



Capitals Coalition  
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Social Value International  
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International Sustainability Standards Board (ISSB)  
Emmanuel Faber, ISSB Chair  
Sue Lloyd, ISSB Vice-Chair

29th July 2022

Dear Chair Faber and Vice-Chair Lloyd,

On behalf of the Capitals Coalition, Social Value International and all the supporting organizations listed below, we would like to thank you for the opportunity to comment on the exposure draft IFRS S1, General Requirements for Disclosure of Sustainability-related Financial Disclosure. Particularly, thanks to Lois Guthrie (IFRS) and Caroline Clark-Maxwell (IFRS) for their participation on the webinar that we hosted on 22nd of June 2022. This webinar has been most helpful throughout the process of producing our response in collaboration with our communities.

We recognise that the formation of the International Sustainability Standards Board (ISSB) represents the start of a journey for the International Financial Reporting Standards Foundation (IFRS Foundation) and the users of IFRS. The Exposure Drafts for IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related disclosures represent a critical step in advancing the management of sustainability issues.

We have responded below to each of the 17 consultation questions relating to IFRS S1. IFRS S2 is addressed under a separate response submission. This covering letter takes the opportunity to summarise four key recommendations that have emerged through our reading of IFRS S1. We believe that addressing these issues would reduce the risk of confusion for users of IFRS standards and avoid future complications as financial accounting and reporting continues to evolve.

### **1. Consistent criterion for useful information**

We recommend following IASB structure and logic for useful information. We understand that the structure and some of the logic has been drawn from TCFD and that this represents an attempt to reconcile some of the existing work on sustainability with IASB standards. However, given the focus on useful information for investors and the references to IAS 1 and 8, we would argue that the Conceptual Framework for Financial Reporting should be the starting point drawing in sustainability issues from other sources as appropriate. Our concern is that any inconsistencies between IFRS S1 and IASB in defining and determining useful information risk reducing usefulness in both IASB standards and ISSB standards.

This lack of consistency with IASB standards could have several implications on the following aspects:

### **a) Uncertainty**

IFRS S1 refers to sustainability-related financial information that does not yet meet the criteria for recognition in the related financial statements (Para 6b). Where this is because the level of certainty required to disclose items is lower in IFRS S1 (para 79) than under IASB standards (para 6b and para 79) there would be a difference in what is considered useful information. This difference in the scope of useful information could mean that IASB standards require updating, or that their interpretation and implementation needs clarification – both of which would have consequences for the drafting of IFRS S1. The implications of this should be explored in IFRS S1 and we recommend considering the key recommendations from the discussion paper *'Disclosing impacts on natural, social, and human capital in financial statements'* (Capitals Coalition, 2021). This might be more relevant for the judgement of whether to disclose information in relation to obligations in the notes to the financial statements or in the sustainability disclosure. The risk is that if there is a lower level of certainty for disclosure under IFRS S1 there could be information that is being excluded from IASB that could now be useful at the same level of certainty as required for disclosure under IFRS S1.

### **b) Assessing managements stewardship**

Under the Conceptual Framework for Financial Reporting (CFFR) 'useful information' includes information to support 'their assessment of management's stewardship of the entity's economic resources.' (para 1.3). This should provide a measure of performance (and therefore trade-offs that have been made). IFRS S1 currently requires information on the process for handling trade-offs (para 13 (e) and then 21c) but does not require the same level of detail as in the CFFR.

To be more consistent with IASB, when assessing the usefulness of sustainability information, the assessment of management's stewardship (i.e., decisions regarding sustainability information) would require quantification of trade-offs. The ISSB should consider adding this requirement to IFRS S1, or at least signalling that this is the direction of travel. The quantification of trade-offs would require valuation of impacts to society (Inside-out), as well as impacts to business (Outside-in), building on the frameworks of the Natural Capital Protocol, the Social and Human Capital Protocol and the Principles of Social Value.

### **c) Management's historic decisions**

IFRS S1 requires disclosure of historic management decisions about impacts on society and future impacts to business. To be consistent with IASB's 'useful information' which only covers historic management decisions, IFRS S1 should include a requirement for these to be separately disclosed. Where a management commentary on financial reports is mandated, there would also need to be clarity on the relationship between disclosures under IFRS S1 and the contents of the management commentary of financial statements (para 17).

### **d) Intended users**

Confusion and differences in assessment of useful information could arise from inconsistencies in understanding primary users.

For example: On the IFRS website, under FAQs about the ISSB, it states that "*the focus of the ISSB will be on meeting investors' needs*". However, in the Exposure Drafts it states that "*The proposals set out the overall requirements for disclosing sustainability-related financial information in order to provide primary users with a complete set of sustainability-related financial disclosures*". There is an inconsistency here in S1 but also with how primary users are defined by the IASB which covers existing and potential investors, lenders and other creditors. It would be useful to include a definition of 'potential' as well as recognising the difference between investment managers and the investors in whose interests they act and for the CFFR was produced.

We understand that IFRS S1 is a first building block to ensure consistency in sustainability disclosures but there is an opportunity for IFRS to be more transparent about the information needs of 'investors' and 'primary users' in relation to impacts to society and sustainable development. IFRS S1 represents the first point on a journey towards a system where investment decisions are made in the interests of all those impacted by an entity's operations. Our comments focus on issues that will make this journey as smooth and as quick as possible.

## **2. Assurance judgements on what is financially material sustainability information (single materiality) require an understanding and analysis of a wider set of sustainability information (double materiality)**

The provision of useful information depends on both consistent preparation and assurance of the judgements made in that preparation. Assurance of what is considered sustainability related financial information would require consideration of the wider sustainability information (what is material and what is not) and the process by which this is reduced to the financially material information.

In addition, where the issues are the same but the relative importance to those experiencing the consequences is different to the relative importance of primary users, there is a risk that decisions being made based on financial materiality may have sub-optimal or even net negative consequences for those experiencing those impacts.

A good example of this is found under the BSI8632 Natural Capital Accounting for Organizations, where there is the requirement to disclose the value of impacts and dependencies for the organisation, (i.e., relevant for investors), alongside the value of impacts and dependencies for society (i.e., the consequences of decisions for those experiencing those impacts).

## **3. Reasonable**

Although we recognise that the scope is restricted to information useful for the assessment of enterprise value, question 3 of the consultation references information that would be used in a reasonable assessment which is not the same thing.

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<sup>1</sup> <https://www.ifrs.org/groups/international-sustainability-standards-board/issb-frequently-asked-questions/>

*'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'*

There is a need to consider the wider question of whether it is reasonable to limit an assessment to enterprise value, especially recognising the challenges that society is facing: climate change, biodiversity loss and inequality. Limiting assessments to only enterprise value considerations seem insufficient, especially as IFRS acts in the public interest. We recognise that this restriction is drawn from IASB (para 1.3 of the Conceptual Framework) and that the trustees seek to provide useful information for the maximum number of users (para 1.8), but we believe it is time to consider whether this is still the case and whether in fact the information needs of the maximum number of users would now be met by providing information on both expected financial returns and other consequences of the entity's operation, (i.e., allocating to activities that provide financial returns and contribute to sustainability).

We are happy to continue to discuss this in an ongoing basis if we can be of further assistance.

Best regards,



Mark Gough, CEO Capitals Coalition



Ben Carpenter, CEO Social Value International

This letter and response was a collaborative effort led by Jeremy Nicholls, Rosie Dunscombe, Marta Santamaria and Tom McKenna.

Supported by:

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**SOCIAL VALUE**  

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RESPONSE TO CONSULTATION SURVEY

**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?

The exposure requirements in the SDS are generally clear. However, they require a definition of reasonable, that is not circular, since question 3 states

*'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'*

Consequently, the requirement would be clearer by providing a definition 'reasonably'.

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

Although these risks and opportunities can be reasonably assessed in relation to enterprise value, there is a need to consider the wider question of whether it is reasonable, or even rational, to limit an assessment to enterprise value, especially recognising the destruction, even self-destruction, being done to natural, social and human capital by only considering enterprise value.

The basic requirement is that the information should be useful. Although the current Exposure Draft sets that the user, the decision, and the purpose behind the decision are the same as for IASB standards, the requirements for useful information in the SDS do not follow the same structure. The structure has been built from TCFD referencing IASB at some points. We believe that if the objective is useful information for the same primary user then the starting point should be IASB's structure and approach to relevance, faithful representation and measurement drawing on TCFD where required. This would ensure equivalence for example on information on

impact and on management's stewardship. Currently, there is a risk that either there is a difference between IASB and the SDS which would result in inconsistencies in what is useful information or that preparers will construe useful information in different ways. If the requirements for useful information are intended to be the same, this could be more clearly reflected in the SDS. If they are not intended to be same, an analysis of the difference in what is disclosed in ISSB because of the difference, the reasons for the difference and implications of any differences would be helpful to users.

**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?**

There is a need for more clarity on the judgements required for when sustainability phenomena become economic phenomena or vice versa and when items should be disclosed under IASB or ISSB. There will inevitably be a continuum between the two and a need for consistency.

The language relating to sustainability risks and opportunities could relate to future risks and opportunities rather than also the risks and opportunities arising from management decisions over the same period as covered by the related financial statements. These decisions may have implications for disclosures under IASB in relation to both valuation of existing assets and liabilities but also for completeness of assets and liabilities. More clarity would be useful to ensure that the language of risk and opportunity covers both past management decisions as well as external past and expected future effects of sustainability issues on enterprise value.

There is a risk that items that can now be disclosed under ISSB become a default disclosure when items should be recognised in the carrying amounts of assets and liabilities under IASB, undermining the usefulness of information in financial statements. Similarly, there is the question of how the IASB will expect entities to reflect the impact on cash flows of climate-related risks that are likely to materialise in the future impacting cash flows.

**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?**

We do not agree. The reason is that an auditor's opinion on the risk of material misstatement in ISSB would require consideration of the approach to determining all sustainability impacts (whether financially material or not) and this is not requested by the Exposure Draft. The SDS could clarify that this is the requirement, ie to understand all sustainability impacts and to disclose all financially material ones, and the consequent need for a process by which they are filtered. There are a number of factors that could influence this process which would need to be consistently applied and which should be informed by the judgement around the levels of uncertainty.

The ED makes references to materiality and significance but the difference between the two is not clear and significance is not used in the Conceptual Framework for Financial Reporting. This imprecision in language will make it challenging for auditors to assess the relevance thresholds set by an entity.

To solve this, we propose that the approach used is the same as the one in under IASB in relation to existence, outcome and measurement uncertainty. This would preclude the risk of excluding items from disclosure under the SDS where there is uncertainty but it is below a level required for disclosure.

Given information on all sustainability impacts is required for an audit opinion, there is then the question of whether this should be disclosed as part of useful information as was proposed by the Australian Accounting Standards Board and Auditing and Assurance Standards Board in their 2018 report on Climate-related and other emerging risks disclosures.

An auditor's opinion on the risk of material misstatement under IASB would now also require consideration of whether the items disclosed under ISSB should more appropriately have been disclosed under IASB. Separate guidance, possibly under IAASB, may be necessary.



**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?**

In general, the proposed objective is clear. However, in relation to disclosing only financially material information, the benefits of disclosing information, identified in order for an auditor to express an opinion, on other sustainability impacts that have not met the threshold to be considered financially material, may be lost. If preparers wish to include this information, as is currently often the case, there is a risk that the SDS creates a norm where it is no longer disclosed. This would be a significant unintended negative consequence. If this information is in a separate sustainability report, clarity will be required to ensure consistent disclosure (and there would then be three reports). If it were to be disclosed under this SDS, despite not being material as defined by ISSB, this creates another risk.

**(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?**

The definition of sustainability related financial information is not clear. The information is part of the information a user's needs to assess future cashflows. If the information is relevant, which is the basis for useful information under IASB, more clarity will be required, and subsequently disclosed under ISSB on why the information did not meet the criteria for disclosure under IASB. The SDS's

reference to recognition in question 2 above precludes the potential for disclosure in the notes. If this have been stated as 'information on sustainability related risks and opportunities that have not met the criteria for disclosure' as opposed to criteria for recognition this would be possible in some cases.

The difference between information that relates to past management decisions, the effect of an entity's operations on sustainability and the risks to future cashflows from external sustainability related risks and opportunities is referenced in the SDS. However, the need for separation in disclosing this information is less clear. This will be critical to ensure comparability with IASB (and so the language of past management decisions could perhaps be used in the SDS). It may be implicit in the SDS that the main difference between IASB and ISSB is the nature of the phenomena and that IASB deals with assets, liabilities and equity.

There are certainly issues around control that would preclude disclosure of sustainability related risks and opportunities, even if the result of management decisions, as assets and so under IASB. This is less the case for liabilities where there is much more a continuum especially around the creation of obligations and where information would be more appropriately disclosed in the notes under IASB requirements than under ISSB requirements.

At the same time, there is also the potential that a difference arises because of a different approach to level of uncertainty. It would appear that the level of uncertainty for disclosure in ISSB is higher than in IASB. There is a risk that two different levels of uncertainty for useful information would be confusing for users and difficult for auditors. For financial materiality, this is an assessment of certainty in relation to future cashflows.

If a user's reasonable assessment of what is financial material in ISSB accepts higher level of uncertainty the implication would seem to be the level of uncertainty should increase for IASB which would have implications for what is disclosed in the financial statements. This in turn would then mean that some of the information under ISSB would then be disclosed under IASB.

If different levels of uncertainty are being used, users would benefit from understanding a) information that would be disclosed under IASB if the same higher level of uncertainty was accepted separately identifying any disclosures in the SDS that would then be disclosed under IASB.

If the same level of uncertainty was used in both ISSB and IASB, there is a risk if its determination is still not consistent with IASB. If for example the risk that the effect on reputation is considered low by the preparer and so the risk to future cashflows is also low, this could preclude disclosure of information that is still considered useful to users, especially if users are understood to be the underlying providers or potential providers of resources and not their agents, the investment managers or pension fund trustees.

**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?

No comments on this question.

**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?**

This structure reflects TCFD rather than IASB's Conceptual Framework which raises the risks discussed in earlier questions.

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

The issues around governance, strategy, risk management and metrics are general and there will be non-sustainability related issues for each of these that would also be of interest to primary users making their assessments of enterprise value. It is not clear where the others would be disclosed.

#### Governance

Although the objectives for Governance reference trade-offs (Para 13 e), this relates to how the governing body and its committees considers trade-offs and does not require a disclosure of the trade-offs including the quantification of the weighting in the trade-offs between impacts and also the comparison of the financial implications in each option.

Under IASB, useful information includes information on stewardship (CF 1.3). This requirement, that useful sustainability related information includes information on management's stewardship is not specifically referred to in the SDS. This gives rise to the risk of inconsistent definitions of, or processes to identify, useful information. The description of management's role in 13 g) alludes to this but would not provide the same detail of information. This might provide an analysis of the positive and negative results of those trade-offs in so far as these relate to management's decisions over the period of the sustainability disclosures.

#### Risk

Risk management should specifically refer to the need for stakeholder engagement including evidence of responsiveness following that engagement, where stakeholders include the people experiencing or likely to experience the sustainability related consequences. The auditor would then also have to consider the efficacy and the completeness of inclusion of issues arising from this engagement.

Under ISO 31000, risk relates to uncertainty on both positive and negative consequences. If the intention is to consider only negative consequences this should be made clear. However, it then increases the risk of any sustainability topics that could have a positive impact on cashflows, the opportunities, being excluded. Where information on potential positive consequences is being included in order for the information to be useful, since this would be relevant to a user's assessment, care will be required that the information complies with other relevant legal requirements.

#### Metrics

In IASB measurement relates to the use of a common unit. The focus in this section appears to relate more to the enhancing characteristics of useful information rather than the core characteristics and to a consistent process by which the financial implications are assessed. Although paragraph 36 refers to 'relevant' and 'faithfully represented,' the elements of these as set out in the CFFR are not replicated in the SDS, giving rise to a risk of inconsistency in how 'useful information' is being defined and identified between IASB and ISSB.

There is no discussion in relation to types of metrics, and the relevance of type to users' decision making, for example between metrics of outputs, impacts or impacts on wellbeing, as required in other internationally used standards. Presumably, those issues which have a higher impact on people's wellbeing are more likely to increase the risk to future cashflows, however the extent to which the use of output metrics, as opposed to impact metrics, therefore address measurement uncertainty is not addressed.

Para 39 refers to the situation "when currency is specified as the unit of measure, the entity shall use the presentation currency of its financial statements." If currency would always be the unit of measure for assessing whether the implications for future cashflows were financially material, then this paragraph introduces some uncertainty by suggesting there may be situations where it might not be the unit of measure and so should then consider any implications of alternatives.

**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?**

Although the reporting entity is the same, the scope of the information is wider. ISSB includes information relating to other entities in the value chain, including dependencies on other capitals, that would be excluded from the reporting entity in related financial statements because of the lack of control or because the uncertainty is too high. This also raises issues around the link between control and responsibility and for situations where there is effective control but not legal ownership for example over use of natural capitals and where disclosure should not be constrained by a legal position.

**(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 requirement is not clear because for the auditor to have an opinion, the determination of what is material to those affected by the reporting entity's operations, the first step in determining what is financially material, must cover the value chain. This will require more guidance for the process to be consistent.

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

No comment on this question

**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?**

No comment on this question

**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?**

These requirements, especially as set out in 44b are critical. However, as they do not include the trade-offs being made with sustainability impacts that are not considered financially material, it is not possible to know the extent to which profits are being made at a cost to other people's wellbeing, especially where those people have been considered unlikely to be able seek or gain compensation for that loss in well-being. This could undermine IFRS's objective of acting in the public interest. As above this means that there is no information to provide the level of insight into managements stewardship as required under IASB, either of the financial trade-offs, or of the trade-offs between financial and non-financial or between only non-financial sustainability impacts.



**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?**

In part, however, the language does not appear to be consistent with IASB. IASB uses fair in the context of ‘fair value’ and not in ‘faithful representation’. Para 45 refers to ‘faithful representation’ but not ‘relevance’. Para 47 introduces ‘relevance’ and ‘representationally faithful’ but also ‘verifiable’, ‘timely’ and ‘understandable’ which are enhancing characteristics (CF 2.4) in IASB. These would enhance the information but are not necessary for ‘relevance’ and ‘faithful representation’. One of the requirements is ‘neutrality’. Para 53 adds ‘neutral’ on top of ‘faithful representation’ although in IASB ‘neutral’ is one element of ‘faithful representation’ (CF 2.13), the others are ‘complete’ and ‘free from error’. ‘Complete’ is referenced in Para 3 (as well as ‘neutral’ and ‘accurate’) although under IASB faithful representation does not mean accurate in all respects (CF 2.18). Appendix C is closer to IASB but swops accurate for precise (C 15).

In this context para C2 (page 43) requires more explanation of why the nature of the information is different and where there is a potential overlap.

In addition, the use of fair could be read as referencing true and fair requirements. In general consistency with IASB and between Appendix C and the rest of the SDS might be helpful.

**(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.**

There is a significant risk that these sources will not identify all financially material sustainability issues. The sources primarily set out topics which are themselves aggregations of consequences. This increases the risk that the underlying consequences that are what should be being disclosed are missed in favour of more general aggregations which will not meet other requirements in the SDS for example in relation to trade-offs. They also risk missing consequences that do not easily fit into existing sources. This risk is increased where those sources are already based on expected financially material topics. This risk can be reduced by referencing approaches which are more holistic and have international recognition, for example the SDGs. However, the main source for this information must be the people experiencing or expected to experience those consequences together with an understanding of the sustainability context and an understanding of thresholds and allocations in relation to planetary boundaries and on social norms as referenced through international treaties for example UN General Principles on Human Rights, ILO conventions and UN's Women's Empowerment Principles. The absence of a requirement for stakeholder involvement, or reference to stakeholder involvement in the SDS undermines existing best practise.

This approach would be necessary to ensure completeness of financially material sustainability risks and opportunities.

**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?**

Yes, in so far as this relates to enterprise value, however the importance of audit in providing assurance that material information has been provided is critical. This is almost taken for granted in the relationship between IASB and IASSB and so the equivalent requirement could perhaps be reinforced in the SDS. Although it is the responsibility of the directors to produce reports that include material information, it is then the responsibility of the auditor to assess the risk of material misrepresentation before the information becomes useful to primary users.

**(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?**

Yes, but subject to the response to the previous question and the need for stakeholder involvement, as the absence of a requirement for stakeholder involvement, or reference to stakeholder involvement in the SDS undermines existing best practise.

**(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?**

There are a number of issues inherent in the assessment which should be covered in the guidance including:

- i) identification of what is material to those affected by the reporting entity's business operations which is necessary for assurance of what is then disclosed as the financially material subset
- ii) insight from quantification of trade-offs in management decisions, and transparency of those based on a common measure, necessary to inform materiality decisions
- iii) systemic risk aggregates and investment managers, as agents of primary users, need insights into how the consequences of the reporting entities operations, not considered material to the assessment of cashflows, become material when aggregated,
- iv) approaches to determining those issues and the importance of stakeholder involvement are not adequate for the identification of those issues, or relevance of the risks to stakeholders and of the stakeholders' perspective of relative importance
- v) Para 57 refers to high impact outcomes which are not defined, potentially leaving it to the preconceptions of preparers to decide what is high impact and uses language which is not consistent with international norms on relationship between outcomes and impacts
- vi) Para 61 addresses the need to disclose additional information when compliance with the specific requirements in an IFRS Sustainability Disclosure Standard is insufficient to enable users of general-purpose financial reporting to assess the effect on enterprise value of the sustainability-related risks and opportunities to which the entity is exposed. This would fall back on the assurance provider to assess whether this had been included with the risk that non was considered necessary as a matter of course. Additional information that might arise under points i) to iv) above should be part of specific requirements.

Illustrative guidance on the relationship with case studies would be useful.

**(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 - so long as:

- i) it is disclosed that this has been done and the increased risk to the users' decisions is made clear
- ii) if the reporting entity results are consolidated and the entity that has control is not faced with that prohibition, then the information is disclosed in the consolidated disclosures.

**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?

Yes, so long as there is separation between the information related to management decisions during the period, information relating to external issues during the period and information relating to expected external issues in future periods.

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 crossreferenced? 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?

No comments on any of these questions

**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?**

Although Para 79 is preceded with a heading of outcome uncertainty, para 79 refers to measurement uncertainty and existence uncertainty is not mentioned. These are different and important issues and could all be included to increase consistency with IASB. The lack of stakeholder involvement increases existence, outcome and measurement uncertainty.

**(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, if the implications for the results meet the same requirements as for prior year adjustments but not otherwise.

**(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?**

Given that the level of uncertainty acceptable for disclosure in ISSB appears to be higher than in IASB, the assumptions especially in use of accounting estimates and models are unlikely to be consistent.

**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?

Yes – so long as any claims and exclusions are audited. This relief would be part of the scope of an assurance assignment for an ISSB claim.



**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?

No comments on these questions

**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?

The ISSB proposals represent a compromise on these standards to gain acceptance with one stakeholder group, investment and capital market managers. This may not be what would be required or accepted by the underlying owners or potential owners in whose interest these agents act.

Since the SDS would cover existing and potential users, this would also require clarity in the definition of potential users.

**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)?

No comments on this question

**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?

Although the standards represent a significant development, the assessment of costs and benefits must be in the context of

- a) The implications, and scale of costs for society generally, of allocating resources to activities which have material consequences for people and planet irrespective of any financial implications. These dwarf the costs of implementing sustainability disclosures
- b) The risk of leaving the assessment of whether there are financial implications to directors without independent assurance
- c) These costs should not be considered by reference to existing reporting bodies but should recognise that market economies operate on creative destruction and that new entities may be able to create goods and services which generate financial returns and make a positive contribution to sustainability
- d) However, the information must be useful and must provide an insight into decision making. Without this, there is a risk that implementation is an additional cost that does not result in any change in resource allocation decisions by investment managers. The SDS is therefore a stepping-stone.
- e) This would also mean that there would be proportionate disclosure requirements for small enterprises which are likely to be most cost effective if the focus were on disclosing decision making.

**Question 17—Other comments**

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

**Language**

There is a general risk that the language of sustainability and sustainability risks and opportunities loses sight that it is people and other species that experience the consequences of not addressing these risks and opportunities. Paragraph 2 refers to dependencies on resources and impacts on resources but these ‘resources’ include dependencies on people and impacts on people.

**Scope**

The examples in the introduction on where these impacts on communities may have financial implications are government regulation and reputation effects are below what would be expected from responsible or ethical business practices. They are also consequences to people’s lives where there is a low probability that those affected would be able to access or gain redress and so result in financial implications.

**Linkages**

The SDS appears to cover both the consequences of management decisions on and external effects of sustainability issues. Separate reporting on these would give more consistency with IASB and help users in understanding the linkages with the Management Commentary where this is being produced.

**Purpose**

The SDS states that (Page 6 fourth paragraph)

*The information requirements are designed to enable primary users to assess enterprise value.*

Whereas the Conceptual Framework for Financial Reporting (para 1.7) states that

*General purpose financial reports are not designed to show the value of a reporting entity; but they provide information to help existing and potential investors, lenders and other creditors to estimate the value of the reporting entity.*

ISSB’s language is more definite than IASB, one is ‘assess’ the other is ‘estimate’. To avoid potential confusion, these could be more consistent.