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Comments on the Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (General Requirements Exposure Draft)

Dear Mr. Faber and Mrs. Lloyd,

We thank you for the opportunity to provide our comments on the proposed requirements as presented in the IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information draft. SABIC appreciates the efforts of the ISSB to drive further standardization.

At SABIC, we strongly believe ESG is an integral part of our business success and a license to operate in today's business environment. Therefore, sustainability has been a key priority for SABIC for many years. Since 2011 SABIC has published an annual sustainability report to display what SABIC is doing and how it is progressing. We will continue to integrate sustainability into our business, striving to create greater value for our Company, society and the planet.

As part of the consultation process, we would like to bring forward a number of key topics for the ISSB to consider as it works towards finalization of the sustainability related disclosure standards and subsequently a successful implementation. In the Appendix we have included a comprehensive overview of our feedback on your questionnaire.

Developing Economies Differentiation and Global Baseline

Creating a fair and equitable global baseline for developing economies versus developed economies is key for users of general purpose financial reporting. Today less than 8% of ESG investor flows are going into developing economies* while these economies will require the most efforts to catch-up with the rest of the world in terms of social development, infrastructure and sustainable prosperity and therefore will need the most inflow of sustainable capital funds.

** Source: Morningstar Direct, Manager Research. Data as of December 2021*

The connection between economic development and environmental friendly processes has been mutually exclusive for developed economies during several years in the industrialization period. Comparing different economic development timelines could lead to even a wider gap, because comparable data would always put developing economies to a disadvantage in the eyes of investors and make access to capital more expensive, restricted or unavailable.

The referenced frameworks and metrics used to build the exposure drafts are based on frameworks developed mostly in developed economies with a different history and level of sophistication. **We strongly suggest engaging with developing economies, companies and key players through an ISSB-led working group, to identify relevant sustainable development risks and opportunities and assess the proposed metrics in detail, as these are in a better position to give visibility to their value and impact.**

In addition to the above, we suggest considering proportional reporting requirements and further flexibility in those economies or groups that need to build capabilities or in case their reporting is less mature.

Definitions

While in some occasions we would suggest further flexibility to aid users in estimating its significant sustainability-related risks and opportunities according to their respective circumstances, in others, a more prescriptive set would be preferred, in order to ensure comparable and consistent information. Examples include defining "significant" sustainability risks & opportunities, better understand the boundaries within the value chain and further clarification of what control means in case of assets and investments. Furthermore, we would suggest aligning these definitions with International Financial Reporting Standards and other relevant guidance so that estimations and use of judgement are kept to a minimum. This will help to reduce unnecessary effort and cost, in view of required assurance and enhanced comparability between companies and industries.

Value chain

We fully support the need to understand the entities' value chain. However, we are concerned that there may be limitations in capabilities and data accessibility to provide appropriate disclosure of "significant" sustainability-related risks and opportunities across the value chain because of the complexity of value chains for certain industries, as well as availability of information missing from smaller suppliers, not (yet) subject to the same requirements. While clearer guidance that set forth manageable boundaries and attainable requirements would be suggested, we request flexibility that will allow us the ability to provide necessary information over time.

Connection and Verifiability

Making the connection between the "significant" sustainability-related risks and opportunities and the financial statements seems obvious, however we have concerns that this will be a challenging process. We are unclear how verifiable this connection will be (also for auditors) and what materiality should be applied, so more guidance is requested.

Furthermore, we would like to get more clarity in the context of an integrated report if different levels of assurance can be provided by the auditors, especially relevant on the connections arisen by the financial impacts of "significant" sustainability-related financial disclosures.

Consolidation

Consolidation rules are missing from the draft and this is particularly challenging for entities that operate across multiple industries and with complex ownership arrangements (e.g. joint ventures). The metrics need to be unified across different types of operations so that companies can report consolidated numbers. This is particularly relevant for non-Green House Gas emission metrics.

Effective date

The proposals as set forth in the IFRS-S1 Exposure Draft will require significant efforts, time and cost in order to comply. The majority of companies will need ample time to prepare and implement and, therefore, we would like to request flexibility with regard to the implementation timeline. To ensure broad acceptance and successful implementation in the long term we would further request for a phased approach based on capabilities and data availability.

Call for alignment

We would also encourage ISSB to set up a coordination mechanism with other significant upcoming initiatives like the U.S. Securities Stock Exchange Climate Disclosure Rule and the EFRAG for the Corporate Sustainability Reporting Directive (CSRD) in Europe, in order to secure a global standard and avoid increasing further the reporting burden.

Before the standards are final, we appreciate the ISSB considering the above feedback along with the additional responses included in the Appendix. In case the ISSB wishes discussing the above or has any further questions, please do not hesitate to contact us.

In the meantime, we will continue to advance our sustainability disclosure agenda in the spirit of the proposed Exposure Draft.

We look forward to working with ISSB in the future to provide users of general purpose financial reporting, society, and other stakeholders in particular, with more complete and transparent sustainability-related information so that financial effects on the enterprise value can be better understood.

Sincerely,

SABIC

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SABIC is a leading global chemical manufacturing company listed in the Saudi Exchange, Saudi Arabia. We are the second largest public company in the Middle East, with more than 30.000 employees, operations in more than 50 countries and sales presence worldwide.

APPENDIX: Comments to open IFRS consultation launched in March 2022

IFRS S1 - General Requirements for Disclosure of Sustainability-related Financial Information

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?

Yes, we believe the Exposure Draft states it clearly.

We have also noticed that the definitions in this Exposure Draft are included within Appendix A while in IAS 1, the definitions were presented within the main body of the standard. We encourage presenting the definitions in a consistent manner.

(b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?

IFRS provides guidance in their Basis for Conclusions and the requirements in there seem to allow quite some room for own interpretation by preparers. While in some cases a more prescriptive set would be preferred, in other occasions we would suggest further flexibility to aid users in estimating its significant sustainability-related risks and opportunities according to their respective circumstances.

Question 2: Objective (paragraphs 1–7)

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

In our view, opportunities are of equal importance to risks for investors to understand. We would therefore be in favor of mandatory disclosure of sustainability-related opportunities, except when such opportunities are unrelated to the core of the business or pose competitively sensitivity information.

(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 have observed that the definition of "sustainability-related financial information" leads to the term "sustainability-related risks & opportunities", which is a terminology that is not defined in the Appendix A.

Only paragraph 17 of S1 attempts to give some guidance. This definition tends to negatively affect the developing economies. By nature, industries closer to the conversion and transformation of natural resources into valuable products for society will be more natural resource/carbon intensive. A definition could be: "Sustainability risk means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment".

Alternatively, we would suggest to define "<u>significant</u> sustainability-related risks & opportunities", which we believe would give better guidance on the scope of sustainability related financial information.

Question 3: Scope (paragraphs 8–10)

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?

Yes but, unlike IFRS, these requirements will exceed the mandate and can or will not consider any local GAAP requirements or specifics. In addition, most of the jurisdictions' GAAP tend to follow a rule-based framework as opposed to IFRS' principle-based approach.

Application of these IFRS should be optional and left to the local/regional standard setters or the preparers of the financial statements.

Question 4: Core content (paragraphs 11–35)

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

Disclosures may be difficult to audit and compare due to subjective/judgmental nature of the data. There is a high degree of estimation/judgement required in order to provide disclosure. We recommend to align definitions and provide clearer guidance and illustrative examples in order to minimize differing interpretations.

Question 5: Reporting entity (paragraphs 37–41)

(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?

Yes, to assess any impact, it is important to have the same unit or level of account. Also considering that it will be published/disclosed and audited in the same document or report, which implies a report at consolidated level.

(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?

The lack of capability and accessibility of detailed data across the value chain may be an issue. We recommend setting clearer boundaries on the definitions and clearer requirements.

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

Partly, control (of assets and investments) is currently not well defined. Therefore it is subject to own interpretation and requiring more extensive notes and disclosures to *define these. For investments we suggest to follow IFRS 10 and for assets we suggest to provide specific guidance (e.g. leased assets).*

Question 6: Connected information (paragraphs 42–44)

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

Yes, it looks like the cross-references in financial statements. Suggest to mention them explicitly as cross-referencing, instead of 'connections between'.

(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?

No, the issue is how 'auditable' information is and what materiality can be applied. In financial statements, it can be calculated as a ratio. For sustainability related risks and opportunities this applies less. However, one to support the other, like the decision to invest, disinvest or consolidate activities. Note that in a balanced supply/demand market like petrochemical business, this is considered to be confidential information. Peers might choose to delay publication or apply boiler plate disclosures and notes.

Question 7: Fair presentation (paragraphs 45–55)

(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?

Yes, but take into account earlier considerations about the comparability between peers and avoiding duplication of notes/disclosures throughout the financial statements. Current language in the exposure draft is viewed as fairly vague and we suggest to make it less open ended.

Question 8: Materiality (paragraphs 56–62)

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

Not entirely, as materiality is linked to influencing a user's decision. For financial statements this can be quantified through an amount or ratio. Qualitative materiality is difficult to determine and subjective. With a missing practice, more and specific guidance would be preferred. Also, materiality is applied differently across auditors with different thresholds. This dynamic should be avoided if possible.

(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?

As materiality is not clearly defined, different notions and thresholds may be applied by entities and users of general purpose financial statements. We believe that the arbiter of sustainability-related disclosures should be the entity rather than the users. Users cannot be expected to comprehend all sustainability priorities and needs. The entity must have the opportunity to make its sustainability case as it relates to its industry, national and *local circumstances. It would be expected that the entity would make an effort to relate to users since they will ultimately make the investment or lending decision.*

(c) .

(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?

Yes, compliance with local law has priority.

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

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?

Yes, one of the objectives is to facilitate users of general purpose financial statements to have all the information to determine the enterprise value. To meet this objective, it would be preferred to publish/disclose sustainability related financial disclosures at the same time and covering the same period.

Though key concern will be the timely availability of certain relevant sustainability data and sufficient time for auditors to complete their assurance review (including notes).

In addition, interim reporting does not seem to be appropriate for certain sustainability-related disclosures and therefore, it should be left optional.

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

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

We do not agree. It's preferable to determine a particular location within the general purpose financial reporting, as long as such determination does not conflict with specific jurisdictional regulatory requirements on general purpose financial reporting.

(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?

No

(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?

Yes, same practice is applied for the current IFRS compliant financial statements in accordance with IAS 1 paragraph 113.

(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?

No, it is not entirely clear. ISSB is adopting the TCFD approach for the sustainability related disclosures but it is not clear enough whether each standard needs to follow the TCFD split or it can be disclosed at once for all standards. For instance, the last cross-industry disclosure under S2 refers to remuneration. It is assumed that several other standards will also include remuneration. Does the disclosure need to be made separate for each standard or else, it can be disclosed under the Executive remuneration section of the annual report?

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

(a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?

Yes, but it can be made clearer where to disclose any corrections/errors. Also, only materiality assessment for restatement should be considered.

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

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

Agree, as it is aligned with IFRS.

Question 13—Effective date (Appendix B)

(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.

For new issued Standards, there should be enough time allowed for implementation as the (interpretation of the) Standard needs to be understood and information needs to be collected; potentially requiring to update systems or to engage with auditors or advisors.

Amendments to Standards can probably be applied sooner as these are mostly further clarifications to the Standard.

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

We do agree, as it will facilitate a smoother implementation, though it conflicts with IFRS 1 considerations and will cause a disconnect in the requirements. The advantage is that no restatement is required and once transferred to IFRS it can be applied quicker.

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?

While considering Global baseline, it is important to take into consideration proportional reporting requirements to help address the concerns of developing economies that are less ready and may have less sophisticated reporting experience – e.g., in timings to set up targets, quantification, data, related processes, capabilities, level of assurance etc.

In addition, the disclosures should at least introduce clear differentiation between developed and developing countries to avoid a fair distribution of capital flows. Further examples are given in the S2 document and in the introductory letter.

Question 16—Costs, 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 analyzing the likely effects of these proposals?

Longer term, SABIC sees the benefit of reporting on ESG matters as it is expected that it will drive the strategy and performance. In the short term, external stakeholders may experience the most benefit from the disclosures. Significant efforts, resources and cost (including IT) are anticipated to implement the proposals and build internal capabilities.

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

It is requested to limit the administrative/reporting burden on entities to minimize the required resources and cost to apply the proposals longer term.

Question 17: Other comments

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

The proposed metrics are less 'friendly' for companies operating in developing economies and adding metrics such as avoided emissions, carbon capture, GDP development speed, value of local content programs would help balance this. ***We would suggest to have a separate working group with representatives of developing economies to secure a fair balance of disclosures.***

We would also encourage ISSB to set up a coordination mechanism with other significant upcoming initiatives like the US SEC Climate Disclosure rule and the EFRAG for the Corporate Sustainability Reporting Directive in Europe.