Response to the [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

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Thank you for the opportunity to respond to the [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information.

We appreciate the work of all the contributors across the industry, government, finance, NGOs, the academic community and beyond.

We recognise the vital work the IFRS, the ISSB, and the more comprehensive work from bodies such as ICAS and the broader accountancy profession are undertaking.

Due to the recent 'greenwashing' scandals and the lack of trust in the market, the interface between science-based targets and finance will be vital to aligning to create a viable market for sustainable capital and investments.

About
The Martello Advisory works with the boards, CEOS and CFOS to understand the ESG transition and make the required changes to protect their business, access to capital and future valuation.

We work with businesses seeking to raise either debt or equity (M&A) capital via public and private market transactions who hold or develop an advantage from their science based ESG advantage.

As a result, these businesses can demonstrate green revenues, implement the relevant frameworks and standards, and be the drivers of the circular economy.

We advise funds and investors seeking to understand the current and future investment opportunities coming from the ESG transition.

If required, we welcome the opportunity to develop any of the points raised in the document.

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Overall Observations

- In favour of the draft, it establishes an excellent blueprint and direction of travel.
- Very supportive of the high-level concept of forward-looking measurement of opportunities and risks.
- Any comments or observations are iterative, and the expectation is that others will have picked them up, it is inevitable that there will be tightening of the thinking.
- Overall supportive and look forward to working with the IFRS on how to progress and improve.

Areas for improvement

- At times the conceptual framing appeared a little unclear and somewhat confused.
- At times it felt the stated objectives were lost, it was unclear as to what information should be disclosed, leaving the onus on the entity to make a choice.
- Lack of clarity on definitions may lead to misuse or interpretation within the capital markets context, therefore increase the risk of abuse.
- For materiality, connected information, and fair representation, theoretically this makes sense, however the vagueness over the baseline comparative information is problematic. Choosing a set of data, for example, IPCC, or IEA would ensure progress is measurable.
- This would be particularly useful for companies want to engage in the emerging sustainable listed bond market, the LSE Green Mark, or wanting to sidestep the current ESG rating system which is problematic.
- Understand the conceptual usage of enterprise value to direct finance, however an aligned starting point is required.
- The starting point could or should be the GRI standards, which many in the finance market recognise and would act as a baseline, which will also read across into understanding of impact (carbon, climate, biodiversity, and society issues).
- The benefit with using the GRI are it will speed up harmonisation and get all market participants in one track, they are robust, manageable, and very logical for both investors and the company level.
- As harmonisation and disclosure will make it easier for investors and analysts to put a value on companies, thus if IFRS draft can be more specific on the data, and baseline comparison, and impact definitions this will make that process easier.

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- Put another way, the IFRS has an opportunity to define what the future financially information should be, and it should take the opportunity.
- How will the IFRS draft, consider future megatrends? Should some guidance be provided?

Question 1: Overall Approach

The approach is good but requires tightening as there is still room for greenwashing, misstatement of impact, and a more science-based approach.

At present, there are models and predictions as to negative risks, however we require more practical connection as to how this will impact enterprise value. Mandating the GRI standards, alongside the draft, would be an excellent starting point.

More definition, and even tangible examples are required. Current draft is loose, and hesitant, which will open it to wide interpretation. Being specific on what needs to be disclosed today and leaving room for what the future disclosure landscape will be very helpful.

With the enterprise value, this is a good starting point, which needs to be developed more via the following lens:

What will be useful for investors and capital markets as measures for valuation?
Within this context what is the definition of EV, and as the draft seeks forward looking risks and opportunities, how does it change, or what influence will be applied over future time horizons, what will this do in terms of risk factors for investors, does the draft need to specify that it is seeking sustainable-related information.

Overall, it would be useful to tighten the definition of sustainable finance, and therefore what is disclosed, which in turn will link back into the definition of the enterprise value.

Question 2 Objective of the draft covering paragraphs 1 – 7

Requires tightening of the objective, and a clear definition. If the objective is to disclose sustainable finance information to measure impact, quantify opportunity and risks, then this should be on the face of the document.

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At present this leaves considerable requirement for interpretation and judgement, which potentially defeats the overall direction of the draft.

Again, aligning and connecting with the GRI standards would be very useful.

<u>Question 3 Scope covering section 8 – 10</u>

Financial risks and opportunities are difficult to measure, therefore unsure of how current GAAP standards are useful.

Starting point for assessment, and due to the fact, the dominant frameworks are now science-based targeting, CDP, TCFD and presumably TNFD, these measurements would be useful to use. Leaving a capex or financial figure to be calculated. Again, using the GRI as the baseline.

Pulling these frameworks (methodologies for measuring risk, opportunities) with the IFRS (as the measurement for finance) would then align all the dominant pieces of the jigsaw. Using the GRI as the governance and the roadmap.

<u>Question 4 covering the central paragraphs of 11-35</u>

As noted above, tightening required on the disclosures, which themes need to be covered.

With governance and strategy, perhaps mirroring what is in the GRI standards, would suffice and harmonise the focus quicker. The GRI disclosure requirements are very clear, where additional support could be offered by the IFRS is on the calculation and interpretation of financial risks and opportunities. This is where guidance is required for the market.

With the strategy, if the objective is to integrate, measure and account for ESG factors and their positive or negative impact then the strategy should be disclosed. This would align with GRI and TCFD thinking.

So yes, the strategy needs to be disclosed or it is impossible to measure the future capex and financial resilience.

This then aligns with the suggestion to disclose the material impact and how this will impact financial position. This also ensures it is factored into the overall board level strategy and investment decisions.

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The critical point here is to show the decision making of the board. ESG is such a broad definition, at present it has many meanings, if the rationale of the board understanding of the issues, and which to prioritise, then it makes it easier for investors or stakeholders to choose the company to support over the short and long-term.

With this point, more definition, would make it more explicit. With risks and opportunities, it is key to emphasise that this is to improve the overall performance of the entity (which will impact enterprise value).

It would be useful if this section aligned with the TCFD, structure and categories, which make it explicit as to how risks and opportunities should be approached, and how entities should seek to report and measure within the financial context.

Question 5 Reporting entity paragraphs 37-41

Greater definition around reporting entities and portfolio, so greater clarification as to a group level or individual level.

With the value chain, factoring in the risk and opportunities is important. For example, company x main product is coffee supplied by company y based in sub-Sahara Africa, what are the risks to the value chain. I.E if company Y goes under due to negative externalities, then what does this do to the valuation and financial position of company X

If clarity is not provided, it leaves scope for camouflaging risks and opportunities across a portfolio.

Therefore, the risks outside the company are important to understand, and how they then translate into financial risks. GRI impact reporting would be a useful tool for this part.

Question 6 Connected information:

This section is good, however like TCFD or GRI guidance as to how to develop is important. As noted above, what is the baseline data that the reporting should be based upon. For example, high intensity reporting could choose a dataset which is not aligned with IPCC or IEA therefore reporting from a different global baseline. Again, refer to the GRI process.

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Question 7: Fair Presentation

As noted, this is a valuable notion, however, to do so the definitions around scope, enterprise value, strategy, baseline data and overall tightening of the objectives for a company to provide 'fair presentation' aligned with current fiduciary duty compliance and interpretation.

Question 8 Materiality

Taking a single, materiality view makes sense from the point of valuation, perspective, however there are also merits in the double materiality approach, and it will be interesting to see if both can be addressed.

Requires a double materiality approach, along with impact reporting. This is the only way financial markets can understand and incorporate the company position and prospects.

Given the debate around materiality, significant more guidance will be required.

Ends -----

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