AcSB Accounting Standards Board

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Submitted electronically via commentletters@ifrs.org

International Sustainability Standards Board
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Re: ED/2022/S1 *General Requirements for Disclosure of Sustainability-Related Financial Information* and ED/2022/S2 *Climate-related Disclosures*

Dear Board members,

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the International Sustainability Standards Board's (ISSB) proposals, ED/2022/S1 *General Requirements for Disclosure of Sustainability-Related Financial Information* ("S1") and ED/2022/S2 *Climate-related Disclosures* ("S2") issued in March 2022.

Who we are

The AcSB is an independent body with the authority to establish accounting standards for use by all Canadian entities outside the public sector. We serve the public interest by establishing standards for financial reporting by all Canadian private sector entities and by contributing to the development of internationally accepted financial reporting standards. As a jurisdiction that applies IFRS Accounting Standards for all publicly accountable enterprises as well as some private enterprises and not-for-profit organizations, we are keenly interested in reporting standards that affect Canadian businesses.

Canadian developments in sustainability standards setting

In December 2021, the Independent Review Committee on Standard Setting (IRCSS) issued a consultation paper recommending the establishment of a Canadian Sustainability Standards Board (CSSB). In June 2022, the Canadian Accounting Standards Oversight Council and the Auditing and Assurance Standards Oversight Council mutually approved the formation of the CSSB. Once formed, the new CSSB would work alongside

Canada's existing standards boards, including the AcSB, and liaise with the ISSB to ensure that the Canadian perspective is part of international decision making.

While the CSSB is being established, the AcSB performed more substantive outreach on the Exposure Drafts as we have the consultation mechanisms in place to gather feedback from Canadian stakeholders. For future proposals, we anticipate the new CSSB will play a greater role in gathering feedback from, and providing education to, affected stakeholders in Canada, and we will focus on areas of overlap with financial reporting. In the interim, the AcSB is pleased to offer its comments as an experienced standard-setter for the ISSB's consideration in its effort to develop high-quality Sustainability Disclosure Standards.

Our process

This response letter represents the views of the AcSB members and staff based on their knowledge and experience. In developing our response, we consulted with almost 100 stakeholders across Canada including broad groups of users, preparers, practitioners, and academics across a variety of industries, as well as with the Canadian Securities Administrators (CSA). We also consulted with stakeholders beyond capital market participants, such as private enterprises, not-for-profit organizations and pension plans, as we recognize that the potential impact of these Standards is broader than our publicly listed entities. We were pleased to have ISSB staff members join our outreach event with our User Advisory Committee (UAC).

Our view

The AcSB appreciates the opportunity to comment on the Exposure Drafts as we support all efforts to improve the quality of financial and non-financial information that users rely on to make decisions. Through our own consultations, we have observed the growing demand for disclosure of sustainability-related financial information from and for a broader range of stakeholders. To this effect, we continue to support initiatives for investors to receive appropriate disclosures on sustainability-related matters.

Our response does not seek to address all the questions posed in the Exposure Drafts. Instead, this letter primarily focuses on the connection between financial and sustainability reporting, including those aspects of the proposals that overlap with IFRS Accounting Standards. As such, the responses to the questions in the Appendix to this letter focus on S1, but where relevant, also include comments on S2.

Current landscape in Canada

The landscape of entities in Canada is diverse, including some large publicly accountable entities; however, most of Canada's publicly accountable entities are small to mid-sized. In addition, we have over 1.2 million private employer enterprises, with over 80% of these enterprises having less than 10 employees and most of the remaining having less than 100 employees. These private enterprises form a major part of the value-chain of Canadian publicly accountable enterprises. The landscape in Canada also includes over 156,000 not-for-profit organizations and 16,000 pension plans for which the demand for sustainability reporting is increasing.

Canada has approximately 300 publicly listed entities that are dual-listed on a U.S. securities exchange, representing over one trillion Canadian dollars in market capitalization. Canada also has the highest number of foreign private issuers in the U.S. Some Canadian publicly listed entities are subject to regulations in jurisdictions beyond North America, including Europe. Therefore, a single set of high-quality global standards are welcome to promote consistency and comparability of sustainability reporting.

Lack of stakeholder preparedness

We want to commend the ISSB on the speed of developing these Exposure Drafts which aim to address the gap in common global sustainability standards. However, this expediency has highlighted the general lack of preparedness of stakeholders in many jurisdictions, including Canada.

During our consultations, financial statement preparers cited the lack of available data to report on sustainability metrics, including those required for climate-related disclosures. In particular, preparers of financial information for publicly accountable enterprises noted that others in their value chain (including private enterprises and even many other publicly accountable enterprises) do not have mechanisms in place to collect or report on the sustainability-related financial information required in the proposals. For example, some publicly accountable enterprises are currently unable to report on climate-related metrics, particularly on Scope 3 emissions, as this information is not available. Some of these preparers also noted that they currently do not have the processes established to collect data on their own Scope 1 and 2 emissions.

Users frequently highlighted the benefits of disclosures on sustainability information but noted that many of their models do not yet factor in this new sustainability information. Practitioners also noted the lack of staff training and experience with sustainability reporting, particularly with the metrics and targets requirements being proposed. In addition, the need to work with qualified experts outside of the core financial reporting team was highlighted.

As noted earlier, many jurisdictions are still establishing standard-setting mechanisms for sustainability standards, including Canada. Without dedicated jurisdictional sustainability standard setters, there are limitations on the extent of feedback that can be gathered on the proposals from stakeholders that are beyond those involved in financial reporting. Collectively, these factors indicate significant risks and challenges with adopting the proposed ISSB Standards in Canada as the baseline for sustainability reporting.

Establishing a global baseline

The AcSB strongly supports the establishment of a global baseline for sustainability standards by the ISSB. However, we think that the current Exposure Draft proposals are beyond a “baseline” upon which additional disclosures can be built. Instead, many stakeholders expressed that achieving compliance with the current proposals would be unobtainable in the early years of sustainability reporting. While we understand there is strong demand from users, we think the expectation for entities to report on all significant sustainability-related risks and opportunities would create a considerable reporting burden on entities.

For example, in the absence of a specific ISSB Standard on a topic, paragraph 51 of S1 requires an entity to consider 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, and the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies, to disclose sustainability-related risks and opportunities. This list of alternative sources creates a high threshold to meet compliance with the proposed ISSB Standards and could result in significant reporting diversity. As such, we recommend the ISSB reposition the list as other sources of guidance an entity could refer to, but that the entity is not required to comply with.

In the absence of a change to paragraph 51 of S1, we are concerned about the significant work effort required by an entity to apply alternative sources of guidance to identify sustainability-related risks and opportunities and the associated disclosures. In IFRS Accounting Standards, if a specific Standard does not exist on a given topic, the entity is not required to search all other sources of GAAP to determine the appropriate accounting. Instead, an entity would look to other IFRS Accounting Standards and the *Conceptual Framework for Financial Reporting* ("Conceptual Framework") to determine the appropriate accounting. An entity can look to other sources of GAAP but there is no requirement to do so.

In addition, S2 requires climate-related scenario analysis (paragraph 15) and disclosure of Scope 3 emissions (paragraph 21) to meet the baseline. Many stakeholders we consulted with had expressed significant challenges in their ability to comply with these requirements. In Canada, the CSA Proposed Rule NI 51-107 on climate-related disclosures proposed a "comply or explain" approach for Scope 3 emissions. Similarly, the recently proposed Guideline B-15 from the Office of the Superintendent of Financial Institutions (OSFI) temporarily exempts many federally regulated financial institutions (including insurance companies) from reporting Scope 3 emissions information. These exemptions reinforce that Canadian entities, similar to entities in other jurisdictions around the world, may not be ready to comply with the baseline currently proposed in the ISSB's Exposure Drafts. We have also heard concerns from stakeholders that understanding the line between Scope 2 and Scope 3 emissions can be challenging. We think additional guidance and examples would be helpful to clearly distinguish between the two categories.

Our recommendation – a phased approach

As we view the baseline to be too high at this stage, we think the ISSB should consider how best to achieve a balance between:

- a comprehensive set of requirements, including disclosures for all significant sustainability-related risks and opportunities in the same reporting period and frequency as the financial statements, and
- an achievable implementation timeline that would enable entities to prepare robust sustainability disclosures that users can rely on to make decisions.

We think a phased approach could be a suitable way forward. Our comments throughout this letter provide considerations for such a phased approach, which could take many different forms.

For example, a phased approach could begin with qualitative disclosures relating to the entity's governance, strategy, and risk management, along with some of the proposed metrics and targets. These disclosures, in particular the disclosures on strategy, would provide users with an understanding of the external environment, the effects of risks and opportunities and the resilience of an entity's strategy to significant sustainability-related risks, among other key information.

We appreciate that S2 permits entities that are unable to use climate-related scenario analysis to instead use alternative methods, including qualitative analysis. We think this is very helpful as entities can describe the range of risk scenarios considered and rate them as having low, medium, or high impacts. A quantitative scenario analysis would require additional time and resources to implement because gathering the necessary data would be challenging at this stage.

The ISSB should also consider the extent of reporting to require in the first phase on sustainability-related risks and opportunities in the value chain. For example, we think the ISSB should reconsider requiring all of Scopes 1, 2 and 3 emissions metrics and instead consider whether only Scope 1 and 2 emissions metrics would still represent a high-quality baseline at this time.

We think quantitative information is extremely important to users' understanding of enterprise value; however, achieving a global baseline that can be built upon should be the top priority. As part of the phased approach, the ISSB could provide stakeholders with an understanding of the various phases and a roadmap to achieving the desired state in which entities are disclosing material information on their governance, strategy, risk management and metrics and targets for all significant sustainability-related risks and opportunities.

A phased approach should consider the nature and size of the entities applying the proposed Standards. For example, larger entities with greater reporting resources are more likely to be able to collect data and comprehensively report on metrics and targets. However, smaller entities may find it challenging to report quantitative sustainability-related information at this time. As noted earlier, most of Canada's publicly accountable entities are small to mid-sized. In order for the first phase of the global baseline to be broadly achievable, we recommend that the ISSB consider setting the requirements at a level that entities without extensive resources (e.g., smaller entities) would be able to meet.

The ISSB could consider repositioning guidance in areas that may be more challenging to implement (e.g., Scope 3 emissions) as non-mandatory. Local regulators and national standard setters could then determine whether to require such guidance to be applied in their jurisdictions, as well as when to require it and which types and sizes of entities to require it from. Entities with more resources (e.g., larger entities) could also look to this non-mandatory guidance as a resource if they wish to develop additional disclosures on a voluntary basis. By enabling smaller entities to meet the baseline, the ISSB would also help facilitate value chain reporting for larger entities in future phases.

We also think the ISSB should consider the costs and benefits associated with requiring an entity to report its sustainability-related financial disclosures at the same time as its related financial statements, and for the sustainability-related financial disclosures to be for the same reporting period as the financial statements. While it would be ideal to have financial reporting coupled with sustainability disclosures to create a comprehensive set of integrated reports, we think phasing this requirement would be beneficial to stakeholders. The ISSB could consider allowing an entity to report its sustainability-related financial disclosures either at a later date or for an earlier reporting period as compared to its financial statements. For example, consider an entity with a December 31, 20X1 year-end that issues its financial statements on March 31, 20X2. The ISSB could:

- allow the entity to issue its sustainability-related financial disclosures at a later date than the financial statements (e.g., by June 30, 20X2) but require them to cover the same reporting period as the financial statements (i.e., the twelve months ending December 31, 20X1); or
- require the entity to issue its sustainability-related financial disclosures at the same time as the financial statements (i.e., on March 31, 20X2) but allow them to cover an earlier reporting period than the financial statements (e.g., the twelve months ending June 30, 20X1).

Connectivity with financial reporting

To ensure a focus on enterprise value, it is imperative to ensure connectivity between financial reporting and sustainability reporting. The AcSB supported the development of the ISSB under the IFRS Foundation as one body overseeing both financial reporting and sustainability reporting, which we think is an excellent structure to achieve connective reporting. Sustainability reporting and financial reporting cannot be done in silos.

We think its imperative that the IASB and ISSB remain aligned on key reporting guidance when appropriate, and we provide suggestions in the Appendix to this letter on areas to consider for improvement. We also think there are many IASB projects that would be of mutual interest to both Boards, such as the IFRS Practice Statement 1 *Management Commentary* and the work the IASB is currently undertaking on management performance measures, which would be highly beneficial to also consider in the context of sustainability reporting. In addition, there are projects that would require the two Boards to work together, such as Climate-related risks. Users would like to see the integration of all information and the impact the information would have on their evaluation of an entity, so we encourage continued coordination between the IASB and ISSB in this effort.

Effective date

Entities are starting from different levels of sustainability disclosures in Canada and worldwide. Entities also need a certain amount of time to acquire or develop resources to meet sustainability reporting requirements, even if the baseline is set at a more achievable lower level. They will need time to develop processes to collect and ensure completeness of sustainability-related information. In consultations with our UAC, users were sympathetic to preparer concerns around needing sufficient time to implement the new requirements in a manner that would result in useful information.

Acknowledging these challenges but considering the growing demand for sustainability information, we recommend at least one year for adoption after the final Standards are issued if the ISSB considers our recommendations on a phased approach.

If the ISSB continues with the current proposals to require disclosure of all industry-based metrics and Scope 3 emissions (for example), and at the same time and for the same reporting period as the financial statements, then entities will need considerably more time for implementation. In order for the proposed Standards to be a global baseline, they should be set at a level that is achievable, globally, by entities of all sizes. For example, we would draw a parallel to the implementation of IFRS 17 *Insurance Contracts*. Due to the significant upfront work, system implications and the scarcity of expert resources, IFRS 17 required multiple years for implementation after the Standard was issued. The IASB acknowledged that these challenges would be exacerbated for smaller insurers, and further acknowledged the importance of a common global adoption date, and accordingly extended the implementation period. Entities would similarly need an extended implementation period for S1 and S2 if the ISSB does not provide for a phased approach.

If the ISSB were to take a phased approach along with our other recommendations on the list of alternative sources in paragraph 51 of S1, we think it may be achievable to align the effective dates of S1 and S2, which we support. As a standard setter, we recognize the foundational role of S1 as it sets out the general requirements and lays the groundwork for all IFRS Sustainability Disclosure Standards. However, we note that many stakeholders are focused on S2, perhaps because S2 provides more explicit guidance whereas S1 is more conceptual in nature, or perhaps because of the increased attention on climate-related matters by global capital markets. Nevertheless, we think that S1 remains important to the success of the IFRS Sustainability Disclosure Standards. To draw a parallel to IFRS Accounting Standards, both the Conceptual Framework and IAS 1 *Presentation of Financial Statements* play a critical role. An entity can implement a unique accounting transaction without specific guidance, relying on the concepts in the Conceptual Framework and looking to other sources of GAAP. IAS 1 provides the basis for presentation of general-purpose financial statements and ensures entities follow a structure.

Our responses to your questions

The Appendix to this letter responds to some of the specific questions posed in the Exposure Drafts and expands on the points raised above.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me until August 31, 2022; after that, please contact Armand Capisciolto, Vice Chair, Canadian Accounting Standards Board (+1 416 369 6937 or email acapisciolto@acsbcanada.ca). Alternatively, you may contact Katharine Christopoulos, Director, Accounting Standards (+1 416 204-3270 or email kchristopoulos@acsbcanada.ca) or Mohamed Hassanali, Associate Director, Accounting Standards (+1 416 204-2967 or email mhassanali@acsbcanada.ca).

Yours truly,

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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS® Accounting Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Accounting Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Accounting Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS Accounting Standards

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Accounting Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Accounting Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Accounting Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

Appendix

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?

1. We agree that the Exposure Draft clearly states that an entity would be required to identify and disclose all material information about 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. The proposed requirements set out in the Exposure Draft also meet the proposed objective in paragraph 1 of S1. However, as stated in the cover letter, we think that this would establish a global baseline that would be too high for stakeholders to meet.

2. Our understanding of the building block approach is that the baseline Standards issued by the ISSB should facilitate the addition of jurisdictional requirements. If the baseline is left unchanged from the proposals, we struggle to see how that could be achieved.

3. We think the ISSB should consider further work to help stakeholders understand some of the key terms used in the Exposure Drafts. For example, the term "sustainability" could have different meanings across different jurisdictions. Many stakeholders we consulted with thought that defining the term may be appropriate. However, we caution that defining "sustainability" must occur in a way that does not conflict with jurisdictional and regulatory definitions, which can prove to be very challenging. As sustainability-related risks and opportunities are fundamental to applying the proposed requirements, examples of application would be helpful in the absence of defining the term "sustainability."

> (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?

4. We think the proposals are unclear as there are many duplicative requirements between S1 and S2, which make the requirements challenging to apply. The ISSB should consider removing any duplicative requirements and have the overarching sustainability requirements remain in S1 and have any topic-specific requirements reside in S2 and further topic-specific Standards.

5. In addition, we think the proposals in S1 would benefit from leveraging the principles of "understandability" from paragraphs 2.34 to 2.36 in the Conceptual Framework. While some aspects are included in Appendix C of S1, certain aspects on complexity of information from paragraph 2.36 of the Conceptual Framework are missing, which would be beneficial to include given the complex nature of sustainability disclosures.

> (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?

6. While we are not the assurance standards setter in Canada, we heard from many assurance providers in our consultations. These stakeholders anticipate significant challenges with providing assurance over compliance with the proposals given the extent of alternative sources an entity is required to look to in the event an IFRS Sustainability Disclosure Standard does not exist on a particular topic.

7. As highlighted in our cover letter, paragraph 51 of S1 notes that an entity shall consider SASB Standards, ISSB's non mandatory guidance, recent pronouncements of other standard setting bodies and sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies. Our stakeholders expressed concerns that this would require entities to perform an extensive search of any sustainability-related guidance in order to ensure the requirement is met. Not only would the effort required to do this be significant, but if the ISSB adds a Standard on the specific topic at a later date, it could require substantive revisions for stakeholders. We suggest that the ISSB reposition the list of sources in paragraph 51 as other sources of guidance an entity could refer to, but that the entity is not required to comply with. This could be achieved by modifying the wording such that these would be alternative sources an entity *could* consider (rather than *shall* consider) when documenting significant sustainability-related risks and opportunities.

8. IFRS Accounting Standards do not require an entity to go to other sources of GAAP, but the Standards allow an entity to do so if a Standard does not exist to deal with a particular transaction.

That prevents the entity from having to search through all accounting literature to account for the transaction. While entities in the U.S. and, in some cases, entities outside of the U.S., apply SASB Standards, we are concerned with the ISSB specifying SASB Standards as a source an entity is required to refer to, as those standards have not been through the ISSB's due process. Looking again to IFRS Accounting Standards, where IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* refers to other sources of GAAP, it does not specify that a particular GAAP, such as US GAAP, must be applied, even though US GAAP is applied globally and follows extensive due process. The due process followed for US GAAP is not that of the IASB, and therefore direct reference to those standards would be problematic.

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?

9. We agree that the objective of disclosing sustainability-related financial information is clear. However, as noted previously, since the term "sustainability" is not defined, application examples would be very helpful.

10. We heard feedback from stakeholders that the term "enterprise value" is ambiguous and there is insufficient guidance on how to interpret it. This is discussed further in Question 8 on materiality.

11. We also note that the proposals have a very narrow definition of primary users being "*existing and potential investors, lenders and other creditors*." It does not acknowledge or address the information needs of other users. However, in IFRS Accounting Standards, the information needs of other users are acknowledged in paragraphs 1.5 to 1.11 of the Conceptual Framework. Therefore, we think the proposals could benefit from leveraging some of these same concepts in IFRS Accounting Standards, if not currently, then once the ISSB develops its own Conceptual Framework or works with the IASB towards a common Framework.

12. We think the ISSB could also benefit from feedback the IASB received on its General Presentation and Disclosures project to which the AcSB provided comments. We think feedback from this project on enhancing relevance of disclosures will aid the work of the ISSB as it considers comments on its own Conceptual Framework or a common Framework with the IASB.

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?

13. We agree that an entity that prepares its financial statements using any GAAP can use the proposals in the Exposure Drafts and we think this will facilitate global adoption of the Standards and help establish a global baseline. However, we also think the ISSB should provide further guidance on how the building block approach is expected to be applied in practice, given the baseline proposed is very high.

14. Another concern is the interaction between IFRS Accounting Standards and IFRS Sustainability Disclosure Standards. This further enforces the need for the two Boards to work together in order to provide a baseline for reporting on sustainability-related financial information. For example, we support the ISSB's tentative plans to collaborate with the IASB on its Management Commentary project to enable connected discussion and analysis of financial statements and sustainability-related financial disclosures. We think that incorporating sustainability considerations and a longer-term outlook in narrative reporting would provide useful information to users. Collaboration on this project would be particularly important since some entities may provide their sustainability disclosures outside of the financial statements, given the flexibility provided in S1.

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?

15. We agree that the disclosure objectives for governance, strategy, risk management and metrics and targets are clear. As previously stated, application guidance on the scope of the term "sustainability" would help limit the potential for diversity in applying the disclosure requirements for governance, strategy, risk management and metrics and targets.

16. However, as mentioned earlier, we think that the objectives of this Standard create a global baseline that is too onerous. To achieve global acceptance, we think a phased approach to allow for an obtainable global baseline in the near term would be ideal. We provided suggestions in the cover letter for how a phased approach could be structured, for example, starting with only requiring qualitative disclosures in some areas plus selected information on greenhouse gas emissions. Such a phased approach would allow for regulators and other national sustainability standard setters to build upon that baseline, thus facilitating the building block approach that is desired. The ISSB can add in more quantitative disclosure requirements once that baseline is globally accepted, at which point entities may be in a better position to comply with those additional requirements.

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?

17. We agree, in theory, that the guidance should require an entity to provide sustainability-related financial information for the same reporting entity as the related financial statements. Consistency in the scope of the reporting entity would be helpful for users at it would allow for a more holistic understanding of the entity's risks and opportunities. However, as previously mentioned, we think that a phased approach is required to allow entities to report their sustainability-related financial disclosures at a later date or for an earlier reporting period as compared to their financial statements.

(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?

18. As stated in the cover letter, obtaining information on the use of resources along an entity's value chain could be costly and would likely be unachievable in the early years of implementing the Standards. For Canadian entities, a significant part of the value chain is comprised of private enterprises that do not have the mechanisms established to track sustainability-related information to transmit to the reporting entity. S1 also does not explain how an entity should account for information required along the value chain if those entities themselves are not required to comply with IFRS Sustainability Disclosure Standards. This guidance would be fundamental to the application of sustainability disclosures in practice.

19. In the cover letter, we suggested that the ISSB consider setting the requirements at a level that smaller entities would be able to meet, and repositioning guidance in areas that may be more challenging to implement as non-mandatory. By enabling smaller entities to meet the baseline, the ISSB would help facilitate value chain reporting for larger entities in future phases.

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

20. Yes, we agree with the proposed requirement to identify the related financial statements. This would help users access both the financial statements and sustainability-related financial information from the entity.

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?

21. We agree that the requirements are clear on the need for connectivity between various sustainability-related risks and opportunities. We are also very supportive of the proposal to identify and explain the connections between sustainability-related risks and opportunities and other information in the general-purpose financial reporting, including the financial statements. The link between sustainability reporting and financial reporting is fundamental to users' understanding of the entity.

22. However, we note that the process of determining materiality for financial reporting could be different from that for sustainability reporting, even though the concepts of materiality for each are aligned. Therefore, it is unclear which application of materiality should be used when cross-referencing sustainability information with financial information, including the financial statements. Application guidance and/or examples to clarify how to approach the connectivity would be beneficial to drive common practice and promote comparability.

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.

23. We support the fair presentation approach for sustainability-related risks and opportunities to which the entity is exposed. This is consistent with the approach in IFRS Accounting Standards as well as our domestic GAAPs.

24. We reiterate our significant concerns with the long list of alternative sources of guidance to identify sustainability-related risks and opportunities and related disclosures (as noted in earlier

sections of this letter). If the list is retained in the final Standard, then we would strongly recommend the list be repositioned as other sources of guidance an entity could refer to, but that the entity is not required to comply with. This would reduce barriers to adopting the ISSB Standards and reduce the extent of potential rework in the future as the ISSB introduces new Standards.

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. 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?

25. We agree with the ISSB's approach to align the concept of materiality with the definition in the IASB's Conceptual Framework for General Purpose Financial Reporting as well as IAS 1. We agree that sustainability 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. We also agree with the Exposure Draft proposal that even if a given IFRS Sustainability Disclosure Standard contained specific disclosure requirements, an entity would not need to provide that disclosure if the resulting information would not be material.

26. However, we heard concerns from stakeholders on the application of the "enterprise value" concept. The definition of "enterprise value" includes an entity's market capitalization (along with the value of its net debt). Based on this definition, entities with small capitalizations on venture exchanges may have significant shifts in their materiality from one reporting period to another as their share price fluctuates. This could result in certain sustainability information being material in one period and not the next. These concerns would be amplified for publicly listed entities in Canada, as they are required to report on a quarterly basis. We recommend that the ISSB clarify the application of the "enterprise value" concept in light of these concerns.

(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?

27. We think further direction through expanded illustrative examples would benefit stakeholders and drive greater consistency and comparability. This would help stakeholders determine how to apply professional judgment as materiality practices are established across different entity sizes.

(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?

28. We 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. While this could lead to a loss of comparability, we appreciate that entities must follow local laws and regulations.

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?

29. We agree with the Exposure Draft proposal that having sustainability-related financial disclosures at the same time and for the same reporting period as the financial statements should be the ultimate goal. However, at this stage, we disagree with the Exposure Draft proposals that an entity should be required to provide its sustainability-related financial disclosures at the same time and for the same reporting period as its related financial statements.

30. We heard from many stakeholders in different industries across Canada that the mechanisms are not yet in place to report on sustainability-related information at the same time as the financial statements. Most stakeholders that currently provide some sustainability information to their users highlighted that they publish the information between six months and one year after their year-end.

31. We note that for reporting issuers in Canada, entities must file their annual financial statements within 90 days of year-end, or 120 days if the entity is a venture issuer. As noted earlier, we also have a quarterly reporting regime where entities have 45 days (or 60 days if the entity is a venture issuer) after the quarter to file their results. Requiring the release of sustainability disclosures at the same time will create significant pressures on the system, for which timelines are already challenging to meet. We also note that the recently proposed draft Guideline B-15 from OSFI in Canada contains a requirement to publish sustainability information no later than 180 days after year-end for federally regulated financial institutions, regardless of whether or not they are publicly listed.

32. Ultimately, the goal should be for an entity to release sustainability information at the same time and for the same reporting period as the financial statements, but requiring these timelines now would not be feasible. We think the ISSB should consider the trade-off between requiring financial and sustainability information to be reported at the same time, and entities' current reporting abilities to achieve this requirement. We anticipate that some jurisdictions will require financial and sustainability information to be reported at the same time, while others will phase-in this requirement over time as entities in their jurisdictions develop the capabilities to collect and report sustainability metrics more quickly. Therefore, we suggest the phased approach as outlined in the cover letter to allow entities to report their sustainability-related financial disclosures at a later

date or for an earlier reporting period as compared to their financial statements.

33. We also heard from some stakeholders that obtaining complete sustainability information from entities in their value chain can be challenging when the reporting entity's reporting period differs from the reporting periods of the entities in their value chain. For example, consider a reporting entity with a December 31st year-end that relies on emissions data from an entity in its value chain that has a June 30th year-end. If the entity in the value chain only gathers greenhouse gas emissions data as of its own year-end, then the reporting entity utilizing that data to report on Scope 3 emissions would have incomplete data for its own reporting purposes. Guidance on how to deal with differing year-ends, such as allowing for estimation in these cases and disclosing the estimation uncertainty, would be helpful.

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—i.e. as part of the same package of reporting that is targeted at investors and other providers of financial capital. However, the Exposure Draft deliberately avoids requiring the information to be provided in a particular location within the general-purpose financial reporting so as not to limit an entity's ability to communicate information in an effective and coherent manner, and to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting. The proposal permits an entity to disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. However, the entity would be required to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information. Information required by an IFRS Sustainability Disclosure Standard could also be included by cross-reference, provided that the information is available to users of general-purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements. The Exposure Draft also proposes that when IFRS Sustainability Disclosure Standards require a disclosure of common items of information, an entity shall avoid unnecessary duplication. (a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?

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

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

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

34. We agree with the proposals about the location of sustainability-related financial disclosures. We acknowledge that by not specifying a location for these disclosures, this information may be audited for some entities (e.g., those that choose to put it in their financial statements) but not others. However, we think that local regulators would be best suited to determine any requirements in this regard, and so we commend the flexibility provided by the ISSB in this area.

35. We also highlight that the location of information proposal requires entities to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by additional information. It is unclear what disclosures would obscure sustainability-reporting information, so application guidance or an illustrative example would be helpful to clarify the ISSB's intent in this area.

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 — i.e. 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?

36. We support the 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. We also support the ISSB's use of the corresponding guidance for financial reporting contained in IAS 1 and IAS 8 on comparative information, sources of estimation and outcome uncertainty, as well as errors.

37. However, we disagree that if an entity has a better measure of a metric reported in the prior year, that it should be required to disclose the revised metric in its comparatives. While we think there is value in assessing trends from one period to the next, we think that whether or not comparative information is to be restated should be based on the practical availability of the information required. Therefore, we recommend the ISSB consider allowing entities some leeway in assessing the value in and practicability of restating comparative information.

Question 13 – Effective date (Appendix B)
The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard. (a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others. (b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

38. The ISSB needs to remain mindful that entities will be starting from different levels of sustainability disclosures. Entities will need a certain amount of time and resources to meet the requirements,

even if the baseline is set at a more acceptable lower level. We highlighted the time needed to collect the required information from an entity's value chain, which can create significant challenges, especially for Scope 3 emissions. Time will be required to ensure completeness of that information.

39. Acknowledging all the challenges entities will face with the demand for more sustainability information in this area, we think the ISSB should provide a phased approach. If the ISSB continues with the current proposals to require disclosure of all industry-based metrics and Scope 3 emissions (for example), and at the same time and for the same reporting period as the financial statements, then entities will need a considerable amount of time to implement. As discussed above, we draw parallels to the implementation of IFRS 17 *Insurance Contracts* due to the significant upfront work, system implications and the scarcity of expert resources (all of which were also amplified for smaller entities), as well as the need for a common global adoption date.

40. However, we provided suggestions in the cover letter on some ways in which the ISSB could achieve a phased approach. With that consideration, we support relief from disclosing comparatives to encourage adoption and recommend at least one year for adoption after the final Standards are issued, if a phased approach is provided. Entities would need a period much longer than one year if the ISSB does not consider elements of the phased approach.

41. We also recommend transition provisions to provide similar relief on first-time adoption for entities that will adopt after the effective date of the Standards. This is imperative as jurisdictions that decide to adopt IFRS Sustainability Disclosure Standards will do so at different times.

(S2) 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?

42. If the ISSB were to take a phased approach along with our other recommendations on the list of alternative sources in paragraph 51 of S1, we think it may be achievable to align the effective dates of S1 and S2, which we support. S1 sets out the general requirements and lays the foundation for all IFRS Sustainability Disclosure Standards. To draw a parallel to IFRS Accounting Standards, an entity can implement a unique accounting transaction without specific guidance, relying on the concepts within the Conceptual Framework and looking to other sources of GAAP. IAS 1 provides the basis for presentation of general-purpose financial statements and is needed to ensure entities follow a structure. We understand that the broader disclosure requirements in S1 would require more time and effort for an entity to implement, and that is why we recommend the phased approach.

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. 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?

43. As mentioned throughout the letter, the global baseline needs to be set at a more realistic level to encourage global adoption. Requiring an entity to provide all of the proposed disclosures related to all significant sustainability-related risks and opportunities would be very challenging initially. Through consultations, we have heard that it would be a substantial work effort even for those entities that are already providing some form of sustainability reporting. For entities not providing sustainability reporting today, including those entities that form part of the value chain for publicly accountable entities, the work effort would be substantial.

44. We highly recommend that the ISSB consider phasing of the proposals. We think the objective for the proposals should be to set a foundation in this phase while monitoring how jurisdictions apply the building block approach to the baseline. As described in more detail in the cover letter, we think the phasing approach should begin with qualitative disclosures relating to the entity's governance, strategy, and risk management, along with some of the proposed (quantitative) metrics and targets such as Scope 1 and 2 emissions. We think that these disclosures, in particular the disclosures on strategy, would provide users with an understanding of the entity's external environment, the effects of risks and opportunities and the resilience of its strategy to significant sustainability-related risks, among other key information.

45. The phased approach could still require a significant work effort from preparers; however, it would provide a balance from the demand in the market for more sustainability-related disclosures while reducing the burden of providing certain quantitative information relating to metrics and targets.

46. We also think the baseline should not include industry-based metrics that are included in S2. This would be very beneficial at a future stage, but should not be included in the first phase of the requirements. Alternatively, the industry-based metrics can be optional disclosures for those entities that might be further ahead with sustainability disclosures and have the information available.