

The 'latest international agreement on climate change' is defined as the latest agreement between members of the United Nations Framework Convention on Climate Change (UNFCCC). The agreements made under the UNFCCC set norms and targets for a reduction in greenhouse gases. At the time of publication of the Exposure Draft, the latest such agreement is the Paris Agreement (April 2016); its signatories agreed to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit warming to 1.5 degrees Celsius above pre-industrial levels. Until the Paris Agreement is replaced, the effect of the proposals in the Exposure Draft is that an entity is required to reference the targets set out in the Paris Agreement when disclosing whether or to what degree its own targets compare to the targets in the Paris Agreement.

Paragraphs BC119–BC122 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?

(b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?

Response

(a) We agree with the proposed disclosure about climate-related targets.

In relation to the proposed paragraph 23(f), our stakeholders expressed concerns about the sectoral decarbonisation approach for the oil and gas sector. It was noted that currently companies in all sectors can set science-based targets, aligned with the SBTi criteria[3], except for those in the oil and gas sector. At this juncture, the SBTi is unable to accept commitments or validate targets for companies in the oil and gas or fossil fuels sectors. The SBTi is still developing a new methodology for the oil and gas sector to set science-based targets[4]. As there is no established methodology for the oil and gas sector, it would be difficult to comply with the proposed requirement in paragraph 23(f), which requires an entity to disclose "whether the target was derived using a sectoral decarbonisation approach".

3 The Science Based Targets initiative (SBTi) sector guidance, https://sciencebasedtargets.org/sectors

4 https://sciencebasedtargets.org/sectors/oil-and-gas#what-is-the-sb-tis-policy-on-fossil-fuel-companies

Appendix II

In this regard, paragraph 23(f) might need to be drafted in a manner that allows entities not to disclose the sectoral decarbonisation approach if it is not applicable to them.

(b) We think the definition is clear.

Question 11—Industry-based requirements

The Exposure Draft proposes industry-based disclosure requirements in Appendix B that address significant sustainability-related risks and opportunities related to climate change. Because the requirements are industry-based, only a subset will apply to a particular entity. The requirements have been derived from the SASB Standards. This is consistent with the responses to the Trustees' 2020 consultation on sustainability that recommended that the ISSB build upon existing sustainability standards and frameworks. This approach is also consistent with the TRWG's climate-related disclosure prototype.

The proposed industry-based disclosure requirements are largely unchanged from the equivalent requirements in the SASB Standards. However, the requirements included in the Exposure Draft include some targeted amendments relative to the existing SASB Standards. The proposed enhancements have been developed since the publication of the TRWG's climate-related disclosure prototype.

The first set of proposed changes address the international applicability of a subset of metrics that cited jurisdiction-specific regulations or standards. In this case, the Exposure Draft proposes amendments (relative to the SASB Standards) to include references to international standards and definitions or, where appropriate, jurisdictional equivalents.

Paragraphs BC130–BC148 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals to improve the international applicability of the industry-based requirements.

(a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?

(b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?

(c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

The second set of proposed changes relative to existing SASB Standards address emerging consensus on the measurement and disclosure of financed or facilitated emissions in the financial sector. To address this, the Exposure Draft proposes adding disclosure topics and associated metrics in four industries: commercial banks, investment banks, insurance and asset management. The proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. The proposal builds on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments).

Paragraphs BC149–BC172 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals for financed or facilitated emissions.

(d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?

(e) Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?

(f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?

(g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?

(h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?

(i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

Overall, the proposed industry-based approach acknowledges that climate-related risks and opportunities tend to manifest differently in relation to an entity's business model, the underlying economic activities in which it is engaged and the natural resources upon which its business depends or which its activities affect. This affects the assessment of enterprise value. The Exposure Draft thus incorporates industry-based requirements derived from the SASB Standards.

The SASB Standards were developed by an independent standard-setting board through a rigorous and open due process over nearly 10 years with the aim of enabling entities to communicate sustainability information relevant to assessments of enterprise value to investors in a cost-effective manner. The outcomes of that process identify and define the sustainability-related risks and opportunities (disclosure topics) most likely to have a significant effect on the enterprise value of an entity in a given industry. Further, they set out standardised measures to help investors assess an entity's performance on the topic.

Appendix II

Paragraphs BC123–BC129 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals related to the industry-based disclosure requirements.

While the industry-based requirements in Appendix B are an integral part of the Exposure Draft, forming part of its requirements, it is noted that the requirements can also inform the fulfilment of other requirements in the Exposure Draft, such as the identification of significant climate-related risks and opportunities (see paragraphs BC49–BC52).

(j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?

(k) Are there any additional industry-based requirements that address climate-related risks and opportunities that are necessary to enable users of general purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.

(l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?

Response

We support the approach taken to revising the SASB Standards to improve the international applicability of the industry-based requirements in Appendix B.

However, we do not think it is practical on the onset for the industry-based requirements (volumes) in Appendix B to be integral parts of and have the same authority as the other parts of the [draft] IFRS S2 without allowing for a transitional period with some flexibilities for the implementation of the requirements, either in the form of allowance for some degree of local prescription or a differentiated timeline for implementation. We noted that the ISSB acknowledged the challenges to cater information in the volumes as to improve their international applicability in order to set out global baseline disclosure standards and the inherent trade-offs between improving comparability of disclosures and avoiding complexity (paragraph BC130). However, in our view, the "international applicability" should also take into account the information or indicators used not only in developed countries but also in developing countries.

Therefore, we believe that Appendix B should allow an entity to apply the specific metrics that are currently being practiced or as required by their pre-existing local laws and regulations for the purpose of asserting compliance with the Standard during the transitional period, that is, until the first post-implementation review (PIR) of the Standard. This approach is practical and is able to align requirements of the Standard with that of the local laws and regulations as well as cost effective for entities in jurisdictions with specific metrics that are different from that prescribed in Appendix B. The ISSB, could then assess during the PIR as to whether Appendix B is working as intended.

At this juncture, we do not think there is a single universal metric for each of the respective sectors prescribed in Appendix B and making them mandatory would provide additional operational challenges to comply with the [draft] IFRS S2. Some of the index used is not applicable or observed by Malaysian constituents, for example, the "*HERS® Index Score"* or "*ENERGY STAR®*", in the "Home Builders" industry.

Alternatively, the ISSB may wish to consider a differentiated timeline for implementation of Appendix B, that is, to allow a transitional period before making Appendix B a mandatory requirement which carries the status of a Standard. In other words, during the transitional period, Appendix B should be made as 'best practice' instead of having the same authority of other parts of the Standard.

Although this approach might impede international comparability during the transitional period, nonetheless this is unavoidable given the different level of developmental phase of sustainability reporting across jurisdictions coupled with current challenges and therefore, a rigid implementation at the onset must be avoided as this would undermine the aspiration of the Standard to serve as a global baseline.

Question 12—Costs, benefits and likely effects

Paragraphs BC46–BC48 of the Basis for Conclusions set out the commitment to ensure that implementing the Exposure Draft proposals appropriately balances costs and benefits.

(a) 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?

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

(c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

Response

We are unable to provide specific comments on the cost-benefit analysis at this juncture.

Our stakeholders believe in the benefit of having one framework to report sustainability-related financial information. They envisage that the IFRS Sustainability Disclosure Standards will amalgamate the various sustainability-related standards into a global set of standard and to eventually supersede the myriad of standards, frameworks and guidelines when it comes to sustainability reporting, which at the moment prove to be confusing, counterproductive and laborious, amongst others.

That said, given the emerging developmental phase of sustainability reporting in many jurisdictions, it is expected that the costs to comply with IFRS Sustainability Disclosure

Standards to be significant. Entities may need to incur additional costs to acquire the necessary skills and expertise in the sustainability-reporting space. Data readiness and systems integration are also some of the main concerns that may require entities to incur additional costs.

In addition, entities are likely to incur additional costs to perform verification or certification in order to comply with specialised metrics such as the "*HERS® Index Score*" or "*ENERGY STAR®*", as required in Appendix B of [draft] IFRS S2 in order to assert compliance with IFRS Sustainability Disclosure Standards when the metric(s) are not applicable or observed in their jurisdiction currently.

Please also see our response to Question 16 *Costs, benefits and likely effects* of [draft] IFRS S1 in Appendix I.

Question 13—Verifiability and enforceability

Paragraphs C21–24 of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* describes verifiability as one of the enhancing qualitative characteristics of sustainability-related financial information. Verifiability helps give investors and creditors confidence that information is complete, neutral and accurate. Verifiable information is more useful to investors and creditors than information that is not verifiable.

Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

Response

In general, Scope 3 emissions disclosures would be very challenging to verify.

Specifically on verification, paragraph 31(b) of [draft] IFRS S1 requires an entity to disclose "whether measurement of the metric is validated by an external body and, if so, which body" when a metric has been developed by the entity. In this regard, we suggest the Standard to state clearly the extent of the verification or validation required by an external body, i.e., whether it only covers the developed metrics or also applies to the disclosures provided from those developed metrics.

Question 14—Effective date

Because the Exposure Draft is building upon sustainability-related and integrated reporting frameworks used by some entities, some may be able to apply a retrospective approach to provide comparative information in the first year of application. However, it is acknowledged that entities will vary in their ability to use a retrospective approach.

Acknowledging this situation and to facilitate timely application of the proposals in the Exposure Draft, it is proposed that an entity is not required to disclose comparative information in the first period of application.

[Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* requires entities to disclose all material information about sustainability-related risks and opportunities. It is intended that [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* be applied in conjunction with the Exposure Draft. This could pose challenges for preparers, given that the Exposure Draft proposes disclosure requirements for climate-related risks and opportunities, which are a subset of those sustainability-related risks and opportunities. Therefore, the requirements included in [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* could take longer to implement.

Paragraphs BC190–BC194 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*? Why?

(b) 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 in the Exposure Draft.

(c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

Response

(a) We support the proposal to provide relief from providing first-year comparative information. In view of the high interrelation between the [draft] IFRS S1 and [draft] IFRS S2, we suggest they have the same effective date.

(b) As stated in our response to Question 13 of [draft] IFRS S1 in Appendix I, similar with other new IFRS Accounting Standards, we suggest a transitional period of three years with early application permitted. This would allow entities to make the necessary preparation to apply the [draft] Standard, including resource requirements as well as system readiness.

Appendix II

(c) **As stated in our response to Question 13 of [draft] IFRS S1 in Appendix I, we support a phased approach in view that many jurisdictions around the world are still at the early stage of development of the sustainability reporting space, coupled with limited resources, lack of consistent methodology, poor data quality or availability and the need for capacity building to comply with the sustainability disclosure requirements.**

The phased approach could be implemented either by having different effective dates for requirements proven to be challenging to comply with (see our response to Question 7 *Climate resilience*) or by providing a reasonable time frame for entities to comply with the proposed requirements. This would allow entities who are ready to comply with the requirements to apply them sooner while others have the option to apply them at a later date.

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 of sustainability-related financial information, 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 S1 *General Requirements for Disclosure of Sustainability-related Financial Information* 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)?

Response

We do not have any comments.

Question 16—Global baseline

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 climate change. 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?

Response

Being a global baseline, requirements of the Standards should be flexible enough for it to being applied across all jurisdictions (please see our response to Question 11 above).

Question 17—Other comments

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

Response

(a) <u>Application of Appendix B</u>

We wish to reiterate our significant concerns on the mandatory application of Appendix B as stated in our response to Question 11 *Industry-based requirements* in relation to the status of metrics included in Appendix B. Whilst we support the objective of providing internationally comparable sustainability or climate-related financial disclosures but at the same time acknowledge that there is no "one size fits all" metrics that are applicable to all the jurisdictions around the world.

Therefore, we believe that Appendix B should allow an entity to apply the specific metrics that are currently being practiced or as required by their pre-existing local laws and regulations for the purpose of asserting compliance with the Standard during the transitional period. This approach is practical and is able to align requirements of the Standard with that of the local laws and regulations as well as cost effective for entities in jurisdictions with specific metrics that are different from that prescribed in Appendix B. The ISSB, could then assess during the PIR as to whether Appendix B is working as intended. Alternatively, the ISSB may wish to consider a differentiated timeline for implementation of Appendix B, that is, during the transitional period, Appendix B should be made as 'best practice' instead of mandatory application.

(b) <u>Drafting style of industry-based requirements in Appendix B</u>

Paragraph B11 of [draft] IFRS S2 explains that differences between SASB Standards and the industry-based requirements which are indicated in Appendix B are marked up for ease of reference, with additions underscored and deletions struck through.

Appendix II

However, we observed a metric that was not carried forward from the SASB Standards was not marked up in Appendix B. Specifically, the metric Air emission was not carried forward from SASB Industry Standard EM-IS to Volume B9 (EM-IS) in Appendix B; and this (deletion) is not struck through which contradicts the approach explained in paragraph B11 of [draft] IFRS S2.

We believe the markups would facilitate a smoother transition from SASB Standards to the [draft] IFRS S2 and save entities from going through all volumes in Appendix B to identify any changes from SASB Standards. In this regard, we are of the view that the markups should be reflected appropriately for ease of reference and to avoid any confusion.

We, therefore, recommend for the ISSB to explain in its Basis for Conclusions the approach taken to identifying changes from the 77 SASB Standards to the 68 industry volumes in the proposed Appendix B and how the 350 metrics are carried forward from the SASB Standards. More importantly, if the ISSB were to finalise Appendix B with the markups shown, we believe the markups should be applied consistently for all changes made from the SASB Standards.