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Your reference

Our reference

29 July 2022

Dear Chair and Vice-Chair

Comment Letter – IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information – Exposure Draft

We act for a multinational technology company. Our client has requested that we submit this comment letter on its behalf.

In this comment letter, '**Exposure Draft**' refers to the Exposure Draft of the draft IFRS Sustainability Disclosure Standard *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* published by the IFRS Foundation in March 2022. Unless otherwise specified, terms defined in Appendix A of the Exposure Draft have the same meaning when used in this comment letter.

1 Overall approach

1.1 Not applicable.

2 Objective

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

2.1 Our client considers that greater clarity is required regarding the objective of disclosing sustainability-related financial information.

2.2 In particular, greater clarity is required regarding, and differentiation between, the concepts of:

- (a) significance, as it relates to 'significant sustainability-related risks and opportunities'; and
- (b) materiality, as it relates to 'material sustainability-related financial information'.

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- 2.3 The Exposure Draft does not define ‘significance’ nor ‘sustainability-related risks and opportunities’. Instead, the Exposure Draft (at paragraph 51) refers entities to:
- (a) the IFRS Sustainability Disclosure Standards (**SDS**);
 - (b) the disclosure topics in the SASB Standards;
 - (c) the ISSB’s non-mandatory guidance;
 - (d) ‘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
 - (e) ‘sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies’.
- 2.4 While these sources may be instructive, the Standard requires a clear definition of ‘significance’.
- 2.5 Similarly, the Standard requires clear definitions of ‘sustainability-related risks and opportunities’ and ‘sustainability’.
- (b) Is the definition of ‘sustainability-related financial information’ clear? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?*
- 2.6 Our client considers that greater clarity is required regarding the definition of ‘sustainability-related financial information’.
- 2.7 The definition of ‘sustainability-related financial information’ is framed with reference to ‘information that gives insight into sustainability-related risks and opportunities...’. However, this is difficult to interpret in the absence of clear definitions of ‘sustainability-related risks and opportunities’ and ‘sustainability’.
- 2.8 Further, greater clarity is required in relation to the concept of ‘materiality’ as it applies to ‘sustainability-related financial information’. In particular, the Standard must be clear as to whether the judgment as to what constitutes ‘material sustainability-related financial information’ is a judgment as to:
- (a) the data required to be supplied to primary users; or
 - (b) the risk (i.e. in terms of probability and impact) associated with the outcome.
- 2.9 The Standard should also include a clear statement as to whether materiality is able to be determined in accordance with applicable GAAP.
- 2.10 Greater clarity is also required regarding the nature of the insights sought to be provided to primary users, noting that certain language is particularly broad. Specifically, the word ‘could’ as used in ‘decisions made by the entity that could result in future inflows and outflows...’ at paragraph 6 should be drawn more narrowly, for example to include an element of ‘reasonable foreseeability’.

3 Scope

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?

- 3.1 Our client supports the ability to apply the SDS where related financial statements are prepared in accordance with national GAAP. This approach is consistent with the ISSB's intention that the SDS provide a global baseline for assessment of enterprise value, which would likely not be achievable if application of the SDS were limited to financial statements prepared in accordance with IFRS Accounting Standards.
- 3.2 Greater clarity is required in relation to certain language regarding scope. Specifically, the word 'affect' as used in 'reasonably be expected to affect assessments of an entity's enterprise value' at paragraph 9, should be conditioned with reference to, or framed by, the threshold requirement of 'significance'.

4 Core content

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

- 4.1 Our client considers that greater clarity is required in relation to the disclosure objectives for each of governance, strategy, risk management and metrics and targets.
- 4.2 In particular, each of the objectives refers to 'sustainability-related risks and opportunities'. However, as set out at 2 above, this concept must be clearly defined, together with the relevant concept of 'sustainability', in order for entities to seek to meet these objectives.
- 4.3 The threshold requirement that sustainability-related risks and opportunities be 'significant' appears to be inconsistently applied among the objectives – with 'significant sustainability-related risks and opportunities' cited in relation to strategy and metrics and targets but not in relation to governance and risk management. While governance and risk management processes are overarching, it is important that the Standard consistently refers only to 'significant' sustainability-related risks and opportunities.
- 4.4 As set out at 2 above, the Standard should also clearly define the relevant concept of 'significance'.

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

- 4.5 Our client raises the following concerns in relation to the relevant disclosure requirements:
 - (a) **Strategy** – The disclosure of forward-looking information in relation to anticipated effects over the short, medium and long term – which is not required by general purpose financial reporting – is likely to be highly speculative, subjective and therefore not useful to primary users. Disclosure of this information should be optional and in any event required only where that information is (a) taken into account by the board or senior management in strategy development and (b) integral and material to the strategy.
 - (b) **Strategy and decision-making** – The requirement to disclose trade-offs between sustainability-related risks and opportunities could reveal confidential and commercially sensitive information. Such disclosures should either be optional or, at least, not required where doing so might prejudice legitimate commercial interests of the entity. As with forward-looking information, disclosure of trade-offs should be

required only where those trade-offs are (a) taken into account by the board or senior management in decision-making and (b) integral and material to the relevant decision.

- (c) **Resilience** – As with the other items, disclosure of information regarding how quantitative analysis of strategy is undertaken (for example, details of tools or methods) should be required only where those tools or methods are (a) broadly used by the board or senior management in strategy development and (b) integral and material to the strategy. For example, scenario analysis may often require the use of confidential and commercially sensitive information. If disclosure of that information is not limited in the manner proposed, entities may be reluctant to, and inadvertently disincentivised from, conducting scenario analyses. Disclosure of resilience to specific sustainability-related risks should be left to specific SDS.

5 Reporting entity

(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?

- 5.1 Our client queries whether there may be circumstances in which it may be appropriate for consolidated sustainability-related financial information to be prepared for entities that prepare separate financial statements. Further guidance should be provided in relation to the circumstances, if any, in which this may be appropriate.

(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?

- 5.2 Our client considers that the requirement to disclose value chain information is not sufficiently clear and unlikely to be capable of consistent application. In particular, in many cases suitable value chain data is unlikely to be available.

- 5.3 In the first instance, disclosure should be limited to supplier relationships over which entities have direct control or influence (i.e. direct or tier 1 suppliers) in order to provide for consistent application across entities. 'Safe harbour' style provisions should be considered as a means of facilitating a transition to enhanced supplier and value chain reporting, particularly given anticipated challenges in obtaining suitable data.

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

- 5.4 Our client agrees with the proposed requirement to identify the related financial statements, which it considers is consistent with the premise that primary users of general purpose financial reporting require both financial information and sustainability-related financial reporting in order to help them to assess an entity's enterprise value.

6 Connected information

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

- 6.1 Not applicable.

(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?

- 6.2 Our client considers that greater clarity is required regarding how connections should be identified and would welcome further guidance, particularly in relation to the manner of linking sustainability-related financial information to information in the financial statements.
- 6.3 Our client reiterates its concerns, as set out at 4(b) above, in relation to the disclosure of trade-offs.
- 6.4 'Safe harbour' provisions should be considered, as set out at 5(b) above, with particular reference to connected information requirements.

7 Fair presentation

(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?

- 7.1 Our client considers, as set out at 2 above, that greater clarity is required in relation to the concept of 'sustainability-related risks and opportunities', including by defining both that term and the relevant concept of 'sustainability'.
- 7.2 In relation to the concept of 'significance', as referred to at 2 above, while the suggested sources (at paragraph 51) may be instructive, a clear definition of the concept is required.
- 7.3 Consideration of the sources (at paragraph 51) should be optional, rather than mandatory (i.e. 'may' rather than 'shall'), supported by clear definitions of 'sustainability', 'sustainability-related risks and opportunities' and 'significant'.

(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.

- 7.4 As referred to above, clear definitions of key concepts are preferable to suggesting various sources. Consideration of such sources should in any event be optional, rather than mandatory.

8 Materiality

- 8.1 Our client considers that the definition and application of materiality would be best supported by clear definitions of 'sustainability', 'sustainability-related risks and opportunities' and 'significant', as referred to above. At present, the key concepts of 'materiality' and 'significance' are not sufficiently differentiated. For example:
- (a) at paragraph 9, 'sustainability risks and opportunities' are effectively considered insignificant if such risks and opportunities 'cannot be reasonably expected to affect assessments of an entity's enterprise value'; and
- (b) at paragraph 56, 'sustainability-related financial information' is material if it 'could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting'.

9 Frequency of reporting

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?

- 9.1 Our client notes that the requirement for sustainability-related financial disclosures to be filed at the same time as the financial statements to which they relate may give rise to risk to entities that are currently filing their financial statements prior to applicable deadlines given that sustainability-related financial disclosures, unlike financial statements, do not require disclosure of subsequent events.
- 9.2 Accordingly, rather than being required to be filed at the same time in all cases, sustainability-related financial disclosures should be allowed to be provided no later than the applicable deadline for relevant financial statements.

10 Location of information

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

10.1 Not applicable.

(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?

10.2 Our client notes that in some jurisdictions management commentary is not required to be made public, so suggests that the Standard not mandate the location and, at most, express a preference (in effect, subject to jurisdiction-specific requirements).

(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?

10.3 Not applicable.

(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?

10.4 Not applicable.

11 Comparative information, sources of estimation and outcome uncertainty, and errors

11.1 Not applicable.

12 Statement of compliance

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

12.1 Our client suggests that the Standard may benefit from clarification as to whether the statement of compliance may be consolidated with the statement required for relevant financial statements.

12.2 'Safe harbour' provisions should also be considered, including for the purposes of facilitating a transition to implementation of the SDS.

13 Effective date

(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.

13.1 Not applicable.

(b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

13.2 Our client supports this proposal.

14 Global baseline

14.1 Not applicable.

15 Digital reporting

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)?

15.1 Our client does not have any specific comments in relation to this question but generally notes the desirability of (a) alignment between Taxonomies, (b) data consistency and (c) interoperability.

16 Costs, benefits and likely effects

16.1 Not applicable.

17 Other comments

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

17.1 As referred to above, our client considers that 'safe harbour' style provisions should be considered as a means of facilitating a transition to reporting of sustainability-related financial information in the manner contemplated by the Standard, particularly in the early phases of reporting or for disclosure topics where it is particularly difficult to obtain quality, accurate and complete information.

17.2 Our client has no further comments.

Yours sincerely



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