Building a better
working world

Ernst & Young Global Limited
6 More London Place
London
SE1 2DA

Tel: +44 [0]20 7980 0000
Fax: +44 [0]20 7980 0275
ey.com

INVESTOR IN PEOPLE

International Sustainability Standards Board
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

29 July 2022

Dear Board members,

Invitation to comment – Exposure Draft IFRS S1 – *General Requirements for Disclosure of Sustainability-related Financial Information*

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the International Sustainability Standards Board's (ISSB) Exposure Draft IFRS S1 – *General Requirements for Disclosure of Sustainability-related Financial Information (S1)*.

We support the ISSB's efforts to respond to the demand for global sustainability reporting standards by developing these requirements on disclosure of sustainability-related financial information. We broadly agree that the requirements in the exposure draft (ED) meet its proposed objective of 'disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting', in order to assess the entity's enterprise value and whether to provide resources to the entity.

We recognise the extensive work that has gone into the development of the ED. We also note that the contributions from various standard-setters and framework providers have resulted in the consolidation of requirements that are ambitious and that reflect the pressing need for the development of a global baseline for reporting on sustainability-related financial information to help investors assess the impact on enterprise value.

We further support the ISSB's efforts to leverage the framework developed by the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations under the four core themes - governance, strategy, risk management and metrics and targets - because, as stated in the Basis for Conclusions, 'they are widely understood, accepted and practiced in numerous jurisdictions', and they provide a useful structure for the information required to be disclosed. In particular, we agree with this sentiment as it can help to minimise costs associated with implementing the ED and, it is hoped, contribute towards a more comprehensive and efficient uptake of the requirements.

Applicability of the Conceptual Framework for Financial Reporting

We broadly agree with including proposals for definitions and requirements that are generally consistent with the International Accounting Standards Board's (IASB) *Conceptual Framework* *for Financial Reporting* (the *Conceptual Framework)*, IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. We understand that the draft Standard is intended to serve 'a similar role for sustainability-related financial disclosures as the IASB's existing *Conceptual Framework for Financial Reporting*, IAS 1 and IAS 8 serve for general purpose financial statements prepared in accordance with IFRS Accounting Standards.' as stated in the Basis for Conclusions (BC) to S1. Also, we understand that if IFRS Sustainability Disclosure Standards (IFRS SDS) are approved, these will be intended to be applied when preparing and disclosing sustainability-related financial information as part of the general purpose financial reporting. That is, in certain cases, entities may apply both IFRS Accounting Standards (IFRS AS) and IFRS SDS. However, to ensure that this 'similar role' is recognised, we believe that it should be clarified whether the proposals in S1 either replace, or are supplemental to, the *Conceptual Framework*, insofar as sustainability-related reporting is concerned. The fact that some principles in the *Conceptual Framework* have been included in the main body of S1, and some additional guidance that is not in the *Conceptual Framework* has been included in Appendix C to S1, may undermine or confuse the role of the *Conceptual Framework* in the context of sustainability-related financial information. We also note that there is some overlap of disclosure principles in IAS 1 and IAS 8 with the proposals in the ED, which may cause confusion for users as to which framework applies.

If the above is clarified, it may be easier to envisage how IFRS SDS and IFRS AS will form part of the 'Integrated Reporting Framework' that has been recently announced by the Chairs of the IASB and the ISSB. We agree that linking these initiatives is vital to the success of integrating financial and non-financial reporting.

Following on from the above, we believe that the proposed requirements in S1 should be considered as a basis for, and read together with, future IFRS SDSs. In this respect, considering IFRS S2 *Climate-related Disclosure*s (S2) as an example of this compatibility, we believe that the current duplication of some requirements in S1 and S2 may cause confusion for users. Once the principles of S1 have been refined and its status understood, such duplication should be unnecessary.

Enhanced clarification to achieve global baseline

We support the concept of a 'global baseline' for the assessment of enterprise value. However, for this to work effectively, there is a need for additional clarity and consistency with regard to key terms contained in the ED. For example, terms such as 'significant', 'material', 'relevant', are open to wide interpretation. Without clearly defining the meaning of these and other terms used, as well as providing additional guidance and examples for terms that are particularly nuanced (e.g., considerations related to value chain), we believe there is a risk of inconsistent understanding and application of concepts in the ED, that could jeopardise both the comparability and credibility of information disclosed. Greater alignment between terms used in the ED that convey a specific meaning, as defined according to IFRS AS or other financial reporting frameworks, would also be helpful.

While we understand that the definition of materiality in S1 is based on the definitions in the *Conceptual Framework* and IAS 1 of IFRS AS, its application in the context of sustainability-related risks and opportunities is not sufficiently clear. Such risks and opportunities differ fundamentally from the financial information that preparers are used to identifying and disclosing as material within IFRS AS. Considering the fact that there is a global lack of experience and established practice in determining materiality for sustainability-related information, we urge the ISSB to provide more guidance on the determination and application of materiality for identifying and reporting sustainability-related information, building further on what has been included in the Illustrative Guidance to S1.

Given that the intention of the draft Standard is to respond to calls from primary users of general purpose financial reporting for a global baseline of sustainability-related financial information, we broadly support the general alignment of the requirements for the preparation of sustainability-related financial information and those for the preparation of financial statements. We agree that the definition in Appendix A of a 'reporting entity' as an entity that prepares general purpose financial statements is well understood from a financial reporting perspective. However, how that definition interacts with sustainability-related concepts, such as the value chain and business model, is not sufficiently explained. Further clarity is also needed around sustainability-related disclosures in respect of groups of companies, for example, whether the reporting entity includes only investments that an entity controls (such as subsidiaries) or whether the concept extends to investments such as joint arrangements and associates, which do not fall within the definition of control as understood under IFRS AS. In addition, further guidance is needed as to whether sustainability-related financial information will be required to be provided by all entities in a group in their individual (stand-alone) financial statements, simply because they are required to prepare individual (stand-alone) financial statements. Clarification here will help group-entities avoid incurring costs to provide information that may be irrelevant and repetitious, if already included in the consolidated financial report.

Retrospective adjustment of changes in estimates is a different approach from that which entities are used to in providing IFRS AS financial information. Although we recognise that entities are not used to the practicalities that may arise when applying this different approach, we agree that, in certain cases, such an approach is more relevant in the context of sustainability-related financial information. For example, this approach will help in reflecting more reliable data that have become available in a future period in the case of Greenhouse Gas estimates and net zero targets by disclosing what has changed compared to the baseline. However, we believe that it is important for entities to better understand the reasons for the different treatment of disclosures for comparatives of estimates between sustainability-related financial information and financial information.

Moreover, focus is needed to minimise overlaps and inconsistencies between the global baseline of standards and additional jurisdictional requirements, as is flexibility to accommodate the dynamic materiality of sustainability topics. We would, therefore, urge the ISSB to continue to work closely with jurisdictional bodies and other existing frameworks, to develop an efficient and effective set of global sustainability reporting standards.

We recognise that the ISSB's recent partnership with the Global Reporting Initiative (GRI) is intended to provide two 'pillars' of international sustainability reporting, one that represents investor-focused capital market standards (as developed by the ISSB), and one that represents broader sustainability reporting requirements (as set by the Global Sustainability Standards Board (GSSB)), that are designed to meet broader multi-stakeholder needs.

However, given emerging consensus in the EU that societal considerations should form a fundamental component of sustainability-related disclosures, which is the reason for the emphasis on the broader sustainability impacts in the proposed European standards, we strongly encourage the ISSB to continue to engage with other standard setters across multiple jurisdictions to help clarify the scope of impacts covered by the standards of other jurisdictions. This will facilitate the compatibility of disclosures around common aspects and ensure the building block approach works as the ISSB envisaged.

Challenges upon initial application

We agree that not mandating a specific location for the disclosures within the general purpose financial report would allow the entity the flexibility to communicate the information in the most effective manner, and would allow for easier jurisdictional adoption. However, we note some challenges with cross-referencing financial and non-financial information - the absence of a definition of 'sustainability-related report' could mean that sustainability-related financial information is 'scattered' throughout the financial statements, potentially obscuring the clarity of information provided in the general purpose financial report. Also, cross-referencing sustainability-related disclosures to documents that are outside the financial statements, but within the general purpose financial reporting, could also create challenges for users and assurance providers. Given the challenges noted, although we agree with not mandating a specific location in the beginning, we believe that, in the medium term, once entities are more familiar with the application of the requirements, the ISSB may need to consider a more consistent approach.

The proposed disclosure requirements will be challenging for many entities because they may not yet have the knowledge, systems and processes to incorporate sustainability-related information into their financial reporting. To support the goal of a global baseline of standards, we believe it is important to acknowledge that in many jurisdictions, disclosure practices have evolved around other frameworks, such that entities in those jurisdictions may need additional time to sufficiently adjust to the new global baseline. We equally recognise the speed at which other sustainability-related disclosure requirements and frameworks are advancing in jurisdictions such as the EU and the US. Therefore, we would encourage the ISSB to consider closely aligning the effective date of S1 with that of effective dates of other major sustainability-related disclosure frameworks in Europe and the US. We also suggest that the ISSB considers progressively phasing in the requirements similar to the transition provision/reliefs that the IASB included in respect of the initial application of complex IFRS AS standards, such as IFRS 15 *Revenue from Contracts with Customers*. Furthermore, it would be helpful if entities were required to provide an explanation of why they are phasing in a requirement and how and when they plan to obtain the information to comply with it.

We would also urge the ISSB to further expand on what the content of any interim reporting will be, in the event that an entity needs to prepare interim sustainability-related financial information as frequently as it does for financial statement reporting purposes.

We would encourage the ISSB to perform field testing on the proposals with stakeholders and, subsequently, confirm the usefulness and relevance of the Illustrative Guidance provided, once the feedback on the ED has been received. Such testing would be crucial in assessing the application of the proposals and understanding whether the objective of the proposals is met in practice.

Our detailed responses to the questions are set out in Appendix A to this letter. Please note that the detailed nature of our responses should not be interpreted as a lack of support for the ED, but as an attempt to provide comprehensive and constructive feedback on the proposed requirements. We welcome the opportunity to further discuss this feedback with you at your convenience.

Should you wish to discuss the contents of this letter with us, please contact Michiel van der Lof at the above address or on +31 88 407 1030.

Yours faithfully

Ernst + Young Global Limited

Appendix A - Responses to specific questions

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

Requirement to identify and disclose material information about all sustainability-related risks and opportunities to which the entity is exposed

- We agree that the ED makes clear in the 'Objective' section (particularly paragraphs 1 and 2) that an entity would be required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. However, the identification of these risks and opportunities, and what to do in the event that they are not addressed by a specific IFRS Sustainability Disclosure Standard (IFRS SDS), is not discussed until further on in the ED, under the General Features section (paragraphs 50-55). We believe that this is a key concept and should be introduced earlier in the 'Objective' section, alongside the disclosure requirement. Doing so would help the user understand that the two concepts are intended to be linked, as we think the ISSB intended.

The proposed requirements and the proposed objective of the ED

- We broadly agree that the proposed requirements in the ED meet its proposed objective, subject to the comments below:
    - We acknowledge that 'sustainability' is a broad topic and it is difficult to define precisely. Consequently, entities will find it difficult to understand the full 'universe' of topics within which the topic of 'sustainability' falls, how best to narrow down and consistently define the sustainability topics that are most applicable to it and, thus, disclose the appropriate information to fairly present the information as required by IFRS SDS. For example, it is not clear whether topics such as brand and culture, which may result in reputational consequences and affect the enterprise value, would be considered part of sustainability-related financial information. However, we also appreciate the urgency that the ISSB faces to issue the IFRS SDS, and we accept that it would

be difficult to develop a future-proof, principles-based definition of sustainability' at this time. To address this issue in the interim, we recommend that the ISSB undertakes a process of identifying and describing the different types of sustainability-related financial risks and opportunities an entity may face, leveraging on feedback collected from the responses to both this ED, and S2.

- We recommend that the ISSB considers providing additional application guidance at the same time, to help entities understand how to identify the sustainability-related issues that affect their enterprise value, for example, guidance on the types of criteria entities should consider when assessing which individual sustainability topics/issues and related metrics to disclose that may be material to their business (please also refer to our response to question 8 for additional context).
- We also note that there is guidance throughout the ED that entities may consider when identifying sustainability-related financial risks and opportunities (e.g., dependencies on resources in paragraph 17, interactions along an entity's value chain in paragraph 40, other disclosure topics in paragraph 50, as well as paragraph BC28). We believe that it would be helpful if this guidance was included as part of the 'Objective' section in S1 and that the ISSB also considers relocating some guidance from the Basis for Conclusions to the main body of the (draft) Standard.
- *Interaction between IFRS AS and IFRS SDS*
  - We are of the view that IFRS SDS should be read and considered in conjunction with IFRS AS, since they both relate to general purpose financial reporting, and the ISSB considers the user group to be the same. That is, according to the first paragraph of the Introduction to the ED, 'Investors, lenders and other creditors seek information about the significant sustainability-related risks and opportunities facing an entity to inform their decisions about providing resources to the entity. Such information supplements and complements the information contained in the entity's financial statements'. We believe it is vital that decisions reached for the purpose of IFRS AS financial reporting and IFRS SDS sustainability-related financial information are aligned and carefully considered, to identify any consequential impact on either set of standards, to avoid confusing users. In this regard, we would welcome some further clarification as to how the two sets of standards are expected to 'supplement' and 'complement' each other in certain aspects. BC14 states that 'The Exposure Draft is designed to require information that would complement that contained in an entity's financial statements […]' but does not explain further what 'supplements' means. We think that it an important point for users to understand how IFRS SDS provide additional requirements for sustainability reporting purposes if, for example, there is an overlap in disclosure requirements between IFRS AS and IFRS SDS (e.g., the proposed disclosures required by paragraph 22 of the ED are potentially

similar to those an entity would disclose when applying paragraph 112(c) of IAS 1[1]). It needs to be clear what preparers should do to provide relevant and understandable information meeting the content requirements and which set of Standards would take precedence over the other (please also refer to our comments on overlap included under question 10, where we provide some further examples).

- Paragraph 72 of the ED clarifies that the information required by IFRS SDS is to be disclosed as part of general purpose financial reporting. We interpret this to mean that the users of IFRS SDS are considered to be the same population as the users of the IFRS AS financial statements which are also part of the general purpose financial reporting. If that interpretation of the proposals is correct, we agree with the ISSB. However, if IFRS SDS disclosures are to be fully included within the financial statements (as noted in our response to question 10), we think that it may be challenging for the preparers to determine whether they meet the broader objective of financial reporting and/or the objective of sustainability-related financial information. This is a potential consequence of how the objective of IFRS SDS overlaps with the objective of financial reporting. (Please also refer to our comments on overlapping in our response to question 10, where we provide some examples).
- The application of the concept of materiality can be challenging when considered in the context of IFRS AS and sustainability-related financial information (as further explained in our response to question 8)
- The periods covered by the sustainability-related financial disclosures may be longer in comparison to those covered by the financial statements of providing financial statements information (please also refer to our comments in response to question 6)

How the proposed requirements in the ED would apply to S2 and other future IFRS SDS

- In terms of how the proposed requirements in S1 would be applied to other IFRS SDS, we think that it will be a vital step to clarify the status of S1 and its Appendix C *Qualitative characteristics of useful sustainability-related financial information* (Appendix C), as to whether they are to be a 'quasi-*Conceptual Framework*' for sustainability-related financial disclosures and replace the IASB's existing *Conceptual Framework*, or whether they are to supplement the *Conceptual Framework*. The introduction to the ED states that 'Sustainability-related financial information is part of general purpose financial reporting', which we read to mean that the *Conceptual Framework* would apply to sustainability-related financial information as well.
- Having said that, we do not fully understand the purpose and content of Appendix C. Some of the text has been duplicated from the text in the *Conceptual Framework* (e.g., paragraph C25 on Timelines), while additional requirements have been included in Appendix C that go beyond what is in the *Conceptual Framework* (e.g., paragraph C26

[1] IAS 1.112 The notes shall: […] (c) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.'

on Understandability, requiring sustainability-related financial disclosures to be clear and concise, which would be just as applicable to financial reporting under IFRS AS). Therefore, if the intention is for the *Conceptual Framework* to be applicable to both IFRS AS and IFRS SDS, then we suggest one of two alternatives:

- Instead of including Appendix C as part of S1, it would be more practicable to update Chapters 1 and 2 of the *Conceptual Framework* with the additional requirements contained in Appendix C, so that S1 would be fit for purpose for entities applying both IFRS AS and IFRS SDS.

Or

- Alternatively, if the additional requirements in Appendix C are intended to be specific to IFRS SDS and, therefore, intended to supplement the *Conceptual Framework* where sustainability-related financial reporting is concerned, then this should be clearly stated, with a reference to the *Conceptual Framework*, instead of duplicating the text in S1. In this case, it should also then be clearly stated that Appendix C has the same status as the *Conceptual Framework*, that is, the *Conceptual Framework* is not a standard and nothing in it overrides any specific standard or any requirement of one despite, some accounting standards making reference to it.

- Given the above, it is currently difficult to envisage how IFRS SDS and IFRS AS will form part of the 'Integrated Reporting Framework'[2] that has been recently announced by the Chairs of the IASB and the ISSB. We agree that linking these initiatives is vital to the success of integrating financial and non-financial reporting. However, this is contingent on the establishment of a common framework of some type.
- Since the proposed requirements in S1 are intended to be applied together with other IFRS SDSs, considering S2 as an example of this compatibility, we believe that the current duplications between S1 and S2 may cause confusion for preparers. As paragraphs 6 and BC63 in S2 describe, an entity shall avoid unnecessary duplication when its oversight on sustainability-related risks and opportunities is managed on an integrated basis. However, paragraphs 4 and 5 of S2 are an exact copy of paragraphs 12 and 13 of S1, except for the replacement of the phrase 'sustainability-related' with 'climate-related'. We believe that this is unnecessary duplication within the IFRS SDSs. An alternative would be to have one paragraph in S1 stating that paragraphs 12 and 13 must be applied specifically to climate-related disclosures. The same could be done for paragraphs 7, 8, 9, 12, 14, 16, 17 and 19 in S2. Paragraph BC104 to S2 explains that the same text was included in S2 to ensure consistent and comparable disclosure and to facilitate ease of application, however, we do not believe it is necessary. IFRS AS do not duplicate the concepts and principles in the *Conceptual Framework* or the general disclosure requirements in IAS 1, so we suggest that IFRS SDS are structured in a consistent manner.

Proposed requirements providing a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals

- We believe that the ED should generally provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals in order to provide assurance, but certain elements may need to be clarified, modified or deleted. For example, it may be difficult to provide assurance on:
    - The completeness of significant sustainability-related risks and opportunities and underlying internal processes given the absence of a stated definition of sustainability (as mentioned above).
    - An entity's reputation as required in paragraph 6(c)
    - Forward-looking information such as described in paragraph 22. An '[a]ccurate' depiction of sustainability-related financial information. Although paragraph C15 provides guidance on what 'accurate' means, the examples include terms such as 'reasonable', 'supportable' and 'sufficient', which are not themselves clearly defined. Therefore, we consider that it will be difficult to operationalise the term 'accurate' as different levels of precision are needed in different circumstances to achieve an accurate depiction.
    - The disclosures required by the IFRS SDS by applying the concept of materiality in the context of sustainability-related financial information, rather than consider these requirements a 'checklist' (as further discussed in question 2 and question 8)
    - Sustainability-related financial disclosures that have been included in the financial reporting by cross-reference to various documents that comprise the general purpose financial reporting on which other types of assurance has been provided (as discussed further in our response to question 10)
- Attestation procedures could be performed (such as on the underlying assumptions and sources used when auditing provisions in financial statements). However, providing reasonable (or limited) assurance, particularly for prospective information, could prove to be challenging in certain situations. With respect to the efforts put in place in this area by the International Auditing and Assurance Standards Board (IAASB), we believe it is well positioned to introduce requirements and application material for auditors when providing assurance on sustainability-related information.

Other general points to note on the overall approach

- We would encourage the ISSB to perform field testing on the proposals with stakeholders and subsequently confirm the accuracy of illustrative guidance provided, once the feedback on the EDs has been received. We believe that initiating a pilot scheme with a sample of entities and/or industries in order to test the ease of applying the IFRS SDS would be beneficial. Such testing would be important for understanding whether the objective of the proposals is met in practice.
- We would also recommend that the ISSB considers expanding the Illustrative Guidance to provide additional examples to help constituents apply the more challenging concepts. We specifically raise this point in our responses to the questions below, where relevant. We would encourage this suggestion to be taken into account for future IFRS SDS too.

Question 2-Objective

(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?

- We support the proposed objective of disclosing sustainability-related financial information. We note, however, in the points below, that some of the proposals require further clarification, in order to provide clear guidance on significant sustainability-related financial risks and opportunities as one of the key elements of the objective, and to improve the comparability of information provided by different entities:

  Significant vs Material

  - Paragraph 1 of the ED states that an entity is required to 'disclose information about its significant sustainability-related risks and opportunities […]'. Paragraph 2 states that 'A reporting entity shall disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed'. We also note the guidance provided for the concept of 'significant' in BC40. We understand that 'significant' relates to the identification of significant sustainability-related financial risks and opportunities, whereas 'material' relates to information to be disclosed about those risks and opportunities. We suggest that this clarification is included in the Basis for Conclusions, and that the concepts are consistently applied across all IFRS SDS. We note that paragraphs 56-62 of the ED provide some requirements for how to apply materiality in the context of sustainability-related financial information, and we raise specific concerns about those paragraphs in our comments under question 8. However, to make the definition of 'sustainability-related financial information' clearer, we believe it would be helpful to include a definition of 'significant' in Appendix A as well as additional requirements in respect of how 'significant' should be considered in the context of other terms like 'materiality' and 'key matters' (as used in the ED of the Management Commentary[3]). Paragraphs BC27 and BC40 contain guidance which could helpfully be placed in in the body of S1. It would also be helpful to have some examples of a sustainability-related risk or opportunity that is significant to an entity, but for which certain information elements are not considered material (if such a scenario is envisaged), and how the entity should reflect this in its sustainability-related financial reporting. Also, a Practice Statement could be developed, relevant to IFRS SDS, similar to the one developed for IFRS AS.[4]

[3] Exposure Draft on Management Commentary ED/2021/6.
[4] This debate resulted in the issuance of IFRS Practice Statement 2 (PS2): Making Materiality Judgements. PS2 amended IAS 1 by replacing the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples were provided to assist in the application of the materiality concept when making judgements about accounting policy disclosures.

- We understand the proposed requirements cover broader risk management which is typically aggregated and assessed at an enterprise level (e.g., enterprise risk management). However, considering the variety and diversity of sustainability-related risks and opportunities, we believe that it would be helpful to clarify that the concept of 'significance' is not intended to apply to a more granular level (i.e., individual risk factors that influence a particular risk/opportunity profile).
- Further to the above, paragraphs 58 and C8 state that 'materiality' is an entity-specific aspect of 'relevance'. Although 'relevant' may be a familiar term in IFRS AS financial reporting, it may be not be clear for those involved in sustainability-related financial reporting. This point particularly relates to the use of 'relevant' in S2, where we are concerned that it may be unintentionally interpreted as a synonym for 'material'. We suggest, therefore, that the term is clearly defined in Appendix A and used consistently throughout IFRS SDS.

Objective

- Paragraph 1 requires 'an entity to disclose information about significant sustainability-related risks and opportunities that is useful … when they assess enterprise value and decide …'. Paragraph 2 requires 'the reporting entity to disclose material information … that is necessary for users … to assess enterprise value' and paragraph 3 states that '… reporting shall include a complete, neutral and accurate depiction of … information'. The layering of the objective in paragraphs 1 to 3 is somewhat complex to understand. In particular:
  - Paragraphs 1 and 2 partially overlap and could be combined by stating: '… to require a reporting entity to disclose material information …', which would encompass paragraph 2 in paragraph 1
  - The difference between the word 'useful' in paragraph 1 and 'necessary' in paragraph 2 is not clear. The latter implies a higher threshold. We note that paragraph 36 uses the word 'useful', instead of 'necessary'
  - The term 'accurate' in paragraph 3 is problematic (see also our comments on question 1)
- Paragraph 1 refers to disclosures that are 'useful' to users. We suggest that a reference should be added to paragraph 36 of the ED where the term 'useful' is further explained such as '… disclose information about its significant sustainability-related risks and opportunities that is useful <u>(see paragraph 36)</u> to the primary users of general purpose financial reporting …' [text added has been underlined].

Enterprise Value

- The definition of 'enterprise value' in Appendix A states: 'The total value of an entity. It is the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt.' Whilst market capitalisation is not a new concept in applying IFRS AS (e.g., paragraph 12(d) in IAS 36 refers to market capitalisation when identifying impairment indicators of non-current assets), S1 does not provide any additional guidance or clarification for how entities should measure market capitalisation. This could result in confusion as to how to interpret the standard consistently and apply it more broadly (i.e., to unlisted entities). We also note that a definition of net debt is not provided, and we believe that the absence of a clear definition of all of these fundamental concepts could result in entities interpreting and applying them differently. We believe this could be an area that may reduce comparability and ultimately affect the objective to issue requirements that are globally applicable. In addition, paragraph 5 states that 'Information that is essential for assessing the enterprise value of an entity includes information that is provided by the entity in its financial statements and sustainability-related financial information.' We believe that this second sentence in paragraph 5 has mainly been added to emphasise the linkage between the definition of 'enterprise value' with the first sentence of paragraph 5. As such, we suggest that this sentence is incorporated into the first sentence of paragraph 5.

- Paragraph 5 states that 'Enterprise value reflects expectations of the amount, timing and certainty of future cash flows over the short, medium and long term […]'. Also, in paragraph 16(b), the ED proposes that an entity must disclose how it defines the terms 'short, medium and long term' and we understand that these time horizons are difficult to articulate as they might differ per industry. That said, we believe that the proposed requirement could be enhanced by requiring an entity to also disclose the choices it has made in defining the timelines (i.e., elaborate on the rationale for why an entity might choose to define 2030 as a medium time horizon instead of 2040). This is also important in the context of what other jurisdictions such as the EU and the US are doing with regard to disclosure requirements. The ISSB could consider providing some illustrative guidance around these concepts. Also, entities tend to have a relatively narrow (shorter term) view of a time horizon when it comes to their capital allocation planning. Therefore, it may be helpful to constituents to link their assessment of time horizon to their specific asset bases. We think the following wording [added words are underlined] would be a helpful addition to the wording in 16(b): 'how it defines short, medium and long term and how these definitions are linked to the entity's strategic planning horizons<u>, current asset base</u> and capital allocation plans.' Furthermore, short and long term are concepts that constituents are familiar with in IFRS AS, but those terms may have a different meaning for sustainability reporting purposes. Therefore, we suggest that the IASB and the ISSB work together to clarify the terms and whether they are intended to be different in the context of sustainability-related reporting. It would be helpful if the ISSB could address these differences in the BC.

Information that is broader than financial

- Paragraph 6(c) includes an entity's 'reputation' as an example of information that is considered broader than the information reported in the financial statements. Although we agree with that in concept, we believe that it would be difficult for entities to assess reputation and make the concept operational, i.e., to understand how to assess the extent to which reputation drives/impacts enterprise value as well as how an entity should approach attributing/isolating potential financial impacts of changing customer behaviour that are tied to reputational issues (as opposed to broader macro-economic factors that also influence customer decisions and/or purchase power). We believe that 'reputation' mostly represents the consequential effects of an entity's actions rather than facts. Indeed, we understand that sustainability-related financial information is meant to reflect facts rather than effects.

   - In addition, paragraph 6(d) refers to an entity's development of knowledge-based assets. We observe that the term 'knowledge-based assets' has not been defined nor further explained. The absence of guidance on the boundaries for what is included within 'sustainability' (see also our response to question 1) as well as the fact that the meaning of 'knowledge-based assets' may differ across accounting frameworks, it is not clear in which context this reference is made and it could lead to divergence in practice.

- With respect to the clarity of the proposed definition of 'sustainability-related financial information', we have concerns to note:
   - Paragraph 4 refers to '… how an entity is required to disclose sustainability-related information …'. However, the standard sets out not only 'how' an entity discloses such information but also 'what' information is disclosed. Accordingly, we suggest replacing with '… prescribes the basis to disclose sustainability related financial information…'. This will also align with the requirements in paragraph 7.
   - The definition refers to 'insight'. This term is very broad and, thus, it may be challenging to determine which information would require disclosure. Also, the definition refers to a 'sufficient basis', which is subjective and could affect comparability depending on what is considered to be a 'sufficient basis'.

Question 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?

- We agree that the application of IFRS SDS should not be limited to entities that apply IFRS AS and should be available to entities that apply any other jurisdiction's GAAP.
- For those applying IFRS AS, as suggested earlier in this comment letter (refer to our response to question 1), it would be helpful if the IFRS SDS were more compatible with the IFRS AS framework in terms of the terminology and concepts used throughout. On the other hand, if another accounting framework is applied by the entity (other than IFRS AS) – subject to the challenges of application regarding the *Conceptual Framework* described in our response to question 1, this should be clearly stated in the financial report. This clarification is particularly important for an investor to understand an entity's disclosures that relate to 'the effects of significant sustainability-related risks

and opportunities on its financial position, financial performance and cash flows', according to paragraph 22 of the ED. Paragraph 8 refers to 'IFRS Accounting Standards'. The term does not appear to be defined in the Standard. We suggest that the ISSB considers clarifying that the term refers to standards and interpretations issued by the IASB.

Question 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?

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

- We agree that the disclosure objectives should be based on the TCFD recommendations under the four core themes (governance, strategy, risk management and metrics and targets) because, as stated in BC44, 'they are widely understood, accepted and practiced in numerous jurisdictions', and they provide a useful structure for the information required to be disclosed. We also agree that the disclosure requirements for each objective are appropriate for S1 to be effectively applied. However, we note the following points:
    - Within the core content of S1, some proposed requirements, such as those included in paragraph 13 and 30, are detailed and may not apply to certain type of entities (e.g., some private companies that do not have an Audit Committee or entities that may not have framed their organisation and internal processes in a way that such detailed information is produced). We suggest that the ED clarifies that when disclosures are not applicable, they should not be required. Alternatively, how the proposals would apply in such cases needs to be clarified.
    - Paragraphs 12-13 discuss the concept of 'governance'. We believe that some clarification should be provided with respect to the following:
        - The *Conceptual Framework* explicitly identifies the concept of 'stewardship' as a dimension of the objective of general purpose financial reporting. It is not clear to us, however, how closely the concept of governance in S1 is aligned to the stewardship concept in the *Conceptual Framework* or whether it is a broader term that encompasses all TFCD pillars. If it is concluded that the *Conceptual Framework* and S1 have the same objective; that is, to provide primary users of general purpose financial reporting with useful and relevant information (refer to our response to question 1), we would encourage the ISSB to explain any difference between 'stewardship' and 'governance', if that was what was intended. Also, if that was the intention, we would recommend that the ISSB consults with the IASB as to whether more disclosures may result from this clarification.
    - Paragraphs 14 to 24 discuss the concept of 'strategy'. We suggest the following clarifications:

- The linkage among the objective of disclosures for 'governance', as described in paragraph 12, with that for 'strategy', as described in paragraph 14, and 'risk management', as described in paragraph 25, is challenging to understand. Our understanding is that 'strategy' refers to the approach that 'governance' has taken to address a significant sustainability-related risk or opportunity that has been identified through the entity's risk management processes. If our understanding is correct, we would recommend that this connection is clarified.
- We note that sub-paragraphs 20(a) and (b) include reference to the value chain, whereas paragraphs 11(b) and 20 only refer to 'business model'. We believe that the concepts of value chain and business model are closely linked. We would recommend that the definition of 'business model' in Appendix A is amended to align with and link to the definition of 'value chain', if that is what the ISSB intended. This would also then avoid unnecessary repetition of the two concepts in the proposals.
- We question whether the disclosures required by paragraphs 22(a) and 22(b) should be presented outside the financial statements. Paragraph 22(b) requires information on whether a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year can be expected. This, however, seems to be better placed within the financial statements, as it may be already required by a financial reporting framework. Regardless of where the information is published, we recommend adding disclosure requirements for the nature of the assumptions made or other estimation uncertainties included in the calculations (similar to paragraph 129 of IAS 1). Moreover, paragraph 22(b) analogises to the more general requirements about 'assumptions made about the future and other major sources of estimation uncertainty at the end of the reporting period, that have significant risk of resulting in a material adjustment the carrying amounts of assets and liabilities within the next financial year' estimating uncertainties in paragraph 125 of IAS 1. However, according to paragraph 16, information must be provided on the effect on cash flows over the short, medium or long term. Therefore, we are not clear how the reference to 'carrying amounts of assets and liabilities within the next year' interacts with the longer horizon envisaged in paragraph 16.
- Regulators across the world (for example, in the UK and the EU) have long promoted good quality disclosures for paragraph 125 of IAS 1. It is likely that preparers will face the same challenges in providing good quality disclosures in the context of paragraph 22(b). Therefore, the requirement should be accompanied by Illustrative Guidance that demonstrates the granularity of disclosure that the ISSB is expecting i.e., what level of risk/opportunity a preparer is expected to identify in response to this requirement. As an example, we note that in the context of numerical estimates, the UK's Financial Reporting Council

(FRC) has provided clear expectations that the disclosure under paragraph 125 of IAS 1 should clearly identify the asset or liability caption at risk, quantify the assumptions used and provide a sensitivity analysis. Although the requirement in 22(b) relates to a risk/opportunity and not an estimate, these expectations may inform further guidance that could be added in S1.

- Paragraphs 22(c) and (d) state that an entity should specifically disclose how it expects its financial position and financial performance to change over time. However, we note that there is no requirement for the same information to be given in respect of the entity's cash flows (although paragraph 15(d) does require the anticipated effects of significant sustainability-related risks and opportunities on cash flows over the short, medium and long term to be described). Paragraph 15(a) refers to 'cash flows, […] access to finance and its cost of capital […]'.We believe that information about an entity's cash flows would be useful information for stakeholders, and we would suggest adding this requirement.
- Further to the point above, while we agree these disclosure requirements can add value, we recognise that it will be challenging for entities to provide high quality information on the anticipated effects on the financial position and performance as described in paragraphs 22(c) and 22(d). Particularly, effects on the medium and long term will be difficult to describe quantitatively (refer also to our discussion about the difficulty in defining time horizons in response to question 2), given that there is not always a direct relationship between a significant sustainability-related risk or opportunity and the financial position. For example, some of the sustainability-related financial information relates to future activities that may be excluded from calculations under IAS 36 (e.g., improving or enhancing the asset's performance). Therefore, absent any reconciliation requirements, the link between sustainability risks/opportunities and the financial position may be difficult. Furthermore, there are existing difficulties with the granular assumptions made in these calculations, which will make adhering to these disclosure requirements very challenging (even if only requiring a point estimate or range). Paragraphs 22(c) and 22(d) require disclosure of how the entity expects its financial position and performance to change over time. As the meaning of the phrase 'change over time' is not clear, we suggest replacing or referring to the short, medium, and long-term timelines, as stated in other disclosure requirements.
- Paragraph 23 states that an entity discloses a qualitative - and 'when applicable' - a quantitative analysis of resilience. However, it is not clear how entities would be able to recognise 'when it is applicable' to provide a quantitative analysis of resilience and whether this may happen only when an entity has prepared a quantitative analysis, or when this is required by another standard (this indicates a potential interaction

issue between the core content requirements of S1 with other IFRS SDSs).

- Paragraphs 25-26 discuss the concept of 'risk management'. We suggest the following clarifications:
  - Paragraph 26(b)(iv) requires entities to disclose whether they have changed processes compared to the previous year. We believe that this requirement should be expanded to include the reasons for any changes and an explanation of why the new process is more appropriate than the previous one. Also, we suggest considering linking the disclosures related to changes from the previous reporting period to disclosures required by paragraph 64 (changes to comparative information).
  - Paragraph 26(b) requires an entity to disclose 'the process, or processes, it uses to identify sustainability-related risks and opportunities'. We believe that the process to identify significant sustainability-related risks and opportunities needs to be clarified.
  - We suggest that the ISSB considers rewording paragraph 26(c) along the lines of paragraph 26(b), to provide an equivalent number of requirements around processes used to identify sustainability-related opportunities, as it does for risks.
- Paragraphs 27-35 discuss the concept of 'metrics and targets'. We suggest the following clarifications:
  - Paragraph 28 states that metrics 'shall include' those in any other applicable IFRS SDS, those from sources identified in paragraph 54 and those developed by an entity itself, which is a wide range. The word 'include' suggests that an entity needs to disclose all metrics listed in those sources, which could be burdensome and costly to do. Although paragraph 29 sets some scoping parameters (albeit fairly widely, as explained below), it is not clear whether the metrics from all sources included in paragraph 28 are to be considered.
  - Paragraph 29 requires an entity to identify metrics that apply to its activities 'in line with' its business model and 'in relation to' specific sustainability-related risks and opportunities. We believe that the terms 'in line with' and 'in relation to' are subject to wide interpretation and it is not clear why the concept of 'significance' has not been used instead in the identification of metrics.
  - Paragraph 31(a)-(c) require specific disclosures in situations where metrics have been developed by the entity itself. Such specific disclosures have not been included in paragraph 30, although we believe these are equally applicable to the metrics that fall into the scope of paragraph 30. Therefore, we recommend expanding the scope of paragraph 30 to include the disclosure requirements specified in paragraph 31(a)-(c) (such as the cross-industry metrics as included in S2). We believe that requiring specific disclosures for these metrics

would be useful information to ensure transparency and comparability of the information disclosed.

- We believe that the proposed disclosures about sustainability-related financial disclosures on targets could be open to broad interpretation when compared to broader strategic goals as required in paragraph 32. Given that many targets are part of an entity's broader strategic goals, we believe it would be helpful if the ISSB provided additional clarification regarding the distinction and definition of sustainability-related financial disclosures on targets and strategic goals.
- Paragraph 33(a) refers to an analysis of trends. We suggest providing Illustrative Guidance to clarify what information should be provided.
- Paragraph 34(c) requires the restatement of comparatives for metrics that are redefined or replaced (please also refer to our response in question 11). It would be helpful to clarify whether, in such circumstances, the related comparative disclosures required by IFRS SDS are to be restated as well. For example, when a target that relates to the introduction of new green products needs to be replaced and, therefore, its comparative should be restated, it needs to be clarified if the prior year disclosures of planned investment and asset retirement required by paragraph 22(c)(i) (which would no longer align with the restated comparative) would also need to be restated. If this is not the intention, a clarification would be helpful about whether the restatement only relates to the metric and not also to the connected information. Moreover, restated comparative figures are to be provided 'unless it is impracticable to do so'. It would be helpful if some explanation is provided in the BC to S1 to clarify the intended meaning of 'impracticable'.
- The content of paragraph 34(c) that relates to 'comparatives' should cross refer to paragraphs 63-64, where the main requirements on comparatives are located.
- We believe that disclosures on metrics and targets likely represent an area of core interest for primary users of financial reporting. Also, it is our understanding that S1 represents the Standard to which an entity would refer when, for example, developing metrics and targets that are not covered by other IFRS SDS. If this is the case, then we note that metrics have similarities with Alternative Performance Measures (APMs) and other non-Generally Accepted Accounting Principles (non-GAAP) financial measures that are commonly used in financial communications. We note that the International Organisation Of Securities Commissions (IOSCO) issued guidance in 2016 for principles on non-GAAP financial measures.[5] Therefore, we recommend that the ISSB considers the applicability of principles of non-GAAP financial

[5] Statement On NON-GAAP Financial Measures, The Board of the IOSCO, June 2016.

measures in finalising its proposals for the general principles of disclosure on metrics and targets.

Question 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?
(b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?
(c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

- We agree that sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements. However, we note the following points:
    - Paragraph 37 states that '[…] if the reporting entity is a group, the consolidated financial statements will be for a parent and its subsidiaries; […]' which implies that the definition is aligned with the concept of control in IFRS AS. However, paragraph 40 requires information to be disclosed about sustainability-related risks and opportunities for the 'investments it controls, including investments in associates and joint ventures'. This seems inconsistent with paragraph 37, because it is implied here that the investments controlled by an entity are not limited to subsidiaries (per IFRS AS), but also include investments in associates and joint ventures - which do not fall within the definition of control under IFRS AS. We suggest that the ISSB clarifies whether the reporting entity under IFRS SDS follows the concept of 'control' in IFRS AS or if it is meant to include a broader concept from a value chain perspective. If 'control' means the same as in IFRS AS, this should be referenced consistently throughout IFRS SDS. If not, it should be more clearly explained in the ED, as it may affect the entity level on which a group will be required to report sustainability-related financial information. We believe that a different meaning of control may cause confusion for users regarding what the traditional boundaries of general purpose financial reporting are considered to be. Also, providing disclosures about third parties beyond subsidiaries that are controlled (e.g., joint ventures and associates) may be challenging if it is difficult to obtain the information. That said, we acknowledge that, in certain cases, entities are already using the broader boundaries allowed in the Greenhouse Gas (GHG) Protocol (i.e., the financial control, the operation control or the equity share approach) as a more relevant concept when that protocol is applied. Therefore, we suggest that the ISSB defaults to the 'control' concept as described in IFRS AS, but allows the broader control concept, such as when the GHG Protocol is applied, by exception. When this exception applies, requiring entities to provide summarised information (similar to the requirements in IFRS 12 *Disclosure of*

Interests in Other Entities) for associates and joint ventures will help to reduce the cost and effort of gathering granular information from investees that are not controlled, in order to comply with the disclosure requirements, and to avoid information overload.

- According to the definition of a 'reporting entity' in Appendix A, any entity that is required to prepare general purpose financial statements will also need to provide disclosures on sustainability-related financial information. Some group entities (such as financial institutions) are comprised of a large number of entities that are required to prepare financial statements at entity level. However, the sustainability-related financial information is not always monitored at entity level within the group. It would be helpful to clarify if the sustainability-related financial information will be required to be provided by all entities in a group in their individual (stand-alone) financial statements (even when it is not applicable to a group-entity since the sustainability-related financial information is managed at higher level), merely because they are required to prepare individual (stand-alone) financial statements. We believe that requiring sustainability-related financial information at every level of a group of entities could become costly for preparers, at least initially. Also, if this granularity is required for sustainability-related disclosures within an organisation, the disclosures may lose relevance. Therefore, we suggest that the ISSB considers providing relief to entities that are required to prepare general purpose financial statements (on a stand-alone basis), from requiring sustainability-related financial information under certain circumstances, taking into account the operational structure of the group, and how the group manages its sustainability-related risks and opportunities (both holistically and at entity-level). Also, conditions similar to those included in paragraph 4 of IFRS 10 *Consolidated Financial Statements* can be considered as potential conditions when providing such relief. We believe that such a relief will not compromise the 'complete, neutral and accurate depiction of entity's sustainability-related financial information' so long as the use of the relief is clearly declared, and the reason for using it is explained. Alternatively, requirements could be developed for subsidiaries of a group where full disclosure of sustainability-related information is not applicable, to clarify the extent to which disclosures should be provided. This will avoid subsidiaries incurring costs to provide information that may be irrelevant and also repetitive, if already included in the consolidated financial report.

- 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, is generally clear. We, however, note the following points where clarification could enhance consistent application:
  - Paragraph 39 includes proposed requirements relating to the specification of currency that are particularly relevant in the context of metrics. One would expect those requirements to have been included under the section on 'Metrics and targets' instead of the section on 'Reporting entity'. In addition, if measures are used that are specified in currency, we would expect there to be

a requirement to use functional currency for the purpose of measurement and to use presentation currency for the purpose of presenting that measure, similar to what is required under IFRS AS (please also note our more general comment on presentation versus disclosure in our response to question 1)

- It may also be necessary to provide guidance on the consolidation of data in different currencies for the purposes of reporting by a group that contains subsidiaries with different functional currencies. We would suggest that the ISSB uses the same currency translation requirements as in IFRS AS (e.g., end of the reporting period spot rate for the financial position and average for the period for the financial performance and cash flows). This would also address more complex situations, e.g., hyperinflationary economies.
- We think that it will be challenging for entities to understand the range and extent of the information they will need to provide per paragraph 40 in respect of its value chain, given that the definition of reporting entity does not directly address this interaction. We believe further clarification is required, as follows:
  - It is not clear what extent of information is required across the value chain, for tier 1, tier 2 or even tier 3 suppliers. For example, in the case of a clothing store, the factory that assembles a piece of clothing would be a tier 1 supplier which obtains fabrics from another supplier (tier 2 to the clothing store), which, in turn, obtains raw materials like cotton from yet another supplier (tier 3 to the clothing store). We agree that requiring the entity to obtain insight into the different tiers in its value chain will further enable the entity to understand how to scope other disclosure requirements relating to the value chain. However, when entities are required to obtain information on tier 3 suppliers, there may be difficulties if the information is not available, and/or because the coordination among bodies throughout the tiers of the value chain may not yet be possible.
  - What is meant by 'interactions' and 'relationships' along the value chain, as these are undefined terms that may be too broadly interpreted.

- We agree with the proposal that an entity shall disclose the financial statements to which the sustainability-related financial disclosures relate.

Question 6-Connected information

(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?

- We agree that the requirement to connect sustainability-related financial information and financial statement information is important and it is clear that it is required by S1. However, we do not think that the concept outlined in paragraphs 42-44 is sufficiently clear on how this should be done and where. For instance, we note that BC57 provides some examples of the types of connections that should be explained between, say, claims against the entity and the recognition of a related provision. However, it is not clear whether disclosures around sustainability-related risks and opportunities should explain the impact on the financial statements, or whether the financial statement disclosures should explain the impact of the sustainability-related information provided. We recommend that the ISSB provides some further clarification around the application of this concept, such as through additional illustrative guidance, working in co-operation with the IASB.
- Decisions reached for the purpose of IFRS AS reporting will need to be carefully considered to identify any consequential impact in the context of sustainability reporting, and vice versa, to avoid confusing users of the two sets of Standards. For example, the requirements under IAS 36 *Impairment of Assets,* may differ from what is required in paragraph 6(b) of S1 relating to information about decisions that may impact future cash flows in valuations. Also, under IAS 8, the effect of a change in an accounting estimate is to be recognised prospectively; that is the change is applied to transactions, other events and conditions from the date of the change in estimate. However, this differs from what paragraph 64 proposes by stating that 'When providing sustainability-related financial disclosures an entity shall disclose comparative information that reflects updated estimates.' (please also refer to our response to question 10). Where differences are to remain, we would urge the IASB and the ISSB to work together to reconcile and explain those differences.
- We understand that sustainability-related financial disclosures may cover periods that are longer in comparison to those covered by the financial statements (e.g., future financial effects by execution of entities' strategy required by paragraph 22(d), which may or may not yet be reflected in the financial statements). In such cases, we recommend that the ISSB clarifies whether an entity will be required to provide disclosures explaining any timing differences between sustainability-related financial information and financial information. For example, paragraph 26 of IAS 1 requires management, when assessing whether to prepare financial statements on a going concern basis, to take into account all available information about the future for 'at least, but not limited to, twelve months from the end of the reporting period'. So, in the case where a significant sustainability-related risk may cast doubt over an entity's ability to continue as a going concern over a longer timeframe than was used in the going concern assessment under IFRS AS, it is unclear how the entity should reconcile the two assessments. We believe it would be useful for the ISSB to provide an illustrative example for this.

Question 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?

(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.

- We agree that the proposal of fair presentation of the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information is clear. We have the following point to note, however:
    - Paragraph 49 states that 'aggregation and disaggregation shall be based on the characteristics of the sustainability-related risks and opportunities' and that 'information shall be aggregated when it shares those characteristics and disaggregated when it does not share them'. We note that sustainability-related risks and opportunities may have multiple characteristics and this requirement could be read as meaning that information must share all characteristics before being aggregated, or alternatively, that one common characteristic is sufficient for aggregation. We suggest that this requirement is expanded to provide further clarification.
- We support the proposal to include the various sources of guidance to help entities identify sustainability-related risks and opportunities and related disclosures. However, we note the following points:
    - We read the proposed requirements in paragraphs 51 and 54 as stating that preparers shall consider all sources listed from 51(a) to (d) as well as those included in paragraph 54:
        - We think a requirement to consider all sources listed could be burdensome and we suggest that clarification is provided as to whether this was intended. For example, the consideration of the most recent pronouncements of other standard-setting bodies (per paragraph 51(c)) or the sustainability-related risks and opportunities identified in the same industries and geographies (per paragraph 51(d)) could require a very extensive global search and would represent a significant amount of information to be considered in the identification of sustainability-related risks and opportunities and the identification of disclosures and metrics. It will also be difficult for entities to evidence that such research has been conducted appropriately, over and above considering whether the output of the process is material information.
        - If the above-mentioned requirement (relating to the research that needs to be conducted for the sources included in paragraphs 51 and 54) remains, the point in time at which this research is to be performed should be clarified.

    - In addition, it would be helpful to clarify whether entities could potentially consider other relevant sources apart from those given, and, if so, whether priority should be given to the sources listed.
    - It would also be helpful if paragraph 51 included a similar reservation to that in paragraph 54 regarding the consideration of the listed sources, to say that these are to be considered 'to the extent that they do not conflict with an IFRS Sustainability Disclosure Standard'.
    - If the intention is not to have all the sources listed to be considered, replacing 'shall consider' with 'may consider' could potentially resolve the challenges mentioned above.
- With respect to the above, an alternative source that entities (especially in Europe) may include in their considerations are the European Sustainability Reporting Standards (ESRS) prepared by European Financial Reporting Advisory Group (EFRAG), that will be mandatory according to the Corporate Sustainability Reporting Directive (CSRD). The ESRS will likely constitute the baseline for sustainability reporting in the European Union (EU) and it will include the concept of double materiality, which includes financial materiality and, therefore, overlaps with the requirements of S1.
- Paragraph 55 requires the disclosure of the industry specified in the SASB Standards that the entity has used when identifying disclosures about a significant sustainability-related risk or opportunity. This may result in the entity having to consider all SASB Standards for the relevant industry. The SASB Standards have only been considered as part of the ISSB's due process in respect of the climate-related aspects (included in S2 Appendix B). If this is not what the ISSB intended, we suggest clarifying how to interpret this requirement.
- Moreover, it is not clear how the proposals in paragraph 55 would apply for an entity that is not specifically in one of the industries listed, or for an entity that may fit into multiple industries. We understand that SASB's current approach for such a conglomerate would be to do its own materiality assessments for its facts and circumstances, but the industry metrics would be a strong starting point. That is, an entity may fall into multiple SASB sectors and/or some SASB sector metrics may not be applicable. Reading paragraph 55, it is not clear whether this is the approach that should be followed by a conglomerate, therefore, we believe that some further clarification is needed. Also, more guidance would be needed in terms of assisting entities to assess the extent to which they should apply the requirements associated with different industries based on their organisational and operational structure (i.e., should disclosures be made for a particular industry based on a certain percentage of revenue associated with that industry?).
- We appreciate that the ISSB has revised the existing SASB Standards to improve their international applicability. However, we believe that the application of the requirements will remain challenging for entities, especially given regional and industry variation and the ongoing evolution and refinement

of metrics across different industries and geographies. As stated in paragraph 54, the entity shall consider content in SASB Standards, the ISSB's non-mandatory guidance, the most recent pronouncement of other standard-setting bodies and/or metrics used by entities in the same industries or geographies when there is no IFRS SDS on a specific sustainability-related risk or opportunity. For example, while there is an IFRS SDS on Climate (namely, S2), there might be industry-specific requirements in Appendix B to S2 which are not as relevant in certain geographies. Also, some geographies might have additional industry-specific content to apply. Therefore, we believe that the current contents of Appendix B to S2 are not yet suitable as a mandatory requirement for disclosure of material climate-related financial information at this time. We understand the use of Appendix B to S2 as a basis for identification of significant climate-related risks and opportunities, although we would encourage the ISSB to consider the applicability of other industry-based content in addition to what is described in Appendix B to S2 (such as the SASB Standards as a whole of the GRI Standards). Paragraph 55 could then subsequently be amended to require disclosure of the sources the entity has used when identifying significant sustainability-related risks and opportunities. This could help users to more clearly understand and compare reporting across entities.

Question 8-Materiality

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

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

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

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

- While we understand that the definition of materiality is based on the definitions in the Conceptual Framework and IAS 1 of IFRS AS, we do not believe that the application of the concept to sustainability-related risks and opportunities is sufficiently clear. In particular, sustainability-related risks and opportunities are fundamentally different from the financial information that preparers are used to identifying and disclosing as material within IFRS AS, for the following reasons:
  - We note that BC72 states that 'the proposals would require that when making materiality judgements, an entity should consider risks that are low likelihood but potentially high impact'. However, the concept of assessing materiality

based on 'high impact' may not be widely familiar to preparers of IFRS financial information. Conceptually, preparers may think that making judgements based on potentially 'high impact' sustainability-related risks could be analogised to those of 'contingencies' under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, but they may not immediately make that link.

- In addition, the concept of 'dynamic materiality' is not something that preparers of IFRS AS financial information have previously had to consider to the same extent as would be required under the proposals. BC76 states that the proposals 'would require an entity to reassess its materiality judgements at each reporting date to take account of changed circumstances and assumptions'. This challenge reflects the constantly evolving nature of the sustainability-related risks and opportunities that an entity faces, for example, as a result of geopolitical and legislative changes.
- Paragraph 57 states that 'Material sustainability-related […] could reasonably be expected to influence primary users' assessments of an entity's enterprise value.' This statement in conjunction with the explanation provided in paragraph 5 (as also indicated in our response to question 2 above) that any assessments of the enterprise value should 'reflect expectations of the amount, timing and certainty of future cash flows over the short, medium and long term' raises the question as to how 'long term' expectations are to be reflected in assessments. In particular, it is unclear whether the assessments should relate to today's enterprise value by embedding forward-looking expectations (similar to what is done in financial information by assessing future scenarios considering probabilities) or if it relates to the enterprise value in the future (i.e., in the short, medium and long term). Especially for the latter, since the proposed disclosures will need to incorporate assessments of the impact over the short, medium and long term, these assessments should reflect the impact at various points in time (i.e., in the short, medium and long term), in addition to the dynamic nature of sustainability-related financial information mentioned above. This is a fundamentally different approach to what preparers are used to doing in their financial statements and therefore, additional guidance would be needed.
- Refer also to our response to question 2, where we raise the issue of the lack of clarity on the concepts of 'significant' and 'material' as well as similar concerns with the terms 'relevant' and 'key matters'.
- Moreover, we believe that the use of 'reasonably' in paragraph 57 (and in other parts of the ED e.g., paragraph 9) is somehow interlinked with materiality assessments. 'Reasonably' is widely used in financial information, usually with the intention to ease assessments and avoid extensive judgements. However, the use of 'reasonably' in sustainability-related information could be misinterpreted and confused with 'material' or 'significant'.

- We also note that paragraph 57 states that 'Material sustainability-related financial information […] relates to activities, interactions and relationships and to the use of resources along the entity's value chain if it could influence the assessment primary users make of its enterprise value.' It is not clear from this how far along its value chain an entity would need to perform the assessment of what is material, nor the extent to which the concept of 'influence' extends and where it needs to identify the boundaries of such an assessment (see also our point above in our response to question 5). Further clarification of this will contribute to better measure the extent of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity through the definition and application of materiality.

- With respect to the usefulness of the ED and the related Illustrative Guidance in the identification of material sustainability-related financial information, we believe that these provide a helpful basis for preparers. However, considering the fact that there is a global lack of experience and established practice in determining materiality for sustainability-related information, we would recommend the ISSB to consider the following:
    - To provide more guidance for the determination and application of materiality for identifying and reporting significant sustainability-related risks and opportunities (subject to our comment in response to question 1 regarding the definition of 'sustainability'), building further on what has been included in the Illustrative Guidance to S1.
    - To require disclosure of the processes applied in determining materiality, especially because of the constant reassessment that will be required. We note that other sustainability-related reporting frameworks already require the disclosure of the processes applied in determining materiality. Furthermore, given the different approaches to materiality assessments for sustainability-related information and financial statement information, the disclosure of the underlying processes becomes particularly relevant in terms of clarity for intended users.
    - It is particularly important that the concept of materiality for sustainability-related information and how to apply it is clearly and sufficiently explained in S1, because this will form the basis of consistent application of the concept to other specific disclosure standards, such as S2 for climate-related information or any other future IFRS SDSs. The identification of significant sustainability-related risks and opportunities on a "topic" level (see also our point above in our response to question 2) is also important. However, there are also materiality considerations to be made within a topic, for example, which metrics are relevant to report on. Currently, the proposed requirements only state that it is in the judgement of the entity to determine what is material. We recommend providing more guidance how to determine materiality and including disclosure requirements in S1 to describe how management has applied judgement to determine which elements within a topic are material (including any changes in this assessment at each reporting date as required by paragraph 59). We believe that any additional guidance will contribute to avoiding general and 'boilerplate' disclosures, e.g., identification of an extensive number of sustainability-related topics and disclosures of metrics about these topics which may go beyond what can be reasonably expected to influence the decisions of users.

- Although we understand the requirement in paragraph 62 that an entity need not disclose information required by an IFRS SDS if local laws or regulations prohibit such disclosure, even if it is material to the entity, we would suggest that further explanation regarding the rationale behind this requirement is provided in the BC.

Question 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?

- We agree with the proposal that the sustainability-related financial disclosures are to be provided at the same time as the financial statements to which they relate. However, we have the following concerns:
  - Whether the frequency of reporting should be the same and if so, what the content of any interim reporting will be. Although we broadly agree with what is being proposed in paragraph 70 regarding interim period sustainability-related disclosures, we are concerned that providing no minimum requirements will be unhelpful for entities preparing interim sustainability disclosures. In IFRS AS, an entire standard (IAS 34 *Interim Financial Reporting*) is dedicated to interim financial reporting that provides minimum requirements that entities must disclose and also provides examples of significant events and transactions that might be helpful to the users of interim reports. Accordingly, we would urge the ISSB to consider putting similar requirements in place for interim sustainability reporting purposes to help entities prepare and publish interim sustainability-related financial information in accordance with these requirements, if interim information is required. This would also, to some extent, enhance comparability of interim sustainability related information and will enable the provision of assurance on compliance with these requirements.
  - Although we agree that sustainability-related financial disclosures should be required at the same time as the financial statements to which they relate, we note that this may be difficult, particularly for the first application of IFRS SDS. This may be challenging for entities for several reasons, for example:
    - The timing of financial reporting required by their jurisdiction(s) is tight and entities are expected to release an audited general purpose financial report shortly after the year-end
    - Internal resources to meet the time constraints for both sustainability-related financial information and financial statement information
    - The time taken to receive governmental approvals required for emission factors needs to be built in
    - Availability of information where third-parties not under the entity’s control are to be involved, especially when tier 3 suppliers will need to be involved

  Therefore, considering a transition period in certain cases could be helpful (also discussed in our response to question 13).

    - Paragraph 71 requires the disclosures of 'Information about transactions, other events and conditions that occur after the end of the reporting period, and before the date on which the sustainability-related financial disclosures are authorised for issue'. However, we believe that, within S1, entities should be explicitly required to disclose when the sustainability-related financial information has been authorised for issue and by whom.

Question 10-Location of information

(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?

- We agree with the proposal for not mandating a specific location for sustainability-related financial disclosures within the general purpose financial report. This will allow the entity the flexibility to communicate the information in the most effective manner and allow for easier jurisdictional adoption. This proposal also takes into consideration the fact that a number of entities are already providing sustainability-related disclosures in various locations within their general purpose financial reports, so being non-prescriptive about the location of the information will mean that these entities are not required to make significant changes to their existing reporting. In our view, these factors outweigh the potential loss of comparability between jurisdictions and industries, at least upon the application of the IFRS SDS in the short term. However, in the medium term, once entities are more familiar with the application of the requirements, the ISSB may need to consider a more consistent approach, especially in respect of the Integrated Reporting initiative.
- Paragraph 75 states that information required by an IFRS SDS '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'. We note that this alternative may prove to be problematic in some cases, as follows:
    - Generally, the concept of cross-referencing is better understood under IFRS AS (e.g., cross-references between primary financial statements and the notes to

the financial statements, or cross-references between the notes) than is currently proposed by the ED. In theory, according to the proposals in the ED, all of the sustainability-related disclosures could be included within the financial statements, provided that the financial information framework does not prohibit this (as far as we are aware, IFRS AS do not explicitly prohibit such an inclusion, provided that the sustainability-related disclosures do not 'obscure' the financial information required in the financial statements). However, this would affect the traditional boundaries of what primary users of general purpose financial reporting consider financial statements to be. In particular, paragraph 49 of IAS 1 requires that 'An entity shall clearly identify the financial statements and distinguish them from other information in the same published document'. The absence of a defined 'sustainability-related report' (that is, the disclosures on sustainability-related information could be a 'set of disclosures', rather than a 'report') along with the proposed alternative to cross-reference information, may preclude entities from clearly identifying the financial statements, as required by IAS 1.

- Where there is overlap of financial and sustainability-related disclosures required by IFRS AS and IFRS SDS respectively, preparers need to understand which framework they should comply with and how to avoid duplication of information. For example, there seems to be an overlap between the disclosures proposed in paragraph 22 of the ED and what may be disclosed according to paragraph 17(c)[6] and/or 112(c) of IAS 1 (as mentioned above in our response to question 1). Similarly, BC57(a) seems to assume disclosure of information that may already be disclosed according to IAS 37 in the financial statements.
- In addition, cross-referencing may be to documents where the sustainability-related disclosures have been included, that are outside the financial statements but within the general purpose financial report. Providing a cross-reference should ensure that users are able to easily locate the relevant information, so long as information that is cross-referenced is available to users. However, without a single 'sustainability report' (as mentioned above), the cross-references from one document to the other may be confusing for users (at least until Integrated Reporting is fully developed and adopted) as it is not clear which documents are part of the general purpose financial reporting or which document cross-refers to another. In some jurisdictions, the entities have to prepare multiple reports and, therefore, cross-referencing becomes more helpful rather than having an additional report. However, even in these cases, clear instructions will need to be provided to entities about how to cross-reference effectively to avoid having the sustainability-related information scattered around, where the user is unable to understand the comprehensiveness of information provided. Absent specific guidance, it will

[6] IAS1.17 In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity: […] (c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

be difficult to set the boundaries for cross-referencing and several challenges will arise, such as:

- Determining which documents are considered as part of the general purpose financial report, so that entities can include those in their cross-referencing
- Understanding the scope of each cross-referenced document and the type of assurance provided in each of these documents
- Ensuring that the timing that assurance is provided on the various cross-referenced documents coincides and that no further changes should be made thereafter

Considering those challenges, we suggest that the ED makes clear that if the 'cross-referencing' proposal is used, this should be made in a way that the financial report remains useful to users and does not confuse them. Potentially, in order to achieve understandability and comparability within financial reporting, an example would be for entities to inform users about the location of the information required through use of a dashboard. We note that, over the previous years, such an approach has been suggested by some jurisdictions in respect of disclosures in IFRS AS financial statements on the Covid-19 pandemic, climate change and the effects of the war in Ukraine.

- Generally, we believe that Illustrative Guidance around the location of information and effective cross-referencing would be useful.

- Paragraph 78 states that entities should avoid 'unnecessary' duplication and that they are not required to make separate disclosure of each significant sustainability-related risk and opportunity, if their oversight is integrated. Although we agree with this proposal, we believe that it is not clear what would be considered 'unnecessary' and how, or indeed whether, this relates to the concept of materiality. For example, even if oversight on sustainability-related risks and opportunities is managed on an integrated basis, it is still possible that there would be management oversight specific to certain issues (e.g., climate-related issues). The way in which paragraph 78 is worded could result in entities not disclosing information about differential elements of oversight for specific topics such as climate, biodiversity and human rights, despite these topics being relevant for users seeking specific information. The specific disclosures on these topics should be defined by materiality, also taking into account the requirements in paragraphs 48 and 49. We, therefore, suggest clarifying paragraph 78 to state that unnecessary duplication should only be avoided for disclosures that are the same across different sustainability-related requirements.

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

(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?

- We generally agree with the proposed requirements for comparative information, sources of estimation and outcome uncertainty and errors being based on corresponding concepts for IFRS AS financial statements contained in IAS 1 and IAS 8. However, we note the following points:
    - It would be helpful if the section on 'Comparative information' included references to the sections on 'Sources of estimation and outcome uncertainty' and 'Errors'.
    - In paragraph 64, it is not clear whether the intention is to require the restatement of only numerical information (as implied by the word 'amount') or also qualitative information (as implied by the general reference to 'information' in paragraph 64). We believe that it should be clarified what the intention is in this paragraph, especially because the restatement of qualitative information may be quite subjective.
    - Paragraph 79 states that 'Even a high level of measurement uncertainty would not necessarily prevent such an estimate from providing useful information.' It is unclear whether there is a threshold of measurement related to uncertainty above which the information would become less useful or useless. The inclusion of the term 'necessarily' implies that there is such a threshold, but this issue is not further addressed. We suggest that this is further clarified and explained.
    - Whether a metric is not disclosed because of estimation uncertainty or another reason (e.g., because it is not relevant to the entity's activities per paragraph 29) is unclear and may create the need for judgement beyond the level that the ISSB intended. We suggest that entities should be required to explain that the reason for not disclosing a specific metric (that would otherwise be relevant to the entity) is due to estimation uncertainty.
- Regarding the proposal in the ED for disclosing the revised metric in the comparatives when an entity has a better measure of a metric reported in the prior year, we appreciate the reasons given in BC82-83 for retrospective adjustment of changes in estimates. However, we note that revising comparatives is a different approach from what entities are used to doing in providing IFRS AS financial information (where the effect of a change in an accounting estimate must be recognised prospectively, according to IAS 8). That is, entities are not familiar with the practicalities that may arise when revising comparative information relating to estimates, particularly for sustainability-related matters, where it is highly likely that the information to be disclosed year-on-year could change (and especially where comparatives for more than one year are presented). Entities will consequently have to continue tracking previously reported estimates in order to measure them against their actual outcomes which could be burdensome.

We acknowledge that restatement of estimates may be necessary in the context of sustainability-related financial information because this will help to reflect more reliable data that has become available in a future period (e.g., this is often the case for Scope 3 emissions). For example, in the case of GHG estimates and net zero targets, an entity assesses its progress towards net zero relative to an established GHG emissions baseline for a given year. In order for an entity to accurately reflect progress towards its net zero target against its baseline, it may be required to restate baseline year GHG emissions as a result of improved or more granular GHG emissions data becoming available. In this case, we agree that an entity would need to retrospectively restate estimates and disclose what has changed compared to the baseline.

Therefore, we believe that it is important for entities to better understand the reasons for the different treatment of disclosures for comparatives of estimates between sustainability-related financial information and financial information. In particular, it would be important for the ISSB to explain:

- The difference between the nature of the estimates, as this will help to avoid unintended consequences where retrospective adjustments relate to items that are also presented and/or disclosed in IFRS AS financial statements
- How these estimates differ from 'errors'. Comparatives need to be restated for errors according to IFRS AS, therefore, it is important to distinguish the restatement of sustainability-related estimates under IFRS SDS from restatement of accounting errors
- The comparison between benefits for users with costs incurred by preparers to comply with this requirement

- Regarding the requirement in paragraph 80 about the financial data and assumptions within sustainability-related financial disclosures being consistent with corresponding financial data and assumptions used in the entity's financial statements, we agree that this a reasonable and helpful approach to follow. However, we would suggest the following:
    - It is stated that this is to be conducted 'to the extent possible,' which may be subject to different interpretation. Therefore, some illustrative guidance on this point would be helpful.
    - Additional disclosures should be required where the financial data and the related assumptions are not consistent with the corresponding financial data and related assumptions included in the financial statements.

Question 12-Statement of compliance
Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

- We agree that an entity whose sustainability-related financial disclosures comply with all of the relevant requirements of IFRS SDS shall include an explicit and unqualified statement of compliance. However, we anticipate numerous practical challenges for entities in applying the IFRS SDS in the first year. Please refer to our response to question 13 below, where we make some suggestions in terms of the effective date provisions, which may help entities apply the proposed Standards.

- We agree with the relief provided by paragraph 92.

Question 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.

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

- Entities will need sufficient time to adjust to the new global baseline. The proposed disclosure requirements will be challenging for many entities because they may not yet have the knowledge, systems and processes to incorporate sustainability-related information into financial reporting. As stated in BC87, 'entities would need time to create or adjust their internal systems and control procedures to ensure that they are able to meet the requirements of any approved Standard.' We reiterate the importance of performing further outreach with constituents and field testing of the proposals as suggested elsewhere in this comment letter, because this information will help the ISSB better understand the implementation challenges that entities will face.
- Given the numerous practical challenges anticipated for entities in applying the new IFRS SDS, we suggest the following for consideration:
    - Given the ISSB's intent for the IFRS SDS (S1 and S2 currently) to serve as a global baseline, we believe it is important to acknowledge that in many jurisdictions, disclosure practices have evolved around frameworks other than the TCFD and other frameworks, such that entities in those jurisdictions may need additional time to sufficiently adjust to the new global baseline. That said, we equally recognise the speed at which other sustainability-related disclosure requirements and frameworks are advancing in jurisdictions such as the EU and the US. We therefore encourage the ISSB to consider closely aligning the effective dates of S1 and S2 with the effective dates of other major sustainability disclosure frameworks in Europe and the US in order to maximise the potential application as a global baseline.
    - We would also suggest that the ISSB considers a phased-in approach of the requirements, similar to the transition provisions/reliefs that the IASB included in respect of the initial application of complex IFRS AS, such as IFRS 15 *Revenue from Contracts with Customers*. We believe that this would help entities to overcome implementation challenges on first application of the Standard. However, for such an approach to work effectively, we suggest that the ISSB is clear about which requirements in the Standard should be mandatory from the first year of application, and which could be phased in over a period of time (such as three years). Furthermore, we would suggest that the ISSB require entities to provide an explanation of why they are phasing in a

requirement and how and when they plan to obtain the information to comply with it.

- We agree with the wording in B1, allowing early adoption of the Standard.
- We would also support having the same effective date for both S1 and S2.
- We agree with the provision of relief from disclosing comparatives in the first year of application.

Question 14-Global baseline
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?

- For the building blocks approach to work, there needs to be minimal overlap and inconsistency between the global baseline of standards and additional jurisdictional requirements. We would encourage the ISSB to continue to work closely with jurisdictional bodies and other existing frameworks to develop an efficient and effective set of global sustainability reporting standards, which will be applicable across many jurisdictions and which is compatible with the multi-stakeholder perspective on sustainability reporting.

Question 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)?

- Given the evolving landscape of sustainability-related disclosures, and the various initiatives currently underway across geographies to further align requirements to a global baseline, the establishment (and consensus) of clearly defined terminology is critically important. Furthermore, the qualitative and evolving nature of data/information on aspects such as transition risks, climate-related opportunities and climate resilience to name a few, could prove problematic in terms of digital reporting. We do believe that a Taxonomy could help provide users as well as entities with a much needed source of consistent and clear data/information by defining key terms for transition, adaptation, and resilience. Similar to the European Union's (EU) work on its Green Taxonomy, which involved a lengthy exercise to define climate/sustainability terms, the ISSB may also wish to focus on facilitating digital tagging of information. However, to achieve this, the ED will need to provide clear definitions for some of the disclosures included, otherwise high-quality and comparable disclosures may remain elusive and the risk of greenwashing will remain.

Question 16-Cost, benefits and likely effects
(a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?
(b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

- Please refer to our responses to the other questions in this comment letter, where we have raised cost/benefit concerns where relevant.

Question 17-Other comments
Do you have any other comments on the proposals set out in the Exposure Draft?

- The ED proposes a general disclosure standard. However, some of the proposed requirements encompass presentation as well (for instance, errors and restatements, frequency of reporting). If the ISSB's intention is to also address presentation requirements along with the disclosure requirements, we believe that a revision of the title of this standard should be considered, e.g., 'General requirements for disclosures and related matters'.
- We would recommend that the ISSB considers setting up a body similar to the IFRS Interpretations Committee in the near future, in order to help stakeholders in their application of IFRS SDS by providing clarity in respect of common implementation issues.