International Sustainability Standards Board
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22 June 2022

Re: ISSB's Exposure Draft for IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

The Financial Reporting Council (FRC) welcomes the publication of the Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and congratulates the ISSB for this momentous achievement. The FRC strongly supports the development of high-quality global standards for sustainability reporting and welcomes the opportunity to provide comment on this Exposure Draft. We recognise that climate and wider sustainability and ESG data is increasingly being used for capital allocation decisions, and therefore, needs to be as reliable and comparable as financial reporting.

The FRC regulates auditors, accountants and actuaries, issues accounting, audit, assurance, and actuarial standards and guidance, sets the UK's Corporate Governance and Stewardship Codes, and the ethical standard. Our work is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them. In addition, our proposed new remit as we transition to become the Audit, Reporting and Governance Authority is "*to protect and promote the interests of investors, other users of corporate reporting and the wider public interest*". Under this remit, our objective is to leverage our role and responsibilities, alongside other regulators, the market, and other stakeholders, to promote high quality audit, corporate reporting, corporate governance, accounting and actuarial work.

The FRC has engaged in several projects that support this, including the development of the UK Guidance on the Strategic Report[1], the current review of mandatory TCFD aligned disclosures conducted by our Corporate Reporting Review team, and projects being conducted by the FRC Lab in relation to ESG data, Net Zero disclosure, and Cyber, Digital and Data risk. We have also published a number of reports on relevant topics, including TCFD[2], risk and opportunities[3], scenario analysis[4], and we complete annual reviews of Corporate Governance reporting[5]. Our extensive research and experience give us valuable insight into reporting of non-financial information by UK entities in areas that the Exposure Draft covers. This letter highlights some overarching comments for consideration in relation to IFRS S1 and is followed by Appendix A which includes our detailed responses to the specific questions posed by the ISSB. We have also prepared comments on Exposure Draft IFRS S2 Climate-related Disclosure in a separate letter. We hope that in

[1] https://www.frc.org.uk/accountants/accounting-and-reporting-policy/clear-and-concise-and-wider-corporate-reporting/narrative-reporting/guidance-on-the-strategic-report
[2] https://www.frc.org.uk/getattachment/09b5627b-864b-48cb-ab53-8928b9dc72b7/FRCLab-TCFD-Report_October-2021.pdf
[3] https://www.frc.org.uk/getattachment/c9c271c4-1e74-413a-a767-ca1c1e6909e7/FRCLab-Risk-Report-2021.pdf
[4] https://www.frc.org.uk/getattachment/0d28d5e8-ff89-4028-88a8-49e837db6022/FRC-Climate-Scenario-Analysis-in-Corporate-Reporting_October-2021.pdf
[5] https://www.frc.org.uk/getattachment/b0a0959e-d7fe-4bcd-b842-353f705462c3/FRC-Review-of-Corporate-Governance-Reporting_November-2021.pdf

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providing these comments, we can help the ISSB further strengthen the effectiveness of the proposed standards in a way that will support high-quality, consistent and comparable reporting.

Global baseline and scalability

Building on the structure and requirements of the TCFD recommendations and existing voluntary frameworks, this proposed standard provides a global baseline, although we would encourage the Board to further consider the scalability of the standards. We have suggested amendments in our detailed response in Appendix A.

The UK is a lead jurisdiction in reporting sustainability-related information, especially having recently mandated the TCFD recommendations. We believe that the expectation for entities to report in accordance with all disclosure requirements for all significant sustainability-related risks and opportunities will create a significant additional reporting burden for companies, although we recognise that there is significant stakeholder demand for this type of reporting. Within the UK, we expect this will be challenging even for entities that already voluntarily disclose sustainability-related information. Jurisdictions, and entities that are less well-resourced and prepared, particularly in those markets that have not already adopted the TCFD Framework, including some emerging and developing markets, may find meeting the proposed disclosure expectations more challenging.

The real benefits of the ISSB's work is that it provides a global baseline for consistent and comparable reporting, supporting capital formation and allocation that operates at a global level. In order to deliver that global baseline model, we encourage the ISSB to keep in mind the principles of proportionality and scalability and utilises language that would support this. Our response to Question 14 provides further details about how the proposed requirements could be structured and the language that could be used to enable a proportional and scalable approach.

Clarification on use of non-mandatory guidance

Further clarity is needed on the proposed use of the SASB Standards. It is unclear whether they are non-mandatory application guidance for entities to use when identifying material risks and opportunities or whether they are disclosure obligations.

In paragraph 51 of the Exposure Draft, the CDSB application guidance is referred to as non-mandatory guidance, which is not the case for the SASB Standards in the same paragraph. There is a risk of confusion, where the industry-based requirements are referred to in the metrics and targets section which implies that they are mandatory reporting requirements. We strongly recommend that these industry-based requirements are only used as reference guidance where an IFRS Sustainability Disclosure Standard for a specific topic does not yet exist.

Structure of S1 and architecture of IFRS Sustainability Disclosure Standards

We ask the ISSB to consider the possibility of splitting the proposed requirements into a general requirements standard and either a conceptual framework or presentation standard. The core content could be presented in a general requirement standard, and the general features in a conceptual framework or general principles and presentation standard.

We also believe that IFRS S1 should only deal with holistic and common disclosure requirements, removing duplication and leaving topic-specific requirements to the specific disclosure topic standards. Although paragraph 78 highlights that in some cases there will be common items of information which do not need to be duplicated for every sustainability-related matter, the ISSB should consider the broader architecture of the IFRS Sustainability Disclosure Standards and whether it is necessary to repeat disclosure

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requirements. For example, rather than repeating requirements for governance and risk management disclosures, which cut across all topics, future standards should only refer to the requirements in IFRS S1 and add topic-specific elements where appropriate.

Clarity in terms used and accessibility of the standard

Further work is required to ensure the proposed standard is clear, concise, understandable and accessible for all expected audiences. In some instances, repetition adds complexity. For example, paragraph 11 (a-d) is a list of the overarching requirements which are then repeated in each section. In this example, we recommend removing paragraph 11 to minimise repetition and to make the proposed standard more concise.

There are a number of instances where terminology used in the Exposure Draft is internally inconsistent and requires further clarification. In particular, the terms 'significant' and 'sustainability-related' need to be more clearly defined as they are key determining factors that will influence how the proposed requirements will be applied.

The terms 'materiality' and 'enterprise value' also need to be consistently applied throughout the standard. Our response to Questions 8 and 17 provides further details about where amendments could be made to improve clarity.

Connectivity

Connectivity is an important concept and will support the production of holistic and cohesive disclosures. There are three areas of connectivity that are important to highlight, including between sustainability-related risks and opportunities, between disclosure requirements within the proposed standard (governance, strategy, risk management, and metrics and targets), and between the information about the risks and opportunities and the financial report.

Cohesion between an entity's financial and non-financial reporting is a key objective, and we welcome the references and alignment with existing IFRS Standards, where applicable. However, one particular area that needs further consideration is the treatment of assumptions. We broadly agree that financial data and assumptions used in the sustainability-related financial disclosures should be consistent with those used in the financial statements, however, it is important to note that in some cases IFRS Accounting Standards do not permit assumptions to be fully aligned with data used for sustainability-related disclosure (IAS 36).

We also encourage the ISSB to consider how the proposed standard interacts with other elements of narrative reporting, including the areas of content in Practice Statement 1 *Management Commentary*. Currently, the disclosure requirements may not be sufficient on their own. For example, sustainability-related matters need to be considered in the context of an entity's broader business model. This assumes that all entities provide sufficient information about the business model in the narrative report to enable adequate connection with the sustainability-related information. As a minimum, we suggest that these disclosures could be linked into the areas of content in Practice Statement 1 *Management Commentary* to encourage connected and coherent disclosure.

Basis of preparation

IAS 1 (paragraphs 117-124) and IAS 8 (paragraphs 7-19) 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. A similar requirement could be applied to IFRS S1 requiring entities to disclose the basis of preparation which might include the policies used in preparing sustainability-related financial

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information. This would help assurance providers and regulators to assess whether the reporting entity has provided a complete and accurate depiction of its sustainability-related information.

Timely publication and due process

As noted in the introduction to the Exposure Draft, there is a clear and urgent need for IFRS Sustainability Disclosure Standards, and we acknowledge the challenges this can pose to standard-setting processes. A balanced approach is needed to ensure the timely publication of the standards, whilst not compromising on the quality and due process required to ensure these standards are of high-quality, drive high-quality reporting and are globally accepted. Jurisdictions will need sufficient time to endorse and adopt the standards. Therefore, we strongly encourage the ISSB to allocate sufficient time to finalising these standards and to address the concerns raised during the consultation process.

For instance, a phased approach to the effective date will not only provide reporting entities with sufficient time to create or amend the required data systems and internal controls they need to support high-quality reporting but will also help the ISSB prioritise requirements that can, and should be, adopted quicker.

Finally, we welcome the opportunity to continue to work with the Board in setting future standards and would be happy to discuss the content of this letter in more detail. If you would like to discuss these comments, please contact Sarah-Jayne Dominic (s.dominic@frc.org.uk) and Gemma Clements (g.clements@frc.org.uk).

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Appendix A

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?

1.1 The Exposure Draft clearly states that reporting entities are required to identify and disclose material information about all sustainability-related risks and opportunities even if such risks and opportunities are not (yet) addressed by a specific IFRS Sustainability Disclosure Standard. However, further clarity is needed on what is meant by 'sustainability-related financial information' and how the ISSB defines 'sustainability'. Please refer to our response to Question 2(b) for more detail.

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

1.2 Whilst we broadly agree that the proposed requirements meet the objective outlined in paragraph 1, further clarity is needed on the definitions of 'significant' and 'sustainability-related' to support consistent application of the proposed requirements.

1.3 A definition is needed for what is meant by 'significant' in relation to risks and opportunities. As a determining factor that will influence how the proposed requirements will be applied, a definition is needed to support the disclosure of consistent and comparable information. Whilst we recognise that determining significance of a matter will be entity-specific, a robust definition will support the consistent application of the proposed standard.

(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?

1.4 Whilst the use of the TCFD structure (governance, strategy, risk management, and metrics and targets) is helpful in connecting IFRS S1 and IFRS S2, it is not clear how entities should respond to the two standards together. For example, there are instances of duplicative requirements between IFRS S1 and IFRS S2.

1.5 Paragraph 78 helpfully highlights that there may be common items of information across the proposed standards which do not need to be duplicated for every sustainability-related matter. The example given in the Exposure Draft relates to governance disclosures which are likely to be integrated across sustainability matters. The ISSB should, therefore, consider removing duplicative requirements from the topic-specific standards, including in IFRS S2, when they are considered as general, cross-cutting requirements.

1.6 Additionally, it is not clear that all disclosure obligations inspired by the TCFD recommendations in IFRS S1 would be relevant for all sustainability-related risks and opportunities. We suggest that IFRS

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S1 should only deal with holistic and common requirements, leaving the topic-specific requirements to the topic-specific standards. For example, the requirements in paragraphs 23-24 require entities to assess their resilience and capacity to adjust to uncertainties arising from significant sustainability-related risks. Whilst it is clear that this requirement has been derived from the TCFD framework, its applicability beyond climate change is unclear, especially in relation to social matters. This requirement would be better placed in the relevant topic-specific standards to which it applies.

1.7 As noted in our covering letter, there may be benefit in splitting the requirements within this Exposure Draft into two documents - a general requirements standard and a conceptual framework. The conceptual framework should include the general features requirements from paragraphs 36-90 and outline the principles used to prepare and disclose material sustainability-related financial information. The general disclosure standard should outline the requirements that are considered cross-cutting and relevant for understanding the impacts of all sustainability-related risks and opportunities.

1.8 In addition, the connections between the IFRS Sustainability Disclosure Standards, including the relationship between IFRS S1 and IFRS S2, would be better understood in the context of the broader architecture of all the standards. Without a clear outline of the proposed architecture of the standards, it is unclear how IFRS S1 will be applied together with IFRS S2 and future standards. It would be helpful for stakeholders to visualise the overall structure of the standards to understand the direction of travel and to contextualise how IFRS S1 is applied in relation to the topic specific standards.

(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?

1.9 The challenges for assuring and enforcing the requirements in the Exposure Draft are similar to the existing challenges associated with narrative reporting more broadly. We believe there are some amendments that the ISSB could make to help assurance providers and regulators assess whether the reporting entity has complied with the proposed requirements.

1.10 From our experience, it is already challenging for assurance providers and regulators to determine compliance with the existing TCFD recommendations which only cover climate-related information. As the ISSB expands its range of standards to encompass all significant sustainability-related financial disclosures, these challenges are likely to be greater, at least at the outset as the wider corporate reporting landscape evolves.

1.11 One significant challenge for assurance providers and regulators will be determining the completeness of disclosures and whether the entity has adequately disclosed information about all significant sustainability-related risks and opportunities to which it is exposed. This could be more challenging when specific sustainability-related matters are not covered by a specific IFRS Sustainability Disclosure Standard. They will need to understand from the entity's management how they have addressed all known significant risks and opportunities, in a way that allows them to understand whether there are any material omissions. To support the assessment of completeness it would be helpful for the proposed standard to include further requirements for the entity to disclose the judgements and assumptions used by the entity to determine which sustainability-related risks and opportunities are 'significant' as part of disclosure requirements in the risk management section.

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1.12 Paragraph 60 states that an entity need not disclose information for all disclosure obligations if the information is not material, even if the Standard has described the obligation as a minimum requirement. The ISSB might want to consider requiring entities to provide the basis of preparation which would help assurance providers and regulators to assess whether the reporting entity has provided a complete and accurate depiction of its sustainability-related information. The ISSB should refer to similar requirements in IAS 1 (paragraphs 117-124) and IAS 8 (paragraphs 7-19) that 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.

1.13 The forward-looking nature of the proposed disclosure requirements is very different to existing disclosure requirements, especially given the longer-term nature of the information. To support users assessing the accuracy and relevance of this information, the ISSB may consider providing supplementary guidelines about how forward-looking information could be presented. As the ISSB considers its future workplan, we recommend the development of additional education materials similar to the papers published by the IASB.

Question 2—Objective (paragraphs 1–7)

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

2.1 The proposed objective in the Exposure Draft is generally clear but could be further enhanced by clarifying the requirements in respect of the disclosure of broader sustainability-related financial information beyond risks and opportunities. As described in paragraphs 1 and 2, reporting entities are required to disclose information about the significant sustainability-related risks and opportunities it is exposed to, however in paragraph 3 reporting entities are required to disclose "*a complete, neutral and accurate depiction of sustainability-related financial information*". Whilst there are overlaps between the two requirements, sustainability-related financial disclosure may go beyond risks and opportunities as described in paragraph 6. This paragraph acknowledges that sustainability-related financial information may include risks and opportunities, in addition to information about the decisions, actions and activities undertaken by an entity, and its impacts and dependencies on sustainability-related matters.

2.2 It is also unclear why '*knowledge-based assets*' have been included in the Exposure Draft's objective in paragraph 6(d). There is no accompanying definition, and it is not mentioned anywhere else throughout the standard. We recommend removing paraph 6(d) from the objective to avoid confusion as it implies the sustainability-related financial information includes intangible assets which has long been an area of contention. The concept of 'knowledge-based assets' may be considered in collaboration with the IASB as a separate project.

(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?

2.3 We believe the definition of 'sustainability-related financial information' requires further clarity and precision. This which could be resolved by making 'sustainability' a defined term. This will, we believe, 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

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'sustainability-related financial information' leading to inconsistent application of the proposed standard.

2.4 Such a definition could draw of the one used in Appendix A. However, 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. The definition used in the CDSB Framework could be helpful where it defines 'environmental and social information' as information regarding the reporting entity's natural, human and social capital dependencies, policies, strategies, targets, risks, opportunities, and performance. Whilst this definition would require amendments, it is a helpful starting point and addresses the range of information that could be considered 'sustainability-related financial information'.

2.5 The definitions of sustainability-related financial 'information' and 'disclosures' in Appendix A appear to be misaligned. Although there are similarities between the two, there are also subtle differences which could create confusion. The ISSB should consider whether the two definitions are necessary. There is a further inconsistency with the definition for 'sustainability-related financial information' provided in paragraph 6 which is broader than risks and opportunities. Providing a non-exhaustive list of examples of sustainability-related financial information is helpful, but we recommend that the list in paragraph 6 is better aligned to the definition in Appendix A.

Question 3—Scope (paragraphs 8–10)

Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general-purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

3.1 The proposed reporting requirements in the Exposure Draft could be used by any entity that prepares financial statements in accordance with GAAP. However, the ISSB may need to consider the following practical issues.

3.2 Currently, there is no universally adopted standard for entities that prepare financial statements in accordance with GAAP to prepare narrative disclosures, in which these sustainability disclosures would sit. Additionally, narrative reporting and governance disclosure requirements are generally embedded in jurisdiction-specific securities and company law, which results in different approaches to narrative reporting. Although the IASB's Practice Statement 1 *Management Commentary* provides some standardised guidance, it is not widely adopted or enforced. We recommend that the ISSB works closely with the IASB in the update to Practice Statement 1 *Management Commentary* to support develop international standardisation on narrative reporting that would support the presentation of sustainability-related information.

3.3 In the UK, entities that fall outside the scope of IFRS Accounting Standards are required to prepare their financial statements in accordance with UK GAAP standards, which we develop and maintain. Further analysis is required to understand whether the proposals outlined in this Exposure Draft could be used by entities when preparing their general-purpose financial statements in accordance with a jurisdictional GAAP. As mentioned in our response to Question 14, scalability is an important feature of the proposed requirements, which are designed to be a baseline, if they are to be applicable to any entity that prepares financial statements in accordance with any jurisdiction's GAAP requirements.

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3.4 Whilst it is commendable to take into consideration jurisdictional requirements when preparing the proposed requirements, it will not be possible for these international standards to be aligned with local GAAP in all cases, and local requirements shouldn't compromise the international application of these standards. We encourage the ISSB to work with national standard-setters to support international applicability.

Question 4—Core content (paragraphs 11–35)

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

4.1 The disclosure objectives for the governance and metrics and targets are clear and appropriately defined. However, we believe the strategy and risk management disclosure objectives require some further refinement.

4.2 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, strategy and financial position. This objective could be amended to "*enable users of general-purpose financial reporting to understand the effect of significant sustainability-related risks and opportunities on an entity's business model, strategy and financial position, and its strategy for addressing these risks and opportunities*." We recommend differentiating between the effect on the entity's overall strategy, and its strategy for addressing the risks and opportunities which can be two different things.

4.3 The disclosure objective for risk management includes aspects related to the process for identifying, assessing and managing opportunities. Whilst the inclusion of opportunities in the governance, strategy, and metrics and targets section is clear and appropriate, we recommend that it is removed from the risk management section. Our response to Question 4(b) provides further comment on the disclosure requirements for opportunities.

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

4.4 Overall, we agree that the disclosure requirements are appropriate to and aligned with the stated disclosure objectives. However, we believe there are some disclosure requirements that need further consideration and amendment.

Governance

4.5 We welcome the use of TCFD recommendations on governance as a foundation and believe that the additional requirements are a step forward in encouraging high-quality information. These could be extended to also address the effectiveness of governance policies, processes and procedures to provide users with insight into how, the board and senior leadership account for sustainability-related risks and opportunities in their decision-making processes. For example, paragraph 13(d) asks entities to describe "*how and how often the body and its committees are informed about sustainability-related risks and opportunities*" which provides some insight into the internal procedure. This requirement could be enhanced by asking entities to also disclose when the board is updated and how this information is used to inform the decisions taken in paragraph 13(e).

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4.7 Paragraph 13(b) requires entities to describe how sustainability-related risks and opportunities are reflected in the terms of reference, board mandates and other related policies. To provide further helpful information, this requirement could be extended to include information about how the terms of reference and mandates are reviewed and how these lead to action.

4.8 In paragraph 13(e), entities are expected to disclose information about how the governance body oversees strategy, including consideration of trade-offs. The concept of trade-offs is important, especially when addressing the relationship between climate change and broader sustainability matters. This is a new area of disclosure which is underdeveloped, and therefore we recommend that further guidance is provided about how trade-offs are assessed and should be treated in the governance process.

4.9 As noted in the Exposure Draft, governance requirements are overarching requirements that are likely to be the same for each sustainability-related matter. Therefore, we strongly recommend that these requirements are maintained in IFRS S1 and any repetition is removed from subsequent standards.

4.10 Many countries, including the UK, have their own Corporate Governance Codes. The ISSB needs to consider how the requirements in standards align with this existing reporting. The Practice Statement 1 *Management Commentary Exposure Draft* was largely silent on governance requirements as is typically regulated by local laws. Although it is impractical for the ISSB to consider the interaction of this proposed standard with the myriad of jurisdictional requirements, we recommend that the ISSB consider whether there is any overlap or contradiction with the G20/OECD Principles of Corporate Governance which have played a major role in influencing national codes.

Strategy

4.11 The connection between the objective and requirements for the strategy disclosures could be enhanced. As outlined in our response to Question 4(a), the disclosure objective for strategy focuses only on the entity's strategy for addressing significant sustainability-related risks and opportunities and not the disclosure requirements related to the effect of these risks and opportunities on the business model, strategy and financial position. The suggested amendment to the objective described in our response to Question 4(a) would help to align the objective and the requirements.

4.12 Paragraph 21 focuses on information that enables users to understand the effects of significant sustainability-related risks and opportunities on its strategy and decision-making. The subsequent and more detailed requirements in 21(a), (b) and (c) focus on the strategy(ies) implemented to respond to these risks. These are two different things and should be treated as two separate disclosure requirements. The entity can describe the actual and potential impact on its current strategy and decision-making without considering how the strategy may need to change or whether additional strategies would be required. We recommend that paragraph 21explicitly require the description of the strategies set to address risks and opportunities.

Financial position, performance and cash flows

4.13 We welcome requirements for entities to disclose information about the effects of sustainability-related risks and opportunities on financial position, performance and cash flows. Entities should be further encouraged to cross-refer to the financial statements as much as possible to ensure the information disclosed for paragraph 22 is aligned with information in the financial statements. For example, where key assumptions for impairment calculations are used in the financial statements that may not need to be repeated in the narrative report. It is also important for an entity to 'flag'

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where the assumptions are not consistent. This is particularly relevant when applying a 'Value in Use' impairment test.

4.14 Paragraph 22(b) is aligned with IAS 1 (paragraph 125) which requires similar disclosures of the assumptions used to assess whether a material adjustment to the carrying amounts of assets and liabilities in the financial statements. For example, assumptions about the expected level of carbon pricing in a particular market may already be used in the financial statements. Where this is the case entities should be encouraged to provide a cross-reference.

4.15 We welcome the requirement to disclose quantitative information unless an entity is unable to do so. However, this requirement would benefit from further details about the circumstances in which an entity would not be able to make a disclosure, for instance, where there is a high level of uncertainty or where there is a lack of available information.

4.16 As there is an interrelationship between the 'reflections' required in sub-paragraphs 22(c)(i) and (ii) in making the disclosures required by Paragraph 22(c) and those required by Paragraph 22(d), we suggest that 22(c) and 22(d) are combined to address both financial position and performance.

Time horizons

4.17 Whilst we recognise the challenges in defining short-, medium- and long-term time horizons that are suitable for every entity, we believe further guidance is necessary.

4.18 In the UK, entities are currently required to provide a Viability Statement which is prepared to disclose longer term issues which may affect an entity's prospects or viability. Boards are expected to determine the appropriate time horizon and provide justification for why they consider that period to be appropriate, and it should align with an entity's business cycle. The default position of many reporters is a three-year reporting horizon. The ISSB may want to consider providing guidance on how entities should establish time horizons and consider how this may interact with jurisdictional requirements.

4.19 Where entities are required to disclose the chosen time horizons in paragraph 16(b), it may be helpful to also disclose where those chosen time horizons differ from those used in strategic planning horizons and capital allocation plans. For example, entities identifying climate-related transition risks which have set emissions reduction targets should justify how these align with strategic planning horizons, and if they do not align, explain why not. This disclosure could usefully include how this links to asset lives, and timing of liabilities and provisions in the financial statements.

4.20 The timescale required in paragraph 22 in relation to financial position, performance and cash flow is unclear. In paragraph 22(c) entities are expected to describe how the financial position is expected to change "over time", with no supporting guidance as to what this means. Paragraph 22(b) only requires entities to provide insight into material adjustments to the carrying amounts of assets and liabilities in the financial statement for the next financial year, which is very short in relation to climate-related risks. IFRS S1 could keep the one-year requirement as a baseline but recognise that longer periods may be required for specific sustainability-related matters. This would provide the ISSB with the scope to set longer time horizons in topic-specific standards, for example in the climate-related disclosure standard.

Trade-offs

4.21 Paragraph 21(c) requires entities to describe the trade-offs between different sustainability-related risks and opportunities. Whilst we support the inclusion of trade-offs as an important concept, we

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believe that this may be challenging to implement. The benefit of this disclosure is to understand whether management has considered the interrelated nature of sustainability-related topics, and therefore we recommend that the scope of this requirement is limited to the governance section and is supplemented with further guidance about how trade-offs are assessed as part of that process. This requirement could then be moved from strategy to governance

Opportunities

4.22 As noted in our response to Question 4(a), we do not support additional requirements for the disclosure of the *processes* used to identify opportunities, as the requirements in the Risk Management Section assume that the process for identifying the relevant opportunities is the same as the one for identifying and assessing risk. We recognise that as part of the process of identifying and assessing risks, an entity may identify opportunities, which are important to capture and communicate as part of the entity's objectives in the governance and strategy section. However entities should not be required to disclose additional processes used to identify opportunities.

4.23 Practice Statement 1 *Management Commentary* refers to opportunities in relation to those management has chosen to pursue in relation to its strategy for sustaining and developing the business model. In this regard, entities are expected to disclose information about the opportunities they have currently chosen to pursue, rather than any information about speculative opportunities which could be commercially sensitive. We encourage the ISSB to consider utilising the approach in Practice Statement 1 where entities are expected to provide insight into the drivers of the strategy including the assumptions about the external environmental and the time horizons in which they cover.

4.24 We recommend that opportunities are removed from the risk management section, and instead retained in the governance and strategy sections that explicitly require entities to provide information on how they have assessed opportunities and how this is connected to the strategy. The ISSB may also consider further guidance to supplement this requirement.

Risk management

4.25 We welcome the alignment of the risk management section with the TCFD recommendations.

Metrics and Targets

4.26 We agree that entities should include metrics defined in other applicable IFRS Sustainability Disclosure Standards, but we do not agree that entities should include the metrics identified from other sources outlined in paragraph 54. As noted in our response to Question 7(b), it is unclear whether these sources are mandatory or non-mandatory, but its inclusion in paragraph 28 would suggest they are regarded as mandatory. We believe that these sources should be referred to as sources of non-mandatory guidance and removed from paragraph 28.

4.27 Paragraph 29 refers to entities that might have to apply metrics that are applicable to more than one industry. This implies that the SASB industry-based requirements are mandatory. We strongly recommend these requirements are maintained as non-mandatory guidance. We have further outlined our position on the list of sources in Question 7(b).

4.28 Paragraph 32 refers to targets an entity has set to assess progress against strategic goals. It would be helpful to distinguish when the proposed standard is referring to the entity's overall strategy, or its sustainability-related strategy. We have assumed that it means the entity's plans to address sustainability-related risks and opportunities, and therefore should be explicitly connected to

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paragraph 21. Additionally, requirement 31(c) would be better placed in paragraph 32, unless it was supposed to refer to metrics rather than targets.

Question 5—Reporting entity (paragraphs 37–41)

(a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?

5.1 In principle, we believe that sustainability-related financial information should use the same reporting boundary as the related financial statements. However, there are some challenges that require further thought and we recommend that the ISSB further considers the implications of consolidating disclosures, and whether a mechanism could be included that would allow for a flexible approach.

5.2 Some issues arise in the consolidation of information at group level which impact on the quality and completeness of the disclosure, and the risk of obscuring material information. In some instances, a sustainability-related risk or opportunity that is significant for an entity within a group, may not be material when consolidated at group level.

5.3 The ISSB may want to consider the merits of segmented disclosure, where appropriate, which could provide an additional level of granularity where this would better address the needs of users. For example, an entity may identify water-related risks in a specific location experiencing high-water stress. Whilst this risk may be significant for the entity, and therefore material, this may not be the case when consolidated at Group level. Another example would be the relationship between group reporting for financial statements and emissions, which, under the GHG Protocol, is not straightforward. When reviewing Streamlined Energy and Carbon Reporting (SECR) disclosures in the UK, we have seen examples where it is not clear whether information in respect of joint ventures and associates has been included in an entity's climate-related disclosure. Entities with significant equity-accounted entities may also find this challenging when revenue-based metrics are disclosed.

5.4 The challenges around consolidation are further compounded when consolidation may be subject to differing local GAAP requirements, which is beyond the control of the ISSB. A similar challenge arises from the complexity of jurisdictional securities and company law which may prescribe specific scope or timing of information.

5.5 IAS 1 (paragraphs 117-124) and IAS 8 (paragraphs 7-19) require entities to disclose the accounting policies used in preparing the financial statement and other accounting policies that are relevant to understand the financial statement. A similar requirement should be applied to IFRS S1 requiring entities to disclose information about the policies used in preparing sustainability-related financial disclosure, including a justification for the reporting boundary used and how it aligns with financial reporting boundaries. An entity should also be required to disclose its approach to consolidation including how it takes into account acquisitions and disposals.

(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?

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5.6 The requirement for entities to provide information related to activities, interactions and relationships along the value chain as outlined in paragraph 40(a-d) does not align with paragraph 37, as financial statements may not traditionally include these reporting boundaries, although we recognise the importance of this information to stakeholders.

5.7 The proposed standard should explain that whilst sustainability-related financial information will normally align with the financial reporting boundary (paragraph 37), there may be some instances where this information goes beyond the scope of financial statements. This needs to be clearly disclosed.

5.8 The relevant information related to activities, interactions and relationships along an entity's value chain will also be topic specific. The examples described in paragraph BC51 within the Basis for Conclusions demonstrates that the information required along the value chain will vary depending on the sustainability-related matter. The requirement in paragraph 40 should be amended to recognise this.

5.9 The proposed standard recognises 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.

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

5.10 We agree with the proposed requirement for identifying the related financial statements to the extent the ISSB considers there could be ambiguity. However, the drafting of paragraph 38 requires further clarification. If an entity is already required to disclose information in the general-purpose financial report for the same reporting entity as outlined in paragraph 72, then it is assumed that the related financial statements will already be presented alongside the sustainability-related financial disclosures and therefore there is no need to identify the related financial statements. Where this is not the case. We agree it is appropriate to require entities to identify the financial statements to which it relates.

Question 6—Connected information (paragraphs 42–44)

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

6.1 Connectivity is an important concept and will support the production of holistic and cohesive disclosures. There are three areas of connectivity that are important to highlight, including between sustainability-related risks and opportunities, between disclosure requirements within the proposed standard (governance, strategy, risk management, and metrics and targets), and between the information about the risks and opportunities and the financial report.

6.2 Whilst it is crucial for entities to understand the systemic and interconnected nature of various sustainability-related risks and opportunities and how they connect to financial statements, it is also highly complex and challenging. Although the objective for connectivity is clear, and includes some helpful illustrative examples, this concept could benefit from additional guidance in the Illustrative Guidance document.

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(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?

6.3 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, the ISSB should reconsider whether there is benefit in requiring entities to describe the connections, which we believe is better articulated as a principle rather than a reporting requirement. It is unclear how entities would provide a description of the relationships between different pieces of information, especially when the interconnections are very complicated, and may present an unnecessary reporting burden. We believe there would be more value in asking entities to explain how the processes used for sustainability-related financial reporting, including strategy and risk management processes, feed into each other and into the financial reporting processes. This should in turn be cross-referenced to the management commentary and wider non-financial information (not just sustainability). For example, the requirements in this standard should be connected with business model and strategy information within the front half of the report as outlined in Practice Statement 1 *Management Commentary*.

6.4 A small amendment is required in paragraph 42 to include connectivity with financial reporting including narrative disclosures. This paragraph may be amended to require "*…information that enables users of general-purpose financial reporting to assess the connections between various sustainability-related risks and opportunities, and to assess how information about these risks and opportunities is linked to information in the general-purpose* ***financial report, including the financial statements***."

Question 7—Fair presentation (paragraphs 45–55)

(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?

7.1 We broadly agree with the proposal for entities to present fairly the sustainability-related risks and opportunities to which it is exposed. However, we recognise that it would be challenging 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.

7.2 We have already commented that aggregating information may lead to obscuration of material information and may drive different approaches being adopted by reporting entities in the same group. To support entities in deciding when to aggregate information, the ISSB should provide additional guidance. In doing so, the ISSB might also consider how this might apply should it choose to develop specific standards on areas such as water-related risks and opportunities, or social-related matters.

7.3 There is precedent in IFRS, where IAS 1.29 describes a generic approach to aggregation/disaggregation, and in IFRS 8.12 and IFRS 15.14 which describe a more prescriptive approach depending on the topic. This might be a more appropriate approach, where IFRS S1 should encourage a general approach to aggregation/disaggregation and the topic-specific

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standards address the characteristics of aggregation/disaggregation for specific topics in a more prescriptive manner.

(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.**

7.4 We agree that entities should refer to the IFRS Sustainability Disclosure Standards to identify sustainability-related risks and opportunities that could reasonably be expected to influence decisions of primary users, as described in paragraph 51. However, we disagree that entities should also be required to consider the additional sources as outlined in paragraph 51 (a-d). These sources are helpful reference but only in the absence of an IFRS Sustainability Disclosure Standard. This would then be better included within paragraph 53.

7.5 In paragraph 53, entities are permitted to use management judgement to identify sustainability-related risks and opportunities in the absence of an IFRS Sustainability Disclosure Standard. However, there is no requirement for the disclosure of the assumptions used to make this judgement. We provide further suggestions on this point in our response to Question 8.

7.6 Additionally, further guidance is required to determine what information is considered 'significant' in relation to risks and opportunities. A definition for 'significant' would be a helpful first step, and additional application guidance would be useful to support consistent application.

7.7 Paragraph 55 does not align with paragraph 51. Where paragraph 51 refers to the industry-based SASB Standards as guidance entities can refer to when identifying significant sustainability-related risks and opportunities, 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 source of guidance. . We recommend paragraph 55 be removed and the industry based SASB Standards are only referred to as reference guidance, which will limit confusion about the application of the source guidance.

7.8 We are also concerned that if the additional sources in paragraph 51 are mandated, this would be in direct contradiction with paragraph 58 that 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 utilising 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…*".

Question 8—Materiality (paragraphs 56–62)

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

8.1 We do not agree that the definition and application of materiality is clear or consistent. Our response deals with the two issues separately, as we believe these are significant areas that require reconsideration.

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Definition of materiality

8.2 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.

8.3 In particular, there is misalignment between the definitions in the scope (paragraph 9) and materiality (paragraph 56). 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*." This is in tension with the definition in paragraph 56 which 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 on the basis of that reporting, which provides information about a specific reporting entity*." Information that affects the assessment of enterprise value is narrower than information that may influence decision making. It may be possible that information may not impact a primary users' assessment of enterprise value but may affect their decision to invest in or lend to that entity. For example, an investor may decide whether to hold shares in a particular entity based on its involvement with certain business models or on the quality of its ESG practices, which may not impact enterprise value and future cash flows. In this case, the information is material, yet out of scope.

8.4 This misalignment is compounded in paragraph 57, which directly follows the definition in paragraph 56. Paragraph 57 changes the language to refer to material information that "*provides insights into factors that could reasonably be expected to influence primary users'* ***assessments of an entity's enterprise value***." This again focuses narrowly on enterprise value, as opposed to the immediately preceding definition of materiality which focuses on wider decisions made by primary users.

8.5 To remove the confusion and misalignment, we recommend that all reference to materiality should focus on information that could reasonably be expected to influence the decisions of primary users, and therefore remove reference to assessment of enterprise value. This will also better align the materiality definition to IAS 1.

8.6 We also recommend alignment with Practice Statement 1 *Management Commentary Exposure Draft* which refers to material information as "factors affecting the entity's ability to create value and generate cash flows". As with the *Management Commentary Exposure Draft*, the IFRS Sustainability Disclosure Standards may refer to enterprise value as long it also notes that investors take other factors into account when making investment decisions.

Application of materiality

8.7 Further guidance may be required to support the consistent application of materiality for sustainability-related financial disclosures. We recommend that the ISSB develops a separate Practice Statement on the application of materiality for sustainability-related financial disclosure given the qualitative and subjective nature of this information and to ensure that the disclosed information is relevant to primary users. This could helpfully include further clarification on interpretation and dealing with disclosure requirements that are not determined material, like that contained in Practice Statement 1 *Management Commentary Exposure Draft*, paragraphs 12.3-12.9. We recommend the ISSB aligns the application of materiality with Practice Statement 1 *Management Commentary Exposure Draft*.

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8.8 As outlined in paragraph 60 entities may decide that information required by an IFRS Sustainability Disclosure Standards is not material, and therefore may choose to omit it. This creates challenges in ascertaining whether the entity has provided a complete and fair presentation of sustainability-related issues and will likely result in inconsistent application of the standard. We therefore recommend that the disclosure requirements include the judgements and assumptions used when assessing materiality in the context of sustainability-related matters.

8.9 IFRS Accounting Standards already require an entity to disclose within the notes to the financial statements the judgements, key assumptions and key sources of estimation uncertainty that might have a material impact on the carrying amounts of assets and liabilities. For example, as noted in the FRC's FRS 102 Factsheet 8 on Climate-related Matters[6], if an entity has concluded that climate-related matters do not cast significant doubt on its ability to continue as a going concern, the significant judgements that were used to reach this conclusion would need to be disclosed. Similar information should be required by this proposed standard and such information should provide primary users and assurance providers with sufficient information to determine whether the entity has provided all material information to form a complete and accurate depiction of their effects on the financial position, and more importantly whether there are any material omissions.

(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?

8.10 As described in our response above, we recommend the definition of materiality should be made more consistent with the definition used in IFRS Conceptual Framework, IAS 1, and Practice Statement *Management Commentary* (Exposure Draft ED/2021/6). The inclusion of enterprise value as a determining factor is, in our opinion, unhelpful. To enable entities to sufficiently capture the breadth of significant sustainability-related risks and opportunities it is exposed to and related material information, we recommend the definition in paragraph 57 be consistently applied across the standard.

8.11 The ISSB might also want to consider providing guidance on materiality (as described in 8(a) above) covering the application of dynamic materiality, for matters cover an extended time period. If management is aware of material uncertainties that could impact future cash flows over the short, medium and long term, these uncertainties should be disclosed, even if they don't have an immediate impact on the financial statements.

(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?

8.12 As described in the responses to the previous two questions, we believe both the Exposure Draft and Illustrative Guidance require amendment to provide support for entities when identifying and assessing the materiality of sustainability-related financial information.

[6] https://www.frc.org.uk/getattachment/63c18c7a-6f3d-42a8-9f6c-ce181c8f287a/Fact-Sheet-8-FRS-102-Climate-FINAL.pdf

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(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?

8.13 We agree that it is appropriate to relieve an entity from disclosing information required by the Exposure Draft if local laws or regulation prohibit it and to require an explanation of the source of the restriction.

Question 9—Frequency of reporting (paragraphs 66–71)

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

9.1 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. The FRC Lab is currently conducting research about the production of ESG data which may provide helpful insight into the challenges associated with disclosing sustainability-related information at the same as the financial statements. We would be happy to share the findings from this project once it has been published later in 2022.

9.2 We recognise that the preparation of sustainability-related information will evolve. The amount of information that an entity may be required to provide to report as proposed in this Exposure Draft could present a significant barrier to the disclosure of high-quality information at the same time as financial statements. Despite this challenge, we believe it is important sustainability-related financial information is disclosed at the same time as financial statements, given its importance in capital allocation decisions We recommend the ISSB consider a phased approach is taken to the implementation of the requirements which would allow entities time to establish robust data management systems, supported by robust internal controls to enable disclosure of sustainability-related financial information at the same time as financial statements.

Question 10—Location of information (paragraphs 72–78)

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

10.1 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 support the robust preparation of data using the same, or similar, governance and controls that are used for financial statements.

(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?

10.2 We are currently unaware of any UK-specific requirements that would prevent information being disclosed by an entity.

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(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?**

10.3 Although cross-referencing information could be helpful in reducing the quantity of information presented in the general-purpose financial report, we recommend that cross-referencing is limited to when specific information would be more effective if located in another component of the general-purpose financial report.

10.4 If a disclosure is considered material by an entity, this information should be presented in the general-purpose financial report alongside other material financial and non-financial information. This information may be accompanied by additional detail outside the general-purpose financial report as long as it conforms with the requirements outlined in paragraphs 76-77. For example, it may be appropriate for entities to provide additional detail about the methodology used to conduct a scenario analysis in a separate report to reduce the amount of information in the general-purpose report as long as it is sufficiently signposted.

10.5 We recommend that paragraphs 75-76 are amended to allow only contextual and supplementary information to be included by signposting, and cross-referencing limited to sections within the general-purpose financial report. This will reduce ambiguity and ensure all material information is disclosed in the general-purpose financial report.

(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?**

10.6 Paragraph 78 is a helpful addition as it clearly states that entities are not required to make separate disclosures on each aspect if it results in duplication. It is our opinion IFRS S1 should only deal with these holistic and common requirements, leaving topic-specific requirements to each of the topic-specific standards. In this regard, the subsequent IFRS Sustainability Disclosure Standards should avoid repeating disclosure requirements that are already covered by IFRS S1. The example given in the Exposure Draft relating to governance disclosures is a good example of where repetition of disclosure requirements between IFRS Sustainability Disclosure Standards is unnecessary.

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)

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

11.1 We welcome the use of concepts based on those contained in IAS 1 and IAS 8 and understand where the concepts have been adapted for the IFRS Sustainability Disclosure Standards. However, the proposed requirements on comparative information go beyond those required in IAS 1 and IAS

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8 and may be practically challenging, especially when entities are expected to provide retrospective restatements for all changes in estimates.

11.2 Sustainability-related data is often reliant on estimation and whilst in theory it makes sense to require 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. The ISSB may consider providing additional insight into what causes information to no longer be comparable and when it would be appropriate for the restatement of comparative information. Entities should also be required to explain why restatement of comparative information is necessary as suggested in paragraph 64(b).

11.3 The ISSB should also consider the impact of the different approaches when connecting the sustainability-related financial disclosures to the financial statements. For example, the different approaches could cause difficulties in explaining the effects of sustainability-related risks and opportunities on the financial statements if the sustainability-related estimates have been restated in the comparative information, but the financial statements have not been restated.

11.4 We recommend that ISSB follows the requirements outlined in IAS 8 where (paragraph 22) requires entities to restate comparatives retrospectively when there is change in accounting policy, but not where accounting estimates change (paragraph 36). Topic-specific standards can then outline specific situations related to specific sustainability-related matters where comparatives are required to be restated due to changes in estimates.

(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?

11.5 Where practicable, entities should disclose revised metrics in its comparatives if better measures are identified. However, as measures and methodologies are still developing, and internal data structures are evolving, it may not be possible to revise previously stated information. We therefore agree with the proposals that entities should provide revised metrics in its comparatives, or an explanation as to why it is impractical to adjust comparative information which will be crucial for users to understand.

(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?

11.6 We broadly 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.

11.7 However, it is important to note that in some cases IFRS Accounting Standards do not permit assumptions to be aligned with data used for sustainability-related disclosure. For example, IAS 36 requires the use of a base case estimate, whereas sustainability standards may require disclosure of various scenarios which are likely to be different from best estimates in many cases. This may be evident in forward-looking analysis where a best-case estimate may be a 2.4°C warming pathway which is used in the financial statements, which would be different to additional pathways based on 1.5°C and 3°C warming disclosed by the entity in the narrative report. Given this, paragraph 80

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could be amended to "*...to the extent possible and where required by applicable accounting standards*".

11.8 Additionally, this proposed standard should explicitly acknowledge that sustainability-related financial reporting is based on risks and opportunities which may not qualify for recognition or require disclosure in the financial statements, due to different requirements of the respective standards.

11.9 We also suggest that this proposed standard include a requirement for entities to clearly explain where assumptions in sustainability-related financial reporting differ from those required to be used in the financial statements, and why. This is something that investors are actively asking for, especially in the context of climate change, and would help to link the narrative reporting with the financial statements.

Question 12—Statement of compliance (paragraphs 91-92)

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

12.1 We agree with the concept of a statement of compliance. Entities that comply with all the requirements should include an explicit and unqualified statement, especially when they are in the process of applying new requirements for the first time. However, we also believe that there may be a case for a 'comply or explain' type of statement to address where entities are unable to, or choose not to, disclose information for all disclosure obligations. We believe this would also mitigate the risk that such a statement is seen as a check-box approach which may compromise the quality usefulness of the statement. Should the ISSB decide to develop this approach the Financial Conduct Authority's Listing Rule (FCA 2021/61) on climate-related financial information (paragraph 14.3.27) could be used as a template, especially when a phased approach is taken. This Rule requires entities to provide the reasons for not including specific disclosures, and the steps it is taking to, or plans to take, to be able to make these disclosures in the future and the timelines expected to make those disclosures.

12.2 Paragraph 91 requires entities to comply with all the **relevant requirements**, this is not aligned to the statement on page 6 which it states that "*to be able to assert compliance with IFRS Sustainability Disclosure Standards, an entity must meet **all the requirements** of these Standards*". Clarity is needed on what extent the requirements need to be applied for entities to provide a statement of compliance.

12.3 It is also unrealistic to expect entities to be able to respond to all requirements for all sustainability-related risks and opportunities within the first year of reporting. Over the last 5 years, entities have taken a phased approach to implementing TCFD reporting requirements, especially given the more challenging aspects (scenario analysis) and the need to embed new governance and risks management processes. Applying the same logic to this Exposure Draft, entities will benefit from the flexibility offered by a phased approach, especially given the broad amount of sustainability topics that could be addressed, the lack of data and data systems maturity, the need to develop internal controls to support the reporting requirements and the associated cost of compliance. We recommend an additional paragraph should be added to address how entities should provide a statement of compliance when a phased approach is taken.

12.4 Paragraph 60 states that entities are not required to comply with all the requirements in the IFRS Sustainability Disclosure Standards if the information resulting from that disclosure, is not material. Although paragraph BC84 in the Basis for Conclusions explains that the application of the statement

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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. 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 recommend that paragraph 91 is amended to include reference to paragraph 60. Our response to Question 1(d) also suggests additional requirements for disclosure of the basis of preparation, including the judgements and assumptions used when assessing materiality, to enable primary users, assurance providers and regulators to determine whether there are any material omissions and whether the entity has fully complied with the proposed standard.

Question 13—Effective date (Appendix B)

(a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? 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.

13.1 At present we do not have an opinion on the effective date. To balance the urgent need for sustainability-related financial disclosure with sufficient time for entities to prepare their processes, the effective date for the standard should be at least one year after when the final standard is issued. However, we recognise that a longer period may be necessary, for all but the largest, best resourced and most sophisticated reporters. Although built on existing voluntary disclosure frameworks, the proposed requirements in this Exposure Draft represent a significant step change in reporting expectations. The potential scale of changes to existing reporting, even for entities that already voluntarily prepare sustainability-related disclosures, is significant and reporting entities should be provided with sufficient time to prepare to ensure they are able to issue high-quality reporting that meets the needs of users.

13.2 As described in our response to Question 12, the implementation of the TCFD recommendations by entities has often been done in a phased approach, and it is reasonable to assume that reporting entities will want to take a similar approach when applying the IFRS Sustainability Disclosure Standards. We recommend that the ISSB considers whether a phased approach is appropriate, and how this should be reflected in the effective date.

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

13.4 It is reasonable to provide a relief for entities when disclosing comparative data in the first year of application, especially for entities that are new to this type of reporting. As we have already stated, the proposed disclosure obligations in this Exposure Draft are substantial and there are some requirements that will be challenging and costly for reporting entities to comply with in the first year of reporting. For example, the proposed requirement in paragraph 23 to disclose a qualitative and quantitative analysis of resilience for all significant sustainability-related risks and opportunities is highly complex, and therefore entities could be relieved from disclosing this information in the first year. As noted in our response to Question 13a above, a phased approach may be appropriate which would remove the need for relief in the first year.

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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?

14.1 The significant amount of information that would be required by entities to meet the disclosure obligations within this Exposure Draft could limit the ability of the IFRS Sustainability Disclosure Standards to be used as "building blocks" for jurisdictional requirements. As the foundation of these building blocks, the IFRS Sustainability Disclosure Standards should present the minimum viable product which can be scalable to address different sized entities and different jurisdictional contexts.

14.2 The expectation that entities will provide information in accordance with all disclosure requirements for all significant sustainability-related risks and opportunities immediately is substantial. Within the UK, we expect this will be challenging even for entities that already voluntarily disclosed sustainability-related information.

14.3 We recommend that the ISSB 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. This Exposure Draft already includes some examples of this type of language including in the governance section. The requirement in paragraph 13(a) allows some flexibility when identifying who has oversight of sustainability-related matters. Where some smaller entities may only have resources for a single individual to be assigned to governing sustainability-related matters, the wording of this requirement would allow for disclosure that supports the context of the entity. Similar language and structure to the proposed requirements would enable a scalable approach.

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)?

15.1 As the standard setter for digital taxonomies in the UK, the FRC welcomes the digitisation of reporting by the ISSB. The UK has already established digital taxonomies for TCFD, carbon and energy reporting (SECR), and gender pay gap reporting. Digital delivers significant benefits to business and the consumers of information they report, and we believe company experience and experimentation with these voluntary digital standards might provide useful insight into the broader questions posed by digitisation of the ISSB requirements.

15.2 Our experience is that the provision of a digital taxonomy is not enough to ensure the efficient and effective use of digital reporting. Rather a wider consideration of the full digital ecosystem for reporting is required, this means from producers through standards to the market and regulators. Whilst we acknowledge that this is wider than the defined role of the ISSB we think that the ISSB (in consort with others) has an important role to play in facilitating and convening discussions and actions across the digital reporting ecosystem.

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15.3 We welcome the opportunity to respond to the request for feedback on the staff draft of the IFRS Sustainability Disclosure Taxonomy and would be happy to provide input into the development of the digital taxonomy.

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?**

16.1 We have not carried out a cost benefit analysis on the proposals set out in the Exposure Drafts. Through our stakeholder engagement activities, we are able to highlight some areas where costs are anticipated. In particular, stakeholders have noted there will be a need to implement or strengthen reporting systems and internal controls for the collection and production of relevant data. This might include the consolidation of information at group level, which would require the implementation of new reporting structures that are consistent across the group and the added expense associated with the external assurance of data. As mentioned in previous questions, the FRC Lab is currently researching how and why companies collect ESG data and we would be happy to share insights from this project (and our wider work) when completed.

16.2 When conducting a cost-benefit analysis, we recommend the ISSB understand whether the costs of implementation is proportional to the size of the reporting entity. The proposed disclosure requirements are extensive and represent a step-change, especially for smaller entities who have not prepared similar disclosures in the past and therefore will need to implement new systems. Conversely, the cost for larger entities is likely to be higher given their complex value and supply chains and the need to collect data from third-party sources. When completing a cost-benefit analysis it is essential to assess the proportionality of anticipated costs.

16.3 Whilst we acknowledge there will be costs associated with the implementation of the proposed requirements, we welcome the ISSB's ambition and believe that the long-term benefits will outweigh the costs. To alleviate some of the costs we recommend the ISSB explore a phased approach to the implementation of the proposed requirements. As noted in our responses to Questions 12 and 13, a phased approach will allow preparers time to establish new systems and internal controls that are essential to ensuring the resulting disclosure is of high-quality and will allow the cost to be spread out over a longer time period.

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

16.4 Given the high-level of uncertainty for some sustainability-related matters, it is likely that ongoing costs will be incurred where methods of calculation are improved and where 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.

16.5 Ongoing costs may be incurred if jurisdictions apply a different approach to the implementation of sustainability-related disclosure requirements or may choose to 'top up' the IFRS Sustainability Disclosure Requirements with jurisdiction-specific requirements. Entities who report and file across multiple jurisdictions are likely to incur ongoing costs to ensure their disclosure is compliant for all disclosure requirements, especially when they differ. Whilst this is beyond the control of the ISSB,

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we encourage the ISSB to work closely with national standard setters to minimise divergence between jurisdictions.

Question 17—Other comments

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

Mechanism for collaborative and responsive standard setting

17.1 Given the highly complex nature of sustainability and sustainability-related financial disclosure, the ISSB may wish to consider a mechanism that would allow them to test the standards and develop solutions to some of the challenges in collaboration with market participants (including preparers and users). For example, in the UK the FRC Lab conducts projects and provides an environment where market participants work collaboratively to develop pragmatic solutions and support innovation in reporting.

17.2 A similar mechanism could be explored at international level which would allow the ISSB to effectively respond to changing market needs and to road-test new proposed standards before they are published. This hub could also focus on gathering evidence of current and best practice to inspire standards that are practical, innovative, and respond to demands for high-quality reporting.

Definition of enterprise value

17.3 In our response to Question 1 and 2, we have already identified the terms 'significant' and 'sustainability' which need clearer definitions, and also 'sustainability-related financial information' which requires further clarity. There is also inconsistency in the definitions used for 'enterprise value'. In paragraph 5, enterprise value is defined as a reflection of the expectations of the amount, timing and certainty of future cash flows over the short, medium and long term and the value of those cash flows. This is somewhat different to the definition provided in Appendix A which defines enterprise value as the total value of an entity. As a concept that is integral in the assessment of materiality the definitions should be consistent throughout the standard. The ISSB may also consider aligning the term 'enterprise value' with the definition in Practice Statement 1 *Management Commentary Exposure Draft* where enterprise value is referred to as "*an entity's ability to create or preserve value for itself and hence for its investors and creditors… An entity's activities create value if they enhance or preserve the present value of the entity's future cash flows. Conversely, an entity's activities erode value if they reduce the net present value of the entity's future cash flows*" (paragraph 3.11-3.13).

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