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

Grant Thornton International Ltd
20 Fenchurch Street
Level 25
London EC3M 3BY

29 July 2022

Submitted electronically through the IFRS Foundation website (www.ifrs.org)

ED/2022/S1 General Requirements for Disclosure of Sustainability-related Financial Information

Grant Thornton International Ltd is pleased to comment on the International Sustainability Standards Board's (the Board) Exposure Draft ED/2022/S1 'General Requirements for Disclosure of Sustainability-related Financial Information' (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

We support the Board's efforts to produce this ED on general requirements for disclosure of sustainability related financial information in a short time frame and are happy with the progress. However, we believe there are areas of improvement before this ED becomes final.

We have observed across our client base a high level of anxiety surrounding the implementation of this proposed standard. Some of the more significant questions we have been asked since the ED and our responses are:

Questions that have been put to us	Our responses and matters for further consideration by the ISSB
• Do you think there is alignment between what is being proposed in these ISSB standards and other standard setters eg EFRAG?	We support the building block approach, and the Board's aim of being the baseline for sustainability standards, however, as it stands, we believe there is more work to be done to align standards proposed by other standard setters with these proposals, so jurisdictions can build on the ISSB standards as envisaged by the Board. When a different assessment of materiality is being used, as we see in the European Sustainability Reporting Standards (ESRS) being issued by the European Financial Reporting Advisory Group (EFRAG), it would be really helpful for the Board to explain how dynamic materiality in this proposed standard can be reconciled to double materiality as it is defined in ESRS.

Questions that have been put to us	Our responses and matters for further consideration by the ISSB
• Will further guidance be provided when it comes to determining what is material as compared to what is significant?	There is a lack of consistency between the use of the term 'significant' and 'material.' Simply put, we would like to see 'significant' replaced by 'material' throughout the ED, because our view is the concept of materiality is better understood, particularly by preparers and those charged with governance. The use of the term significant confuses entities because entities do not understand the disclosure objectives of the standard. We think that the Board needs to decide whether this proposed standard and IFRS S2 is intended to require entities to: 1. Disclose information about the sustainability-related risks and opportunities which are managed by the those charged with governance, or 2. Identify and disclose the sustainability-related risks and opportunities it considers are significant to the entity (even if it is not managing them), or 3. Identify and disclose all the sustainability-related risks and opportunities that are relevant and applicable to the entity (even if it is not managing them). We think many are concluding that the third option is the requirement, and this may not be what the Board was intending. In other words, we are not sure if the Board is requiring a complete listing of an entity's significant sustainability-related risks and opportunities, or something else? We believe that the Board needs to decide which of the three interpretations it wants and then rewrite the requirements to achieve this which may or may not result in retaining the word 'significant' in the proposed standard.
• Will there be a foundational definition of materiality?	There is a need for a 'foundational definition' of materiality, which by design also caters for local market adaptation (ie modifications as required to meet legislative and regulatory requirements). In suggesting this, our concern is that an IFRS materiality mindset rather than a sustainability mindset, will end up being used by default. If that was to happen, the sustainability reporting outcomes sought by the ISSB are unlikely to be

Questions that have been put to us	Our responses and matters for further consideration by the ISSB
	achieved, so a great deal of care and attention needs to be given to this matter.
• Would it be acceptable to include all the disclosures required by the ED in set of IFRS or local GAAP financial statements?	As currently drafted, and in the absence of any specific national guidance (via legislation or regulation) our understanding is there is nothing to prevent this unfortunate outcome from happening. We do understand the Board's logic to leave this aspect of sustainability reporting solely to local jurisdictions, however, as an international auditing firm this outcome creates a great concern for us because, we believe clear boundaries between financial information that has been subject to audit, and non-financial information that has been subject to audit, need to exist, particularly when in some jurisdictions the audit of non-financial information might be undertaken by someone else other than the auditor of the financial statements. Our clear and strong preference is that all sustainability-related information required by this ED that is not otherwise required by IFRS, be included in a separate report that does not form part of the financial statements. While we accept the arguments set out in the ED as to why the ISSB should not provide more detailed guidance on this, we urge the Board to carefully reconsider this position as we believe it will have a direct impact on the future development of taxonomies, digital reporting, and market acceptance of these items.
• How important is the taxonomy that will sit alongside these standards?	The importance of creating a taxonomy for sustainability disclosures that works alongside IFRS standards (drawing upon many of the protocols set out in existing IFRS taxonomy) should not be downplayed. We envisage huge challenges in the creating a suitable taxonomy if the location of where the information required by sustainability standards, such as IFRS S2 'Climate-related Disclosures' is not specified.
• When providing sustainability information on associates and joint ventures, how should this be done?	We think some specific direction needs to be provided on how to account for sustainability information from associates and joint ventures as there are several ways information from these types of entities could be included. For the avoidance of doubt, the proposed standard should indicate what entities should do if they cannot secure the information from associates and joint ventures within the reporting deadlines. What we seek from

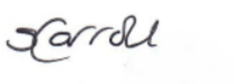
Questions that have been put to us	Our responses and matters for further consideration by the ISSB
	the Board is clear direction of as to whether this is non-compliance or something else.
• Why is all sustainability information noted as being financial information, when most sustainability topics are based on non-financial areas?	Throughout the ED and in the definitions, we refer to 'sustainability-related financial disclosures' and 'sustainability-related financial information'. Most of the topics will be non-financial in nature and therefore we believe that reporting entities will find these references confusing.
• Given this is a completely new standard, would the Board have any appetite for gradually phasing in the disclosure requirements set out in this proposed standard or are they going to require everything at once, and then leave it to jurisdictions to separately consider the option of phasing in these requirements over time?	We believe there should be a phased in approach in order for reporting entities to be able to obtain the most compliance and produce the most useful disclosures, particularly in areas which are complex eg metrics and targets. But also for overall significant risks and opportunities, ie climate related first and social and governance subsequently.

Our responses to the ED's Invitation to Comment are set out in the Appendix.

****

If you have any questions on our response, or wish us to amplify our comments, please contact either of us by email (sarah.carroll@gti.gt.com and/or mark.hucklesby@gti.gt.com).

Yours sincerely,



Sarah Carroll
Director – Sustainability Reporting
Grant Thornton International Ltd

Mark Hucklesby
Global Head of IFRS and Corporate Reporting
Grant Thornton International Ltd

Appendix: Responses to the Invitation to Comment questions

Question 1—Overall approach

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

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

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

Our main concerns centre around how the definition of sustainability risks and opportunities will be interpreted by preparers, auditors and those charged with governance. More specifically, is the ED referring to significant risks and opportunities around some aspects of sustainability reporting (ie the most important), or all of them? For example, paragraph 30 doesn't refer to 'significant' sustainability-related risks and opportunities, but it probably should. Linked to this is a concern: that many reporting entities will initially focus on environmental risks and opportunities first (ie climate) and then they will look to report on the risks linked to social and governance matters after that. Therefore, we think it would be helpful if the proposed standard provided more commentary on phasing the disclosure of significant risks and opportunities to facilitate comparability amongst reporting entities. For those entities that want, and are permitted to progressively phase in the significant risks and opportunities, guidance on how best to achieve this would be helpful. We note that in some countries it is already required by law to provide information on social and governance matters so in situations like this, a phasing option would not be possible.

The draft European Sustainability Reporting Standards (ESRS) issued by the European Financial Reporting Advisory Group (EFRAG) consistently refer to all stakeholders not just primary users. Consequently, there may be an expectation to define and reconcile who are material stakeholders (whether it is defined in standards or in domestic legislation) with primary users as set out in the ED. Our view is many capital market participants will want to understand the approach that has been used to define these two categories of users because they have both assurance and governance implications.

In addition, we believe there should be a definition of what is meant by 'significant' and this should be applied consistently throughout the ED. Our concern is that significant in a financial reporting context may not be appropriate and necessarily align with what is significant in a non-financial reporting context. In other words, if the term 'significant' is assessed similarly when considering ISSB requirements and IFRS requirements, information provided in accordance with IFRS may not meet the requirements of an ISSB standard and vice versa.

In summary, our preferred view is that the term 'significant' is removed and in its place the requirement to disclose 'material' matters which would be consistent with the considerations made in preparing general purpose financial statements because if sustainability disclosures are to complement the financial statements, they must be consistent.

We support the requirements set out in the ED to disclose the extent of compliance with the standards. This requirement will be helpful to auditors because it will allow them to design efficient and effective assurance work programs that will allow them to independently conclude on the entity's compliance with the requirements set out in the ED.

Finally, while we understand the reticence of the Board not to stipulate where sustainability disclosures should appear, we think there would be merit in providing more guidance in this area to increase consistency and market acceptance. View it as the Board signalling where they would logically expect a disclosure to be made (ie a preference) because we think that would promote consistency. As is the case in the IFRS taxonomy, effective and efficient digital tagging (and hence reporting that emanates from that) requires the preparer to indicate where that disclosure appears (ie in the statement of financial position, statement of profit or loss and other comprehensive income or the statement of cash flows). Our view is the Board needs to carefully assess the consequences of having such an open architecture, as we are not convinced the current proposals will provide the anticipated transparency and comparability that investors want in order to achieve market acceptance. Ideally, we want the Board to thoroughly investigate whether IFRS S1 should contain most, if not all, of the baseline disclosures so that when entities are considering a topic like climate (ie IFRS S2), that standard primarily focusses on additive disclosures. If reporting entities are left to decipher what is specific to a topic, and what is baseline, they will be challenged and the consequence might be a significant lack of consistency.

Question 2—Objective (paragraphs 1–7)

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

Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital.

Information that is essential for assessing the enterprise value of an entity includes information in an entity's financial statements and sustainability-related financial information.

Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the

significant sustainability-related risks and opportunities to which it is exposed. Sustainability related financial information should, therefore, include information about the entity's governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements.

Sustainability-related financial information also depicts the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy, or about the entity's development of knowledge-based assets.

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

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

Our view is the proposed objective of disclosing 'sustainability-related financial information' is clear, but the definition of 'sustainability-related financial information' is not as clear as we would like it to be because it requires an assessment of significance to be made, and (as noted in our response to the previous question) this is not well aligned with the pre-existing accounting frameworks. In addition, the terminology includes 'financial' for both 'sustainability-related financial information' and 'sustainability-related financial disclosures', and we ask the Board to assess whether this is the right terminology to cover all sustainability topics, specifically those which are not financial in nature (eg social).

As above we now refer to 'significant' sustainability risks and opportunities, which we would encourage the Board to clearly define. In addition, we believe that clarity is needed on enterprise value and its definition, ie is it 'future cash flows' or 'debt plus equity'. Our preference would be to use future cash flows as debt plus equity is more judgemental and more likely to generate differences between jurisdictions.

Paragraph 7(a) refers to disclosures being comparable with prior periods and other entities. However, when reference is made to 'other entities' it is not clear what is meant by this. When this term is used, should reporting entities be referring only to other entities within the same industry or geographical location or to all other entities? Given the diversity of entities that will be captured by the ISSB standards (as well as the diversity of industries they operate in), in our view some additional clarification on this would be helpful.

We think the Board could do more to bring out that in every reporting period the 'significant' sustainability risks and opportunities should be re-evaluated, and in certain industries they might change more rapidly than in others. We would therefore like the Board to clarify that those significant risk assessments are dynamic and identified risks and opportunities will change over time (ie this assessment is not something that is only done in the first year of implementation).

Question 3—Scope (paragraphs 8–10)

Proposals in the Exposure Draft would apply to the preparation and disclosure of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Sustainability-related risks and opportunities that cannot

reasonably be expected to affect users' assessments of the entity's enterprise value are outside the scope of sustainability-related financial disclosures.

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

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

Our assessment is that the draft proposals would be able to be used by entities preparing general-purpose financial statements using their local jurisdiction's GAAP, especially those local GAAPs which are based on conceptual frameworks that are very similar to those that have been published by the IASB. However, since assumptions used to prepare sustainability disclosures have to be consistent with the ones used to prepare financial statements, it is important to ensure that jurisdictions' local GAAP are sufficiently close to IFRS to provide relevant information. For instance, as the scope of information could differ for joint ventures and associates, this is problematic if some information is not provided because the principles around the assessment of control are not the same in local GAAP compared to IFRS. Another illustration could be the case of investment entities measuring their controlling investments at fair value under IFRS 10 'Consolidated Financial Statements' whereas they would be consolidated in other jurisdictions.

We can see only one impediment, and that is making sure that the cross-referencing intended to align IFRS standards to ISSB standards is recognised by those countries that require local GAAP rather than IFRS to be used.

Question 4—Core content (paragraphs 11–35)

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

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

Governance

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

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

Strategy

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

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

Risk management

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

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

Metrics and targets

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

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

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

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

Governance

Our assessment is the TCFD governance objective is currently working well and we note that it has not been significantly changed in the ED. For this reason, we have no concerns with what is being proposed for disclosure in the ED. We would however, like to see a requirement for entities to disclose actions and activities undertaken by the governing body **during the reporting period**, so that we do not get boiler plate disclosures or just a repeat of the same disclosures at every reporting period.

Strategy

Overall, we support the principles in the ED. However, we believe there is an opportunity to improve the guidance set out. These are discussed in the bullet points below:

- Paragraph 16 discusses 'significant sustainability-related risks and opportunities that could be reasonably expected to….' We believe this requirement would benefit with this wording being tightened. In our view, this direction could be interpreted very widely and therefore may be inconsistently applied. We also observe that this wording could prove challenging for anyone providing assurance in this matter.
- Paragraph 16b discusses how an entity defines short, medium and long term. We understand that there is no set timeframe for these periods, however we believe it would be helpful to add examples to help management with their assessments without actually telling them what short-term and long-term is. In this context, we note that such assessments may be considerably different depending on the sector in which entities operate. For example, what is short-term for a technology-based business may well be quite different to well established manufacturers of household products.
- Paragraph 18 states the short, medium and long-term time horizons can vary and depend on many factors, including industry-specific characteristics. Our concern would be how an auditor (depending on the nature of the opinion required to be

issued) assesses the appropriateness of the estimation that is made by the entity with respect to determining the time horizon, so the better the guidance in the standard, the easier it will be for entities to document their rational.

- Paragraph 21(b) sets out the requirements for disclosing quantitative and qualitative details of plans – we believe some examples might be helpful for reporting entities to fully understand these requirements.
- Paragraph 22 refers to disclosing quantitative information unless it is unable to do so. In our view it would be helpful to set out the acceptable circumstances in which an entity can consider being unable to do so and also include a requirement to disclose the reasoning in the report. In addition, this requirement may result in the disclosure of information that is already required by IFRS, and there is no such exemption under IFRS to not provide quantitative information (except defined in very limited circumstances) and therefore this statement may create a conflict between the two standards. If it is the intention for ISSB standards to be consistent with the IFRS framework, then we propose the same wording for impracticability that is defined in IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Risk management

We believe the requirements need to be similar to those under IFRS, because this information is required under IFRS already (eg an entity's risk management process) and alignment of both financial and non-financial reporting is key.

Metrics and targets

Similar to strategy, we support what the ED is trying to achieve. Our suggested areas for improvement are discussed in the bullet points below:

- Paragraph 31(b) refers to 'validation'; we recommend that further guidance should be included about what this means as this could be wide ranging. There is a risk of differences in the type of assurance and extent of assurance not being clear.
- Paragraph 31(c) refers to 'significant assumptions', however this term is not defined, and should be. If it is intended that this term be interpreted the same way as it is used in IAS 36, then our view is this should be stated.
- The practicality of calculating some disclosures will be challenging as it will depend on obtaining reliable information from customers and suppliers. We believe that the Board should include some guidance on where this is the case and what would be expected to be disclosed in these circumstances
- Paragraph 34 refers to restatements. With such new and evolving metrics restatements will occur, and we believe the type of restatement should be disclosed. Therefore, we recommend the Board ensures there is clarity between items that are evolving versus actual changes. In addition, there may be metrics that change through legislation, the Board should clarify whether this is considered a restatement.
- We believe the Standard should address the consequences of changes in IFRS or other local GAAP requirements which impact the financial statements, how this could impact the metrics and how entities should deal with this.
- We believe there could be an opportunity to propose a phased approach for disclosing the required metrics and targets, particularly as some of these metrics and targets will be challenging for entities. This would then need to be considered when an entity prepares its statement of compliance.

Question 5—Reporting entity (paragraphs 37–41)

The Exposure Draft proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements.

The Exposure Draft proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Such risks and opportunities relate to activities, interactions and relationships and use of resources along its value chain such as:

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

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

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

We agree with the requirement that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements. However, we believe that if it is not possible for an entity to achieve this, there should be a requirement to disclose this and say why.

We think there should be some guidance on how an entity determines what its value chain is, (ie how far they need to go in this assessment, as it will be subject to judgement and it is unlikely to be assessed consistently without some guidance or illustrative examples). We also believe entities should disclose their methodology for assessing this.

More specifically, some clarity should be provided over the inclusion or exclusion of joint ventures and associates, as it is not clear to what extent these types of entities should be taken into account. Our concern is that in many industries there may be significant operational and financial investments where the significant sustainability risks and opportunities **could be quite different** from those of the ultimate reporting entity. However, excluding them could have a significant impact on the relevance of the information being provided to the market; and given this it could also lead to group's restructuring their investment portfolio.

Therefore, overall we believe that including information from associates and joint ventures should be required but we acknowledge **it could** prove immensely challenging and ultimately may not provide users with decision-useful information. Paragraph 37 indicates associates and joint ventures are excluded, but paragraph 40 suggests they are included. And we note in the Basis for Conclusions they will be included on a Standard-by-Standard basis. Given there is potential for confusion here, we ask the Board to consider this important point as it could have a significant impact on compliance costs.

Regarding the requirement to identify financial statements, we think the wording should be clearer as to whether we are referring to the whole financial report or just the financial statements themselves.

Question 6—Connected information (paragraphs 42–44)

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

- **(a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?**
- **(b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?**

We believe the requirements are clear on the need for connectivity between various sustainability-related risks and opportunities. We 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.

We acknowledge the examples in paragraph 44, it would however be beneficial for some additional examples for entities to develop best practice reporting in this area. Other than this, we do not have any additional comments to make on this question.

Question 7—Fair presentation (paragraphs 45–55)

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

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

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

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

We believe the Board should clarify whether the expectation is that entities identify all risks and opportunities relevant to them and then determine which of them are significant, and we believe a graphic might help to articulate this.

We would like to see some guidance on how often an entity should identify and reassess the risks and opportunities (ie should it be at least annually, or when there is a change of facts and circumstances?) as for many reporting entities, particularly in the mid-market it is unlikely to be done regularly because if it is done properly it is a time-consuming exercise. Additionally, some guidance on how preparers should explain changes in the risks and opportunities would also be helpful. We note there are many references to the SASB and our concern is entities will default to risks and opportunities listed solely in this guidance and not challenge themselves on what the relevant risks and opportunities are for their business.

We encourage the Board to continue to have an open dialogue with other sustainability standard setters eg GRI and EFRAG on the reporting of the assessment of risks and opportunities which are present in reporting entities, given the strategic importance of alignment

Finally, in paragraph 48 we recommend the wording be updated to be the same as that set out in IFRS.

Question 8—Materiality (paragraphs 56–62)

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

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

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

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

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

The determination of whether something is material will be highly judgemental, and could change over time. Given the judgement involved, we recommend the Board adds a requirement for an entity to disclose how they have determined whether something is material and provides some illustrative examples to assist in this process.

Our reading of paragraph 60 of the ED is that if an entity concludes an area is a significant risk or opportunity, it does not need to make disclosures if that disclosure is not material. We struggle to understand how entities could have something that is considered significant, but the disclosure is not material. Therefore, we think there is a disconnect between what is 'significant' and what is 'material' and could potentially result in important information for users not being provided. We think clarity should be provided on this, so it is clearer for entities to apply.

We do not agree with the proposal to relieve an entity from disclosing information otherwise required by the ED if local laws or regulations prohibit the entity from disclosing that information, if they still want to state full compliance with IFRS Sustainability Standards. This provides an opportunity for entities to reduce disclosure, which will reduce comparability. We note that IAS 1 'Presentation of Financial Statements' states an entity cannot depart from the requirements of IFRS and still conclude compliance with IFRS, so we believe the same should apply here.

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

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

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

We believe there should be some flexibility in the length of the reporting period, so that interim financial statements, quarterly reporting etc, can be considered. It may be in the future there would be benefit from having an interim standard, much like IAS 34 'Interim Financial Reporting' that exists under IFRS.

We agree that investors want will want the sustainability-related financial disclosures to be provided at the same time as the financial statements to which they relate, but we believe there should be some flexibility around this requirement. Management will need to prepare two sets of reports at the same time. We believe it may be difficult to achieve high quality reporting, particularly in the first year of implementation, if the information has to be made available at the same time. We also believe this will be a challenge for small and medium sized entities with their finite resources to implement.

We believe the Board should provide some guidance on how to address groups with different reporting dates. IFRS 10 makes allowances for this situation, but it will be difficult to reconcile this with the sustainability requirements if the sustainability standards do not address it.

Paragraph 71 refers to subsequent event disclosures of sustainability related financial disclosures – if the reporting date is different to that of the financial statements care needs to be taken – there could be tension between these subsequent events disclosures and those of the financial statements. Therefore, it is important that sustainability matters are not located within the financial statements.

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

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

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

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

Information required by an IFRS Sustainability Disclosure Standard could also be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the

information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements.

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

- **(a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?**
- **(b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?**
- **(c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced? Why or why not?**
- **(d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?**

We suggest the Standard states a 'best practice' of location and a requirement to disclose why it is located elsewhere to ensure this done on a limited basis and that best practice is followed wherever possible to encourage comparability alongside the financial statements. We are concerned there could be a lack of comparability, if, for example, the US requests the information in one place and the EU in another and the Board doesn't have any requirement either way. In addition, we believe there could be some unintended consequences of having sustainability disclosures presented in different locations, and so for the time being we think the Board should propose one place for these disclosures.

We would like the Board to provide some guidance as to what they believe could be provided in the financial statements, as we would prefer the sustainability information to be kept away from the financial statements as this would cause issues for the auditor of the financial statements. It would be difficult to prepare a reduced-reliance opinion on pieces of information scattered through a document - and also to explicitly call out/exclude sustainability information from a reasonable assurance opinion on the financial statements.

There are positives and negatives to cross referencing. There is less control with cross referencing, however it avoids repetition and therefore keeps "clutter" to a minimum. Overall, we believe cross referencing should be allowed but limited, and the requirements be more precise as to when this is allowed. For instance, we do not think it should be allowed for material information unless it is required by local legislation. However, we believe it could cause issues around the taxonomy and the ability to tag information. The Board will need to consider whether you can cross reference a sustainability tag to financial statements and the other way around.

We believe it is relatively 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. However, we believe this requirement should be included in the core content section, including it further within the standard makes it less clear.

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

The Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8.

However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable —ie the comparatives would be restated to reflect the better estimate.

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

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

As mentioned earlier in our letter, we believe restatements will occur, we think that the Board should be clearer with the difference between items that are as a result of evolving practice and those as a result of errors. We are therefore broadly supportive of the requirement to change comparatives, particularly if entities have found a better way to disclose or obtain the information, which may happen in the early years. We 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, but explanations are key as it is expected these to be frequent in this emerging area.

We also note that 'significant estimation uncertainty' is not defined and we recommend a definition is provided for this. We wonder whether the intention is to follow the guidance in IFRS on this particular topic, however if this is the case then it should be stated (essentially, we mean the IFRS guidance should be included in this standard). However, the concept/scope of estimations applied to sustainability as it is suggested is slightly different from that applied for accounting purposes. Our view is a change in estimate that results from a change in facts and circumstances (eg new discrete events) is different from a change in estimate that results from a better practice in evaluating a metric. The latter may justify a restatement whereas the first one would not. Therefore, we would appreciate if the Board could elaborate this point in the guidance in order to deal with this potential inconsistency.

The proposed standard needs to address the situation where a change in comparatives is required for sustainability disclosures, but not for IFRS as it doesn't meet the definition of an error as defined under IAS 8. Our view is there needs to be alignment between both sets of standards on how to deal with this a situation like this.

Given emerging practice, comparatives might not be available for everything, and we believe this practical challenge might put entities off adopting earlier. So, we agree with the relief from providing comparatives in the first year. In addition, we question how easy it will be to change comparatives, and whether it will be possible given the lack of information likely to be available.

We have a few specific standard related points in the bullets below:

- Paragraph 82 – The standard should be clear on what is meant by high-impact - is this purely financial?.
- Paragraph 84 states comparatives should be restated unless it is impractical to do so – we believe this should be disclosed and why and we think the Board should include guidance as to what is meant by impractical. If the Board intends it to be the same as the IAS 8 guidance, then this guidance should be included.
- Paragraph 88 refers to all periods presented - should be clear that this is in the current period sustainability report to avoid any confusion that this would require historic restatement in all reporting.

Finally, there is a question we would like the Board to clarify in its final deliberations:

- What happens if there is a change in the basis of preparation of financial information - how would this be dealt with? Guidance on this in the standard is recommended. A change in estimate is very wide, so how would you categorise a change in estimate? This might vary, with more work needed on certain aspects, does one size fit all?

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

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

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

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

In our internal deliberations, we have a consensus that the statement of compliance is too broad and rather open-ended, which means it will rely on judgement to be used.

In addition, there are several areas where disclosure is not required if the entity is unable to do so, or if local jurisdictions prohibit disclosing the information. As mentioned in other areas of this letter, it will make it harder to be comfortable on compliance and we consider that full compliance with ISSB Standards is not possible in these situations.

Therefore, in our view, it will be complex for entities to make a full statement of compliance for the first few years of application, and so potentially the Board could think about encouraging entities to report on an entity's progress towards compliance and in providing this insight would need to explain which requirements have not yet been met and why.

In addition, we believe the standard would benefit from a some more clarity over certain areas. For example, where the standard refers to the requirements of SASB, is this mandatory or purely guidance? Do entities need to comply with the SASB to state compliance with ISSB standards? In our view, reference to the SASB standards should be used as a guide; these standards should not be considered mandatory. We think the ED should be made clearer on this point if this is the Board's intention.

Question 13—Effective date (Appendix B)

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

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

Ultimately the timeframe for local implementation will be determined by local jurisdictions, and therefore we think the Board should make this ED available sooner rather than later for jurisdictions to adopt.

We acknowledge this is going to be a significant change for companies, especially as the Standards will be very broad. We have a concern this could lead to challenges in certain jurisdictions globally. Therefore, we believe a phased approach with climate being effective first feels sensible. We would prioritise climate because of the global climate emergency, and therefore we think many reporting entities will initially focus on environmental risks and opportunities and then they will look to report on the risks linked to social and governance matters after that. However, we acknowledge the key principles are included in IFRS S1.

Therefore, we think the Board should address whether or not IFRS S1 and IFRS S2 should be effective from the same date and therefore adopted at the same time. Should jurisdictions be allowed to determine whether IFRS S2 can be adopted without IFRS S1 and vice versa or is it more of an 'all or nothing' approach? Our preference is that these Standards are seen as a package and therefore should be released and adopted at the same time.

We agree with the Board providing the proposed relief from disclosing comparatives in the first year of application.

Question 14—Global baseline

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

requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

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

Overall, we do not see any issues with the Board intending that these requirements could be used as a comprehensive global baseline and the requirements of others could build on them. However, as it stands, we believe there is more work to be done to align other standards issued by other sustainability standard setters with these proposals, so they can build on the ISSB standards.

Question 15—Digital reporting

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

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

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

As mentioned earlier, we believe it could be helpful to have a specific location for reporting the information. It would particularly help when it comes to tagging the information in a taxonomy. Having the information in the same place would ensure consistency of the tagging.

We recommend the Board focuses on the jurisdictions that will adopt the ISSB standards as they are, and those having regional adaptions can build on this accordingly.

We also recommend the Board keep the taxonomy as simple as possible, so it is easy to follow and implement.

Question 16—Costs, benefits and likely effects

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

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

Overall, we believe these standards should be something businesses can implement (of any size) and without the need for significant investment in ESG and sustainability professionals, otherwise the desired outcome that this is embedded into an entity's business strategy is unlikely to happen.

We should not underestimate this will be a fundamental journey for a lot of companies and in some areas they won't have anything to report on. We believe it might be helpful to give entities the opportunity to disclose their sustainability reporting journey and plans on sustainability in a way which doesn't distract from where they are today and their performance for the reporting period, while still be able to comply with the standards.

There will obviously be costs of collecting the information and we do not believe we can make any comments that would significantly changes these costs, other than those suggestions we have made elsewhere in this letter.

Question 17—Other comments

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

We have the following comments to add:

- We believe a post implementation review (PIR) should be done as soon as practicable after effective date of the Standard.
- We believe there is a need for a conceptual framework that provides for a basis for sustainability standards. Ideally we would like to see one conceptual framework that addresses both financial and non-financial (ie sustainability) reporting to provide the connectivity that investors and other stakeholders are seeking
- We also believe there would be merit in the Board evaluating whether some differential reporting concessions for small and medium sized entities should be made. We appreciate the challenge for the Board will be establishing what criteria should be used for this regime (ie should it be based on financial amounts or ownership criteria, or some combination of the two). Given that 'IFRS for SMEs' (based on IFRS requirements) provided a pragmatic and cost-effective solution for many reporting entities, our wish is that some similar form of differential reporting could be applied to this standard and subsequent sustainability standards.
- We encourage the Board to consider the deployment of Transition Resource Groups (TRGs) to promote the consistent application of new sustainability standards, particularly prior to their effective application dates. TRGs have proven to be a cost-effective and efficient way of sharing knowledge between standard setters, preparers, auditors and those charged with governance on how to resolve a wide range of commonly found application issues. Our view is that the discussions at sustainability TRGs meetings could also prove very helpful to the Board as it looks to develop a significant amount of guidance material in a relatively short period of time.