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Consultation Response on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information Exposure Draft

Dear Mr. Farber/Ms. Lloyd,

Shell International B.V. (Shell) would like to thank the International Sustainability Standards Board (ISSB) for the invitation to comment on the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standard (SDS) Exposure Drafts (EDs), General Requirements for Disclosure of Sustainability-related Financial Information (S1) and Climate-related Disclosures (S2). We welcome the ISSB's efforts in leading this work to initiate the establishment of a comprehensive global baseline of sustainability-related disclosures with the aim to provide consistent, comparable, and verifiable decision-useful information to meet the needs of investors. In line with our support for the development of the ISSB (in response to the IFRS Foundation Consultation Paper on Sustainability Reporting dated 21st December 2020), we fully appreciate the ISSB's leadership in an undertaking of this scale. The length and content of this response reflects both our commitment to and the importance we attach to this aim. This response, focused on the IFRS S1 ED, should be read in conjunction with our IFRS S2 ED response due to the connected nature of the key themes and comments.

Shell has a strong sustainability focus, and a long history of reporting on sustainability- and climate-related matters. We believe the development of global sustainability disclosure standards is of paramount importance in providing investors and other stakeholders with relevant and useful information. We encourage the intended connectivity of sustainability reporting with financial reporting and the incorporation of decision useful information for investors. We also support the approach taken to build on existing standards and guidelines, specifically the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations for both structure and content, as this will improve the efficiency and speed with which ISSB can take on this work.

To achieve global alignment, it will be critical for standards setters and regulatory bodies to work together to achieve one global standard, and we continue to encourage the work of the ISSB in driving convergence between the United States Securities and Exchange Commission (SEC) and the European Sustainability Reporting Standards (ESRS).

We are, however, seeking additional clarity and guidance on certain provisions of the EDs and would like to inform the ISSB of potential challenges. Our responses to all specific questions in S1 are below. Key themes covering both sustainability- and climate-related disclosures we would like to highlight are:

- We believe there is a need for the ISSB to develop an overarching principles-based "sustainability conceptual framework" which establishes the foundations for the SDSs to be developed, providing sufficient clarity on objectives, structure, and definitions that ensure future SDSs are consistent with each other and support transparency and comparability. Such a framework would allow for definitions of "sustainability", distinguish between sustainability- and climate-related matters, differentiate similar terms such as "significant" and "material", clarify "reporting entity", and where feasible, adopt already tested definitions from financial reporting while limiting the introduction of new definitions such as "enterprise value".

- We see a need to correct the current trend in standards setting that appears to focus primarily on what to disclose (the "what"), rather than how to determine, measure and calculate (the "how"). The optimal balance of both the "what" and the "how" will be important for consistency and comparability.

- We feel that quantitative metrics and targets in isolation do not provide sufficient insights to inform investors, which is why we believe the TCFD approach incorporating the narrative context as well as the metrics and targets brings holistic and valuable disclosures. Again, ensuring optimal balance between metrics and targets and narrative context will be key.

- We are not supportive of the incorporation of requirements by cross-reference to external standards and guidelines. In our view, content should be developed for inclusion directly within the SDSs as opposed to cross-referenced to others. Our rationale is that many issues arise when cross-referenced materials are used but are not developed using the same conceptual framework, leading to confusing and sometimes conflicting requirements. As these external standards and guidelines change over time, sometimes without the involvement or awareness of the ISSB, this may lead to further misalignment.

- We believe that where a principles-based approach is applied, there is limited need for industry-specific requirements. We are uncertain of the applicability and value of an industry-based approach to sustainability-related matters, which could further complicate reporting for companies that span multiple industries and/or geographies. We recognise that for certain topics such as decarbonisation, a sectoral approach can prove useful to enabling transition.

- We are concerned by certain provisions in the EDs related to the expansion of reporting entity boundaries for disclosures to include material information about all sustainability- and climate-related risks and opportunities (SCROs) that an entity is exposed to, including those along its value chain. These requirements bring significant growth in volume and complexity of disclosures, as well as challenges in application, e.g., obtaining, calculating, assessing and assuring such information in a timely manner.

We appreciate the opportunity to provide our views on this important standard setting effort and certain aspects of the EDs and thank you for your thoughtful consideration of the matters raised in this response. If you have any questions or would like additional information, please do feel free to contact us and we would be pleased to further engage.

Sincerely,

/s/ Edwin Kunkels

Vice President Group Reporting, Deputy Controller

Discussion on questions in S1

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?*

No. The approach in general appears to focus more on what to report, whereas we would like to see development of a principles-based conceptual framework for sustainability reporting in a similar way that has been developed successfully for financial reporting. Such a conceptual framework would set out the fundamental concepts for sustainability reporting to guide development of S1, S2 and future SDSs, helping to ensure consistency throughout these.

We would welcome further definitions and, where feasible, alignment of key definitions with the financial reporting conceptual framework, which have already been tried and tested. For example, there is currently no definition of what is meant by "sustainability", and the term "enterprise value" is something that is not used in financial reporting by the International Accounting Standards Board (IASB). We appreciate the intent of enterprise value is probably to focus on investors, and if that is the case, we would recommend language that refers to the needs of investors as opposed to the current quantitative definition. More guidance is also required beyond the "what" to disclose to more on the "how" to determine, measure and calculate performance metrics.

(b) *Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective?*

This is challenging due to the degree of judgement to be applied by preparers in terms of what sits within the scope of sustainability, the interpretation of the term "enterprise value" and how to assess and apply both the terms "significant" and "materiality", which could be interpreted as having similar meanings leading to difficulties with implementation. In addition to the comments in S1 Q1(a) related to the conceptual framework and definitions, we recommend streamlining the SDSs by clearly defining the term "significant", distinguishing it from "material", and focusing preparers' efforts on identifying and assessing materiality of sustainability-related risks and opportunities.

(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?*

This is difficult to assess at this point considering the clarity and guidance sought. However, in view of S2, further consideration should be given on how to avoid duplication or excessive disclosures across the broad range of topics. For example, where there are a large volume and broad range of items, governance or strategy information is unlikely to be integrated. In the absence of these other ISSB SDSs beyond S1 and S2, the cross-reference to the many other requirements from existing standards is not helpful, as these may not be complementary or even contradict the objectives within S1 and S2 (see more on this in our responses to S1 Q7 and S2 Q11).

We suggest narrowing the scope of disclosures required initially to those which are most useful to investors and bringing on further topics via development of the sustainability conceptual framework, followed by future ISSB SDSs more gradually. This would help preparers to focus on quality rather than quantity, providing the most relevant, useful, consistent, and comparable information to investors.

(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?*

No. As mentioned above, the degree of judgement on what is within the scope of sustainability, the application of the term enterprise value and the complexity of having both significance and materiality assessments will make assurance of compliance difficult. Also, the broad reference in S1 paragraph 51 to external standards and guidelines and '*the most recent pronouncements of other standard-setting bodies*' is likely to create significant challenge on which specific criteria and standards auditors and regulators should assess for compliance.

Question 2 (Objective – Paragraphs 1-7)

(a) *Is the proposed objective of disclosing sustainability-related financial information clear?*

Yes, this is clear.

(b) *Is the definition of 'sustainability-related financial information' clear (see Appendix A)?*

Yes. The definition is broad, and the terms suggest information that is monetary or otherwise quantitative in nature, but much of what is referred to as sustainability- or climate-related is non-financial, e.g., metrics and targets such as emission volumes and water usage. However, we recognise that the robustness of non-financial information regarding sustainability such as governance, strategy, and risk management, in addition to metrics and targets, will ultimately influence financial results and are therefore decision useful for investors.

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)?

Our focus is primarily on IFRS, however in principle we support that the SDSs should be capable of being used by entities that prepare their general-purpose financial statements in accordance with another jurisdiction's generally accepted accounting principles (GAAPs). It is, however, not clear how practical this ambition is for other GAAPs in view of the aimed connection between the International Accounting Standards Board (IASB) and the ISSB.

Question 4 (Core Content – Paragraphs 11-35)

(a) *Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined?*

Yes, and overall, we welcome and support this approach building on the TCFD Recommendations.

(b) *Are the disclosure requirements… appropriate to their stated disclosure objective?*

We are concerned with S1 paragraph 22 under *"financial position, financial performance and cash flows"* and the forward-looking nature of the required disclosures on the financial position from sustainability-related risks and opportunities in the short term and the anticipated effects including "the change over time". We would recommend the ISSB consider an equivalent of IAS1.125 within S1, or "connect" them for sustainability related sensitivity analysis.

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?*

We agree the reporting entity should be the same for financial statements and sustainability reporting. However, clarification is needed especially on reporting entities and value chain reporting. It would be beneficial to firstly define the reporting entity in relation to general purpose financial statements. Only when the reporting entity is clearly defined, should we then consider the value chain of that reporting entity. As currently drafted, reporting entity and value chain appear to be combined, which is confusing.

With reference to the reporting entity in S1 paragraph 40c, under IFRS accounting standards, joint ventures and associates are not controlled and therefore clarification is required. Assuming the intent of definition is to include the scope of all joint ventures, and associates, where certain data is not available from these, provision should be made for these exceptions.

Clarity and guidance are needed for defining reporting boundaries for all metrics. For example, it is unclear how a reporting entity should disclose metrics that are indivisible, such as safety incidents or spills, where proportional or equity share may not be meaningful.

For many sustainability performance metrics, including GHG emissions, reporting under operational control is a useful lens. Also, the GHG Protocol permits reporting under operational control, equity, and financial boundary. As such, we recommend that reporting under the operational control and/or equity share boundaries be permitted.

(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?*

While the definition of "value chain" in the glossary provides helpful clarification over the types of activities encompassed, this broad definition leads to expansive and unclear reporting boundaries. Value chain currently encompasses *"the full range of activities, resources and relationships related to a reporting entity's business model and the external environment in which it operates"*. We agree that the disclosure of SCROs in the value chain should be subject to the reporting entity's judgement based on materiality. However, the concept of reporting across an entire value chain is complex, and without robust guidance and methods to obtain and calculate the information and data, this is unlikely to result in consistent and comparable reporting.

Reporting entities will rely heavily on others in their value chain to provide sustainability-related data. In some cases, small- and medium-enterprises in the reporting entity's value chain may not yet be equipped to gather this level or type of data. This will create a significant burden for the reporting entity to meet disclosure obligations, potentially impacting the availability and accuracy of the data and timeliness of reporting. Some in the value chain may also object to sharing information and data with reporting entities due to legal, confidentiality or other reasons. As such, the reporting of SCROs and related metrics from the value chain is likely to be one of the most challenging aspects of the proposed approach to sustainability reporting.

(c) *Do you agree with the proposed requirement for identifying the related financial statements?*

Yes, we agree that the related financial statements should be identified.

Question 6 (Connected Information – Paragraphs 42-44)

(a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities?

Yes, it is clear. However, it should be noted that drivers of decisions and trade-offs within a reporting entity are not always linked solely with sustainability related risks and opportunities. Sustainability is often one of many considerations when an entity makes decisions, e.g., investments and divestments. Therefore it is important to note that sustainability-related risks and opportunities are not always separately identifiable from delivering the overall business strategy.

(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?

Yes, there are clear instances where this can be done such as sensitivity analysis on asset carrying values using external climate related scenario prices and describing asset useful lives.

For an example of how we have aimed to address this, please refer to Note 4 Climate Change and Energy Transition to the financial statement of Shell's 2021 Annual Report and Accounts.

Question 7 (Fair Presentation – Paragraphs 45-49)

(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?

We understand and agree with the need for sustainability-related financial disclosures to be presented fairly. However, to achieve this requires development of a sustainability conceptual framework (refer to our response to S1 Q1). Sustainability-related information involves judgement and higher degrees of uncertainty, especially about future outcomes. These judgements include the topics to cover, the metrics to use and the level of aggregation to adopt. Applying these judgements to the broad range of cross-referenced standards and guidance in the EDs is likely to result in a low level of consistency, comparability, and quality of reporting as well as challenges with compliance and assurance.

(b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures?

No, we do not agree with the current approach of incorporating requirements by cross-referencing to existing and developing standards and guidelines, entities operating in the same industries or geographies, and the broad reference to "*the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general-purpose financial reporting*". This reference is too broad and gives rise to issues around understanding and meeting requirements and assuring disclosures. We instead recommend an approach where relevant topics are developed directly into SDSs. In recognition of this transition phase, in the interim period while further SDSs beyond S1 and S2 are being developed, we suggest that cross-references are optional and not mandatory and that reporting entities are permitted to continue to continue to report using guidance they currently apply.

These references for the identification of disclosure topics and metrics to consider as potentially significant are concerning due to the broad range of references which may not be complementary to each other and/or aligned with S1 and S2. Some referenced standards appear inconsistent with the EDs, as they require disclosure of metrics irrespective of materiality. Disclosures without due consideration of materiality could be especially challenging for large multi-national and multi-sectoral entities. These requirements present a broad set of potential topics for an entity to consider that could lead to significant increases in disclosed information, which may need significant rework when further SDSs are produced.

Further points noted on the referenced standards include the international applicability of SASB metrics. As the SASB Standards have been developed in the USA, the potentially material disclosure topics for each given industry have also been identified in relation to US-based companies and practices. Not all the SASB disclosure requirements will be decision relevant, and if this information is not used internally by reporting entities, it should not be required to be disclosed. Also, topics and metrics across industry-based SASB Standards are not always consistent, making aggregation of multi-sector data challenging in assessing materiality and disclosing the data – for example, community-based social metrics are not covered under every SASB Standard relevant to a preparer acting within multiple industry sectors.

Question 8 (Materiality – Paragraphs 56-62)

(a) Is the definition and application of materiality clear in the context of sustainability-related financial information?

No. We propose alignment of the concept of materiality throughout the EDs with the definition in the IASB's Conceptual Framework for Financial Reporting and IAS 1 Presentation of Financial Reporting. This would address the current inconsistency in the materiality definition between *'…reasonably be expected to affect the assessment of an entity's enterprise value…',* and *'…reasonably be expected to influence decisions…'*. Information that impacts the assessment of enterprise value is narrower than information that may affect decision-making. Information may not influence the primary user's assessment of enterprise value but may impact the user's decision to invest in an entity.

(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?*

No. Refer to S1 Q8(a) above.

(c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information?

No. We recommend the ISSB provide more guidance to support the consistent application of materiality. More specific guidance is needed to ensure that the sustainability-related financial information is consistent, comparable, and verifiable. We also encourage the ISSB to develop disclosure requirements on the judgements and assumptions used by preparers when assessing materiality in the context of sustainable-related matters. Similar requirements are already in place within the notes to the financial statements under the IFRS accounting standards.

To support this effort, we recommend the ISSB to work closely with the IASB to find alignment with the Practice Statement 1 Management Commentary Exposure Draft which refers to material information as *'factors affecting the entity's ability to create value and generate cash flows'*.

(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?

Yes, we are in support of this proposal.

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?

Yes, in principle we agree that timing of sustainability-related financial reporting should be at the same time as the financial statements, apart from interim reporting, which should be by exception only if there is a material change to previously reported disclosures.

Question 10 (Location of Information – Paragraphs 72-78)

a) *Do you agree with the proposals about the location of sustainability-related financial disclosures?*

Yes, we agree with this proposal.

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, we are not aware of any such requirements.

c) *Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general-purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced?*

Yes, but only where cross referencing is permitted from a regulatory and audit or assurance perspective. If not, then it should be within the general-purpose financial reporting itself.

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?*

Yes, however even with integrated disclosures, the broad nature of sustainability-related topics may still result in excessive disclosures across the many topics.

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?*

Yes. However, also refer to our response to S1 Q1 on the need for these SDSs to focus not only on what to disclose but also on how to measure metric disclosures. Many metrics have very limited definitions, standards, and guidance available for estimation and calculation methodologies. In the absence of these, uncertainty ranges are also not readily available. Further clarity and guidance may be needed (e.g., where sources can or cannot be directly metered) to ensure consistent application and comparability of disclosures.

(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?*

Yes, where practical and where a reporting entity amends estimates, comparative information should be revised with commentary explaining the change.

(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?*

Yes, we agree with the proposal, and we are not aware of any such circumstances.

Question 12 (Statement of Compliance – Paragraphs 91-92)

Do you agree with this proposal?

Yes, subject to clarification sought in S1 Question 7 regarding the mandatory or optional nature of the cross-referenced standards. It may be helpful to include a provision allowing for explanation when compliance with a specific requirement is not possible for any reason (e.g., comply or explain).

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?*

This will be influenced by the outcome of this consultation and the final SDSs published, but we believe a minimum of two years from the issuance of a final SDS should allow sufficient time for a reporting entity to develop solutions to identify, gather and assess sustainability-related financial disclosures.

(b) *Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application?*

Yes, we agree with this proposed provision and a phased approach with early adoption permitted.

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?

Yes, and we have outlined these throughout this consultation response, including a high-level summary of the most challenging aspects of the proposals in this ED.

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)?

We welcome the ISSB's plans to prioritise enabling digital reporting, however this will only be feasible where there is a reasonable volume and complexity of disclosures enabling a Taxonomy and digital reporting.

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 analysing the likely effects of these proposals?*

Having consistent, comparable and decision useful information on sustainability reporting is key for many stakeholders. It is important and we are committed to this objective. As we go through the development of these SDSs, the cost/benefit assessment as well as the avoidance of a check-the-box mentality and clutter will be of critical importance.

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

No further comments.