Think Ahead ACCA

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

Exposure draft issued by ISSB in March 2022

Comments from ACCA
July 2022

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GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the ISSB's exposure draft IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information*. This was done with the assistance of ACCA's Global Forum for Corporate Reporting and Global Forum for Sustainability. It has also been informed by global member outreach events and roundtables held in the ASEAN region between May and July 2022.

ACCA has consistently advocated for a global approach to the development of sustainability disclosure standards, and we fully support the role of ISSB in setting a consistent and comparable global baseline to sustainability reporting around the world. At the same time, in developing reporting standards, it is important to ensure that the reporting catalyses the necessary systemic change: that operational changes take place in the entities making these disclosures; and that investors use these disclosures to allocate capital more efficiently and responsibly. For this to happen, the widespread application of integrated thinking is necessary.

Sustainability scope

The ED does not define what is 'sustainability-related'. As a result, the breadth and scope of the risks and opportunities that need to be considered and disclosed is left to the judgement of the preparing companies, to the potential detriment of consistent application, comparability, as well as cost and effort in reporting.

While we understand and agree that what constitutes material sustainability-related information can change over time, we would urge the ISSB to provide a clearer indication, both in the standard and through illustrative examples, as to what "sustainability" might cover. In ACCA's view, the six integrated reporting capitals can serve as useful framing for a broad and holistic understanding of 'sustainability.'

Materiality determination

Given how fundamental entity-specific materiality judgements will be in driving the content of entities' reporting, much more specific guidance is needed around the materiality determination process to ensure that the sustainability-related financial information is consistent, comparable and verifiable. Application guidance should clarify the process that entities should adopt to identify significant sustainability-related risks and opportunities as well as the process that entities should use to identify material sustainability-related financial information.

The identification of significant sustainability risks and opportunities should initially incorporate a consideration of the entity's key stakeholders (beyond users of general purpose financial reporting) and their legitimate needs and interests. This step is critical, because the way in which the entity creates, preserves or erodes value for other stakeholders will likely affect enterprise value over time. A coherent process of understanding and responding to stakeholders' needs is also necessary as entities in many countries will need to comply with impact-focused jurisdictional reporting requirements.

There is a commonly-perceived misalignment between the references to 'significant' sustainability-related risks and opportunities and 'material' information. While we understand that the ISSB's intention is for entities to first identify significant risks and opportunities, and then determine information about such risks and opportunities that are material for users, the meaning of both terms and this intention need to be clearly and explicitly set out in the standard to avoid confusion.

An important aim of the materiality determination process should be ensure that material information is presented in a clear and concise way. ACCA's research has highlighted a tendency in certain jurisdictions for the annual reporting package to become increasingly voluminous, as entities apply jurisdictional reporting requirements including those covering sustainability-related disclosures[1]. Disclosure overload will make it more difficult for investors and other stakeholders to find the information that they need. We would encourage the ISSB to consider the importance of conciseness, in finalising the disclosure requirements in both this ED and ED IFRS S2.

Enterprise value

The interpretation of the concept 'enterprise value' adds further complexity to the materiality judgement. We understand, and agree, that this concept should encompass consideration of a broad range of matters that can affect the risk profile of an entity over the short, medium and long term, and that this can include an entity's external impacts. However, the definition as currently worded does not make this clear.

We would recommend that the ISSB supplements the definition of enterprise value to link the concept more explicitly to a consideration of the risks and opportunities over time, and the impacts of the entity's business model and activities on external stakeholders to the extent that these will translate into risks and opportunities for the entity over time. In doing so, the ISSB may wish to refer to the value creation process (value creation, preservation and erosion for the organisation and for others) as articulated by the International <IR> Framework.

Value chain boundary

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[1] As observed in ACCA's ongoing research project on climate-related financial disclosures in the Chemicals and Constructions Materials industries, presented to ISSB staff on 14 July 2022; also see https://www.accaglobal.com/gb/en/professional-insights/global-profession/Invisible-threads-communicating-integrated-think.html.

The identification, evaluation, prioritisation and disclosure of risks and opportunities arising in particular from the supply chain will be a new and challenging area of disclosure for many preparers. There are likely trickle-down effects beyond the entities within scope of the IFRS Sustainability Disclosure Standards, to SMEs in the supply chain, many of whom are in emerging economies with limited resources to respond to data requirements.

The determination of the appropriate boundaries for the value chain should be subject to materiality. We would recommend that disclosures about the value chain should be restricted to risks and opportunities over which the entity can exercise some level of influence.

Forward-looking information

ACCA fully agrees that forward-looking information is of important decision-useful value. However, we expect that the consideration of risks and opportunities over the short-, medium- and long-term future timeframes will be challenging for entities, especially those in jurisdictions which currently do not require forward-looking disclosures.

Even in those jurisdictions where future-orientated reporting is required, the strategic planning horizons currently considered by entities are likely to be too short to appropriately capture sustainability-related risks and opportunities. Further application guidance and illustrative examples will be important to help entities apply the standards as intended.

It will be particularly challenging for entities to disclose information about the resilience of its strategy and cash flows in light of its sustainability-related risks and opportunities, as this is likely to be a nascent area of disclosure for the vast majority of preparers.

Implementation at jurisdictional level

While the adoption of the standards will be a matter for national jurisdictions, a roadmap for implementation from the ISSB, developed with its jurisdictional working group, would help to guide national regulators in this process and to ensure consistent implementation.

We would expect that companies would want to have a ‘dry run’ before being required to fully comply with the standards. The implementation roadmap should reflect this, with period of voluntary adoption before the standards are adopted on a mandatory basis.

A phased approach to implementation that reflects the size of entities and the resources that they have to dedicate to implementation may be appropriate in some jurisdictions.

Smaller non-listed entities will require the longest lead time before the requirements become mandatory for them.

We encourage the ISSB to consider field testing, working with the jurisdictional working group, to better understand how the proposals will affect entities of different sizes, particularly smaller entities.

Relevance of the International <IR> Framework

ACCA welcomes the announcement that the International <IR> Framework (<IR> Framework) will be maintained as part of the materials of the IFRS Foundation. As highlighted above and throughout our detailed responses below, we would recommend that the ISSB further explores relevance of the <IR> Framework to its standards.

- The multi-capitals model (section 2C) provides holistic and clear framing of what the term 'sustainability' can encompass;

- The Guiding Principle of Connectivity (section 3B) and the concept of integrated thinking provide a broader basis for connected information. They can also inform much-needed application and guidance to emphasise the linkages between impacts and dependencies.

Further, although we are aware that these extend beyond the sole remit of the ISSB, we believe that the <IR> Framework provides a sound basis for a Conceptual Framework for Corporate Reporting. The Content Elements of the <IR> Framework (section 4) should be considered in revising the Practice Statement on Management Commentary.

Skills and human resources gap

The demand for sustainability reporting talent far exceeds the supply in reporting entities, vendors, assurance providers and regulators. This acute scarcity of talent could have implications for the cost of compliance, and could persist beyond the initial transition period. The availability of sustainability reporting expertise is also unevenly-distributed across different jurisdictions. In developing economies, a lack of financial resources can compound the problem. The question of how and where to source additional investment to meet the cost of compliance is one that the ISSB will need to consider along with national policy-makers and regulators.

This skills gap should be considered as the ISSB:

- considers an implementation roadmap for the standards;

- develops application guidance and education material;

- finalises IFRS S1 and S2.

ACCA urges the ISSB to work with regulators, professional bodies, IFAC and the World Bank to upskill existing talent and build capacity in the reporting professions worldwide.

Our detailed responses to the specific questions asked are set out below.

RESPONSES TO SPECIFIC QUESTIONS RAISED

Question 1 - Overall approach

a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?

Yes, the ED does make this clear. However, doing so in practice will require a great deal of judgement and could give rise to implementation challenges (see our response to section (d)).

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

Yes. However, the objective could be interpreted in different ways by regulators as well as preparers, which risks leading to fundamental differences in reporting approach. The definition of enterprise value, as set out in the Glossary, requires preparers to exercise a significant amount of judgement. This includes, in particular, judgements around the identification of the information that investors, as a disparate group with whom entities have differing levels of direct interaction, would need to assess enterprise value.

We understand that the definition of enterprise value is intended to encompass consideration of a broad range of matters that can affect the risk profile of an entity over the short, medium and long term, and that this can include an entity's external impacts. However, notwithstanding the explanation provided in paragraph 5, this intention is not made entirely clear in the ED.

ACCA's stakeholder outreach has highlighted that some preparers interpret the definition of 'enterprise value' literally as a valuation of the entity's financial capital. This leads to debates around the meaning of 'equity' and 'debt' and how this translates to different types of shares, uncertainty around valuation techniques, and concerns that materiality thresholds would change constantly as a result of inflation and economic conditions. All this adds unintended complexity to the ED.

We also note that while the ISSB's standards are likely to be adopted by large publicly traded companies in the first instance, they may also apply to SMEs and drive reporting practice by not-for-profit organisations and public sector entities. The proposed investor-focused definition of enterprise value may not relate easily to these other types of organisations.

We would recommend that the ISSB supplements the definition of enterprise value to link the concept more explicitly to a consideration of the risks and opportunities over time, and the impacts of the entity's business model and activities on external stakeholders to the extent that these will translate into risks and opportunities for the entity over time. In doing so, the ISSB may wish to refer to the value creation process (value creation, preservation and erosion for the organisation and for others) as articulated by the International <IR> Framework.

c) *Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 Climate-related Disclosures? Why or why not? If not, what aspects of the proposals are unclear?*

Yes, it is clear. However, without greater visibility over what further thematic standards the ISSB will develop, it is difficult to appreciate how IFRS S1 will be applied in practice in a coherent manner alongside other thematic standards. The ISSB will need to avoid repetition among the different sustainability-related topics of some of the disclosure requirements around process for example about governance and risk management. Care will be needed to ensure connectivity in reporting, not only between different sustainability-related topics but also between sustainability information and the overarching report (for example, the management report).

d) *Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?*

No, we do not believe that the ED as currently drafted provides a suitable basis for auditors and regulators to determine compliance. There is much that is left to the judgement of management on which auditors and regulators may find it difficult to provide any assurance on, or regulators ensure compliance. For instance, assessing whether the scope of which topics that are considered material is appropriate, evaluating likelihood that the strategy for achieving targets is likely to be successful or the forward-looking disclosures such as the anticipated effects of sustainability-related risks and opportunities.

Availability and quality of data will be a major challenge, especially with regards to the entity's value chain. Internal controls around such data are likely to be nascent or inexistent – raising questions around the preconditions for audit and assurance engagements.

As a precondition for assurance, auditors are also required to evaluate the acceptability of the reporting frameworks adopted. While the IFRS Sustainability Disclosure Standards themselves, like the IFRS Accounting Standards, are generally considered acceptable frameworks, the open reference in para 51(c) to 'the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting' could give rise to audit and enforcement challenges. The lack of clarity over the location of information can also give rise to issues around the boundary of audit engagements.

Question 2 – Objective

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

Yes, it is clear.

b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

To be clear about what should be included, a definition of 'sustainability-related' is needed.

In ACCA's view, the six integrated reporting capitals can serve as useful framing for a broad and holistic understanding of 'sustainability.' ACCA's research[2] provides evidence that the multi-capitals model can lead to more effective reporting and management of those external impacts which, over time, translates into risks and opportunities for the entity. This is a critical outcome to achieve if the ISSB's standards are to lead to more sustainable business practices in the future.

To ensure that our recommended approach leads to consistent application, a clear definition of and detailed guidance around the term 'capitals' will be of paramount importance. The International <IR> Framework ('the Framework') provides a sound basis for relevant guidance, including the definition of the capitals in the Glossary and section 2C of the Framework). Further guidance and illustrative examples can be drawn

[2] https://www.accaglobal.com/uk/en/technical-activities/technical-resources-search/2019/may/integrated-reporting.html

from the <IR> Examples Database, and the 2013 Capitals Background Paper (jointly published with ACCA), which provides the conceptual basis for the capitals.

Further, given the extremely broad scope of information that can be encompassed in the definition of ‘sustainability-related financial information’, illustrative examples and guidance around information that is *not* intended to be within scope will be helpful.

Finally, we welcome the inclusion of ‘knowledge-based assets’ in paragraph 6 among the examples of what sustainability-related financial information may cover. This merits further elaboration within the standard. In our view, the <IR> Framework’s approach to considering intellectual capital – including but not limited to internally-generated intangibles – would be helpful in this respect.

Question 3 – Scope

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?

We would recommend that paragraph 9 is deleted. It is sufficiently clear that IFRS S1 requires disclosure of material risks and opportunities only (though see our concerns, in our response to Q8, around the determination of materiality). The inclusion of paragraph 9 could be perceived as conflicting with national and regional disclosure requirements, such as under the EU CSRD, and thus risk undermining the building blocks approach.

We agree that the exposure draft could be used by entities that prepare their general purpose financial statements in accordance with any GAAP. To require the financial statements that accompany the sustainability information be prepared in accordance with IFRS, we think would unhelpfully restrict encouraging sustainability reporting and be unnecessary. That said, the ISSB needs to be mindful in developing standards that there could therefore be financial statements that are prepared on a completely different basis – for example on a cash basis or one not including the concept of impairment.

Question 4 – Core content

a) *Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?*

We broadly agree that the disclosure objectives are clear. ISSB should consider whether they are sufficient. With the exception of the disclosure objective for strategy, the disclosure objectives are framed in terms of process and ‘how’ the matters are being addressed. While information about processes are important, disclosures about the sustainability-related matters themselves are equally valuable to investors. The disclosure objectives could be re-balanced to make this clear.

For example, the objective for risk management is to explain the process but would not require the specification of what those risks and opportunities are. Likewise, with metrics and targets where users would understand how the entity measures, monitors and manages sustainability-related risks and opportunities but does not seem to state as an objective the disclosure of the metrics and targets themselves.

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

Our concerns in (a) above on the emphasis on process and not on specification are reflected also in the disclosures to achieve the objectives. For example 13(c) requires disclosure about how the responsible governance body ensures it has the appropriate skills and competencies, but not about what skills and competencies they actually have. Paragraph 26 requires risk management processes to be disclosed but not the specific SRRO themselves. To ensure connected reporting, there is a need to cross reference paragraph 26 to paragraphs 15(a) and 16.

We suggest the ISSB further elaborates on the disclosure requirement in paragraph 13(e) of the ED as it is unclear as to how trade-offs and sensitivity analysis would be disclosed: whether these should be disclosed under all circumstances or only when required by investors or certain circumstances.

The required disclosures in paragraph 22(a) and (c) may duplicate disclosures already required in the financial statements – such as paragraphs 22(a) and 22(c).

Further, while we agree that the determination of suitable time horizons should be entity-specific, further guidance is required to ensure that the references to 'short, medium and long term' in paragraphs 16 and 22 are capable of consistent application. Please refer to our comments to ED IFRS S2, Q3 for further discussion on this point.

Paragraph 23 requires an entity to disclose information about the resilience of its strategy and cash flows in light of its sustainability-related risks and opportunities, including how the analysis was undertaken and its time horizon. While we agree that such disclosures are required, this is likely to be a nascent area of disclosure for the vast majority of preparers outside of climate-related reporting. Evaluating the resilience of an entity's strategy over the short, medium and long term will be extremely challenging, especially in jurisdictions (including several in ASEAN) where there is currently no existing mandatory requirement for entities to provide any form of forward-looking disclosure. To ensure a minimum level of reliable disclosure, extensive application guidance will be required in this area.

Question 5 – Reporting entity

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?*

We agree that the reporting entity should be the same for the financial statements and the sustainability reporting. More explanation of this is needed in terms of the value chain reporting which could otherwise seem to be in contradiction to this. The treatment of equity-accounted entities including joint ventures and associates also needs to be clarified.

b) *Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?*

The reporting of metrics and sustainability-related risks and opportunities from the value chain is likely to be one of the most challenging aspects of sustainability reporting. Practical guidance will be needed on how this should be done.

While we agree that the identification, evaluation, prioritisation and disclosure of value chain risks and opportunities should be subject to entity-specific judgement, paragraphs 37-41 as drafted do not provide a sufficient basis for that judgement to be exercised consistently. In particular, there is currently insufficient emphasis on risks and opportunities arising from interactions with external parties through supply chains, which is only touched upon in para 40(a). While the definition of 'value chain' in the Glossary provides helpful clarification over the types of activities encompassed, we note that downstream activities – for many business models, the source of sustainability impacts that are significant enough to affect entities' enterprise value – are not adequately represented.

The identification, evaluation, prioritisation and disclosure of risks and opportunities arising in particular from the supply chain is an area that merits further consideration by the ISSB, because: 1) it is a new and challenging area of disclosure for many preparers; 2) entities' external impacts in this area are significant, and these impacts lead to risks and opportunities on the entity over time; and 3) there are likely trickle-down effects beyond the entities within scope of the IFRS Sustainability Disclosure Standards, to SMEs in the supply chain, many of whom are in emerging economies with limited resources to respond to data requirements.

The determination of the appropriate boundaries for the value chain should be subject to materiality considerations, and in this respect detailed guidance on how entities should identify, evaluate and prioritise material value chain impacts, risks and opportunities is crucial. (Please see our detailed comments regarding the need for materiality guidance in our response to Q8).

The boundaries around the value chain should be restricted to risks and opportunities over which the entity can exercise some level of influence. Please refer to our response to IFRS S2, Q9(f) for further discussion on this point.

The challenges around identification, evaluation, prioritisation and disclosure of risks and opportunities arising from the value chain will be particularly acute for smaller, non-listed entities who may be required by national or regional regulators to apply the IFRS Sustainability Disclosure Standards. We would recommend that the ISSB conducts field-testing of the impact of such disclosure requirements on SMEs in particular.

Further clarity is also needed over the types of metrics and disclosures entities are expected to make about material value chain-related risks and opportunities: this is particularly important, in the absence of future thematic standards, to ensure a level of consistency in reporting beyond climate. Besides the SASB Standards and the CDSB Framework which are referenced in para 51, the GRI Standards and the WEF metrics may provide a suitable basis for common metrics. In addition, the <IR> Framework's multi-capitals model, in particular as articulated in sections 2C (the capitals), 2D (process through which value is created, preserved or eroded), and 3C (stakeholder relationships) also provides relevant guidance.

Illustrative examples will be useful to preparers in this respect. BC51 provides some helpful examples which can be highlighted to preparers. However, as noted above, further examples focusing on downstream activities are needed.

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

We agree that the relevant financial statements need to be identified.

Question 6 – Connected information

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

The coherence of paragraphs 42, 43 and 44 could be improved, with greater emphasis placed on the need for connectivity between different sustainability-related risks and opportunities, between these and the financial statements, as well as connecting the disclosures to broader strategy-setting and governance. Paragraphs 43 and 44 point to these, but paragraph 42, the key starting point for those applying the standards, should highlight this more explicitly. (See our response to (b) for further discussion.)

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?*

We agree with the importance of connected information in general purpose financial reporting.

Connectivity in a broad sense is of paramount importance if sustainability reporting standards are to lead to more resilient capital markets, and better long-term decision making in businesses. This thus extends beyond connecting financial information with non-financial information, quantitative information with qualitative information, and connecting different sections of a report together in a presentational sense. Connecting externally-reported information with information used internally for decision-making, and understanding the interdependencies and trade-offs between different integrated reporting capitals, therefore deserve greater emphasis. While trade-offs are covered in a helpful example in paragraph 44(b), this merits more direct reference in the framing of ‘connected information in paragraph 42. In this, the ISSB may wish to consider incorporating the language from paragraph 3.6 of the <IR> Framework (with reference to ‘*the combination, interrelatedness and dependencies between the factors that affect the organization’s ability to create value over time*’).

We note the language in paragraph 43, with the use of ‘could’ and ‘might’ throughout, may wrongly suggest that connecting information is optional. The ISSB may wish to consider using more authoritative language in this paragraph.

Prototype General Requirements Standard (Prototype paragraph 22(b)) included an example of how a carbon emissions tax could impact an entity’s operations, including the availability of labour. This is a valuable illustration of the broad scope sustainability-related considerations (connectivity between different capitals), and how a climate transition risk translates into wider operational risks. We would encourage the ISSB to consider including this as a more specific example of the trade-offs highlighted in paragraph 44(b).

Question 7 – Fair presentation

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?*

We agree that the need to present fairly this information is clear. However, recognition is needed of the fact that sustainability-related information involves greater levels of judgement and higher degrees of uncertainty including about uncertain future outcomes. This is alluded to in BC61, but the effect of this higher degree of uncertainty on the faithful representation and verifiability of information merit much further consideration. ACCA has consistently advocated for a conceptual framework for sustainability reporting: this issue may be further addressed in such a conceptual framework.

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.*

We broadly agree with the sources of guidance set out in paragraphs 51 and 54. However, we note that the judgements involved in assessing a fair presentation are significant, including the topics to cover, the metrics to use and the level of aggregation to adopt. They are more demanding where there is no sustainability standard for that topic, as may be the case for the immediate future except as concerns climate change.

Sustainability reporting will be new to many companies and so the judgements more difficult. Realistically there is likely overall to be a low level of comparability and quality of reporting as a result. The reference to ‘the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting’ may be too vague to be of use to preparers, and give rise to issues around assurance and enforcement (see our response to Q1(d)).

While the intention behind paragraph 51 is to direct preparers to sources of guidance, the language (‘an entity ***shall*** consider’) can be interpreted by some as requiring entities to adopt these external standards and frameworks. This could lead to challenges for compliance and assurance.

Further, while paragraph 51 provides an ‘information hierarchy’ to guide entities in identifying useful disclosures, there is a lack of overarching principles-based requirements around how entities should identify and evaluate sustainability-related risks and opportunities in the first place. Such requirements are, in our view, fundamental to consistent application, assurance and enforcement. Please see our comments in relation to Q8(c) on this important point.

As highlighted in our comments to Q2(b), we believe that the International <IR> Framework provides helpful framing for the scope of ‘sustainability.’ As such, we would recommend that the International <IR> Framework is included in paragraph 51 as a source of reference.

We also note there is some duplication between paragraphs 51 and 54.

Question 8 – Materiality

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

We agree that the definition of materiality is clear. However, given how fundamental entity-specific materiality judgements will be in driving the content of entities' reporting, much more specific guidance is needed around the materiality determination process to ensure that the sustainability-related financial information is consistent, comparable and verifiable (see our response to (c) below).

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

To capture the breadth of sustainability-related risks and opportunities there should be a definition of 'sustainability-related' as noted in our general comments and in our response to Q2 above.

As noted in our response to the S2 ED, we expect that the consideration of risks and opportunities over the short-, medium- and long-term future timeframes will be challenging for entities, especially those in jurisdictions which currently do not require forward-looking disclosures. Even in those jurisdictions where future-orientated reporting is required, the strategic planning horizons considered by entities are likely to be too short to appropriately capture sustainability-related risks and opportunities. Further application guidance and illustrative examples will be important to help entities apply the standards as intended.

Finally, there is a commonly-perceived misalignment between the references to 'significant' sustainability-related risks and opportunities and 'material' information. While we understand that the ISSB's intention is for entities to first identify significant risks and opportunities, and then determine information about such risks and opportunities that are material for users, the meaning of both terms and this intention need to be clearly and explicitly set out in the standard to avoid confusion. Care is needed over the use of such similar but conceptually-different terms, as the intended differentiation are often lost when the standards are translated into other languages.

Please see our comments in section (c) below about the need for further guidance in this area.

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

The judgement noted in Q7 is in effect the application of materiality. The application in practice of this materiality judgement is likely to be difficult and not lead overall to comparable reporting. While the Illustrative Guidance is helpful, more detailed application guidance will be needed.

Application guidance should clarify the process that entities should adopt to identify significant sustainability-related risks and opportunities as well as the process that entities should use to identify material sustainability-related financial information. At present, while paragraph 51 provides an 'information hierarchy' of resources that entities may use to identify relevant disclosure topics, the exposure draft provides no clarity over the much more fundamental question of how significant sustainability-related risks and opportunities should be identified in the first place.

The identification of significant sustainability risks and opportunities should initially incorporate a consideration of the entity's key stakeholders (beyond users of general purpose financial reporting) and their legitimate needs and interests. This step is critical, because the way in which the entity creates, preserves or erodes value for other stakeholders will likely affect enterprise value over time. A coherent process of understanding and responding to stakeholders' needs is also necessary as entities in many countries will need to comply with impact-focused jurisdictional reporting requirements.

It will be equally crucial to set out guidance on how entities should determine the future time horizons that materiality assessments should consider, the frequency with which materiality assessments should take place, how materiality judgements should inform consideration of the value chain risks and opportunities, and the extent to which materiality judgements apply to any industry-specific disclosure requirements (see our response to S2).

As noted in our response to Q2, defining 'sustainability' around the integrated reporting concept of the capitals would help preparers to better understand the scope of sustainability-related risks and opportunities that are material.

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

We understand that restrictions on reporting may arise in different jurisdictions and so appreciate the problem that the proposal is trying to address. Much of the requirements concerning strategy and targets may constitute forward looking information for example which may be subject to such restrictions. However, it leaves open the question of what compliance then means. Please refer to our response to Q12 for further discussion.

Question 9 – Frequency of reporting

Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

We agree that in principle the sustainability disclosures required should be for the same period and published at the same time given the connections needed between the two. However, we note that many companies are geared up for reporting their financial results as soon as possible after the period end to help investors and to ensure that market-sensitive information is published in a timely way. Sustainability-related disclosures are often dependent on different data collection systems and involves the value chain. As such, it may be more difficult to provide sustainability-related disclosures within the same short timeframe that applies to financial reporting, at least in the first years of implementation.

Some aspects of reporting, such as disclosures about business models and policies, may not change from year to year. As such, detailed disclosures about them may be appropriately presented as standing data, rather than on an annual basis. The ISSB may wish to consider whether allowing some such specified information to be presented as standing data, in order to support conciseness in annual reporting. We note that the boundaries of information suitable to be presented in this way and their location would need to be clearly defined, to ensure that the same level of board oversight, assurance and enforcement can be applied to such disclosures.

The ISSB's flexible approach to interim reporting seems reasonable. However, we would question the value of providing sustainability-related financial information on an interim basis.

Question 10 – Location of information

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

We agree with the flexibility in the ED concerning the location of the disclosures. Some guidance, when other information is provided, will be helpful over what constitutes a presentation that allows the disclosures required by the ISSB standards to be 'clearly identifiable'. There will be an immediate issue for those many companies who are also meeting GRI standards and any EU companies that would like to claim compliance with the global standards as well as with the European Sustainability Reporting Standards. Example presentations would be helpful.

While flexibility around the location of disclosures is welcome, we would recommend that the ISSB clarifies that the disclosures required by IFRS S1 and IFRS S2 are not expected to be made in the financial statements. We note that some preparers are concerned about the implications for the audit of financial statements arising from sustainability-related disclosures in the financial statements.

Clearer guidance as to where information is expected to be presented, subject to jurisdictional requirements, will be important to ensure that information can be easily accessed by users. ACCA's soon-to-be-published research into climate-related disclosures in the Chemicals and Construction industries suggest that disclosures related to draft IFRS S2 requirements are currently found in a large number of different locations (annual report, sustainability report, other supplementary reports produced voluntarily by entities, and the website). A large portion of such disclosures are also duplicated between different locations. Such dispersion of disclosures makes it difficult for users to access the information they need, and could also give rise to issues around external assurance. While the location of disclosures will need to be determined by local regulators, the ISSB can give clearer directions, working with the regulators, as to the desired form of reporting.

Greater clarity over the allocation of work between the ISSB and IASB, including the revision of the Practice Statement on Management Commentary, will help to allay such concerns in the short term.

b) *Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?*

We are not aware of any such jurisdiction-specific requirements.

c) *Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced? Why or why not?*

While we understand the desire to avoid duplication of reporting, including information by cross-reference does raise concerns over the coherence of the reporting, the governance responsibility over the disclosures, assurance and the maintenance of the weblinks. Extensive use of cross-referencing also makes it very difficult for users to find the information they need.

We consider the best form of reporting will be a comprehensive core report such as an integrated report, instead of dispersed disclosures through the financial statements and other parts of the corporate reporting package which require extensive cross-referencing. In ACCA's view, the International <IR> Framework, with its focus on multi-capital value creation, preservation and erosion, can serve as the basis for the revised Practice Statement on Management Commentary.

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?*

Yes, this is clear, but it is also an issue for the thematic standards to emphasise – as has been done in IFRS S2.

There is a wider need to ensure that reporting on sustainability-related risks and opportunities (including intangibles and 'knowledge-based assets' as identified in paragraph 6(d)) is connected to, and coherent with, reporting more broadly about the entity's business and corporate strategy. The revision of the Practice Statement on Management Commentary can help to fill this important gap. As highlighted above, we would also urge the ISSB to consider framing 'sustainability' around the <IR> Framework's multi-capitals model of value creation, preservation and erosion: this will help to ensure that sustainability matters are considered in the round with other matters of strategic importance. For entities to truly understand sustainability risk and opportunities, integrated thinking[3] is necessary.

Question 11 – Comparative information, sources of estimation and outcome uncertainty, and errors

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

We agree that these features have been incorporated appropriately.

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

We agree with the restatement approach where better measures become evident. This means that errors and remeasurements are treated in broadly the same way. This can be helpful as often remeasurement and errors can be difficult to distinguish when it comes to sustainability information.

We recognise, however, that providing retrospective restatements can be a significant challenge, especially in relation to those disclosure requirements in IFRS S2 which are new to preparers, and social-related disclosures for which quantitative measures and methodologies are emerging. During the transition period, the benefit of reliable

[3] As defined in the International <IR> integrated thinking is "The active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation, preservation or erosion of value over the short, medium and long term".

comparative information needs to be balanced against the cost of retrospective restatement where more robust methodologies may be developing year-on-year. It is important not to discourage preparers from adopting more reliable measurements. The ISSB may wish to consider providing relief from retrospective restatement during the first years of implementation.

c) *Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?*

We agree with the proposal.

Question 12—Statement of compliance

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

We agree in principle with the proposal for a compliance statement. Similar statements, including those provided in the integrated reports of companies applying the King Code in South Africa, has been a useful means of improving quality and gaining appropriate attention from the management of companies.

However, important details need to be clarified in the standard for such statements of compliance to be effective:

- What unqualified compliance means: in particular, whether entities must fully comply with SASB Standards in order to claim compliance; and to what extent entities must comply with the other resources set out in paragraph 51;

- The implications of qualified compliance: While paragraph 92 allows entities to assert compliance despite omitting disclosures which are prohibited by local laws or regulations, such omissions should be acknowledged. At the same time, there is a risk that such a 'qualification' penalises the entities;

- The effect of jurisdictional transitional relief measures: Notwithstanding paragraph 92, the ISSB should consider situations where a local jurisdiction provides transitional relief by allowing certain requirements to be phased in over time;

- The location of the statement of compliance: given that disclosures may be found in multiple locations (see our response to Q10c), more clarity is needed over the location where the statement of compliance should be published.

We note that in Europe, the Corporate Sustainability Reporting Directive (CSRD) includes a Member State option to allow entities to omit disclosures which can be seriously prejudicial to their business. We would encourage the ISSB to consider a similar exemption. As noted above, the impact on the compliance statement should be considered.

Question 13—Effective date

a) *When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.*

The determination of an appropriate period for preparation of the disclosures will largely be a matter for national jurisdictions and they should take into account the urgency of some of these disclosures. It would seem appropriate for the effective date to be two years after publication of the standard.

While the adoption of the standards will be a matter for national jurisdictions, a roadmap for implementation from the ISSB, developed with its jurisdictional working group, would help to guide national regulators in this process and to ensure consistent implementation.

We would expect that companies would want to have a ‘dry run’ before being required to fully comply with the standards. The implementation roadmap should reflect this, with period of voluntary adoption before the standards are adopted on a mandatory basis.

In implementing the standards, national and regional regulators should consider adopting a phased approach according to the size of entities. Smaller non-listed entities will require the longest lead time before the requirements become mandatory for them.

We agree with the possibility of early application.

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

We agree with not requiring comparative figures in the first year of application.

Question 14—Global baseline

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

ACCA is very supportive of the concept of a global baseline and the building block approach. To achieve this, it is incumbent on the ISSB to work with those who have already developed standards that are widely used (such as those of the GRI) or who are developing them (such as the EU) to allow this.

Greater clarify over the definition of the term ‘sustainability’ is needed, in order to allow preparers, auditors and regulators to clearly understand the scope the ISSB’s standards, and how that interacts with existing jurisdictional requirements.

As referred to in Q1(b) above, expanding upon the definition of ‘enterprise value’ to ensure that it is applicable to entities of different sizes, including not-for-profit entities, will also help ensure that the ISSB’s standards create an effective global baseline. Finally, as highlighted in our answer to Q1(d), we are concerned that the wording of paragraph 51 does not provide sufficient clarity to ensure consistent use of other frameworks and standards. Further, we would recommend that the ISSB undertakes a full assessment of whether the SASB disclosure topics appropriately reflects topics that are material to all entities operating in a given sector, regardless of their geographical location. Please see our response to IFRS S2 for a fuller discussion of this issue.

Question 15—Digital reporting

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

A taxonomy and digital tagging should be able to be done.

Technology, including but not limited to XBRL tagging, is changing the way that corporate reports are produced, distributed and used. This provides opportunities in allowing a broader set of stakeholders to access the information that they need. At the same time, the more unstructured nature of information outside of the financial statements also poses challenges that need to be managed carefully.

Outside of metrics, narrative information is key in informing users about the strategic context behind companies’ performance. Access to, and analysis of, narrative information is also important in capturing aspects of organisations’ value creation, preservation and erosion which may not currently be quantifiable.

Tagging is likely to be most helpful where specific numerical disclosures are required. However, it is less clear whether tagging for extended narrative or qualitative disclosures can be done consistently enough to provide a basis for meaningful analysis and comparison between entities. As this proposed standard does not refer to any specific sustainability-related topics as such, this means the tagging of S1 is likely to be even less effective in providing comparable information. The tagging of the climate standard will probably be a more useful focus.

Question 16—Costs, benefits and likely effects

a) *Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?*

The demand for sustainability information is high and that on the effects of climate change very urgent. The benefits to users and the operation of capital markets are consequently going to be large. ISSB should consider making the climate standard mandatory before this general one which requires all other material sustainability-related risks and opportunities to be addressed.

Costs of application can be expected to be high as many companies have not been reporting on these issues at all and others may have been but not to the extent set out in this standard. In particular where reporting requirements go beyond common practice – such as disclosures relating to the value chain – the benefits are unlikely to outweigh the costs in the short term.

Another significant cost for preparers would be the need to report under different sustainability reporting standards, depending on the local requirements of the countries where they operate and/or are listed. For example, ESRS will be mandated in the EU, whereas in the US the Securities and Exchanges Commission has proposed rules to enhance and standardise climate-related disclosure for investors. We strongly suggest the ISSB to work closely with its jurisdictional working group and future Sustainability Standards Advisory Forum to align standards as much as possible to mitigate the burden of preparing various reports.

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

We note that there is likely to be an extended transition period as entities around the world obtains the resources, including human resources, to enable them to comply fully with the ED.

Beyond that, although the costs of ongoing application are likely to stabilise for large listed entities, the ongoing costs on those entities not directly within the scope of the mandatory reporting requirements (including SMEs and entities in developing economies) must be carefully monitored. For the standards to successfully bring about more efficient and sustainable allocation of capital, consideration needs to be given as to how such trickle-down costs should be funded. SMEs in particular will likely require additional funding, as most will not have the resources available within the business to deal with the information requests and assurance processes that these will require.

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

Conciseness

For reporting to serve the needs of users and bring about more effective and sustainable allocation of capital, it is imperative that information is presented in a clear and concise way. ACCA's research has repeated highlighted a tendency in certain jurisdictions for the annual reporting package to become increasingly voluminous, as entities seek to apply jurisdictional sustainability reporting requirements such as under the EU Non-Financial Reporting Directive. Disclosure overload will make it more difficult for investors and other stakeholders to find the information that they need. We would encourage the ISSB to consider the importance of conciseness, in finalising the disclosure requirements in both this ED and ED IFRS S2.

Skills and human resources gap

The demand for sustainability reporting talent far exceeds the supply in reporting entities, vendors, assurance firms and regulators. As a result, professional accountants will need to rapidly develop new skillsets and adopt new mindsets to meet the drive to provide sustainability information. Conversely, other professionals, including sustainability experts, will need to adapt to concepts and terminology related to general-purpose financial reporting. This acute scarcity of talent could have implications for the cost of compliance, and is likely to persist beyond the initial transition period.

The ISSB, in working with national and regional regulators, should take the skills gap into consideration in developing an implementation roadmap for the standards. The need for extensive application guidance and education material to support implementation should not be under-estimated. The drafting of the standards themselves also need to reflect the fact that the majority of entities will not be able to fully comply with the standards from day 1, and that the standards will be applied by preparers from different backgrounds, who may not be familiar with the IFRS Accounting Standards and the Conceptual Framework for Financial Reporting.

Connectivity in reporting

ACCA welcomes the considerations given to connectivity in this ED and ED IFRS S2. However, this topic should be addressed both by the ISSB and the IASB, which should determine their respective scope of work and boundaries in addressing interconnected topics.

ACCA has long advocated for an overarching Conceptual Framework for Corporate Reporting, to provide a consistent basis for the work of both the IASB and ISSB[4]. Such a framework is important in determining the scope and boundaries for both the IASB and ISSB, and guide the provisions on connectivity and enterprise value in this ED. This framework could build on the principles of the International <IR> Framework.

[4] https://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2020/december/acca-reponse-ifrs-consultation-sustainability-reporting.html