29 July 2022

Emmanuel Faber

Chair

International Sustainability Standards Board

IFRS Foundation

Colombus Building

7 Westferry Circus

Canary Wharf London, E14 4HD

United Kingdom

Dear Mr Faber,

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the International Sustainability Standards Board Exposure Draft (ED) [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information.* In formulating these comments, the views of the constituents within each jurisdiction were sought and considered.

The AOSSG currently has 27 member standard-setters from the Asian-Oceanian region: Australia, Bangladesh, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan and Vietnam. To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. The intention of the AOSSG is to enhance the input to the ISSB from the Asia-Oceania region and not to prevent the ISSB from receiving the variety of views that individual member standard-setters may hold. This submission has been circulated to all AOSSG members for their comments. In responding to the ED, AOSSG members have provided their responses to the questions in the ED as described in Appendix of this submission. However, sustainability-related disclosure standards do not fall within the scope of all AOSSG members.

We appreciate the ISSB effort to address the need for global sustainability standards. However, to achieve the objective of the globally used standards, we recommend the ISSB address several areas of concern. Those include:

Terms definition or additional guidance

The sustainability standards use common concepts and terms. However, clarifying or explaining these terms in the context of IFRS Sustainability Disclosure Standards may be helpful. For example, the terms that require additional explanation are sustainability, enterprise value, significant risks and opportunities. Such clarification will also help to improve the auditability and verifiability of data.

Boundaries of reporting entity

It is recommended that the ISSB clarifies the boundaries of reporting entity. Many AOSSG members expressed concerns about the clarity of value chain reporting, especially the information that is considered to be within the entity's value chain.

Additional guidance on connected information and materiality

While the need for connectivity is clear in the standard, there is some confusion about how connectivity can practically be applied. Therefore, additional explanation, guidance and examples may be required to help preparers achieve this objective.

In addition, some AOSSG members recommended adding guidance on the application and assessment of materiality.

Fair presentation

Some AOSSG members expressed that the sources of guidance to identify sustainability-related risks and opportunities are too wide and may result in practical challenges. In addition, it is not clear from the wording of the standard whether these sources are mandatory requirements or voluntary guidance.

The Appendix to this submission provides detailed comments by the respective AOSSG members on the questions in the ED.

If you have any questions regarding this submission, please contact either one of us.

Yours sincerely,

Nishan Fernando

Chair of the AOSSG

Email: nishan@bdo.lk

Dr Keith Kendall

Leader of the AOSSG ED – IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information Presentation and Disclosure Sub-Working Group

Email: kkendall@aasb.gov.au

Appendix – Comments from AOSSG members

ISSB Request for comments – Exposure Draft on [Draft] IFRS S1 General requirements for Disclosure of Sustainability – Related Financial Information

Questions for respondents

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

[Australia]

(a) We agree that the ED states clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which an entity is exposed. However, the guidance that supports that statement is currently insufficient for an entity to be able to meet that requirement. We note the following key matters would require further clarity for an entity to meet the proposed requirement:

The intended scope of the ISSB's work: defining 'sustainability'

[Draft] IFRS S1 lacks a definition or explanation for what is meant by 'sustainability' in the context of the IFRS Sustainability Disclosure Standards. Whilst we understand that ISSB Board members have previously publicly commented that the ISSB does not feel it is necessary to define the term, we disagree with such a conclusion. This disagreement is because, as already highlighted in BC29, there are many different (sometimes conflicting) definitions and interpretations of what sustainability means and therefore there are many different interpretations of the intended scope of the IFRS Sustainability Disclosure Standards. To achieve consistency and comparability in reporting sustainability-related financial information, especially in the absence of a full suite of standards, we strongly recommend the ISSB to define what 'sustainability' means in the context of its ongoing work. In our view, such a definition would be best placed in an overarching conceptual framework. However, without a conceptual framework, it should form part of the proposals in [Draft] IFRS S1. Regardless of whether stakeholders agree with the definition, it will communicate the scope of the ISSB's current and future work and provide all stakeholders with a point of reference on which to work.

Furthermore, while we understand the reasoning behind using the term 'sustainability-related financial information', consistent with the definition of material in IFRS Accounting Standards, material information can be financial or non-financial. Applying the definition of material in paragraph 56 to non-financial sustainability-related information could also reasonably be expected to influence decisions that primary users make.

Rather than relying on the use of terms such as 'financial' and 'non-financial' to communicate the scope of the IFRS Sustainability Disclosure Standards, we recommend clarifying the scope of the standards by defining 'sustainability' and better aligning the definition of material in paragraph 56 with the definition of material in paragraph 2.11 of the *Conceptual Framework*.

Significant versus material

There is confusion around the terms 'significant' versus 'material' in IFRS Accounting Standards (as a result of this confusion, the IASB sought to replace the concept of significance with that of material in the context of accounting policy disclosures in its Disclosure Initiative—Accounting Policies project). This confusion has now been extended to the use of both terms throughout the ISSB's proposals. The AASB notes that many Australian stakeholders questioned whether the terms mean something different, or are interchangeable. Overall, it is evident that there is no clear or consistent understanding of what is intended by the use of the term 'significant', with two predominant views being held by stakeholders:

(i) that the term is intended to be interchangeable with 'material'—such an approach implies there is no difference between the terms 'significant' and 'material'; and

(ii) it is a higher threshold than 'material' and is intended to help control the volume of disclosure by ensuring that an entity would report on only the most critical sustainability-related risks and opportunities.

If these terms are interchangeable, we recommend that the ISSB avoid confusion by using the defined term 'material' consistently throughout the [draft] standards..

Some Australian stakeholders suggested that the ISSB define 'significant'. However, we note that the IASB already considered doing so as part of its Disclosure of Accounting Policies project, where it decided not to define 'significant' due to the potential unintended consequences of every use of the term throughout the IFRS Accounting Standards. We think the same concerns apply in this instance. If 'significant' were to be defined in the context of sustainability-related financial reporting by the ISSB, it would likely have the same unintended consequences on the IFRS Accounting Standards as if the IASB had defined the term.

Consequently, if the ISSB intends that significant be a higher threshold than the definition of material and to avoid unintended consequences, we recommend that the ISSB clarify that intention by using a different term, such as 'critical', and then defining that term and explaining how its application differs from the definition of material.

(b) We agree that the proposed requirements in [Draft] IFRS S1 meet the proposed objective in paragraph 1. However, we disagree that the proposed objective in paragraph 1 is appropriate for the [draft] standard. The proposed objective in paragraph 1 serves as an overarching disclosure objective for the core content of the [draft] standard and is not relevant outside of that context. Furthermore, we note the guidance in paragraphs 2, 3, 5 and 6 does not relate to the objective of the [draft] standard. Consequently, we recommend that:

   (i) Paragraph 1 be relocated to the core content section of the [draft] standard and clearly linked with that content; and

   (ii) The objective section of the [draft] standard be limited to stating and explaining the objective of the [draft] standard, as already done so in paragraphs 4 and 7—that is, remove paragraphs 2, 3, 5 and 6 from the objective section of the [draft] standard.

(c) We are of the view that the interaction of [Draft] IFRS S1 with proposed and future thematic standards is unclear. Whilst [Draft] IFRS S1 and [Draft] IFRS S2 can be applied together, the interaction of general and thematic standards should be addressed as part of a conceptual framework, not as part of a standard addressing general requirements.

   Furthermore, we think that [Draft] IFRS S1 seeks to achieve multiple objectives, as it appears the intention is for the standard to act as a:

   (i) conceptual framework;

   (ii) transition standard for the first-time application of IFRS Sustainability Disclosure Standards;

   (iii) general standard addressing the presentation of sustainability-related financial information; and

   (iv) general standard addressing estimates and uncertainties, changes to estimates and errors.

   In our view, the current combination within [Draft] IFRS S1 of conceptual guidance and specific disclosure creates difficulties for implementation and compliance. We strongly recommend that the ISSB approaches each of the matters listed above separately to clarify the proposals.

Conceptual framework

The IFRS Foundation's existing *Conceptual Framework* is an essential tool in ensuring consistency in standard-setting. The AASB is of the view that a conceptual framework is needed to:

(i) ensure consistency in standard-setting in the ISSB and communicate overarching principles that will guide future development of sustainability-related financial reporting requirements, standards and guidance; and

(ii) assist all stakeholders in understanding and interpreting IFRS Sustainability Disclosure Standards.

However, we also understand that the current timing will mean that a conceptual framework would not be able to be developed (or the existing *Conceptual Framework* amended) before the final [Draft] IFRS S1 and [Draft] IFRS S2 are issued. In the absence of a specific sustainability-related conceptual framework (or the amendment of the *Conceptual Framework*), we recommend that in the interim, the ISSB utilises (or refers directly to aspects of) the existing *Conceptual Framework* to which it purports to align. We further recommend that the ISSB dedicates resources to developing an appropriate conceptual framework as a matter of urgency. For example, such a recommendation would remove paragraphs 3, 5, 37 and Appendix C from [Draft] IFRS S1, which would be appropriately relocated into a conceptual framework.

Transition standard for the first-time application of IFRS Sustainability Disclosure Standards

[Draft] IFRS S1 currently provides some relief for first-time application of the standards, for example, by permitting entities not to disclose comparative information in the first year of application. Similar to the IASB's approach with the development of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, we recommend that transition relief for first-time application be isolated in a separate standard. We also recommend that the ISSB provides more guidance on transitioning to IFRS Sustainability

Disclosure Standards as part of this separate standard. This is because, while some entities have commenced their sustainability reporting journey, many have not and would require a more phased approach to allow them to develop the necessary systems and processes to apply IFRS Sustainability Disclosure Standards. Such an approach would:

(i) help with future adoption of IFRS Sustainability Disclosure Standards for entities seeking to apply the full suite of standards, who would be more able to do so through a phased approach;

(ii) help with creating consistency in preparation for the application of future IFRS Sustainability Disclosure Standards (including [Draft] IFRS S1 and [Draft] IFRS S2);

(iii) be a more convenient mechanism to support entities new to sustainability-related financial reporting in engaging with the IFRS Sustainability Disclosure Standards; and

(iv) allow the ISSB to better support preparers without unduly diluting the requirements in the standards. For example, such a standard could permit entities not to disclose their Scope 3 greenhouse gas emissions in the first year of application.

We understand that such a standard would need to be added to and amended over time as the ISSB develops additional standards. However, we remain of the view that such a standard is necessary to support entities transitioning to a full suite of IFRS Sustainability Disclosure Standards in the future.

(d) Note that the AASB is responding to this question in the context that this [draft] standard has not been field tested, and the reporting outcomes from applying these proposals are yet unknown.

We consider that, in theory, the requirements proposed in [Draft] IFRS S1 may provide a suitable basis for assurance providers and regulators to determine whether an entity has complied with all proposals. However, additional clarity is necessary to ensure the disclosures required by [Draft] IFRS S1 can be effectively assured or reviewed by third parties. This is because, similar to a number of points raised throughout this comment letter, the nature and extent of information required to support the proposals in the [draft] standard are not sufficiently clear to determine what information needs to be disclosed. However, we are also of the view that these matters can be resolved. In addition to our recommendations throughout this comment letter, we also think there is room for improvement in helping ensure the proposals can be assured regardless of the required level of assurance.

As the ISSB redeliberates the proposals in [Draft] IFRS S1, we recommend that the ISSB considers the requirements auditors need to apply when complying with ISA 540 *Auditing Accounting Estimates and Related Disclosures*. While the International Auditing and Assurance Standards Board (IAASB) is still determining its approach to the assurance of sustainability information and responding to the work of the ISSB, we are confident ISA 540 provides the ISSB with a good framework to consider when evaluating what the disclosure and evidentiary requirements in the IFRS Sustainability Disclosure Standards should be. In particular, we recommend the ISSB consider paragraphs 23-25 of ISA 540.

Whilst we understand these are predominantly audit and assurance concepts and, therefore, outside the scope of the ISSB's work, it would help assurance practitioners and regulators if the ISSB could:

(i) Adapt and better utilise the guidance in paragraphs 125-133 of IAS 1 *Presentation of Financial Statements,* which includes more robust guidance around the disclosures needed to support management's significant judgements and assumptions.

(ii) Explicitly refer to neutrality in the body of the [draft] standard rather than in an appendix to the [draft] standard, or include neutrality as part of a conceptual framework addressing sustainability-related financial reporting (or by amending the existing *Conceptual Framework* to make clear its applicability in preparing and disclosing sustainability-related financial disclosures).

[China]

(a) It could be made clearer. Our reasons are as follows: Firstly, the expression 'all of the significant sustainability-related risks and opportunities' in the ED is relatively broad.

The definitions of 'sustainability', 'significant' and 'material' could be clarified. Secondly, the term 'significant' is applied inconsistently throughout the ED. It appears in some statements and not in others. This may cause entities to have to identify all of the sustainability-related risks and opportunities when implementing the Standard.

We recommend that the ISSB should:

(i) provide guidance and examples of significant sustainability-related risks and opportunities that are common to all industries;

(ii) apply 'require an entity to disclose material information about all of the significant sustainability-related risks and opportunities' throughout the entire standard and make it consistent throughout the document; and

(iii) the terms 'sustainability', 'significant' and 'material' should be more clearly defined and explained.

(b) Agree.

(c) It could be made clearer. The current IFRS S1 ED (IFRS S1) includes contents equivalent to those that reside in IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in financial reporting. In addition, it also includes qualitative characteristics for information disclosures and several significant elements and definitions that are used in the IFRS Conceptual Framework. We recommend that the ISSB further considers the positioning of the ED, clarify the relationships between IFRS S1, IFRS Conceptual Framework and other sustainability disclosure standards. In addition, we recommend that the ISSB should either relocate elements belonging to the conceptual framework to a separate Conceptual Framework specific for Sustainability-related Financial Information Disclosure, or amend the existing Conceptual Framework for Financial Reporting so that it can accommodate elements compatible for both financial and sustainability reporting.

(d) Auditors will unlikely be able to provide an overall opinion to the entire set of sustainability information when a significant amount of information is qualitative, forward-looking or only expresses a vision. If an opinion with limited assurance is provided for only some part of the sustainability information, the existing basis is generally sufficient. We suggest that the ISSB provide additional guidelines and examples for disclosure requirements on material issues.

[Dubai]

(a) The Exposure draft (ED) clearly states in para. 2 that a reporting entity would be required to identify and disclose information about all significant, material 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.

It is important to note that, the ED does not refer to all sustainability-related risks and opportunities that an entity is exposed to but to significant, material sustainability-related risks and opportunities. We are of the view that further clarification of the terms below is required:

(i) "significant"

(ii) "sustainability-related financial information"

Further, terminology can be made consistent as in some sections the term "significant" is used and in other sections "material" is used. We recommend removing the reference to 'significant' and focus on material information only.

Clarification of the term "sustainability-related financial information" is required as this will influence how the standard is applied and which disclosures are made. This will also ensure consistent application of the standard across different entities and improve comparisons among different entities.

(b) We agree that the proposed requirements set out in the ED meet its proposed objective (paragraph 1). However, the clarifications noted above will be useful.

(c) It is clear how the proposed requirements in ED would be applied together with other IFRS Sustainability Disclosure Standards. For instance, the standard states in paragraph 62 that where local laws and regulations prohibit certain disclosures, the entity need not disclose the information even if required by an IFRS Sustainability Disclosure Standard. Also, in relation to how the Standard will be applied together with IFRS S2, paragraph

78 indicates that when an IFRS Sustainability Disclosure Standard requires disclosure of common items of information, an entity shall avoid duplication.

(d) Yes, however additional Illustrative examples and non-mandatory guidance notes to the standard will assist stakeholders such as auditors and regulators to better understand the requirements of the Standard and to determine whether an entity has complied with the proposals.

(e) Yes, however additional Illustrative examples and non-mandatory guidance notes to the standard will assist stakeholders such as auditors and regulators to better understand the requirements of the Standard and to determine whether an entity has complied with the proposals.

A challenge for regulators and auditors will be the verifiability of the data used for the disclosures and determining the completeness of the sustainability-related risk and opportunities disclosed by an entity.

In line with the current auditing standards on management estimates, auditors will have to assess, understand, and corroborate the judgements made by management of the entity in determining which sustainability-related risk and opportunities are material.

The sustainability standard should consider including a requirement to disclose these managements judgements. This requirement should be in line with the existing IAS 1 (paragraphs 117-124) and IAS 8 (paragraphs 7-19) which require entities to disclose the accounting policies used in preparing the financial statements and other accounting policies that are relevant to understanding the financial statements.

[Hong Kong]

Structure

(a) The structure of the [draft] IFRS S1 is consistent with how the Task Force on Climate-Related Financial Disclosures has set out its standard, i.e. using the four-pillar approach. This structure may work well for the [draft] IFRS S2 but merely replicating the four pillars and making them more generic to all risks for the general requirements may not serve the purpose of the general requirements standard (i.e. the [draft] IFRS S1).

If the other topical standards would be structured using the same four-pillar approach, we consider the 'common' requirements (e.g. governance and risk management) that apply to all topics should be repositioned and included in the [draft] IFRS S1, leaving only the topical elements in their respective standards. This would make the future topical standards less cumbersome the [draft] IFRS S1 would function as the equivalent of the 'Conceptual Framework, Presentation and Change in Accounting Policy standard' and it can be structured with reference to the IAS 1 *Presentation of Financial Statements*.

Verifiability

(b) Unlike financial reporting, it is unlikely that auditors will be able to provide an overall opinion to the entire sustainability report when a significant amount of information is

  (i) qualitative,

  (ii) forward-looking, or

  (iii) only expresses a vision.

  However, for quantitative information, if the bases for determining the information are clearly defined in enough detail, then auditors can provide assurance as long as the entity has appropriate internal controls and safeguards around those specific numbers.

(c) In addition, there could be challenges in verifying Scope 3 emissions in particular those arising from an entity's upstream and downstream activities as well as financed and facilitated emissions. Challenges include the reliability and availability of source data, the completeness of Scope 3 emissions and whether the auditors could complete the assurance engagement within a reasonable timeframe given the many layers (upstream and downstream) from which an entity needs to collect data.

[Indonesia]

The Exposure Draft has provided an explanation of the required disclosure about governance, strategy, risk management, and metrics and targets. However, we think that some of the terms need further clarification to enhance understanding.

(a) "*Significant*"

We understand that focusing on significant sustainability-related risks and opportunities rather than all sustainability-related risks and opportunities is the Board's intention to ease application for preparers while not reducing the usefulness of the information provided to users as the disclosure is already subject to materiality (BC40). We also recognized that the significance of the risks and opportunities is entity-specific and is determined according to the entity's risk management processes and informed by the entity's strategy, objectives, and risk appetite (BC40). Nevertheless, this further highlights the dependency of judgment on the entity and what primary users considered "significant" information. We suggest the Board consider requiring an entity to explain its business environment (internal & external), value chain, business model, and business operation so primary users could understand better the context of the "significant" aspect of their entity.

(b) "*Sustainability*"

By defining "sustainability" first, it will support the understanding of what sustainability-related financial information is, and without it, there are likely to be various and wide-ranging interpretations of what constitutes 'sustainability-related financial information' leading to unintended consequences caused by inconsistent application of the proposed standard. Which aspects are included in this "*sustainability*", is it ESG only? Or including ethics etc.? Or is it referring to the 17 items of the UN Sustainable Developments Goals (UN SDGs)?

(c) "*Risks and opportunities*"

We also believe further clarity could be provided as to what is meant by information that provides "insight into risks and opportunities". It might be taken to imply that it includes broader information. For example, the definition might include language relating to the impacts and dependencies that could give rise to risks and opportunities that might directly or indirectly impact an entity's business model and viability.

(d) "*Enterprise value*"

While certain assumptions are already generally accepted assumptions, many types of risks cannot be predicted, moreover computed using assumptions that are considered valid. Enterprise value could be interpreted and professionally judged differently by many different preparers and users in many different jurisdictions. The Board should clarify which assumptions are intended, assumptions of the preparers or the primary users. This could potentially create unintended consequences such as application inconsistency of the proposed objective.

As a determining factor that will influence how the proposed requirements will be applied, a clear definition is needed to support the disclosure of consistent and comparable information.

In response to 1(c), we envisage there are instances of duplicative requirements between IFRS S1 and IFRS S2 (Paragraph 78 *When IFRS Sustainability Disclosure Standards require the disclosure of the common items of information, an entity shall avoid unnecessary duplication. For example, when an entity integrates its oversight of sustainability-related risks and opportunities, the disclosures on governance shall also be integrated rather than provided in the form of separate governance disclosures for each significant sustainability-related risk and opportunity*). Thus, we suggest the Board consider removing duplicative requirements from the topic-specific standards, including in IFRS S2 when they are considered general, cross-cutting requirements.

Mirroring the current requirement in IFRS Accounting Standards, we are of the view that IFRS Sustainability Disclosure Standards should also have a Conceptual Framework. IFRS S1 Paragraphs 36-90 provide general features requirements that outline the principles used to prepare and disclose material sustainability-related financial information, this could be part of the Conceptual Framework. The rest of the paragraphs provide general disclosure standards which outline the requirements that are considered cross-cutting and relevant for understanding the impacts of all sustainability-related risks and opportunities.

[Malaysia]

We believe that additional guidance to illustrate how the concepts and principles such as materiality, fair presentation, aggregation and disaggregation as well as restatement of comparative figures commonly used in IFRS Accounting Standards would apply to the IFRS Sustainability Disclosure Standards would be helpful for reasons as stated below:

(a) entities that have been applying IFRS Accounting Standards are expected to be very familiar with the application of those concepts and principles from the perspective of the preparation of financial statements but applying it from the perspective of sustainability reporting is the first time for almost all those entities. In addition, not all those that are involved in the sustainability reporting space are involved in the preparation of the IFRS Accounting Standards-compliant financial statements.

(b) the guidance would be useful for entities that have been applying other GAAP in the preparation of their financial statements and who would be applying the IFRS Sustainaiblity Disclosure Standards for the first time.

Alternatively, the ISSB may wish to consider developing separate education modules, an approach adopted by IASB for its *IFRS for SMEs* Accounting Standard, whereby separate education modules were developed to assist in better understanding of the Standard.

[Sri Lanka]

CA Sri Lanka agrees that the ED clearly states that the entity would be required to identify and disclose material information about all the sustainability-related risks and opportunities an entity is exposed to. Paragraphs 2 and 3 state unequivocally that a reporting entity must disclose material information about all significant sustainability-related risks and opportunities to which it is exposed. paragraphs 51, 53, and 54 of the ED state that preparers can refer to requirements of the SASB standards and other nonmandatory ISSB guidance, industry practice, and other standard-setter material in the absence of specific guidance within the IFRS Sustainability Disclosure Standard. However, CA Sri Lanka believes that the wording used in this ED for sustainability-related risks and opportunities is very broad. Hence, it will create some consistency issues with ISSB's intention to create a baseline for sustainability reporting. Furthermore, some jurisdictions may face significant variations in how to understand and report on it.

CA Sri Lanka believes that paragraphs 5, 6 and 7 clearly explain how to disclose the sustainability-related financial information in the financial statements. Furthermore, CA Sri Lanka strongly believes that this ED acts as a framework for the entities on how to report the sustainability exposure they are facing

In paragraphs 51 and 52, it is 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. Furthermore, IFRS S2 Climate-related Disclosures is a subset of the overall sustainability disclosures.

Whilst CA Sri Lanka thoughtfully agrees that the requirement proposed in the ED would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals. However, CA Sri Lanka would like to highlight that this standard could include a more detailed guideline and a criteria detail as an additional appendix as a reference tool for auditors and regulators.

Question 2—Objective (paragraph 1-7)
The ED 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. 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. Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not? Is the definition of 'sustainability-related financial information' clear (see Appendix A of ED)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?**.**

[Australia]

The proposed objective and definition of disclosing sustainability-related financial information is not clear. We recommend that the ISSB define 'sustainability'to clarify the scope and objective of [Draft] IFRS S1. Furthermore, the objective section of the [draft] standard includes requirements about what information to disclose and guidance on enterprise value. We recommend that overarching principles, such as guidance on enterprise value and how it should be interpreted form part of a conceptual framework and not part of a standard. We also recommend that requirements on what to disclose are not included as part of the objective of the standard. See our response to question 1(b) for our recommended amendments to the proposals in paragraphs 1-7 of [Draft] IFRS S1.

[China]

(a) It could be made clearer. Some stakeholders propose that different entities may have varying judgments about what information belongs to 'enterprise value', which may make the disclosed information incomparable. We suggest that the ISSB provide more guidance in this regard. Besides, the scope of which 'material information for accessing entity's enterprise value' requires further clarification.

(b) It could be made clearer. Some stakeholders in China question whether greenhouse gas emissions on an absolute basis and on an intensity basis, internal carbon pricing etc. are financial information and should be included as part of general-purpose financial reporting. Therefore, we suggest that the ISSB provide a clearer explanation and definition of the connotation of 'sustainability-related financial information' and the scope of 'general-purpose financial reporting'.

[Dubai]

(a) Yes, the ED is clear on the proposed objective of disclosing sustainability-related financial information as noted in paragraphs 1 to 7. However, as indicated earlier, the reference to "sustainability-related financial information" needs a clearer definition. The term "sustainability" has not been defined. A shared understanding of "sustainability" will improve consistency and comparability.

Further, we foresee a practical challenge with quantifying certain sustainability matters and determining the impact on an entity as the impact is likely forward-looking and involves subjective judgements. The fact that there may be subjectivity, for instance, as to which sustainability-related risks are material means difficulties in comparing disclosures of different entities. An existing definition (such as that provided by the United Nations and referred to in paragraph BC 30) could be referenced in the list of defined terms.

(b) No, as noted above, the term "sustainability" should be defined in the Appendix to make it more precise. Further, the term "financial" in the phrase "sustainability-related financial information" makes it a bit ambiguous as the expectation is that the information will largely include non-financial information. We recommend reference to "sustainability-related information" instead of "sustainability-related financial information"

[Hong Kong]

<u>Definition of sustainability-related information</u>

(a) The definition of "sustainability-related financial information" in Appendix A could be enhanced by including the guidance in paragraph 6. In particular, paragraph 6(b) should be explicitly reflected in the definition as it relates to internally generated intangibles of an entity or value creation and may not be implied from the existing definition.

(b) Paragraph BC85 states that "… The entity could still assert compliance with IFRS Sustainability Disclosure Standards as long as its disclosures explain that fact. …" We consider this BC explains why paragraph 6 uses "could" instead of "should" and suggest that the ISSB include the explanation in paragraph BC85 explicitly in paragraph 6.

Significant and material

(a) The [draft] IFRS S1 does not use "significant" and "material" consistently when it refers to sustainability-related risks and opportunities. The differences between these two terms should be clarified as this may cause confusion and inconsistency application in practice.

Enterprise value and societal value

(a) Sustainability reporting is a new area for many parties and 'enterprise value'(as distinct from what might be referred to as 'societal value') is an abstract term for the vast majority of preparers. We suggest that a list of factors, examples and/or a diagrammatic representation be added in the [draft] IFRS S1 to supplement the definition of enterprise value so that users can determine what falls into enterprise value and what falls into societal value (and possibly some in both).

[Indonesia]

In response to questions 2(a) and 2(b), we agree with the proposed objective because it will provide the users of the information with a sufficient basis to assess the implication of sustainability-related risks and opportunities. Nevertheless, the definition of 'sustainability-related financial information' requires further clarity. We suggest that the Board should define "sustainability" first before providing clarification on 'sustainability-related financial information'. By defining "sustainability" first, it will support the understanding of what sustainability-related financial information is, and without it, there are likely to be various and wide-ranging interpretations of what constitutes 'sustainability-related financial information' leading to unintended consequences caused by inconsistent application of the proposed standard.

We also believe further clarity could be provided as to what is meant by information that provides "insight into risks and opportunities". It might be taken to imply that it includes broader information. For example, the definition might include language relating to the impacts and dependencies that could give rise to risks and opportunities that might directly or indirectly impact an entity's business model and viability.

[Malaysia]

We are agreeable to the proposals.

[Sri Lanka]

Proposed objective of disclosing sustainability-related financial information

CA Sri Lanka believes that the proposed objective of disclosing sustainability-related financial information is clear. Because paragraphs 1-7 of this proposed standard clearly explain the requirements and the need for disclosing the sustainability-related financial information on an entity's financial statements. For more information, CA Sri Lanka would like to propose that providing specific objectives for disclosures and information on how users will use the information provided may lead to higher quality reporting

Definition of 'sustainability-related financial information

CA Sri Lanka believes that the ISSB would be able to elaborate on the definition of "sustainability-related financial information" clearer than explained in Appendix A of the ED. As per our analysis, the appendix does not clearly define the word "sustainability". This will generate many issues for the entities, especially for small and medium-sized enterprises (SMEs), since the word elaborated an extremely broad area for the entities to make disclosures regarding the "risks and opportunities that affect enterprise value". Therefore, CA Sri Lanka would like to suggest that ISSB make more explanative elaboration on the word "sustainability" by paying more attention to the areas of economic, environmental, and social aspects to assist entities to provide greater transparency towards resource providers.

Question 3—Scope (paragraphs 8-10)
Proposals in the ED 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 ED 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?

[Australia]

The scope of Australian Accounting Standards is broader than IFRS Accounting and Sustainability Disclosure Standards in that they also address general purpose financial statement preparation for not-for-profit public and private sector (NFP sector) entities and for-profit sector entities. We note that the AASB has not yet considered the application of such standards to NFP sector entities. However, consistent with our approach to standard-setting for Australian Accounting Standards, if IFRS Sustainability Disclosure Standards are to be applied by NFP sector entities in Australia, it is envisaged that modification of the (proposed) IFRS Sustainability Disclosure Standards would be needed. For example, as part of our outreach on the AASB's *Agenda Consultation 2022-26*, stakeholders from the NFP sectors highlighted that the focus on enterprise value is not appropriate for sustainability reporting in those sectors. Consequently, we are looking to work with other international standard-setters, such as the International Public Sector Accounting Standards Board (IPSASB), when considering sustainability reporting for other entities in the scope of Australian Accounting Standards. To the extent practicable, we will seek to align this future work with the work of the ISSB.

[China]

Agree. We recommend that the ISSB should further clarify the scope of application of International Sustainability Disclosure Standard (ISDS), i.e., whether it is similar to IFRS accounting standards, which is only applies to entities with public accountability. In addition, we recommend that the ISSB should consider developing a set of simplified disclosure standards for entities without public accountability or for small and medium-sized entities.

[Dubai]

We agree that sustainability standards can be applied by reporting entities even if their financial statements are not prepared and disclosed in accordance with IFRS Accounting Standards

[Hong Kong]

No comments.

[Indonesia]

Applicable Standard Akuntansi Keuangan (SAK) or financial accounting standards in Indonesia are as follows:

(a) **Standar Akuntansi Keuangan Internasional (SAK-I)** is the **full adoption** of the IFRS issued by the IASB. **It is not issued yet, currently still in the process of finalizing it.**

(b) **Standar Akuntansi Keuangan (SAK)**/ Financial Accounting Standard is the **convergence of IFRS** issued by the IASB.

(c) Standar Akuntansi Keuangan Entitas Tanpa Akuntabilitas Publik **(SAK ETAP)** which will be replaced by Standar Akuntansi Keuangan Entitas Privat **(SAK EP)** effective for the financial year period starting on January 1, 2025, with early application is permitted. SAK EP is a **convergence of IFRS for SMEs** published by the IASB. This standard **applies to entities without public accountability.**

(d) Standar Akuntansi Keuangan Entitas Mikro Kecil dan Menengah **(SAK EMKM)** which

applies to micro, small and medium-sized entities that meet the requirements as described in SAK EMKM.

Hence, entities using SAK or SAK-I will have no issue applying IFRS Sustainability Disclosure Standards. However, it might be too complex and create an unnecessary burden for entities who used SAK EP and SAK EMKM. Moreover, our current regulation (OJK Regulation (POJK) No. 51/POJK.03/2017 only mandate the publication of sustainability report (in phased application) for Financial Services Companies, Issuers, and Public Companies (Listed on the Indonesia Stock Exchange). Therefore, other entities outside the scope which also might be entities who use SAK EMKM will not be able and motivated to apply IFRS Sustainability Disclosure Standards.

We suggest the Board consider adding the development of simpler sustainability-related financial information disclosure requirements for SMEs and Micro SMEs in the work plan.

[Malaysia]

We are agreeable to the proposals.

[Sri Lanka]

CA Sri Lanka agrees 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. Since there appears to be no reason why the proposed requirements could not be used by entities which use local GAAP. Further, as per our analysis, if the information reported according to this proposed standard can benefit users of the entities' financial statements prepared in other GAAPs of any jurisdiction, then such entities ought to be allowed to adopt these proposals.

Question 4 —Core content (paragraphs 11-35)
The ED 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. The objectives of sustainability-related financial disclosures are to enable the primary users of general purpose financial reports to understand entity's governance, strategy, risk management and metrics and targets in relation to the sustainability-related risks and opportunities. (a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not? (b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

[Australia]

(a) The AASB agrees that the disclosure objectives for governance, strategy, risk management and metrics and targets are clearly and appropriately defined. However, we recommend the ISSB ensure that objectives in paragraphs 11, 12, 14, 25 and 27 of the [draft] standard are better aligned and the requirements in the core content section align with the definition of material. For example, the requirement in paragraph 15(a) of the [draft] standards conflicts with the definition of material in paragraph 56.

(b) The disclosure requirements for governance, strategy, risk management and metrics and targets are appropriate to their stated objective. We note that while there is guidance and disclosure requirements addressing sustainability-related risks, the same cannot be said for sustainability-related opportunities. We consider sustainability-related risks and opportunities to be equally important to consider as part of an entity's governance, strategy, and metrics and targets. We recommend adding guidance that specifically addresses sustainability-related opportunities.

[China]

(a) Generally clear and appropriately defined. The core content of IFRS S1 includes governance, strategy, risk management and metrics and targets, generally known as the four pillars. We do note that the IASB issued Management Commentary Exposure Draft in May 2021 and that exposure draft includes six factors: business model, strategy, resources and relationships, risks, external environment, financial performance and financial position. We recommend that the ISSB should enhance its collaboration with the IASB in the areas that touches upon financial reporting when revising the two EDs. This will in turn improve the compatibility between the IFRS Sustainability Disclosure Standards and the 'Management Commentary' standard in terms of core elements, internal logic, and detailed provisions.

(b) Generally appropriate. With regards to governance, paragraph 13 (g) of the ED only requires entities to describe the management's role in assessing and managing sustainability-related risks and opportunities. We suggest that details of the specific responsibilities of management should be also required.

[Dubai]

(a) The disclosure objectives for governance, strategy, risk management and metrics and targets are clear and appropriately defined.

However, in relation to strategy, we propose an inclusion of "business model" to the definition of the objective as this is of significant importance for the assessment of enterprise value and a core element of an entity's strategy.

Therefore, we recommend the objective to be revised as follows (changes in bold): "to enable users of general-purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities **to its business model and financial performance**"

(b) Yes, however in relation to point 15b of the ED, the ISSB should consider including a disclosure of the definition and scope of an entity's value chain. This is in addition to the requirement to disclose information about the effects of significant sustainability-related risks and opportunities on the entity's business model and value chain.

In paragraph 20, we foresee a challenge for smaller entities in obtaining data that will enable them to disclose sustainability-related risk and opportunities arising upstream of its value chain. This is because they do not control such information and while they are expected to have some knowledge their supply chain, the board may need to provide sufficient guidance and examples of these risks and opportunities may be assessed.

In paragraph 23, we propose a requirement to explicitly disclose the main assumptions and uncertainties used when disclosing the resilience analysis to enable users/investors understand the resilience disclosures and possibly verify some assumptions where possible.

[Hong Kong]

(a) We suggest that specific disclosures of expertise and/or training hours of sustainability-related topics in order to aid the relevant parties in identifying sustainability-related risks and opportunities of relevant parties (e.g. board members, management teams, working teams, etc.) be added in paragraph 13(c) of [draft] IFRS S1 or application guidance backing it as examples of how the governance body ensures that appropriate skills and competencies are available to oversee strategies designed to identify sustainability-related risks and opportunities.

(b) We observed that entities are still formulating their responses for certain emerging risks and opportunities. We suggest that the ISSB include requirements for qualitative disclosures on emerging risks and opportunities that are not yet significant but could become significant in the foreseeable future under paragraph 21(a), e.g. disclose how management identifies and monitors such risks and opportunities.

(c) We would like the ISSB to provide guidance in respect of the following areas:

(i) Guidance for entities operating in different geographical regions and multi-industries to present disaggregated information by segment (similar to the operating segmental information in IFRS Accounting Standards) to increase the usefulness and transparency of metrics and targets. This could also facilitate primary users to understand the entity's performance in relation to sustainability-related risks and opportunities under different segments and provide a stronger connection with the financial statements.

(ii) Guidance to show the extent of disclosures expected by way of examples to illustrate requirements in paragraph 22, in particular 22(a) to facilitate application.

[Indonesia]

We agree with the overall objectives and requirements for governance, strategy, risk management and metrics and targets. Nevertheless, we have some concerns regarding the following aspects:

(a) Governance

Most the jurisdictions have their corporate governance guidance. In Indonesia, we have Pedoman Umum Governansi Korporat Indonesia (Indonesian General Guidance of Corporate Governance) which refers to the G20/OECD Principles of Corporate Governance. We suggest the Board consider how the requirements in standards align with this existing reporting. We understand that it is going to be impractical for the Board to consider other jurisdictional requirements. Thus, we suggest the Board consider whether there is any overlap or contradiction with the widely known G20/OECD Principles of Corporate Governance.

(b) Strategy

The disclosure objective for strategy focuses only on the entity's strategy for addressing significant sustainability-related risks and opportunities and does not address the disclosure requirements on the impact of these risks and opportunities on the business model. It should be correlated with the entity's business model. Therefore, we suggest the Board consider mentioning the entity's business model in the objectives as follows: "enable users of general-purpose financial reporting to understand the effect of significant sustainability-related risks and opportunities on an <u>entity's business model"</u>

(c) Risk Management

There should be a clear guideline on how to define risk and opportunities to ensure comparability. Every entity and primary user have their interpretation of what is meant by information that provides "insight into risks and opportunities". It might be taken to imply that it includes broader information. For example, the definition might include language relating to the impacts and dependencies that could give rise to risks and opportunities that might directly or indirectly impact an entity's business model and viability.

(d) Metrics and targets

Paragraph 29 stated that an entity shall identify metrics that apply to its activities in line with its business model. This also seems to be the case for another requirement; therefore, we suggest the Board consider requiring an entity to disclose/explain their business model first before further disclosing the core content aspect. We are of the view that providing information about an entity's business model, would help the primary user understand the context of disclosure better.

As we mentioned in our answer to Question 1(c), we envisage there are instances of duplicative requirements between IFRS S1 and IFRS S2 regarding the core content of TCFD (Governance, Strategy, Risk management, & Metrics and Targets). We view that core content could be a Conceptual Framework for IFRS Sustainability Disclosure Standards. IFRS S1 Paragraphs 36-90 provide general features requirements that outline the principles used to prepare and disclose material sustainability-related financial information, this could be part of the Conceptual Framework. The rest of the paragraphs provide general disclosure standards which outline the requirements that are considered cross-cutting and relevant for understanding the impacts of all sustainability-related risks and opportunities.

[Malaysia]

Except for the proposed paragraph 34(c), we agree that the disclosure requirements for governance, strategy, risk management and metrics and targets are appropriate to the stated objective; subject to providing additional explanation on the matters observed below:

(a) "over time"— we suggest improving the drafting in paragraph 22 of [draft] IFRS S1 in explaining the requirements for an entity to disclose how it expects its financial position and financial performance to change "over time".

Clarity is required for the term "over time". As it is currently drafted, it is not clear if "over time" refers to the reporting period (i.e., the 12-month period of a financial year) or the time horizon of "short, medium or long term".

As such it would be helpful if the drafting in paragraphs 22(c) and 22(d) explicitly state the time horizon.

(b) *resilience* — based on our reading of paragraph 23 of [draft] IFRS S1, the term "resilience" refers to an entity's ability to adjust to the uncertainties arising from sustainability-related risks.

However, we suggest including in Appendix A the definition of "resilience" from the perspective of providing sustainability-related financial information so as to assist entities to apply the concept and the proposed requirements in a consistent and comparable manner.

In addition, the ISSB might consider providing explanatory material in the Illustrative Guidance on the attributes of resilience and the specific information to be provided so as to meet the disclosure objective as stated in paragraph 23 of the [draft] IFRS S1.

With regard to the proposed paragraph 34(c) that requires an entity to "provide restated comparative figures, unless it is impracticable to do so" for a metric or target that is redefined or replaced, we suggest for the principle to be aligned with that of IAS 8. Please see our detailed response in relation to restated comparative figures in Question 11 *Comparative information, sources of estimation and outcome uncertainty, and errors*.

In addition to the above, our stakeholders also raised concern that entities are likely to be reluctant to provide meaningful information on trade-offs that arise between various sustainability-related risks and opportunities, as proposed in paragraph 21(c) of [draft] IFRS S1.

This type of information would open them up to wider stakeholder challenges and criticism. Furthermore, the proposed requirements (e.g., paragraph 21(c) and paragraph 44(b)) appear to be very extensive and could create exposure to commercially sensitive information.

[Sri Lanka]

The disclosure objectives for governance, strategy, risk management, and metrics and targets are clearly defined. However, at this stage, CA Sri Lanka would like to make some suggestions as follows. It is required to make disclosures on the effects of significant sustainability-related risks and opportunities on its business model. However, without a requirement to explain the entity's business model, this potentially valuable disclosure may become meaningless. Furthermore, by defining the words "sustainability" and "significant" more clearly, it will enable the users to understand the ED in a clearer manner. In addition, the reason for using the word significant instead of materiality is also a concern. Hence, CA Sri Lanka would like to suggest to ISSB that they pay more concentration on these few points.

The disclosure requirements set out reasonable criteria and those requirements are appropriate to the objective with comprehensive and detailed explanations.

Question 5 —Reporting entity (paragraphs 37-41)
The ED proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements. (a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why? (b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirement or guidance would be necessary and why? (c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

[Australia]

(a) The AASB agrees that sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements.

However, many Australian stakeholders expressed confusion about the concept of the reporting entity in the context of sustainability-related financial information. These stakeholders were concerned that overall, the proposals do not align with the reporting entity concept applied in the preparation of the financial statements – that is, in their view, the proposals consistently go beyond the reporting entity boundary. we are of the view that deviations from fundamental concepts are at times necessary to meet the objective of general purpose financial reporting. That is, unless otherwise stated in our response to [Draft] IFRS S1 and [Draft] IFRS S2, we agree with those deviations the ISSB has proposed, including those which go beyond the reporting entity boundary, such as those related to the consideration of an entity's value chain. However, we think that the ISSB's proposals would be enhanced by clearly explaining the reasoning which supports those proposals. Consequently, we recommend the ISSB:

(i) explain in the Basis for Conclusions the reasoning for departing from the reporting entity concept in some instances; and

(ii) improve the guidance around those proposals which deviate from the reporting entity concept to ensure that the proposals are consistently understood and applied.

(b) The requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and the use of resources along its value chain is unclear. It is not capable of being consistently applied. The proposed value chain definition lacks the specificity to ensure the boundary of reporting is consistently understood and applied . We recommend that the 'value chain' concept is limited to activities, resources and relationships over which the reporting entity has control. We also recommend that the ISSB provide sufficient guidance to ensure that the value chain concept is able to be consistently understood and applied. Furthermore, we recommend that such guidance include an explanation that the value chain should be considered through the lens of materiality. We understand that the ISSB would sometimes need to depart from this more limited value chain concept (such as when an entity is required to disclose its Scope 3 greenhouse gas emissions). However, we think the foundational concept should be limited initially to support more consistent application both in the absence of a full suite of IFRS Sustainability Disclosure Standards and future standards.

We also recommend that the ISSB remove paragraph 41, which permits inconsistencies in application and instead develop an approach to disclosing and measuring sustainability-related risks and opportunities related to associates, joint ventures and financial investments consistent with the approach in IFRS Accounting Standards.

(c) The AASB agrees with the proposed requirement for identifying the related financial statements.

[China]

(a) Agree.

(b) It is very challenging to apply in practice and have to ensure consistency. The reasons are as follows: First, it is not always easy to obtain information about significant sustainability-related risks and opportunities of associates, joint ventures, and other entities alongside the value chain. Second, the relevant information may not be comparable due to the lack of consistent and comparable basis used by the reporting entity and its investees. For example, the use of enterprise value vs. societal value, climate-related information measurement protocols and different reporting periods applied by associates, joint ventures and other entities, etc. We suggest that the ISSB consider changing disclosures of sustainability-related information for associates, joint ventures, and other companies alongside the value chain from mandatory requirements to a voluntary basis. The ISSB should also provide detailed guidance on how to determine 'material information'. In addition, we believe that paragraph 40(a) of this ED which requires an entity to disclose ‘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’ are not within the scope of sustainability-related financial information and they should be removed.

(c) Agree.

[Dubai]

(a) We agree with this proposal. From the perspective of helping users assess a reporting entity’s material sustainability-related risks and opportunities, we consider that the sustainability-related financial information should be provided for the same reporting entity as the related financial statements.

However, we suggest clarifying the reference in paragraph 40 to associates as entities on which the reporting entity has control, as associates are not typically within the control perimeter of the reporting entity.

(b) The disclosure requirements on the value chain are unclear. As indicated in 4B above, the ISSB should consider including a disclosure of the definition and scope of an entity's value chain. Without a clarification of the scope of value chain, questions such as "how far along an entity's value chain should be considered" will remain. A definition of the scope of the value chain will improve consistency, comparability and verifiability.

(c) Yes, this will ensure connectivity with the financial statements, which is relevant to investors.

[Hong Kong]

Value chain

(a) The ISSB should consider providing specific guidance to help preparers understand and report on material risks within the value chain as not all parts of the value chain are necessarily significant to an entity. This includes providing specific guidance to determine how many levels up and down the value chain entities should report on or refer them to relevant existing literature, as it is not often clear under what circumstances cradle-to-grave information is required.

(b) The ISSB should clarify the wording of paragraph 40(c) as it states, "investments [an entity] controls including investments in associates and joint ventures…": if an entity controls another entity, it is a subsidiary and not an associate or a joint venture. The ISSB should use terms that are aligned with those used in IFRS Accounting Standards and with the same definition.

[Indonesia]

In response to question 5(a), we highly support this connectivity between sustainability-related financial information and financial statements. However, there may be some challenges that arise in the consolidation process at the group level which impact the quality and completeness of the disclosure, and the risk of obscuring material information, hence a clear guideline is needed. For example, a sustainability-related risk or opportunity that is significant for an entity within a group, may not be material when consolidated at the group level. Holding group company sometimes comprises entities with different industries. This will also create challenges when the parent company consolidate its disclosure, especially due to the industry-specific requirement.

In response to question 5(b), we envisage that there is a need to clarify the requirement. The proposed standard recognizes the need to include information related to parties outside its reporting boundary but does not explain how an entity should deal with instances where the third party providing the information is not itself required to comply with IFRS Sustainability Disclosure Standards.

We also view that there may be some instances where this information goes beyond the scope of financial statements which may increase sustainability risks. We suggest that the Board should clarify the disclosure requirement further. Such as, which level of value chain is needed to disclose its information (e.g. value chain level 1, 2, or 3)

In response to question 5(c), we agree with the proposed requirement because we think that it will enable the investor to see if sustainability practices indeed had the long-term benefit, after how many years, and what cost have been incurred until the achievement of cost saving or increased productivity is noted.

[Malaysia]

Some of our stakeholders raised the following concerns about the proposed boundary of reporting entity (which includes investment in associates and joint ventures), as stated in paragraph 40 of [draft] IFRS S1:

(a) as with the preparation of consolidated financial statements, a holding company might face difficulty in obtaining information about sustainability-related risks and opportunities from associates and joint ventures in a cost-efficient and timely manner.

Providing information about significant sustainability-related risks and opportunities which, amongst others, include information about strategy and decision making, might be construed as providing "insider" information or preferential treatment over the other shareholders if the holding company was provided with the information before other shareholders.

This practical challenge is aggravated if the associate or joint venture is a "smaller" company that might not have the capacity or required resources to furnish the holding company with sustainability-related information.

Although we believe the principle of materiality applies in this situation, nonetheless we think it is important for the ISSB to understand this concern and for further consideration in finalising the boundary of reporting entity.

(b) in relation to the proposed paragraph 40(c) (read together with paragraph 2) of [draft] IFRS S1, clarification is required on whether the scope only covers joint venture excluding a joint operation. The [draft] IFRS S1 is silent about joint operations.

Entities who have been applying IFRS Accounting Standards would be familiar that a joint arrangement is either a joint operation or a joint venture (paragraph 6 of IFRS 11 *Joint Arrangements*). However, entities who have been applying other GAAP might not be familiar with IFRS 11 and may not include a joint operation within the boundary of the reporting entity.

In this regard, we suggest that the [draft] IFRS S1 includes an explicit reference on whether joint operations are considered in the boundary of a reporting entity.

(c) the mechanics of providing information for associates and joint ventures i.e., whether the same approach for the preparation of financial statements under IFRS Accounting Standards would apply to the preparation of information about significant sustainability-related risks and opportunities.

In addition to seeking clarification on the boundary of reporting entity, our stakeholders asked for further guidance on the notion of an entity's value chain, for example by including some reference points on the valuation technique such as *cradle to gate* or *cradle to grave*; or some other recognised techniques.

We consider a similar type of educational material on IFRS 13 *Fair Value Measurement*[1] would be helpful to guide entities in understanding the concept of value chain.

Please also see our concerns raised in response to Question 9 *Frequency of reporting*.

[Sri Lanka]

CA Sri Lanka agrees that sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements.

As CA Sri Lanka, we strongly believe that by providing the sustainability-related financial information for the same reporting entity as the related financial statements, the relationships between the information in the financial statements and the other general purpose financial reporting can be maintained in a strong manner. Furthermore, it would enable inclusive reporting that would encourage alignment and traceability back to the financial statements of an entity

<u>Value chain</u>

CA Sri Lanka would like to mention that we support the requirement to provide information about sustainability-related risks and opportunities along the value chain since the disclosure requirements are clear and capable of consistent application.

1 https://www.ifrs.org/content/dam/ifrs/supporting-implementation/ifrs-13/education-ifrs-13-eng.pdf *Illustrative examples to accompany IFRS 13 Fair Value Measurement: Unquoted equity instrument within the scope of IFRS 9 Financial Instruments*, accessed on 21 June 2022.

Identifying the related financial statements

CA Sri Lanka believes that by identifying the related financial statements, users of the financial statements will be able to relate their financial statements to the sustainability-related risks and opportunities, which will help users build a relationship between that information and successfully assess the enterprise value

Question 6 —Connected information (paragraphs 42-44)
The ED proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between (a) various sustainability-related risks and opportunities; (b) the governance, strategy and risk management related to those risks and opportunities along with metrics and targets, and c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements. (a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not? (b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

[Australia]

(a) The AASB agrees that the requirement in paragraph 42 is clear, but but given the lack of supporting guidance in [Draft] IFRS S1 we do not think an entity would be able to comply with this requirement. We noted that stakeholders expressed confusion about how an entity would comply with the requirements in paragraphs 42 and 43 of the proposals. In particular, there were mixed views on the:

asian-oceanian standard-setters group

(i) boundary of reporting—that is, whether the information relating to the financial statements would be financial statement information and, therefore, already be required to be disclosed as part of an entity's general purpose financial statements; and

(ii) relationship between enterprise value and the basis of preparation of the financial statements.

We recommend that the ISSB assists the IASB in developing more robust requirements and guidance addressing significant judgements and assumptions in IFRS Accounting Standards as a consistent approach across both IFRS Accounting and Sustainability Disclosure Standards is required in how sustainability-related and other emerging risks are considered in general purpose financial reporting.

We further recommend that the ISSB clarifies the boundary of reporting as part of a conceptual framework, or by amending the existing *Conceptual Framework* and field tests the proposals.

In respect of enterprise value, we recommend that the ISSB develop additional explanation and guidance on enterprise value and how it interacts with general purpose financial reporting and statements as part of a conceptual framework or through amending the existing *Conceptual Framework*. This is because, in addition to being a fundamental concept for ISSB stakeholders, enterprise value should form the basis of all future standard-setting activities by the ISSB. We recommend that this guidance at a minimum:

(i) explain the role of enterprise value in broader financial reporting;

(ii) explain the expected interaction between sustainability-related financial reporting and general purpose financial reporting; and

(iii) explain the expected interaction between sustainability-related financial reporting and general purpose financial statements.

Jurisdictional legislation and external reporting requirements exist for sustainability-related matters such as modern slavery, human rights, animal welfare and water. In the absence of specific IFRS Sustainability Disclosure Standards, we recommend that entities be required to make explicit references to sustainability-related reporting they do outside general purpose financial reporting and where that reporting is located.

(b) The AASB agrees with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements. We think that the success of sustainability-related financial reporting depends on the ISSB's ability to articulate to capital markets the impact such reporting has. Part of this articulation is done through ensuring that sustainability-related financial disclosures can speak to an entity's financial statements and vice versa.

As mentioned in our response to question 6(a), for an entity to comply with the requirements related to connected information, additional guidance and explanation are needed on the boundary of reporting and enterprise value.

[China]

(a) Generally clear. We recommend that the ISSB should provide detailed guidance and disclosure examples, as it is usually complex when dealing with intertwined sustainability-related information in actual practice.

(b) Generally agree. We recommend that the ISSB should provide further guidance on how sustainability-related financial information should be connected to other information. However, we do not recommend the disclosure of quantitative information that connects sustainability-related risks and opportunities with information contained in general-purpose financial reporting (including financial statements) to be excessively detailed. The reasons are as follows: Firstly, sustainability-related risks and opportunities cannot be isolated from general business risks and opportunities. In fact, all of these risks interact with each other and are intertwined. The reason for their occurrence could be subjective and complex and could be subject to interpretation by management. Therefore, we recommend that disclosing qualitative information or not too much detailed quantitative analysis would suffice. Secondly, the well-recognized quantitative analysis method has not been formed yet, so it is difficult to guarantee the reliability and comparability of the information. Therefore, we recommend the ISSB should actively research on the appropriate methods to assess sustainability-related impact and only require entities to disclose relevant quantitative information after sufficiently scientific and rigorous processes have been conducted.

[Dubai]

Yes, to a) and b). The requirement to report on connectivity is clear. However, I suggest that examples and guidance are extended and provided separately. Further, we suggest that the Standard should explicitly require consistency, where possible, with assumptions and estimates used in financial statements and an explanation for the cases in which such consistency could not be achieved.

Also, it may be important to highlight the differences in bases of preparation of sustainability related information which will be largely based on forward looking information whereas accounting information may be based on historic cost conventions.

[Hong Kong]

We suggest that the ISSB provide more examples on how various sustainability-related risks and opportunities connect with the information in general purpose financial statements, and to provide more linkage in paragraph 42 between (i) strategy, governance and risk management and (ii) metrics and targets to link the objective in that paragraph with the explanation in paragraph 43.

[Indonesia]

In response to 6(a), we appreciate the Board's intention to create connectivity between various sustainability-related risks and opportunities. However, we view that the requirement could be challenging due to the many variables involved. For example a coal mining company has chosen a more expensive method of washing machine that protect the environment better, this increases the cost, however, if the coal mine has increased profit, this does not correlate directly because of installation of that machinery, but maybe because of higher price of coal. The incurrence of the additional cost is directly connected with the increase in cost but indirectly connected with the higher profit. Please note that the additional cost may decrease another cost, such as environmental litigation or a reduction in insurance premium. Hence, many indirect connections may be affected by so many other variables. Hence, we suggest the Board consider providing additional guidance in the Illustrative Guidance document.

In response to question 6(b), we agree with the proposed requirements to connect sustainability-related financial information to information in the general-purpose financial report, including the financial statements. However, as we stated in answer to Question 6(a), the requirement could be challenging due to the many variables involved. There is a possibility that the interconnections are complicated and may create an unnecessary reporting burden.

Therefore, we suggest the Board consider requiring entities to explain how to differentiate between a direct increase of cost, an indirect expected decrease of cost (for example a better water filtration is expected to improve production rejects) and an expected increase of revenue.

[Malaysia]

It would be helpful to provide an illustration of how connected information should be disclosed and presented between financial statements and sustainability report. We foresee entities will face challenges in connecting the information particularly when financial statements focus on quantitative information and sustainability report tends to be qualitatively focused.

In addition, we found the explanation provided in paragraph BC57 is helpful to illustrate the connected information and could be further expanded with figures and notes to be included in the Illustrative Guidance.

[Sri Lanka]

CA Sri Lanka believes that the requirement is clear on the need for connectivity between various sustainability-related risks and opportunities.

As CA Sri Lanka, we agree with the requirement to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements. Since this requirement will enable the financial statements to provide better information to the users to derive their expected enterprise value.

The ED clearly explains the requirement to provide information and disclosures about sustainability-related risks and opportunities, as well as how they will affect the entity's strategy, financial position, financial performance, and cash flow.

Further to the above comment, at this point, CA Sri Lanka would like to suggest that a further concern should be given to the different basis of preparation of the sustainability. The financial statements will be subject to audit, but audit or assurance requirements may not apply to information produced on application of the ED proposals. Hence, there could be some confusion on this point.

Further, this connected information on this ED is highly important to ensure a stronger connection and link between the sustainability-related risks and opportunities and the information disclosed on the financial statement.

Question 7 —Fair presentation (paragraphs 45-55)
The ED propose that a complete set of sustainability-related financial disclosure 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 propose principles set out in the ED. Apply IFRS Sustainability Disclosure Standard, 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 an entity shall use its judgement in identifying disclosures. In making that judgement, entities would consider the same sources identified in the preceding paragraph.

(a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?

(b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

[Australia]

(a) The proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including aggregation of information, is clear. However, we disagree that overarching principles be set out in a standard intended for widespread application. We recommend paragraph 45 of the [draft] standard refer to a conceptual framework (or the existing *Conceptual Framework*) where these principles should be located (or already are) and appropriately explained rather than added to a general requirements standard. See also our response to question 1(c).

We are of the view that equal prominence of disclosures is integral to ensuring entities are balanced in their reporting. We recommend the ISSB add a requirement for presentation of sustainability-related financial disclosures with equal prominence and develop as part of a conceptual framework guiding principles on the equal prominence of all information disclosed as part of an entity's general purpose financial reporting package.

We also We note that [Draft] IFRS S1 does not permit for non-compliance with the requirements of IFRS Sustainability Disclosure Standards in the rare circumstances in which an entity may conclude that compliance with a requirement would conflict with the objective of general purpose financial reporting (set out in the existing *Conceptual Framework*) and the objective of the [draft] standard (set out in proposed paragraphs 1-7). We recommend providing for such non-compliance to help ensure fair presentation. We recommend the ISSB uses paragraphs 19-24 of IAS 1 as a helpful starting point to develop such requirements.

We also question how a reporting entity would be able to comply with the requirements relating to fair presentation when relying on third-party data over which it has no control (mainly due to differences in quality of information systems and regulatory and assurance framworks). Our stakeholders also questioned how a reporting entity could be expected to instruct third parties in its value chain to provide information to a particular level of quality (and subject to regulatory scrutiny and assurance) when it has no control over those entities. As discussed in response to question 5(b), we think this issue could, in part, be addressed by improving the value chain definition.

(b) In respect of the sources of guidance, we do not agree with the proposal. We think that the current wording (paragraph 51) indicates that the sources are requirements rather than guidance. Given the current resource and skill gap in the sustainability reporting space, such a requirement would not be achievable and encourages cherry-picking from other standards and frameworks whose scope aligns with that of the ISSB. In addition, the SASB Standards are not globally representative and would currently qualify as falling into the same category as proposed paragraph 51(d).

[China]

(a) No comments.

(b) We do not agree with the source of guidance, particularly relating to that of Appendix B of the IFRS S2 ED. Appendix B of S2 ED is derived from standards formulated by the Sustainability Accounting Standards Board (SASB). Despite efforts made by the ISSB to internalize it, a significant amount of regional or national metrics still remain. These include specific metrics from Europe and North America, those from a certain state, a certain industry association or even a certain entity in a certain country. These metrics cannot be regarded as metrics of international standing. We recommend that, Firstly, the metrics developed by non-international institutions and non-globally recognised international institutions be removed. Companies of different jurisdictions can either apply other recognized international standards or those national standards formulated in accordance with internationally-recognized standards. Secondly, rule-based as Appendix B is, Appendix B may lack flexibility and adaptability in responding to changing business activities and environment of different industries and entities. Therefore, rather than carrying the same authority as the main text of S2, Appendix B, in its entirety, should be non-mandatory industry guidance instead.

[Dubai]

(a) On the aggregation of data, paragraph 49 of the ED requires that data shall be aggregated when it shares common characteristics and disaggregated when it does not share them.

This requirement is very broad, and we believe this may reduce the comparability of the information.

We recommend that additional guidance is provided on what 'characteristics' the entity should consider when considering the level of aggregation. E.g., breakdown per sector of activity, country by country reporting etc.

(b) We agree with the list of sources for the identification of significant risks and opportunities and the related disclosure requirements in paragraphs 51-54 of the ED. However, paragraph 51 notes that an entity shall refer to IFRS Sustainability Disclosure Standards, including disclosure topics, to identify sustainability-related risks and opportunities. It is not clear whether these considerations are mandatory requirements with the use of "shall consider".

We therefore recommend that the level of requirement in Paragraph 51 (a) through (d) be changed from "shall consider" to "may consider."

[Hong Kong]

(a) We are concerned that the scope of using other frameworks, standards and industry practice in the absence of relevant ISSB standards as proposed in paragraphs 51 and 53 is too wide. First of all, these other frameworks etc. would not have gone through the IFRS Foundation's due process. It would thus not be meaningful (and perhaps even misleading) to assert compliance with the IFRS Sustainability Disclosure Standards in this case. Secondly, using other frameworks may give rise to regulatory challenges as it will be difficult for regulators to enforce compliance when there is no clearly defined set of required disclosures. It would also be challenging for users and assurance providers to assess or verify the completeness of disclosure.

(b) The ISSB can consider narrowing the choice to specified frameworks that have gone through robust due process, and to allow for the grandfathering of the entity's current approach to identifying material information whilst the ISSB continues its progress on the other topical standards.

(c) In addition, we propose following enhancements to paragraphs 51 and 53:

(i) Recommend entities to consider sustainability-related risks and opportunities identified by regulators and/or government agencies through their respective laws and regulations that are relevant for investors in paragraph 51(d).

(ii) Paragraph 51 can make reference to other research reports to help entities identify relevant risks and opportunities e.g. World Resources Institute - Water Stress by Country, IPCC Sixth Assessment Report[2] as well as the material topics used by rating agencies.

(iii) It is not clear what paragraph 53(c) means when management is to identify disclosures that are 'neutral': for example, would controversial events such as major oil spills or violation of law meet such a requirement?

[Indonesia]

In response to 7(a), generally, we agree with the proposal to present fairly the sustainability-related risks and opportunities to which it is exposed. Nevertheless, we envisage that it would be difficult for assurance providers and regulators to assess whether entities have met this requirement, especially if additional disclosures beyond the requirements of the topic-specific IFRS Sustainability Disclosure Standards are required.

In response to 7(b), we agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures. Nevertheless, please relate to our answers to Questions 1(a) and 1(d), the term "significant" should be clarified. Also, we suggest the Board

2 https://www.wri.org/data/water-stress-country

include further requirements for the entity to disclose the judgements and assumptions as a basis of preparation.

We also found inconsistencies between Paragraph 55 and paragraph 51. Where paragraph 51 refers to the industry-based SASB Standards as guidance on which entities can refer to when identifying significant sustainability-related risks and opportunities, and paragraph 55 requires entities to specify the industry or industries used when identifying disclosures. Therefore paragraph 55 suggests that the use of the industry-based SASB Standards is a requirement, rather than a source of guidance. SASB standards are too western-minded/US-centric, meanwhile, sustainability is a contextual concept and might differ from what SASB had in mind and other jurisdictions, especially in Asia. We recommend paragraph 55 be removed and the industry-based SASB Standards are only referred to as reference guides, which will limit confusion about the application of the source guidance.

We are also concerned that if the additional sources in paragraph 51 are mandated, this would be in direct contradiction with paragraph 58 which states "This [draft] Standard does not specify any thresholds for materiality or predetermine what would be material in a particular situation." The ISSB may also consider utilizing language in IAS 8 (paragraph 12) which states that "management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices..."

[Malaysia]

Please see our response in Question 1 *Overall approach* about the need to have additional educational materials or illustrative examples in applying concepts and principles in IFRS Accounting Standards from the perspective of sustainability reporting.

[Sri Lanka]

CA Sri Lanka agrees the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, is clear.

The IFRS S1 exposure draft clearly explains the applicability of aggregation and disaggregation of information if it does not obscure any information that is considered material to the entity's sustainability related risks and opportunities

Sources of guidance

CA Sri Lanka broadly agrees with this statement.

The ED clearly mentions that an entity can consider the following guidelines to identify the sustainability-related risks and opportunities:

(a) the SASB Standards' industry-based disclosure topics;

(b) the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water-and biodiversity-related disclosures);

(c) the most recent pronouncements of other standards-setting bodies whose requirements are intended to meet the needs of general-purpose financial reporting users; and

(d) the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

Question 8 —Materiality (paragraphs 56-62)
The ED 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 the 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'.

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.

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

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

(c) Is the ED and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?

(d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the ED if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

[Australia]

(a) We agree with the proposed definition of material and its alignment with the definition of material in the IFRS Foundation's *Conceptual Framework for Financial Reporting*. However, we think the guidance accompanying the definition could be improved. We further recommend that the guidance from IAS 1 is incorporated where relevant. In addition, we have concerns about how to apply the definition in the context of sustainability-related financial reporting. Sustainability-related matters are not traditionally reported under, prepared, or used, by individuals with a strong understanding of IFRS Accounting Standards. For example, the relevant preparers for much of this information will likely be legal and professional experts that work in the fields of, for example, climate and environmental sciences, human rights and modern slavery. Furthermore, as evidenced through the work of the International Accounting

Standards Board, users are often not familiar with financial accounting concepts and definitions. Consequently, while accountants are familiar with the existing definition of material and the related supporting guidance in IFRS Practice Statement 2 Making Materiality Judgements, the individuals to which these proposed requirements are most relevant, are not. We recommend that the ISSB add to [Draft] IFRS S1 guidance on the application of the definition of material such that included in IAS 1 and the *Conceptual Framework* so the same outcome would be achieved as if an accountant were applying that guidance. We recommend incorporating the guidance in paragraphs 33 to 65 of IFRS Practice Statement 2 into an appendix to [Draft] IFRS S1. We also recommend the ISSB consider amending and modifying IFRS Practice Statement 2 Making Materiality Judgements to make clear the applicability of that guidance to IFRS Sustainability Disclosure Standards and broader general purpose financial reporting.

(b) We think that the proposed definition and application of materiality will not capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time. This is because the definition of material has been adapted from the financial reporting definition of material which has limited application with regards to being applicable to past transactions, other events or conditions. We recommend that the ISSB provide additional guidance on the application of the definition to forward-looking information.

(c) We think that the ED and Illustrative Guidance is not useful for identifying material sustainability-related financial information because:

 (i) it draws predominantly from IFRS Practice Statement 2 without making explicit reference to the guidance in IFRS Practice Statement 2 that is relevant and useful to apply the definition of material such as the four-step materiality process;
 and the qualitative and quantitative factors that can be applied when assessing the materiality of information;

 (ii) paragraph IG9 of the Illustrative Guidance conflicts with paragraphs 62 and 92 of the [draft] standard;

 (iii) paragraph IG11 of the Illustrative Guidance conflicts with the definition of material which is user-centric and does not refer to an entity independently assessing the sustainability-related risks and opportunities which could reasonably be expected to affect its enterprise value;

(iv) the Illustrative Guidance focuses only on the materiality of quantitative information;

(v) there is a lack of guidance about how an entity should deal with more than one standard or framework for the same disclosure topic. The Illustrative Guidance focuses only on the application of a single standard/framework rather than considering how an entity might use guidance from multiple locations to assess the materiality of its sustainability-related financial information.

We recommend the ISSB amends the Illustrative Guidance to address these issues.

(d) We agree with the proposal.

[China]

(a) It could be made clearer. We recommend that the ISSB should refine the definitions of 'significant' and 'material'. In addition, guidance on how to apply judgement on these items should be provided. As an example, how the concepts of 'low likelihood' and 'potentially high impact' in paragraph BC72 should be applied need to be further elaborated.

(b) It could be made clearer. We recommend that the ISSB should refine the definitions of 'significant' and 'material'. In addition, factors that could impact an entities' assessment of materiality (e.g. amounts, duration including short, mid and long term, etc.) and how these factors should be prioritized in the assessment should be provided.

(c) We find it useful. We recommend that the ISSB should refine the definitions of 'significant' and 'material'. In addition, guidance on how to apply judgement on these items should be provided.

(d) Agree. Apart from the information prohibited by local laws and regulations, we recommend that the ISSB should also exempt entities from disclosing information that is commercially-sensitive without affecting the fairness and integrity of the information.

[Dubai]

We recommend that the ISSB considers providing guidance on how to perform materiality analysis. We also recommend the ISSB to remove reference to 'significant' – see our response to question 1.

Also, we see an inconsistency in the ED relating to the approach used when determining materiality. In paragraph 9, the scope of materiality is related to the entity's enterprise value whereas in paragraph 56, the scope of materiality is related to factors which are reasonably be expected to influence decisions of primary users. The scope of materiality in paragraph 56 is therefore broader as it relates to "decisions". Decisions with respect to enterprise value will therefore be a subset of the scope in paragraph 56.

The definition is paragraph 56 aligns with that of IAS 1 which refers to information that can reasonably be expected to influence the decisions of primary users. Reference to enterprise value should therefore be removed in the scope and assessment of materiality as this is too narrow and not aligned with current IFRS definition of materiality.

[Hong Kong]

<u>Factors and guidance to determine materiality</u>

(a) Most respondents find it challenging to establish a materiality threshold for sustainability-related information as such information is mostly qualitative and forward-looking in nature as compared to financial reporting of past transactions that could be quantified. Even when it comes to quantitative disclosures, many respondents are not clear on how materiality should be assessed when disclosing *prospective* financial information as that could cover a period far into the future and it may not be appropriate to base the materiality assessment on the current year financial position or performance.

We therefore suggest that the ISSB provide factors that entities should consider when assessing what is material (paragraph 56), for example, the likelihood and impact of the event (potential amounts involved), frequency (how often), duration (short-, medium- or long-term). Having a list of factors for consideration may help promote consistency in the materiality assessment across entities and also between preparers, auditors, regulators and other users of the sustainability information. It may also help provide context for the information, e.g. a small investment in a coal-related project could be very material to a fund that has a clear ESG mandate as compared to others without such a mandate. These factors should align as much as possible with those in *IFRS Practice Statement 2: Making Materiality Judgements* to achieve connectivity between financial and sustainability information. The ISSB could also consider referring stakeholders to other existing relevant literature.

We fully acknowledge that the ISSB's focus is on providing investors with sustainability information that could reasonably affect enterprise value. Nevertheless, various entities have reported sustainability information under the double materiality concept for some time and it could be challenging for them to isolate the effects on investors from their existing multi-stakeholder assessment. The dynamic nature of sustainability issues (i.e. how they move from not affecting enterprise value to affecting and vice versa) also makes it difficult for entities to judge what information would affect enterprise value at different points in time. We therefore suggest that the ISSB provide more examples in the Illustrative Guidance to help entities understand how to apply this concept.

Disclosure of material policies, assumptions and judgements

(b) We strongly recommend that the ISSB require disclosure of the basis of material policies, methodologies, significant assumptions and judgements for sustainability reporting in line with existing IAS 1 requirements. This will provide context for the sustainability information and allow users to compare different entities and over time for the same entity.

Prohibition of disclosures under local laws and regulations

(c) We suggest that the ISSB provide examples of such circumstances, e.g. if the disclosure would ‘prejudice against court ruling’ (similar to the concepts in paragraph 92 of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

[Indonesia]

For question 8(a) and 8(b), unfortunately, we do not agree that the definition and application of materiality are clear or consistent. We found that the definition of materiality throughout the Exposure Draft is inconsistent, which may lead to confusion. We agree that materiality should be determined using the same approach as the general-purpose financial statement and therefore we support the alignment of the definition to that in the IFRS Conceptual Framework and IAS 1.

(a) In paragraph 9 the scope is described as "sustainability-related risks and opportunities that cannot reasonably be expected to affect assessments of an entity's enterprise value by primary users of general-purpose financial reporting are outside the scope of this [draft] Standard."

(b) Paragraph 56 states that 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 based on based on that reporting, which provides information about a specific reporting entity."

Information influences decision-making usually broader than information that affects the assessment of enterprise value. It may be possible that information may not impact a primary user's assessment of enterprise value but may affect their decision to invest in or lend to that entity.

For question 8(c), we agree that the Exposure Draft and Illustrative Guidance require an amendment to provide support for entities when identifying and assessing the materiality of sustainability-related financial information.

However, based on Illustrative Guidance ED IFRS S1, we noted that the sequence of information related to the "interaction between an entity's disclosure and its materiality assessment (paragraph IG6 to IG10)" and the "selecting sustainability-related financial disclosures (paragraph IG11 to IG13)" should be rearranged. In our opinion, the entity should determine first what kind of components that should be disclosed in the sustainability reports rather than determining materiality information to the users. The significance depends on what kind of information will be disclosed while the materiality is determined by whether that information shas had an impact on decision making which is assessed by the quantitative and qualitative approaches. We also noted that the materiality should be considered as "double materiality", which means we should see not only the preparer's perspective but also the user's perspective. The materiality level will be different depending on many perspectives.

For question 8(d), we agree that it is appropriate to relieve an entity from disclosing information required by the Exposure Draft if local laws or regulations prohibit it and to require an explanation of the source of the restriction

[Malaysia]

The [draft] IFRS S1 seems to imply that "material" and "significant" are used interchangeably. We suggest a single term to be used throughout the [draft] IFRS S1 if it intends to convey the same meaning.

However, if it intended to carry different meaning, we suggest defining or clarifying the meaning of "material" and "significant", from the perspective of providing sustainability-related financial information to meet the proposed requirements. A significant item will be a material item, but a material item might not be a significant item.

Examples of the use of "material" and "significant" from the [draft] IFRS S1:

> "An entity shall disclose information that enables users of general purpose financial reporting to understand the effects of <u>significant</u> sustainability-related risks and opportunities on its strategy and decision-making. …" (Paragraph 21, emphasis added)

> "Material sustainability-related financial information provides insights into factors that could reasonably be expected to influence primary users' assessments of an entity's enterprise value. …" (Paragraph 57, emphasis added)

We suggest improving the drafting of the proposed paragraph 62 of [draft] IFRS S1 and paragraph IG9 so that they can be read in a consistent manner without causing any confusion. Paragraph 62 allows an entity not to disclose any required information if local laws prohibit it; on the other hand, paragraph IG9 states that an entity that wishes to state compliance cannot provide less information than the information required by an IFRS Sustainability Disclosure Standards even if local laws permit it to do so. For example, an alternative drafting of IG9 is as follows:

An entity's general purpose financial reporting shall comply with the requirements in IFRS Sustainability Disclosure Standards, including requirements related to materiality (materiality requirements), for the entity to state its compliance with those Standards. Hence, an entity that wishes to state compliance with IFRS Sustainability Disclosure Standards cannot provide less information than the information required by those Standards, unless providing such information is prohibited by local laws or regulations.

[Sri Lanka]

CA Sri Lanka agrees with the definition and application of materiality are clear in the context of sustainability-related financial information.

The definition and application of materiality are clear and understandable. As per paragraph 58 of the ED, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of the entity's general purpose financial reporting. Furthermore, this ED does not specify any thresholds for materiality or predetermine what would be material in a particular situation. Hence, an entity should apply judgement to identify material sustainability-related financial information. Therefore, CA Sri Lanka believes that this specification of the materiality of the standard (draft) is clear.

Proposed definition and application of materiality

As per paragraph 59 of the ED, the materiality judgement shall be reassessed at each reporting date to take account of changed circumstances and assumptions. Hence, CA Sri Lanka believes that the proposed definition and application of materiality is strong enough to capture the breadth of all the sustainability-related risks

Illustrative Guidance

This Exposure Draft and Illustrative Guidance have properly referenced the IFRS Sustainability Disclosure Standard as the basis for identifying the materiality specific to the entity. Hence, the Exposure Draft and related Illustrative Guidance are useful for identifying material sustainability-related financial information. Furthermore, as CA Sri Lanka, we would like to make a further suggestion to include implementation guidance on the illustrative guidance to simplify the implementation process of this.

Proposal to relieve disclosing information

CA Sri Lanka agrees with the proposal to relieve an entity from disclosing information otherwise required by the ED if local laws or regulations prohibit the entity from disclosing the information. In Sri Lanka, an entity needs to comply with various local laws and regulations for corporates. It is mainly the Companies Act No. 07 of 2007 and there are many other entity and industry-related rules and regulations to be adhered to by an entity. Therefore, entities are bound to adhere to and comply with such laws and regulations. Hence, such local laws or regulations should precede the international requirement, and if so, as per the requirement in the Exposure Draft, if an entity omits material information for that reason, it shall identify the type of information not disclosed and explain the source of the restriction.

Question 9 —Frequency of reporting (paragraphs 66-71)
The ED 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 proposals 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?

[Australia]

We agree with the proposal that sustainability-related financial disclosures be required to be provided at the same time as the financial statements to which they relate. However, we also acknowledge that this requirement needs to be carefully worked towards over time and for which the ISSB will need to be flexible.

Many sustainability-related matters are currently addressed by jurisdictional legislation independently from the financial reporting cycle (i.e. for which the reporting periods do not necessarily align). Furthermore. almost all stakeholders highlighted that it would take time to align the financial reporting and sustainability reporting cycles due to resourcing constraints

We recommend the ISSB consider assisting entities through the development of transition requirements similar to those in IFRS 1.

[China]

We do not agree with this proposal. The vast majority of entities that are involved with sustainability reporting do not have well-established data gathering infrastructure. The challenges that they will face on data collection, computation and reporting GHG emissions will far exceed what they experienced in financial reporting. If sustainability-related financial information is required to be disclosed at the same time (i.e., quarterly, semi-annually, annually) as financial reporting, it will exert excessive pressure on these entities. This is also not in line with the principle of cost-effectiveness. Also, because verifying the accuracy and completeness of sustainability-related financial information takes much more time than those of financial reporting, sustainability-related financial disclosures are usually issued after their corresponding financial statements. We recommend that sustainability-related financial information be required to be disclosed on an annual basis. In addition, sustainability-related financial disclosures could be published separately after the annual financial statements are issued.

[Dubai]

We agree with the proposals that the sustainability-related financial disclosures should be required to be provided at the same time as the financial statements to which they relate.

However, we anticipate practical challenges especially for smaller entities with regards to obtaining timely information such as sustainability related risks and opportunities along the value of an entity. We recommend field testing this proposal to understand the potential hurdles to implementing this requirement and coming up with practical solutions to these hurdles.

[Hong Kong]

We observed that paragraph 66 can be read in two ways (i.e. Views A and B below) and suggest that the ISSB clarify it.

View A:

If the reporting entity prepares interim or quarterly financial statements, then it must also present sustainability reports with the same balance sheet dates and for the same periods.

View B:

If the reporting entity prepares a sustainability report, that sustainability report should be issued together with a set of corresponding financial statements with the same balance sheet date and for the same period.

Take the example of a listed entity that issues quarterly financial statements according to the local listing rules, although there is no similar requirement for sustainability report in that jurisdiction. If the entity were to claim compliance with the [draft] IFRS S1, under View A it must also issue a quarterly sustainability report together with its quarterly financial statements. In contrast, under View B, it would not need to issue a quarterly sustainability report as long as there is a set of financial statements with the same balance sheet date and period end when the entity issues its annual sustainability report.

[Indonesia]

In principle, we agree with the proposal that the sustainability-related financial disclosures should be provided at the same time as the financial statements to which they relate. However, given the challenges associated with the collection and analysis of the relevant sustainability-related data this proposal could lead to significant costs and difficulties for reporting entities, particularly at the outset, as well as delays in reporting to financial markets.

We recommend the Board consider a phased approach which would allow entities time to establish robust data management systems, supported by robust internal controls to enable the disclosure of sustainability-related financial information at the same time as financial statements. In the early phase, we also suggest the Board provide a cut-off for a certain period (for example GHG-CER unit produced, water usage accuracy) which may not be as straightforward as the cut-off of financial statements, and therefore the frequency of reporting should not be as frequent as financial reporting (not monthly or quarterly, but annually or each semester may be adequate) then gradually becomes as frequent as the financial reporting.

[Malaysia]

We wish to highlight concerns raised by some of our stakeholders.

The preparation of sustainability-related financial information, especially in the early years of compiling sustainability report, is expected to be very time-consuming and resourcedemanding especially from the perspective of an emerging market where capacity (knowledge and subject-matter experts) is scarce and getting reliable data or input is a problem. These challenges would lead to unnecessary tensions between providing holistic information and timely information in the desire to report sustainability-related financial disclosures at the same time with that of financial statements.

Data readiness and reliability are also a concern from an emerging market perspective. Until the market reaches a point where macroeconomic / climate-risk variables or other assumptions and inputs are readily available in the market; providing reliable sustainability-related financial disclosures is an "uphill battle" for many entities.

In this regard, ISSB may wish to consider a phased approach application, that is, providing a transition period for particularly the smaller and medium entities to publish both documents at the same time rather than mandating it for all entities to publish both documents at the same time when the IFRS Sustainability Disclosure Standards become effective.

Although the above may be applicable only to some jurisdictions and the reporting timelines might ultimately be determined by the regulators, we believe it is important for the ISSB to take the concerns into consideration in its pursuit of establishing a global baseline of sustainability disclosures.

[Sri Lanka]

CA Sri Lanka believes that this requirement in the proposed standard will provide a holistic view of the entity to the users of the financial statements, enabling them to have a better evaluation of the enterprise value. Furthermore, this requirement will enhance the traceability of the reported sustainability information and financial information of the entity.

Question 10 —Location of information (paragraphs 72-78)
The ED proposes that an entity be required to disclose information required to the IFRS Stainabilities Disclosure Standards as part of its general purpose financial reporting – i.e. 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 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. The ED 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 ED despite the proposals on location? (c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standard can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced? Why or why not? (d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

[Australia]

We agree with the proposal in respect to a) – c). However, as discussed in question 6(a), we recommend more explicit reference is made to cross-referencing sustainability-related financial information disclosed in meeting jurisdictional laws and regulations.

We think it is unclear 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. We also note that the requirements of [Draft] IFRS S2 *Climate-related Disclosures* conflicts with this as it proposes that entities be required to specifically identify and quantify those aspects of governance, strategy, risk management, and metrics and targets specifically relevant to climate. In thinking about future standards, we question whether entities would be expected to do the same for sustainability-related matters such as nature, biodiversity and modern slavery? In particular, we are of the view that it is unclear what granularity the ISSB aims to achieve with the proposals in both [draft] standards. We recommend the ISSB:

(i) carefully consider the level of granularity needed to meet user needs—in many cases, higher level qualitative disclosures could achieve the same level of usefulness and relevance of information for users without creating unnecessary cost burdens on preparers; and

(ii) remove the duplication of requirements from [Draft] IFRS S2—that is, disclosure requirements that would be reasonably be expected to be required regardless of the thematic standard applied should be isolated in [Draft] IFRS S1 and not duplicated with specific reference to the topic being addressed in every thematic standard. Thematic standards, such as [Draft] IFRS S2, should cross-reference to those broader requirements in [Draft] IFRS S1 and supplement those requirements only where specific thematic requirements or application guidance is necessary (see also our response to the Exposure Draft on [Draft] IFRS S2).

[China]

(a) Some Chinese stakeholders question whether the sustainability-related information should be as part of its general-purpose financial reporting. We suggest that the ISSB provide a clearer explanation and definition of the connotation of 'sustainability-related financial information' and the scope of 'general-purpose financial reporting'.

(b) We are not aware of any.

(c) No comments.

(d) Clear.

[Dubai]

(a) We agree with the proposal that an entity be required to disclose information required to the IFRS Stainabilities Disclosure Standards as part of its general-purpose financial reporting.

(b) We are unaware of any DIFC-specific requirements that would make it difficult for an entity to provide the information required by the ED as part of its general-purpose financial reporting.

(c) We support the proposal that information can be included by cross reference.

(d) We agree it is clear that entities are not required to make separate disclosures on each aspect of sustainability, but rather provide integrated disclosures.

[Hong Kong]

No comments.

[Indonesia]

In response to 10(a), we agree that information disclosed according to the Exposure Draft should be provided as part of an entity's general purpose financial reporting as this would enhance the interconnectivity between sustainability-related financial information with financial statements.

In response to 10(b), we are currently unaware of any specific requirements that would prevent information from being disclosed by an entity.

In response to 10(c), yes, we 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.

In response to 10(d), yes, we agree with the proposed requirement 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.

[Malaysia]

Please see the concerns highlighted in our response to Question 9 *Frequency of reporting* about timing of publication of both financial statements and sustainability-related financial disclosures.

In addition, we suggest clarifying what is meant by "another location" in paragraph 77 of [draft] IFRS i.e., whether it refers to report(s) that is beyond a reporting package, for example, a management commentary that is published on an entity's website. In this regard, we suggest the draft to clarify if cross-referencing to a report, or a location, beyond a reporting package is permitted by the Standard.

[Sri Lanka]

This requirement of the proposed standard is a flexible prerequisite for the entities. By not requiring a specific location for the information, this proposed standard provides the necessary flexibility for the entities to adhere to the requirements of the local jurisdictions and enables the entities to provide the information in the most effective way by considering the jurisdictional requirements prior to adhering to the entity's location of sustainability-related financial disclosures.

There is no specific jurisdictional requirement that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location.

This proposal for the Exposure Draft will improve user understanding of the process while also reducing the amount of unnecessary information and workload on the reporting process.

As per paragraph 78 of this proposed standard, it is clearly mentioned that when IFRS Sustainability Disclosure Standards require the disclosure of common items of information, an entity shall avoid unnecessary duplication. Therefore, it is very clearly stated 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.

Question 11 — Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63-65, 79-83 and 84-90)
The ED sets out proposed requirement for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contains 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 ED proposes that

comparative information which reflects updated estimates be disclosed, except when this would be impracticable – i.e. the comparatives would be restated to reflect the better estimate.

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

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

(b) Do you agree that if entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?

(c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will be able to be applied?

[Australia]

(a) Requirements relating to comparative information (paragraphs 63-65 of the [draft] standard) have been appropriately adapted from existing financial reporting concepts and requirements. However, consistent with paragraph 38 of IAS 1, the ISSB may consider building in a caveat should future standards depart from such requirements.

We recommend the drafting of the section addressing sources of estimation and outcome uncertainty be reconsidered. As currently drafted, this section appears to be in the nature of application guidance rather than overarching requirements on sources of estimation and outcome uncertainty. Paragraph 79 of the [draft] standard makes reference only to sources of estimation uncertainty in the context of metrics. Sustainability-related financial disclosures are subject to a significant degree of uncertainty through applying judgement and assumptions by an entity's management and experts. We recommend aligning these paragraphs more closely with the requirements in paragraphs 125 to 133 of IAS 1. We also recommend it is made clear that sustainability-related financial disclosures are not compliant if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's sustainability-related financial disclosures. We note that the [draft] standard currently makes no reference to the consistent presentation of sustainability-related financial disclosures in general purpose financial reporting. We recommend that the ISSB consider adding such a requirement to better support future consistency of comparably of sustainability-related financial disclosures.

(b) We agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives because this will support the consistency and comparability of sustainability-related financial disclosures in the long-term.

(c) We 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 and are not aware of any circumstances where this requirement would not be able to be applied. However, not all information included or used in the general purpose financial statements is strictly or clearly identifiable as being financial in nature. We recommend removing the reference to 'financial' from this requirement.

[China]

(a) Generally agree. That said, retrospective restatements of comparable data without valid reasons will not only increase workload unnecessarily but will also give rise to complexity on data verification. Therefore, we recommend that different types of changes should be distinguished: 1) retrospective adjustments should be applied to changes in standards, voluntary changes in policies and errors. Changes in estimates should be taken prospectively; 2) only disclose and explain adjustments made on significant differences, together with their reasons.

(b) Generally agree. However, sustainability-related metrics will most likely evolve over time in the foreseeable future. If an entity continuously revises its own measurement basis or approach, then historical information needs to be continuously revised and that imposes additional costs.

We recommend classifying changes into two types. If the metrics used in the current period has a better measurement approach, and in the prior year that approach already existed, then this should be considered as an error and any changes should be taken retrospectively as 'changes due to errors'. If the metrics used in the current period has a better measurement approach but it was not practicable to apply it in the prior period, then changes arising from this should be taken prospectively.

(c) No comments.

[Dubai]

(a) In our view, most of the general features have been appropriately translated from the IASB's standards to the General Requirements ED.

(b) Yes, we agree that if entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives.

(c) Yes, we agree with the proposal to maintain consistency between the sustainability-related financial disclosure and corresponding financial data.

[Hong Kong]

(a) The [draft] IFRS S1 proposes that all changes in estimates should be adjusted for retrospectively for the purpose of maintaining consistency across different periods. However, we believe that one should distinguish between different types of changes in estimates and depending on the nature of change, each type of change should be adjusted retrospectively or prospectively as appropriate.

Disclosures should be made based on all relevant facts and circumstances at the reporting date. If new facts and circumstances appear in subsequent periods and these new facts did not exist in the prior period, these changes in estimates should be adjusted for prospectively. In contrast, if these facts existed and should have been known to the preparer when it provided the original disclosures, then these changes should be applied retrospectively.

If new facts and circumstances are adjusted for retrospectively regardless of when the triggering event arose, not only would this obscure important information, it would also result in a mismatch between sustainability-related information and financial information included in the corresponding financial statements.

(b) In addition, we have the following suggestions:

(i) Paragraph 63: clarify whether comparative information is required for one prior period only.

(ii) Clarify whether entities should avoid the use of hindsight when updating estimates for events occurring since the prior period.

(iii) Paragraph 90 requires disclosure if an entity identifies a material error in the sustainability-related information disclosed in a prior period. It is suggested that an entity also disclose the impact of such a material error on the prior period financial statements, e.g. the impact on impairment assessment, provisions and key management remuneration etc. to promote connectivity between the two sets of information.

[Indonesia]

In response to 11(a), the proposed requirements on comparative information go beyond those required in IAS 1 and IAS 8 and are practically challenging, especially when entities are expected to provide retrospective restatements for all changes in estimates.

For example, recognition of GHG value in the financial statements. When should a company recognize GHG-CER value? Does it recognize when it is produced, when it got the certification according to market value, or when it is sold? Sustainability-related data is often reliant on estimation and whilst in theory, it makes sense to require a restatement of comparatives when estimations are updated to demonstrate trends, this might not be practicable and may create an onerous burden on the reporting entity.

As we noted in paragraph 65, we emphasize that the restatement application of a new definition of a metric or target or retrospective restatement to correct a prior period error is not mandatory. Since it would be very challenging for the users to perform retrospective restatement.

We suggest that the Board follows the requirements outlined in IAS 8 where (paragraph 22) requires entities to restate comparatives retrospectively when there is a change in accounting policy, but not where accounting estimates change (paragraph 36).

In response to 11(b), yes, we agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives.

In response to 11(c), we agree that financial data and assumptions within the sustainability-related financial disclosures should be consistent with corresponding financial data and assumptions used in the financial statements to the extent possible.

[Malaysia]

(a) We are concerned with the proposal in paragraph 64 of [draft] IFRS S1 requiring the disclosure of comparative information to reflect the updated estimates, which is in contrast with IAS 8 that prescribes for such change in estimate to be reported in the current period disclosures. We also think that paragraph 64, as currently drafted is unclear that an entity is required to disclose restated comparative information to reflect the updated estimates, unless it is read together with paragraph BC 82, that is not part of the Standard, which clearly explains that all changes in estimate and corrections of errors in previously reported metrics and targets to be corrected by restating any comparative information presented.

The proposal to restate comparative information for changes in estimates is impractical and brings about unnecessary operational complexity. Changes in estimates usually happen due to new information that comes to light and hence, the information should be reflected on a prospective basis. Considering sustainability-related information evolves depending on factors such as government policies, global climate change, etc, it would be an onerous exercise to continuously restate information reported in the previous period for changes in estimates to reflects updated estimates. We also wish to highlight that the different requirements in IAS 8 and the [draft] IFRS S1 in relation to the changes in estimates, bring unwarranted confusion to users of the financial statements. Additionally, it would make cross-referencing between financial statements and sustainability report challenging and confusing in the case whereby the same estimates were used in both reports.

We urge the ISSB to reconsider the proposal in paragraph 64, and we suggest for the requirement to be aligned to that of IAS 8, that is, for the changes in estimates to be disclosed in the current period instead of the comparative information to reflect the updated estimates.

(b) The drafting should be made more explicit about how entities should account for changes in estimates from prior year, for example by using words from IAS 8.

Please also see our response to Question 4 *Core content* in relation to the proposed paragraph 34(c) regarding restatement of comparative figures.

(c) We suggest that paragraph 88 of [draft] IFRS S1 should be amended to require an entity to provide restated comparatives from the beginning of reporting period, unless it is impracticable to determine the effect of an error on all prior periods presented (i.e., beginning of reporting period) rather than "earliest date practicable". This is to ensure the comparative information presented in the current period is consistent with that of the immediate previous year information – a consistent flow through into the beginning of reporting period from the ending of the previous reporting period.

[Sri Lanka]

CA Sri Lanka agrees that these general features have been adopted appropriately in the proposed standard.

If the entity has a better measure of a metric reported in the prior year, it should disclose the revised metric in its comparatives because by revising the disclosure the entity can be consistent with corresponding financial data and assumptions used in the entity's financial statements, to the extent possible.

As CA Sri Lanka, we 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. Because uniformity is essential for comparability, More specifically, the public listed entities are available for larger stakeholder groups. Hence, maintaining the comparability between sustainability information and financial information is very important. Further, we are not aware of any circumstances for which this requirement will not be able to be applied.

Question 12 — Statement of compliance (paragraphs 91-92)
The ED proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the ED 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 ED 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?

[Australia]

We agree with the proposal.

[China]

Generally agree. However, we like to remind that certain proposed disclosure requirements pose significant implementation challenges to entities and this may undermine their desire to adopt ISDS. In addition, we recommend that the ISSB should not only exempt disclosure requirements on information that local laws or regulations prohibit their disclosures, but also on information that are commercially sensitive without affecting the fairness and integrity of the information.

[Dubai]

We agree with this proposal as it helps signatories understand whether the entity complies with the IFRS Sustainability Disclosure Standards. However we believe there should be room for "comply or explain" to enable entities that are unable to comply with any aspects of the standard to provide explanations as to why it is unable to comply.

[Hong Kong]

No comments.

[Indonesia]

We understand the Board's intention that requires entity whose sustainability-related financial disclosures comply with all of the relevant requirements of IFRS Sustainability Disclosure Standards shall include an explicit and unqualified statement of compliance. However, in Paragraph 92, the proposed standards allow entity that use relief (in Paragraph 6) is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards. This reflects the ambiguity of the standards.

We understand that the Boards intention is that the application of the statement of compliance will identify whether the entity has been selective in its approach to reporting, it would still be fair to conclude that an entity has complied with the relevant requirements if only selective elements are material (BC84). It is therefore unclear how the statement of compliance would deal with the application of materiality, making it difficult for assurance providers and regulators to ascertain whether entities have complied with all requirements.

We suggest that the Boards require an entity to provide a disclosure that the related Government prohibit disclosures, and therefore obtain a 'qualified' opinion on the compliance with IFRS Sustainability Disclosure Standards.

[Malaysia]

Paragraph IG9 states that an entity that wishes to state compliance cannot provide less information than the information required by an IFRS Sustainability Disclosure Standards even if local laws <u>permit</u> it to do so. Such inconsistencies in drafting will create confusion to the entities applying the IFRS Sustainability Disclosure Standards. The ISSB may want to redraft paragraph IG9 to have a better clarity on the compliance with IFRS Sustainability Disclosure Standards (please see our response to Question 8).

[Sri Lanka]

In Sri Lanka, entities are bound to adhere to and comply with the laws and regulations specifically imposed within the country on such entities. Hence, such local laws or regulations should precede the international requirement. Hence, this requirement in the Exposure Draft is a special clause to follow other standards and framework requirements on statement of compliance.

Question 13 — Effective date (Appendix B)
The ED 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 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?

[Australia]

The AASB recommends that the effective date of the [draft] standard should be 2 to 3 years after the date of issue with early application permitted. This application date will help ensure that entities that are able to do so, can apply the requirements, while also providing sufficient time for others to develop the capabilities, systems and processes needed to comply with the [draft] standard. This is because:

(i) The present skill and resource gap in the market is significant—that is, there is a lack of sufficiently skilled resources in the global and domestic markets and it will take time to develop and educate the resources required to support wide-spread compliance with sustainability-related reporting requirements.

(ii) The current quality of data in the sustainability reporting space is poor—that is, the [draft] standard would force the quality of relevant data to improve in the long-term but the quality of the data that currently exists would not be sufficient to comply with the proposals.

(iii) Many of the systems and processes needed to collect the necessary data to comply with the [draft] standard do not exist—that is, the systems and processes needed to collect and report on all an entity's sustainability-related risks and opportunities will need to be developed and built over time to ensure reporting can occur at the scale necessary to comply with the [draft] standard.

(iv) The proposals in [Draft] IFRS S1 and [Draft] IFRS S2 are complex—that is, the transition to IFRS Sustainability Disclosure Standards will not be simple and in some cases will require entities to significantly alter their business operations (for example, through internal restructuring to develop reporting teams that are capable of supporting sustainability reporting in the long-term) which requires time.

(v) Entities will benefit from additional time to implement systems and processes effectively before they are subject to independent assurance. Recognising the complexity and qualitative nature of the requirements, extending the effective date allows entities additional capacity to develop effective systems, processes and controls to support sustainability reporting before they need to be scrutinised by auditors or assurance providers.

We also agree with providing the proposed relief from disclosing comparatives in the first year of application. However, we recommend that this relief be removed from [Draft] IFRS S1 and relocated to a separate standard addressing transition relief for the first-time application of all future IFRS Sustainability Disclosure Standards.

[China]

(a) Chinese stakeholders are generally of the view that the Chinese regulators need some time to formulate comprehensive infrastructure holistically to support the implementation of ISDS. Entities and their auditors need time for capacity-building. Therefore, we recommend that final Standards should be effective 3 to 5 years after they are issued. In addition, we suggest that the ISSB should develop a phase-in approach for entities of different business types, sizes and with different levels of capabilities. This will be especially true for entities from developing countries where sufficient time needs to be provided to them to transition in order for them to appropriately apply the Standards.

In order to apply the standards, reporting entities are required to undertake the following preparation: refining the governance structure and internal control processes, re-defining the roles and responsibilities of relevant positions, analysing and familiarizing the disclosure requirements according to the Standards, re-configurating IT systems, collecting required data, and upgrading financial reporting systems, etc.

(b) Agree.

[Dubai]

(a) We are unable specifically state how long the effective date of the standard should be after finalization. However, noting that the proposals represent a significant step change in most jurisdictions, the ISSB should provide sufficient time to enable entities setup the appropriate internal controls and systems to collate quality data to meet their reporting requirements.

(b) We agree with the proposal to relieve entities from disclosing the previous period's numbers as a piece of comparative information in the first year of application.

[Hong Kong]

(a) Some respondents suggested that [draft] IFRS S2 could be implemented independently from and before [draft] IFRS S1 to address the urgent climate issue. Given that [draft] IFRS S1 is a general standard, it would be important to understand how it interacts with other standards before making it mandatorily effective. In particular, as [draft] IFRS S1 covers the full range of sustainability-related risks and opportunities (i.e. beyond climate) and requires an entity to consider other frameworks, standards and local practice in the absence of a specific IFRS Sustainability Disclosure Standard (paragraphs 51 and 53), it will take a significant amount of time for entities to fully identify all the relevant information across the full spectrum of sustainability topics.

In contrast, other respondents agreed that both IFRS S1 and IFRS S2 should have the same effective date because the general requirements and guidance on materiality, reporting entity, frequency of reporting, comparative information and errors as set out in the [draft] IFRS S1 are important for the entities to prepare the climate-related disclosures.

Given the pervasive impact of applying IFRS S1 to all material sustainability-related topics of an entity, we urge the ISSB to consider the appropriate effective dates of these two standards carefully.

(b) We consider an implementation period of at least 3 years should be given as:

  (i) the novelty of the topic means that many entities lack the data, systems, processes and controls to produce the required information; and

  (ii) entities currently providing sustainability-related disclosures need time to apply IFRS Sustainability Disclosure Standards as they may have adopted a different materiality principle and complied with different local regulatory requirements as compared with the EDs.

[Indonesia]

For 13(a), in our opinion overall it will need at least 3 (three) up to 10 (ten) years. This is caused by the readiness of each jurisdiction which starts from the harmonization between the local regulations and international standards, supporting data that will be used to compile the information to become one sustainability report and the willingness of the preparers. We understand that sustainability information is one of the important information needed by many stakeholders, but we noted that in our jurisdiction sustainability reporting is categorized as voluntary reporting. More importantly, we noted that each jurisdiction has its standards regarding sustainability reporting (for example regulation of GHG emissions between developed countries and developing countries could be different and cannot be treated the same). Thus, it requires much time to prepare the sustainability reporting for the preparers to achieve the harmonization objectives. We suggest the Board also consider the phased application so the implementation could be conducted in stages.

For 13(b), we agree with the Board providing the proposed relief from disclosing comparatives in the first year of application. However, as we noted in our response to Question 9 above, a phased approach may be appropriate which would remove the need for relief in the first year

[Malaysia]

Similar to other new IFRS Accounting Standards, such as IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*, we suggest a transitional period of three years with early application permitted. This would allow entities to make the necessary preparation to apply the [draft] Standard, including resource requirements as well as system readiness.

However, instead of a single effective date, we strongly recommend a phased approach in the application of the Standard given the need for capacity building as well as the current challenges, including amongst others, limited skillset and technical expertise, lack of consistent methodology, poor data quality or availability, as well as varying maturity levels of jurisdictions across the world in the sustainability reporting space. This will assist to alleviate some of the burdens and constraints faced by jurisdictions that are not as advanced as some other jurisdictions in the sustainability reporting space.

[Sri Lanka]

CA Sri Lanka would like to suggest at least 12 months' time to set the effective date after the final standard is issued. because we believe that this is a reasonable period for users to understand the application of this standard. Furthermore, the entities need to establish adequate processes within their organizations and guidelines to track and record the disclosures.

We also agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application. From this requirement, the entities will be able to identify any adjustments to be made for their existing identified figures and metrics within the organization. Therefore, as the requirement mentioned in paragraph B2 in appendix B, by not requiring entities to disclose the comparative information in the first period, the entities can safeguard that the comparability can be achieved after the initial year of reporting.

Question 14 — Global baseline
IFRS Sustainability Disclosure Standards are intended to meet the needs of users of general purpose financial reporting to enable them to make assessment 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 ED 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?

[Australia]

We have not identified any particular aspects of the proposals in the [draft] standard that would limit the ability of IFRS Sustainability Disclosure Standards to be used as a global baseline.

[China]

We believe that the proposed standard could be used as a global baseline by further improving its inclusiveness, enhancing its architecture and promoting its universal-applicability. Otherwise, it may impede ISDS's global adoption. The specific recommendation would be included in our comments to S2 ED .

[Dubai]

Overall, we are of the view that the ED will ensure a common set of sustainability-related reporting requirements and will improve the likelihood of their adoption across jurisdictions

[Hong Kong]

No comments.

[Indonesia]

We are view that the IFRS Sustainability Disclosure Standards will be highly challenging to be implemented especially in emerging countries. Therefore, we recommend that the Board explicitly consider proportionality and scalability in its standard-setting activity. For example, some of the proposed disclosure requirements could be preceded with phrases like "where relevant in the circumstances of the entity" to demonstrate where requirements are scalable. This would also help reporting entities assess which requirements are material and therefore require disclosure. The objective is to achieve harmonization, however, if there is any different jurisdiction the phase should be given to the government or the national standard setter.

[Malaysia]

We believe the global baseline should be practical with sufficient flexibility and latitude for jurisdiction to implement the baseline and for policymakers to make their jurisdiction-specific requirements fit for their purpose considering the current varying maturity levels of jurisdictions across the world in relation to sustainability reporting, details as follow:

(a) Being a global baseline, requirements of the Standards should be flexible enough for it to being applied across all jurisdictions.

(b) As the Standard should also be ultimately suitable for the smaller and medium entities, the ISSB should consider setting a clear path for smaller and medium entities unless it plans to have another tier or framework for such entities, similar to the approach taken by its sister board, the IASB which issues the IFRS Accounting Standards and *IFRS for SMEs* Accounting Standard.

This could include an initial minimum set of disclosure within the Standard to be disclosed / reported by the smaller and medium entities for a transition period, and gradually move to full disclosure over time. During the transition period, the smaller and medium entities shall be encouraged to provide disclosures outside the identified minimum requirements

In Malaysia, the effort is ongoing to ensure SMEs are prepared for the Government's sustainability agenda[3]. In addition, SMEs seeking financing from banks or other financial institutions might face additional scrutiny as to whether the funding will be used in a sustainable manner or otherwise, which might ultimately affect their credit scoring.

Therefore, we think it is a matter of time before the users of financial statements would also demand for sustainability-related financial information from the SMEs, particularly those involved in international business dealings.

(c) Although the building blocks approach 'allows' policymakers to add on their jurisdiction-specific requirements to meet broader stakeholder information needs while

3 "The government has outlined two main focus areas to catalyse the recovery of the micro, small and medium enterprises (MSMEs)-they must pursue innovation, digitalisation and use of technology, as well as inculcate sustainability principles comprising environment, social and governance (ESG) over the long term."

Source: News by BERNAMA, 7 December 2021, entitled *MSMEs' recovery hinges on adopting innovation, sustainability principles.* (SME Corporation Malaysia - MSMEs' recovery hinges on adopting innovation, sustainability principles - PM Ismail Sabri) at the same time, enables local laws and regulations to interact with the IFRS Sustainability Disclosure Standards harmoniously, we are not clear of the extent of the latitude being provided (see our response to Question 8).

[Sri Lanka]

CA Sri Lanka believes that the proposals in the Exposure Draft would not limit the ability of IFRS Sustainability Disclosure Standards to build a comprehensive global baseline. As we observed, this exposure draft has clearly mentioned that an entity can adhere to any jurisdictional law and regulation by following the requirements in this exposure draft. Further, such information can be connected to the requirements in this exposure draft as well. Hence, CA Sri Lanka believes that this exposure draft would not limit the ability to build up the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

Question 15 — Digital reporting
The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosure Taxonomy is being developed by the IFRS Foundation. The ED and [draft] IFRS S2 *Climate -related Disclosure 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 ED that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

Are there any particular aspects of the proposals in the ED 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?

[Australia]

The AASB notes that many jurisdications are ddeveloping taxonomies to address the disclosure of sustainability-related information. We are of the view that, consistent with the development of sustainability-related financial reporting requirements, a global baseline upon which jurisdictions can build should be developed for the taxonomy to ensure consistency in electronically tagging a minimum set of disclosures. We think this will be critical to facilitating wide-spread use of digital reporting and taxonomies for sustainability-related financial reporting.

[China]

We recommend that the ISSB should align its taxonomy with those from the United States of America, the European Union and IFRS Taxonomy for financial reporting.

[Dubai]

No comments.

[Hong Kong]

No comments.

[Indonesia]

We have no suggestions at the moment

[Malaysia]

We do not have any comments.

[Sri Lanka]

CA Sri Lanka would like to suggest including a guideline for the users which will develop a specific platform which will be user-friendly and comfortable in nature to operate. Furthermore, there will be difficulties in including some tags due to the sensitive and confidential nature of some disclosures specific to the laws and regulations in respective jurisdictions. Therefore, we suggest considering these points when drafting the Exposure Draft that would facilitate the development of a taxonomy and digital reporting.

Question 16 — Costs, benefits and likely effects
The ISSB is committed to ensuring that implementing the ED proposals appropriately balances costs and benefits. Do you have 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? Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

[Australia]

Given the limited time provided for public consultation on the [draft] standards, we are unable to quantify the likely benefits, costs and effects. We recommend the ISSB field test the proposals in this [draft] standard to understand better and quantify the costs, benefits and likely effects of applying it.

We expect the likely benefits of applying IFRS Sustainability Disclosure Standards will be improved comparability, consistency and transparency of sustainability-related financial disclosures. However, we anticipate that these benefits will only begin to be realised 3 to 5 years after the [draft] standards become effective and reporting has had some time to mature.

We also expect that the likely implementation cost will be significantly higher for smaller entities, given many of them will not yet have had access to the resources they need to have started considering reporting on sustainability. Furthermore, competition for those limited resources will likely increase the cost of those resources, unfairly burdening smaller entities.

We also expect the costs of ongoing application would be similar to the costs of ongoing application of the IFRS Accounting Standards. We recommend the ISSB field test the proposals in the [draft] standards to quantify the expected ongoing costs of their application.

[China]

(a) Combining feedback from Chinese stakeholders, we recommend that when the ISSB analyses the likely impact of applying the proposed requirements in the ED, implementation costs would potentially include the following:

(i) Costs related to infrastructure-building (i.e., setting up and redefining organizational structure and internal control procedures, configuring and upgrading of IT systems, staff training and hiring of external consultants);

(ii) Staff costs spent on data collection and analysis, etc. when implementing the standards;

(iii) Costs of attestation services;

(iv) Costs relating to potential negative impact brought forth as a result of the information disclosed;

(v) For entities with securities listed in multiple jurisdictions, costs of complying with different disclosure standards.

As for potential implementation benefit, we recommend that the ISSB should consider the following:

(i) by analysing significant sustainability-related risks and opportunities, entities may benefit from further optimizing their business model and undertake effective risk management measures;

(ii) by disclosing information that enhances relevant users' understanding of entities' business operations as well as their value propositions, entities may be able to benefit from obtaining more favourable financing. In addition, through better information disclosures, entities may be able to boost their brand and image so as to increase market share eventually.

b）No comments.

[Dubai]

(a) The costs of implementing internal systems and controls for the collection of data and obtaining independent assurance on the data collected in the short term for sustainability related disclosures will far outweigh the benefits. Particularly the cost of achieving the completeness goal in the short term for smaller entities in jurisdictions who may not have the infrastructure to quantify and disclose all their sustainability-related risks and opportunities. We however expect the long-term benefits from the disclosure of sustainability related financial information to be greater than the costs.

We recommend that the ISSB considers a phased application of the standard to allow ample time to develop reporting systems and controls and also ensure smaller entities can spread the cost of implementing sustainability related information reporting systems and controls over a number of reporting periods.

(b) The risk of a continued fragmentation of the sustainability reporting landscape will increase the costs of ongoing application of the proposals for entities that operate internationally. We expect the ongoing costs to be greater if the standards are not internationally harmonized.

We welcome the recently announced actions by ISSB to enhance compatibility between the Standard's global baseline and jurisdictional initiatives, in particular the establishment of a working group for this purpose. The ISSB should continuously engage regulators and National standard setters across different jurisdictions to ensure harmonization, increase comparability of data and to reduce the ongoing costs of application for entities that operate internationally.

[Hong Kong]

(a) We consider that the costs and benefits assessment of sustainability reporting should not be limited to purely a financial analysis because sustainability reporting will likely play a more pivotal role than financial reporting in the capital market in the future. There are broader public policy matters that need to be considered in the cost/benefit analysis and preparers would need to invest in sustainability reporting infrastructure so that users can make more informed investment and lending decisions.

(a) Many respondents raised the many challenges that entities especially SMEs will face in adopting ISSB standards, including:

(i) The lack of supply of appropriately skilled people in the short to medium term;

(ii) The time and costs needed to develop and/or recruit staff with appropriate skills; and

(iii) Known operational difficulties in collecting consistent and quality data.

Hence, we suggest that the ISSB adopt a proportionality approach in terms of timing and extent of application by the SMEs (e.g. a lighter version with fewer disclosure requirements).

[Indonesia]

In response to 16(a), the most entity that publishes sustainability reporting in Indonesia uses GRI Standards, so we envisage that most entity will create a high cost to implement due to the change in the overall system, and internal control for the collection and production of relevant data. Meanwhile, we have not carried out a cost-benefit analysis on the Exposure Draft therefore we could not deduce or predict if the benefit outweighs the cost.

In response to 16(b), as we stated earlier in answer 16(a), first and foremost the cost will be due to the overall reporting system, especially where methods of calculation and estimates are refined. As mentioned in our response to Question 11, this cost will be significant if entities are expected to restate all comparatives when estimations change.

Ongoing costs may be incurred due to the pay of the subject matter expert, additional assurance cost and if there is a jurisdictions-specific requirement that needs to be fulfilled. Entities who report and file across multiple jurisdictions are likely to incur ongoing costs to ensure their disclosure is compliant with all disclosure requirements, especially when they differ.

[Malaysia]

We are unable to provide specific comments on the cost-benefit analysis at this juncture.

Our stakeholders believe in the benefit of having one framework to report sustainability-related financial information. They envisage that the IFRS Sustainability Disclosure Standards will amalgamate the various sustainability related standards into a global set of standard and to eventually supersede the myriad of standards, frameworks and guidelines when it comes to sustainability reporting which at the moment prove to be confusing, counterproductive and laborious, amongst others.

That said, given the emerging developmental phase of sustainability reporting in many jurisdictions, it is expected that the costs to comply with IFRS Sustainability Disclosure Standards to be significant. Entities may need to incur additional costs to acquire the necessary skills and expertise in the sustainability-reporting space. Data readiness and systems integration are also some of the main concerns that may require entities to incur additional costs.

[Sri Lanka]

From this Exposure Draft, the main benefit is that users will be able to assess the enterprise value of the entities by considering the sustainability-related financial disclosures. Apart from that, this draft standard will enable the jurisdiction to develop a global baseline. Furthermore, the reporting and disclosure processes of the entities will be improved due to the explanatory information on the financial reporting and sustainability information. The likely cost of implementing this proposed standard is the cost of incurring to improve the internal controls and the increase in the resources to adhere to the requirements in this proposal.

The costs of ongoing application include the costs of internal control processes as well as resource improvements. We would like to suggest making guidelines to minimize these costs.

Question 17 — Other comments
Do you have any other comments on the proposals set out in the ED?

[Australia]

There is significant support for the scope and direction of the ISSB's ongoing work on sustainability-related financial reporting and implementing ISSB-aligned reporting in Australia. We observed overall stakeholder support for the ISSB's focus on enterprise value and primary users of general purpose financial reporting in its IFRS Sustainability Disclosure Standards. Furthermore, while not all stakeholders were supportive of the focus on enterprise value and primary users of general purpose financial reporting, most agreed that the ISSB's more limited scope was, at the very least, the best place to start.

However, given the complexity of the proposed requirements and the scale of reporting that would be needed to achieve compliance, there is a concern that many small-to-medium (SME) entities would be unable to apply the IFRS Sustainability Disclosure Standards. This is of particular concern in Australia as many SME entities are listed on the Australian Stock

Exchange (ASX) or required to prepare general purpose financial reports, which could potentially be subject to compliance with IFRS Sustainability Disclosure Standards. Consequently, we recommend that the ISSB reconsider its proposals to support the widespread application of its standards through:

(i) learning from the International Accounting Standards Board regarding the understandability and accessibility of their IFRS Accounting Standards;

(ii) using consistent language throughout the proposed and future standards to support understandability and translation into other languages;

(iii) ensuring key terms are clearly defined and consistently used throughout the proposed and future standards to support understandability and translation into other languages;

(iv) considering the level of complexity and granularity of the requirements in proposed and future standards—some disclosures are 'nice to have' rather than necessary, and some complex disclosure requirements could be simplified by requiring qualitative information rather than quantitative information; and

(v) considering that the complexity and granularity of the requirements in proposed and future standards present a particular challenge for auditors and assurance providers to SMEs. These entities may not have the capability or capacity to obtain evidence supporting the required disclosures, especially in the initial implementation periods as systems, processes, and controls are developed.

We are concerned by the limited time and resources that were provided to consider appropriately the proposals being put forward in the ISSB's initial ED and how to implement the proposals within Australia and globally.

In our view, it appears that not enough consideration has been provided to those jurisdictions whose financial reporting cycles are not aligned with the calendar year and that do not have experience in wide-spread sustainability reporting within their capital markets.

Whilst not within the remit of the ISSB, almost all Australian stakeholders commented on the potential approach to the audit and assurance of the IFRS Sustainability Disclosure Standards. Our stakeholders suggested that any approach to audit and assurance should ideally be phased in over time to support the transition.

Consistent with the IFRS Foundation's *Conceptual Framework*, Appendix A to [Draft] IFRS S1 defines 'primary users of general purpose financial reporting' as existing and potential investors, lenders and other creditors. It has not been made clear by the proposals, or through the ISSB's outreach, whether the views of primary users other than investors have been considered—indeed the ISSB's messaging outright dismisses primary users other than investors and assumes that investors' information needs are representative of the information needs of lenders and other creditors.

[China]

(a) The ISSB should enhance the alignment and compatibility of ISDS with the Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors issued by the US SEC and the European Sustainability Reporting Standards (Exposure Drafts) (ESRS) issued by the European Financial Reporting Advisory Group. This will reduce the cost of disclosure for listed companies with securities listed in multiple jurisdictions and promote consistent and comparable global sustainability disclosures.

(b) We recommend that the ISSB should issue a separate document covering all the defined terms used throughout all the Standards. This document would be similar to the Glossary extracted from IFRS accounting standards.

(c) We recommend that the ISSB should, based on all the feedback received globally, revise the two exposure drafts and re-expose them for public comment.

[Dubai]

Overall, we encourage the ISSB to include additional examples and further guidance in the Standard (and/or through the illustrative guidance), to improve the consistency of the data disclosed

[Hong Kong]

(a) We appreciate the IFRS Foundation and the Global Reporting Initiative recognising the need to further harmonise the sustainability reporting landscape at an international level. We agree with the initiatives proposed by the two organisations in their communique dated 23 June 2022 and look forward to seeing progress being made on that front.

In addition, we strongly encourage the ISSB to collaborate with the US Securities and Exchange Commission and the EFRAG in terms of their respective climate-related/sustainability disclosure standards to align them as much as possible to achieve global consistency and to reduce costs for preparers and other stakeholders. A list of any remaining differences between the standards should be issued to allow a smooth transition between these standards. The ISSB may consider including certain transitioning provisions in its standards to facilitate those existing sustainability report preparers to convert from other sustainability frameworks.

(b) We suggest that there be just one universal glossary that defines all the terms used in all IFRS Sustainability Disclosure Standards instead of including an appendix to each standard defining the terms used in that standard.

[Indonesia]

We have no other comments at the moment.

[Malaysia]

(a) Compliance with IFRS Sustainability Disclosure Standards

We strongly support the approach that the IFRS Sustainability Disclosure Standards can be applied independent of the accounting framework used, be it IFRS Accounting Standards or other GAAP.

This is particularly important so as not to 'taint' the 'IFRS Accounting Standards-compliant jurisdictions' by the non-compliance with IFRS Sustainability Disclosure Standards which at this juncture, some of these jurisdictions would require some time to put in place a proper due process and infrastructure or adoption mechanism, which could involve extensive process, including amendments to their existing laws and regulations.

In this regard, we would like to recommend that paragraph 8 of [draft] IFRS S1 be expanded to clearly state that compliance with IFRS Sustainability Disclosure Standards is independent of the compliance with IFRS Accounting Standards used in the preparation of an entity's financial statements.

We also believe that this additional explanation helps to avoid confusion among entities applying standards issued by the ISSB and IASB in their general purpose financial reporting.

(b) Standard for first-time adopter

Although entities are not required to provide comparative information in the first period in which [draft] IFRS S1 is applied, nonetheless, we suggest the ISSB to consider the approach adopted by IASB for first-time adopter of IFRS Accounting Standards as we see merits for the ISSB to issue an equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards* to provide for specific adoption reliefs, exceptions or exemptions to facilitate entities transitioning from another sustainability reporting framework to that of the IFRS Sustainability Disclosure Standards. If this matter has already been considered, we suggest the ISSB's rationale to be included in the Basis for Conclusions on [draft] IFRS S1.

(c) Glossary of terms used in IFRS Sustainability Disclosure Standards

Although the principles in IFRS Sustainability Disclosure Standards are adapted from those used in IFRS Accounting Standards, we suggest that the ISSB to consider developing a glossary of terms specifically for the IFRS Sustainability Disclosure Standards as an additional guidance and source of reference for entities applying the Standards.

Whilst the preparers of financial statements that have been using IFRS Accounting Standards would be familiar with such principles, nonetheless, this may not be the case for entities that use other GAAP or for those involved in the sustainability reporting space but not in the preparation of the IFRS Accounting Standards-compliant financial statements.

(d) Jurisdiction's readiness

We are cognisant of the ISSB's mission to provide comprehensive global baseline sustainability disclosure standards. However, the ISSB should take into consideration that some jurisdictions are still in the early stage of sustainability reporting. We acknowledge the need to balance between the need to respond (urgently) to investor demand for sustainability-related financial disclosures and the need to ensure inclusivity of countries around the globe to apply the IFRS Sustainability Disclosure Standards.

From a broader perspective, the timeliness of the adoption of IFRS Sustainability Disclosure Standards would largely depend on jurisdictional state of affairs of putting in place a process or a legal framework around the adoption of the Standards. For example, the establishment of ISSB as a sister body of IASB has prompted many national standard-setters to examine their legal frameworks and interactions with other local laws, particularly in deciding whether a separate board (a mirror body of ISSB) should be established; or to expand the remit of those national standard-setters; or to place ISSB-related matters under another regulator instead of the national standard-setters.

The decision-making process for the above may take a longer time as it might potentially involve changing the current laws or legislations surrounding the corporate reporting landscape involving various bodies; which might not coincide with the speed and accelerated phase of ISSB work programme.

Although we are fully aware that these are jurisdictional-specific issues, we are hopeful that ISSB could consider them and phase out its work programme to allow for a “truly” global set of baseline disclosures to work around the globe, including that of the developing countries.

[Sri Lanka]

CA Sri Lanka would like to extend our cooperation and support to initiate this proposed standard. This proposed standard will bring more transparency and clear disclosures on the sustainability information of the entity, which will be highly important for all the stakeholders.