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Submitted via website

Brussels, 28 July 2022

Subject: Accountancy Europe's response to Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Dear Mr. Faber,

Accountancy Europe is pleased to respond to the International Sustainability Standards Board (ISSB or the Board) IFRS S1 Exposure Draft: [General Requirements for Disclosure of Sustainability-related Financial Information](#) (IFRS S1 ED) as well as [IFRS S2 Exposure Draft: Climate-related Disclosures](#) (IFRS S2 ED). As an important means to the end objective of a more sustainable economy, the European accountancy profession is committed to advancing the development of high-quality, transparent, comparable, and reliable sustainability reporting. Transforming companies' business models towards more sustainable ones is a journey, and reporting has an important role to play.

Accountancy Europe congratulates the ISSB and the IFRS Foundation on their work in developing these proposals. We [have long believed](#) that the IFRS Foundation had an important role to play in [interconnected standard setting for corporate reporting](#).

We support international sustainability standards that address both investors and broader stakeholders' needs for sustainability related information. To this end, we applaud [the collaboration agreement with the Global Reporting Initiative](#).

Hereinafter we provide some main areas of feedback and suggestions for the Board's consideration regarding the proposals in these Exposure Drafts (EDs).

Structure and content

We find the architecture of the standards, which is based on the [recommendations of the Task Force on Climate-Related Financial Disclosures](#) (TCFD), familiar and useful. In addition, the proposals are

concise and easy to follow, whilst overall meeting the objective of providing investors and capital markets with useful sustainability-related information that will help them assess enterprise value.

Nonetheless, we strongly suggest the ISSB clarifies the guidance provided in IFRS S1 ED on identifying sustainability-related risks and opportunities and the related disclosures in cases where there are no other topic-specific ISSB standards. Specifically, we are concerned that, as currently drafted, the guidance may be read as requiring companies to simultaneously comply with these additional resources, i.e., SASB standards, CDSB framework, or other standards to claim compliance with ISSB standards. This creates unrealistic expectations for preparers to look at all these materials, and would potentially generate reporting overload, as well as raise discussions with auditors and enforcers in determining 'sustainability-related risks and opportunities'.

Materiality

We welcome the standards' focus on 'enterprise value' and appreciate that the ISSB integrates it as a fundamental concept in the materiality assessment, which we believe covers to a large extent the double materiality perspective.

However, we think that the term 'significant' to determine risks and opportunities creates confusion with the materiality concept and may raise practical issues. We suggest the ISSB provides guidance and clarify the differences between 'significant' and 'material'.

In addition, we suggest the ISSB provides further guidance and examples on how to determine materiality. This would include guidance on the processes to be carried out to assess material sustainability-related financial information including the outcome of this assessment as well as defining time horizons.

Connectivity and collaboration with the IASB

Accountancy Europe welcomes the considerations on connectivity in these EDs. However, this topic should be addressed both by the ISSB and the IASB, which should determine their respective scope of works and boundaries in addressing interconnected topics.

We also suggest having a framework for connected reporting to facilitate connectivity and underpin both sets of standards. This framework could build on the principles of the Integrated Reporting Framework (soon to become part of the IFRS Foundation structures via the Value Reporting Foundation consolidation, and the Management Commentary (an ongoing project by the IASB).

Collaboration with regional initiatives

We support the ISSB's collaboration with jurisdictions via its [jurisdictional working group and future Sustainability Standards Advisory Forum](#). This will help build a global baseline of sustainability standards that is flexible, does not conflict with jurisdictions and would ultimately be easy to adoption.

European Sustainability Reporting Standards (ESRS), developed by EFRAG with a double materiality lens to serve broad stakeholders, will be mandated in the European Union. Whilst ESRS address a broader scope, we believe that there are great commonalities with the ISSB's standards. Therefore, both initiatives should be aligned to the greatest extent to facilitate applicability of ISSB standards. Accountancy Europe will also contribute to the EFRAG Project Task Force on ESRS's consultations on the ESRS Exposure Drafts.

In case this alignment does not happen, it will unnecessarily impair reporting outputs' convergence by ending up in information overload and ineffective reporting which does not drive real change for companies, is not in the public interest and nor does it improve transparency.

Definitions and more guidance

Accountancy Europe suggests the ISSB defines all relevant terminology (e.g., 'low-probability and high-impact outcomes', 'risks', 'opportunities', 'climate related' and 'vulnerable') and provides the necessary guidance to help with the operationalisation of these standards. Particularly, we suggest the ISSB defines 'sustainability' as part of IFRS S1 ED in order to help companies better determine the scope and boundaries of their assessments for sustainability risks and opportunities.

Reporting boundaries

Turning to IFRS S2 ED, we agree that reporting greenhouse gas (GHG) emissions should be aligned with the GHG Protocol requirements, but do not support applying the reporting boundaries from the GHG Protocol: none of the three boundary-definitions in the GHG Protocol are fully aligned with the financial boundaries and this is problematic for many reasons that we detail in the consultation response. We understand that the GHG Protocol is in the process of being revised to tackle this issue. We believe the ISSB should coordinate with the GHG Protocol on this revision exercise and find a way to bridge requirements' non-alignment in the short term.

We believe that the boundaries should be financial as stated in IFRS S1 paragraph 37, and that this principle should apply for all sustainability-related reporting requirements, including GHG emissions.

* * *

We kindly refer to Annex 1 of this letter for our detailed responses to the IFRS S1 ED as well as [this link](#) for our detailed feedback to the IFRS S2 ED.

Please do not hesitate to contact Jona Basha (jona@accountancyeurope.eu) in case of any questions or remarks.

Sincerely,



Myles Thompson
President



Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 50 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond. Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX 1: ISSB ED – QUESTIONS FOR RESPONDENTS

We are pleased to provide below our detailed responses to the questions.

Question 1 – Overall approach

The Exposure Draft sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it.

Proposals in the Exposure Draft would require an entity to disclose material information about all of the all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value.

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?

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

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?

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) Accountancy Europe congratulates the ISSB and the IFRS Foundation on their work in developing these timely proposals. We [have long believed](#)¹ that the IFRS Foundation had an important role to play in [interconnected standard setting for corporate reporting](#).² We understand the ISSB's approach and objective focuses in providing investors with useful information to better assess enterprise value and welcome ISSB's efforts towards creating a comprehensive investor-focused global baseline for sustainability disclosures.
- (2) Accountancy Europe have long called for and continue to support international sustainability standards that address both investors and broader stakeholders' needs for sustainability related information. To this end, we applaud [the collaboration agreement with the Global Reporting Initiative](#) (GRI)³ aiming to ensure interconnectedness between their standards. If done well, together the ISSB and the GRI's Global Sustainability Standards Board (GSSB) could

¹ Accountancy Europe (2017), *Enhancing the coordination of non-financial information initiatives & frameworks*, see: <https://www.accountancyeurope.eu/publications/call-for-action-nfi-frameworks/>

² Accountancy Europe (2019), *Interconnected standard setting for corporate reporting*, see:

<https://www.accountancyeurope.eu/publications/interconnected-standard-setting-for-corporate-reporting/>

³ IFRS News, *IFRS Foundation and GRI to align capital market and multi-stakeholder standards to create an interconnected approach for sustainability disclosures*, see: <https://www.ifrs.org/news-and-events/news/2022/03/ifrs-foundation-signs-agreement-with-gri/>

collaboratively provide international sustainability disclosure that meet the information needs of investors and broader stakeholders.

- (3) We welcome the definition and detailed explanation of 'enterprise value' in the ED, which we believe covers the double materiality⁴ perspective to a large extent. These are significant improvements from both the [respective Technical Readiness Working Group Prototype](#)⁵ (Prototype) and the [Management Commentary Exposure Draft](#)⁶. We appreciate that the ISSB integrates 'enterprise value' as a fundamental concept in the materiality assessment in paragraph 5 of the ED, as well as provides a more straightforward definition in Appendix A.
- (4) In addition, we welcome the ISSB explanations of the interrelation of impacts and dependencies in sustainability topics and focus on enterprise value, which requires preparers to take a holistic, longer-term approach in assessing these matters (see paragraph 16). We believe the ED makes it clear that an entity's impacts on people, the environment and the economy can impact enterprise value.
- (5) We agree that the ED clearly requires entities to identify and disclose material information about all significant sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific standard.
- (6) However, this may be challenging in practice due to the lack of a definition for 'sustainability' in the ED (see paragraph 92) as well as the confusing guidance in determining sustainability risks and opportunities (see paragraphs 13 – 17 and 58 – 62).
- (7) We welcome this ED and find the proposals concise and simple, whilst overall meeting the objective of providing investors and capital markets with useful sustainability-related information that will help them assess enterprise value.
- (8) We appreciate that the architecture of the ED builds on the principles of the [recommendations of the Task Force on Climate-Related Financial Disclosures](#)⁷ (TCFD), [IAS 1](#)⁸ and [IAS 8](#)⁹. The structure is familiar and helpful to stakeholders in the financial reporting community who have used the International Accounting Standard Board's (IASB) standards as well as stakeholders that have voluntarily adopted the TCFD's proposals.
- (9) We understand that the future standard would serve as an overarching sustainability-related disclosure requirement standard, whereby preparers would have to apply judgement to disclose material sustainability risks and opportunities that impact enterprise value, regardless of whether there is a topic-specific ISSB standard. We therefore think that it is clear when there would be a

⁴ Please refer to paragraph 25 of the *Proposal for a Directive of the European Parliament and the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting*, see: <https://eur-lex.europa.eu/legalcontent/EN/TXT/?uri=CELEX:52021PC0189>

⁵ Technical Readiness Working Group, *General Requirements for Disclosure of Sustainability-related Financial Information Prototype*, see: <https://www.ifrs.org/content/dam/ifrs/groups/trwg/trwg-general-requirements-prototype.pdf>

⁶ Management Commentary project, see: <https://www.ifrs.org/projects/work-plan/management-commentary/#published-documents>

⁷ TCFD (2017), *Recommendations of the Task Force on Climate-related Financial Disclosures*, see: <https://www.fsb-tcfd.org/recommendations/>

⁸ International Accounting Standard 1 *Presentation of Financials Statements*, see: <https://www.ifrs.org/issued-standards/list-of-standards/ias-1-presentation-of-financial-statements/>

⁹ International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, see: <https://www.ifrs.org/issued-standards/list-of-standards/ias-8-accounting-policies-changes-in-accounting-estimates-and-errors/>

topic-specific standard such as the [draft] IFRS S2 Climate-related Disclosures (S2), preparers would refer to that for disclosing the core contents.

- (10) However, we encourage the ISSB to clarify how to deal with and which ISSB standard to apply for sustainability topics that may result from a specific topic for which there may already be an ISSB topical standard. For example, a preparer may determine that there are sustainability risks and opportunities that stem from climate change, e.g., water stress, food scarcity, loss of workforce, migration. In such case, it would be useful for preparers to clearly know which standard to apply for these topics: the IFRS S1 (because there are no IFRS sustainability standards on these topics) or the IFRS S2 (because they stem from climate change).
- (11) In terms of audit, the ISSB could improve and facilitate assurance by defining critical terms (see paragraphs 92), providing more guidance on materiality (see paragraphs 65 – 69) as well as improving the requirements on sustainability-related risks and opportunities (see paragraphs 13 – 17).
- (12) In terms of enforcement, we point out that it will depend on if/how the ISSB standards will be endorsed in every jurisdiction. However, the qualitative and subjective nature of disclosures could prove challenging to enforce.

Question 2—Objective (paragraphs 1-7)

The Exposure Draft sets out proposed requirements for entities to disclose sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities on an entity's enterprise value.

Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information in an entity's financial statements and sustainability-related financial information.

Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Sustainability-related financial information should, therefore, include information about the entity's governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements. Sustainability-related financial information also depicts the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy, or about the entity's development of knowledge-based assets.

The Exposure Draft focuses on information about significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity's enterprise value.

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

- (13) Accountancy Europe understands that the Board’s objective is to help preparers focus on and assess ‘significant’ risks and opportunities that may affect enterprise value in the short-, medium- and long-term, rather than all possible risks and opportunities. This should in turn avoid information overload. However, we think that this is not clear in the ED and creates confusion with the materiality concept and raises practical challenges. In addition, determining what is ‘significant’ and what is ‘material’ could result in differences of opinion between preparers, auditor and enforcers.
- (14) Therefore, we suggest the ISSB provides guidance and clarifies the differences between ‘significant’ and ‘material’ information. For example, ISSB could clarify that ‘significant’ is a subset of ‘material’ and that it refers to the preparers’ perspective, whilst ‘material’ refers to the users’ perspective of information.
- (15) In addition, the ISSB should be as specific as possible in determining the risks and opportunities that impact enterprise value, based on their extensive users’ and even broader stakeholders’ outreach. The ISSB could cover most common needs for information, leaving preparers to make materiality judgements about disclosing additional information only at the periphery. For example, the ISSB could include in its topic-standards a list of respective risks and opportunities which users deem as useful information. Preparers could then be required to apply materiality judgement in assessing these risks and opportunities. Following our comment in paragraph 14 above, the resulting risks and opportunities would be what are ‘significant’ for preparers.
- (16) We support the explanation and definition of ‘sustainability-related financial information’ in the ED and Appendix A respectively. We are pleased with the detail provided in paragraph 6 of the ED, and particularly welcome item (c) of this paragraph as it establishes a link between entities’ enterprise value and their impacts on people, the planet and the economy.
- (17) On another note, we noticed that this ED does not provide a definition for ‘risks’ or ‘opportunities’. Whilst we appreciate that the ISSB’s intent was not to constrain its future work, we believe that definitions are important as they guide and limit the scope.

Question 3—Scope (paragraphs 8-10)

Proposals in the Exposure Draft would apply to the preparation and disclosure of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Sustainability-related risks and opportunities that cannot reasonably be expected to affect users’ assessments of the entity’s enterprise value are outside the scope of sustainability-related financial disclosures.

The Exposure Draft proposals were developed to be applied by entities preparing their general purpose financial statements with any jurisdiction’s GAAP (so with IFRS Accounting Standards or other GAAP).

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

- (18) Accountancy Europe agrees that the proposals in the ED could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction’s GAAP. This could help the global uptake of ISSB standards whilst meeting its objective of providing investors with the overall necessary (financial and sustainability-related) information to assess enterprise value.

- (19) We reiterate our comments in paragraph 2 of our response to strongly suggest the ISSB collaborates closely with the GSSB to create a global baseline that addresses investors' and broader stakeholders' needs. Environmental, social and governance (ESG) issues are dynamic: an impact that was previously not considered as impacting enterprise value may soon become a dependency considering the rapid changes in this field.
- (20) On another note, we would appreciate more guidance on what 'reasonably affect enterprise value' as per paragraph 9 of the ED means and how to operationalise it.

Question 4—Core content (paragraphs 11-35)

The Exposure Draft includes proposals that entities disclose information that enables primary users to assess enterprise value. The information required would represent core aspects of the way in which an entity operates.

This approach reflects stakeholder feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting, and builds upon the well established work of the TCFD.

Governance

Exposure Draft proposes that the objective of sustainability-related financial disclosures on governance would be:

to enable the primary users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities.

Strategy

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on strategy would be:

to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.

Risk management

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on risk management would be:

to enable the users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall also enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.

Metrics and targets

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on metrics and targets would be:

to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.

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

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

Governance

- (21) Accountancy Europe supports the objective set out in paragraph 12 of the ED for the 'governance' element. We also believe that the disclosure objectives in paragraph 13 of the ED help meet the stated objective.
- (22) However, 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: under all circumstances or only when required by investors or certain circumstances.

Strategy

- (23) Accountancy Europe supports the objective set out in paragraph 14 of the ED regarding the 'strategy' element. Overall, we welcome the disclosure requirements in paragraph 15 as well as the further requirements in paragraph 16 – 24 of the ED. Below we provide some feedback for the ISSB's consideration in improving the usefulness of some of these disclosure requirements.
- (24) Regarding paragraph 15(a), we note that this disclosure requirement is further enriched by the rest of the disclosure requirements in this paragraph and the respective requirements in paragraph 21 – 24 of the ED. Therefore, ISSB could emphasise the need for consistency between these requirements.
- (25) We found paragraph 22 of the ED, which further elaborates on the disclosure requirement in paragraph 15(d) of the ED, confusing and difficult to implement, audit and enforce for the reasons in paragraphs 26 - 33. We suggest the ISSB clarifies these issues as well as supports these requirements with further guidance.
- (26) First, we invite the ISSB to provide guidance on what can be considered short-, medium- and long-term. Whilst we agree with not defining these timeframes as companies have different assessments for them, guidance on how to determine them would be helpful.
- (27) Second, this paragraph assumes that companies have a detailed determination of the short-, medium- and long-term and are able to (even willing to) produce reliable quantitative information for each of these timeframes.
- (28) In addition, we are sceptical whether providing quantitative predictions on future impacts on the financial position, performance and cash flow in isolation from wider business risks is useful information. Furthermore, producing such quantitative predictions is speculative, thus not providing useful information, as well as difficult (if possible) to audit.
- (29) Instead, the ISSB could consider sensitivity analysis, which may provide more useful information as it is less likely to mislead, as well as it is easier to prepare. We invite the ISSB to consider companies' journey in sustainability when finalising these provisions as well in order to avoid them being seen as a disclosure exercise. Information on companies' progress in addressing such issues is useful information and will improve transparency.
- (30) Third, disclosing the effects of significant sustainability-risks and opportunities on its financial position, financial performance and cash flows for the reporting period as per paragraph 22(a) will duplicate information that should already be in financial statements. This would also be the case for the disclosure requirements in 22(c), where such information should at least be disclosed in the 'commitments and contingencies' notes of the financial statements.

- (31) On these cases, such risks and opportunities should have already been considered in the judgements, assessments and estimates of the elements of financial statements. They should be reflected in the amounts disclosed in the primary financial statements and/or in the disclosures provided in the notes to the financial statements. Therefore, ISSB could instead allow cross-referencing for these disclosures.
- (32) To this end, we strongly suggest the ISSB and the International Accounting Standards Board (IASB) better collaborate in areas where there is connectivity as well as clearly determine the respective boundaries in their work (see paragraphs 95 - 96 for more).
- (33) Lastly, we find the disclosure requirements in this paragraph overly focuses on the financial statements and miss a link with enterprise value, which is defined more broadly than 'current performance'. To this end, we encourage the ISSB to better align these requirements with their enterprise value approach. For example, the ISSB could also address internally generated intangibles.
- (34) On another note, we greatly welcome the requirement in paragraph 17 of the ED as it clearly evidences the interdependencies between an entity's impacts to people, planet and the environment and its dependencies on them.

Risk management

- (35) Accountancy Europe supports the objective set out in paragraph 25 of the ED regarding the 'risk management' element. We also believe that the disclosure requirements stated under paragraph 26 of the ED broadly meet the objective previously described. In the following paragraphs we provide some comments for the ISSB's consideration on these disclosure requirements.
- (36) We reiterate the comment in paragraph 17 of our comment letter: defining 'risks' and 'opportunities' would also help preparers meet many of the disclosure requirements in paragraph 26 as it would help them focus on which processes to disclose.
- (37) In addition, we suggest the ISSB to further specify disclosure requirement 26(d) of the ED and include a requirement to '*disclose the decisions taken to mitigate, transfer, accept or control the sustainability-related risks that have been identified*'. This would align with the guidance in the TCFD recommendations for disclosing the organisation's processes for managing sustainability risks. In addition, these are also well accepted risk management strategies both in practice and literature.

Metrics and targets

- (38) Accountancy Europe agrees with the objective set out in paragraph 27 of the ED concerning the 'metrics and targets' element. We also overall support the disclosure requirements that follow said objective (paragraphs 30-35 of the ED).
- (39) However, we suggest the ISSB reconsiders the requirements in paragraphs 51 – 55 of the ED as they cause confusion as currently drafted. Please refer to our comments in paragraphs 58 – 62 for suggestions on improvements.
- (40) In addition, we suggest the ISSB includes a general guidance on how to apply the industry-based disclosure requirements, which are (to be) included in the appendixes of the IFRS sustainability

disclosure standards. This could include illustrative guidance on cases where an entity operates in different sectors.

- (41) Particularly, we suggest the ISSB encourages entities to use disclosure requirements developed from standard-setters whose standards are mandated or more commonly applied. This could include ESRS, developed by the European Financial Advisory Group (EFRAG), which will be mandated in the European Union (EU).¹⁰

Question 5—Reporting entity

The Exposure Draft proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements.

The Exposure Draft proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Such risks and opportunities relate to activities, interactions and relationships and use of resources along its value chain such as:

- *its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain;*
- *the assets it controls (such as a production facility that relies on scarce water resources);*
- *investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and*
- *sources of finance.*

The Exposure Draft also proposes that an entity disclose the financial statements to which sustainability-related financial disclosures relate.

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?

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?

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

- (42) Accountancy Europe agrees that sustainability-related financial information be provided for the same reporting entity as the financial statements. We believe this will enable a more comprehensive understanding of the enterprise value of the reporting entity, as well as will enable connectivity between the two reports.
- (43) We also welcome the ISSB's requirement to look at sustainability risks and opportunities along the value chain. Whilst it may be challenging in the beginning to collect such information from the stakeholders in the value chain, we believe it is necessary.
- (44) Understanding the risks and opportunities along the value chain will enable the entity to manage them and as a result manage how it creates value in the short-, medium- and long-term. Entities do not operate in silos. Instead, they are part of an ecosystem that is interconnected whereby risks

¹⁰ Accountancy Europe has also contributed to the EFRAG Project Task Force on ESRS consultations on ESRS Exposure Drafts.

and opportunities of stakeholders, particularly those in the value chain closer to the entity, may eventually become risks and opportunities of the entity.

- (45) Furthermore, requesting such information from the stakeholders in the value chain may catalyse sustainability/integrated thinking with them. It could be the case that a participant in the value chain has not started its sustainability reporting journey or does not have a need to do so yet.
- (46) However, we suggest ISSB provides more guidance on paragraph 40 of the ED in order to avoid ending up in boilerplate information. This guidance could address:
- a. how to collect such information
 - b. what data or estimations to use when collecting this information is impracticable, especially in the beginning when stakeholders are still getting used to the standards
 - c. how far along the value chain to look for activities, interactions, relationships and the use of resources
 - d. how to apply materiality in this regards.
- (47) Lastly, we agree with the proposed requirement for identifying the related financial statements. As noted in paragraph 42, this will enable a comprehensive understanding of enterprise value and enable connectivity.
- (48) Nonetheless, we think paragraph 41 of the ED is causing confusion on what the ‘reporting entity’ is as it may be suggesting that other IFRS Sustainability Disclosure Standards will better determine this. The ISSB should always use the same description of the ‘reporting entity’ in all its standards. Therefore, we suggest the ISSB improves the wording in paragraph 41 of the ED in order not to suggest otherwise.

Question 6—Connected information (paragraphs 42-44)

The Exposure Draft proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between (a) various sustainability-related risks and opportunities; (b) between the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets; and (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements.

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

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?

- (49) Accountancy Europe welcomes the requirements for connectivity in the ED. We find it clear that information disclosed should enable an understanding of the connections and trade-offs between:
- a. various sustainability-related risks and opportunities
 - b. the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets and

c. sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements.

- (50) We also agree with the requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting. Environmental, social and governance (ESG) issues impact value creation in the short-, medium- and long-term. Therefore, decisions the entity makes on these issues could/should have already been reflected in assumptions and estimations in financial statements. Understanding these connections is useful information.
- (51) Whilst we appreciate the ISSB's efforts in addressing connectivity in paragraph 42 – 44 of the ED, we think this effort should be shared with the IASB as well. Many of the guidance in paragraph 43 and examples in paragraph 44 of the ED link directly to the financial statements. It would be natural to expect that such information should already be disclosed in the financial statements. The ISSB could then allow cross-referencing, and focus on addressing connectivity for the rest of the elements in paragraph 42 of the ED.
- (52) The ISSB and IASB could work together to consider extending this link and allow cross-referencing of sustainability information in the financial statements. For this, it is important for the ISSB to understand from the IASB what such information could be, in order to address it in a way that meets the scopes of both Boards.
- (53) However, we point out that addressing connectivity either or both from the ISSB and IASB will be challenging as long as there is no Connected Framework for Corporate Reporting (see paragraphs 97 – 99 below).

Question 7—Fair presentation (paragraphs 45-55)

The Exposure Draft proposes that a complete set of sustainability-related financial disclosures would be required to present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation would require the faithful representation of sustainability-related risks and opportunities in accordance with the proposed principles set out in the Exposure Draft. Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation.

To identify significant sustainability-related risks and opportunities, an entity would apply IFRS Sustainability Disclosure Standards. In addition to IFRS Sustainability Disclosure Standards to identify sustainability-related risks and opportunities, the entity shall consider the disclosure topics in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

To identify disclosures, including metrics, that are likely to be helpful in assessing how sustainability-related risks and opportunities to which it is exposed could affect its enterprise value, an entity would apply the relevant IFRS Sustainability Disclosure Standards. In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk and opportunity, an entity shall use its judgement in identifying disclosures that (a) are relevant to the decision-making needs of users of general purpose financial reporting; (b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and (c) are

neutral. In making that judgement, entities would consider the same sources identified in the preceding paragraph, to the extent that they do not conflict with an IFRS Sustainability Disclosure Standard.

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

(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.

- (54) Accountancy Europe welcomes the Board's proposals on fair presentation as they aim to ensure that the sustainability-related financial information disclosed is relevant, faithfully represented, comparable, verifiable, timely and understandable.
- (55) We support paragraphs 48 and 49 on aggregation and disaggregation. However, we suggest the ISSB to consider the IASB's good work on this area as part of the [General Presentation and Disclosures exposure draft](#),¹¹ part of its [Primary Financial Statements project](#).¹²
- (56) For example, the ISSB could specify that "*these principles shall not override specific aggregation or disaggregation requirements in ISSB standards*". This general caveat on the principles of aggregation and disaggregation would enable a link with similar requirements in other topic specific ISSB standards.
- (57) We appreciate the Board's guidance on identifying sustainability-related risks and opportunities and related disclosures as per paragraphs 50 – 55 of the ED as they provide useful references in cases where there are no other topic-specific ISSB standards. These may help save costs as many companies have already voluntarily used the SASB standards or CDSB framework in their reports.
- (58) However, we suggest the ISSB reconsiders the wording in paragraphs 51, 54 and 55 of the ED because, as currently worded, it may cause confusion. It may be read as requiring companies to simultaneously comply with the SASB standards, CDSB framework, or other standards to claim compliance with ISSB standards. When reading paragraph BC68 of the Basis for Conclusions we understand this is not the intention, however, in the standard itself it is not that clear.
- (59) In addition, considering there is no definition for 'sustainability', these requirements may be interpreted as an expectation for preparers to look at all these materials in determining 'sustainability-related risks and opportunities'. This could raise discussions amongst preparers, users, auditors and enforcers on what 'sustainability-related risks and opportunities' should be disclosed.
- (60) Therefore, we suggest the ISSB uses a less prescriptive language in these paragraphs, e.g., replace 'shall' with 'may consider'.

¹¹ Exposure Draft and comment letters: General Presentation and Disclosures (Primary Financial Statements), see: <https://www.ifrs.org/projects/work-plan/primary-financial-statements/ed-primary-financial-statements/#consultation>

¹² Primary Financial Statements project, see: <https://www.ifrs.org/projects/work-plan/primary-financial-statements/#published-documents>

- (61) Moreover, the list may be interpreted as a hierarchy list prioritising SASB standards over ISSB non-mandatory guidance and other sustainability standards by another standard setter, which may have developed standards aligned to or equivalent with the ISSB.
- (62) The ISSB could clarify in the main standard, like it does in paragraph BC68 of the Basis for Conclusions, that the SASB standards or the CDSB framework should be considered as guidance. This is due to the fact that these documents have not been through the ISSB due process and that originally they were drafted to serve different audiences and purposes than the ISSB's.
- (63) Lastly, the ISSB could consider including a requirement to describe the process adopted by an entity in determining the sustainability-related risks and opportunities that affect its enterprise value. This could help build consensus between preparers, auditors and enforcers on the selected sustainability-related risks and opportunities in cases the selection is based on a robust process.

Question 8—Materiality (paragraphs 56-62)

The Exposure Draft defines material information in alignment with the definition in IASB's Conceptual Framework for General Purpose Financial Reporting and IAS 1. Information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'.

However, the materiality judgements will vary because the nature of sustainability-related financial information is different to information included in financial statements. Whether information is material also needs to be assessed in relation to enterprise value.

Material sustainability-related financial information disclosed by an entity may change from one reporting period to another as circumstances and assumptions change, and as expectations from the primary users of reporting change. Therefore, an entity would be required to use judgement to identify what is material, and materiality judgements are reassessed at each reporting date. The Exposure Draft proposes that even if a specific IFRS Sustainability Disclosure Standard contained specific disclosure requirements, an entity would need not to provide that disclosure if the resulting information was not material. Equally, when the specific requirements would be insufficient to meet users' information needs, an entity would be required to consider whether to disclose additional information. This approach is consistent with the requirements of IAS 1.

The Exposure Draft also proposes that an entity need not disclose information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. In such a case, an entity shall identify the type of information not disclosed and explain the source of the restriction.

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

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?

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?

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?

- (64) As noted in paragraph 1- 2 of our response, Accountancy Europe supports sustainability reporting standards under a double materiality lens that meet information needs of investors and broader stakeholders. Over time and eventually, ‘enterprise value’ and ‘double materiality’ judgements should align as the impacts an entity has on people, the environment and the economy will eventually affect the entity. This is also confirmed by investors increasingly requesting information about these broader impacts. However, we applaud the ISSB for the improvements made from the Prototype to the enterprise value concept and materiality as noted in paragraphs 3 – 4 above.
- (65) We find the definition and application of materiality relatively clear. However, we suggest clarifying the difference between the materiality assessment for the purposes of IFRS accounting standards and IFRS sustainability disclosure standards. Clarifying the scopes of work and boundaries between the IASB and the ISSB (see paragraphs 95 - 96) as well as providing a definition for ‘sustainability’ (see paragraph 92) could help.
- (66) For example, paragraph 57 of the ED, particularly the end of the paragraph in determining ‘low-probability and high-impact outcomes’ could prove challenging to apply, audit and enforce. We suggest the ISSB to further clarify these terms and their application.
- (67) If done right and with the necessary definitions (e.g., ‘sustainability’), clarifications (e.g., ‘sustainability-related risks and opportunities’) and guidance, enterprise value materiality should capture a large breadth for sustainability-related risks and opportunities. To this end, we suggest the ISSB to provide more guidance on the relationship between enterprise value and impacts the company has on people, the economy and the environment. This guidance could address how and when an impact may or is expected to affect the enterprise value.
- (68) Whilst we appreciate the guidance for identifying material sustainability-related financial information, we suggest the ISSB further details the materiality exercise. For example, the ISSB could bring forward paragraph IG7 of the Illustrative Guidance on General Requirements for Disclosure of Sustainability-related Financial Information in the main standard.
- (69) The ISSB should also provide additional guidance and illustrative examples on the materiality exercise, such as on how to carry out the processes to assess material sustainability-related financial information as well as the outcome of this assessment.
- (70) Lastly, we agree with the proposal to relieve an entity from disclosing information required by the ED if local laws or regulations prohibit such disclosures. However, we strongly suggest the ISSB emphasises the expectation in paragraph 62 of the ED whereby an entity need to disclose and explain the source of restriction in case material information has been omitted in these cases. In addition, we suggest the ISSB works with jurisdictions, for example via its [jurisdictional working group and future Sustainability Standards Advisory Forum](#)¹³ to minimise such conflicts and as a result, the use of this exception.

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

The Exposure Draft proposes that an entity be required to report its sustainability-related financial disclosures at the same time as its related financial statements, and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements.

¹³ News, *ISSB establishes working group to enhance compatibility between global baseline and jurisdictional initiatives*, see: <https://www.ifrs.org/news-and-events/news/2022/04/issb-establishes-working-group-to-enhance-compatibility-between-global-baseline-and-jurisdictional-initiatives/>

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?

- (71) Accountancy Europe agrees with the ISSB’s proposal to require that sustainability-related financial disclosures be provided at the same time as the financial statements to which they relate to. This is consistent with the requirements on the reporting entity and identifying the related financial statements. It also enables a better understanding of enterprise value and connectivity, facilitates integrated thinking, meets the “timeliness” characteristic of information, as well as facilitates assurance.
- (72) However, we recognise that there may be challenges in providing the sustainability-related financial disclosures at the same time as financial statements. There may be resources constraints, particularly in the first years of application, and it may take longer to adequately translate or transform the entity’s processes to meet these requirements.
- (73) Therefore, we suggest the ISSB considers providing an exemption of this requirement for the first years of application, e.g., the first 1 or 2 years. This and the exemption could also be confirmed by outreach or field testing of these proposals. Such an exemption would alleviate the resource and time pressure for companies to report at the same time as financial statements, whilst emphasising the importance of relevant sustainability-related financial disclosures.

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

The Exposure Draft proposes that an entity be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting—ie as part of the same package of reporting that is targeted at investors and other providers of financial capital.

However, the Exposure Draft deliberately avoids requiring the information to be provided in a particular location within the general purpose financial reporting so as not to limit an entity’s ability to communicate information in an effective and coherent manner, and to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting.

The proposal permits an entity to disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. However, the entity would be required to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information.

Information required by an IFRS Sustainability Disclosure Standard could also be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements.

The Exposure Draft also proposes that when IFRS Sustainability Disclosure Standards require a disclosure of common items of information, an entity shall avoid unnecessary duplication.

- (a) *Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?*
- (b) *Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?*

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

(d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

- (74) Accountancy Europe agrees with the requirement to disclose information required by different ISSB standards as part of its general purpose financial reporting package. This is in line with the proposals on the reporting entity, timing and connectivity, and will enable connectivity as well as the assessment of enterprise value.
- (75) We understand the limitations of the ISSB in not requiring a particular location in the general purpose financial reporting package to disclose this information. We appreciate that this approach aims to avoid contradicting with any legislation around the world and to facilitate global application. However, we note that this may challenge comparability in practice.
- (76) Accountancy Europe also supports including information 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 respective information. This will help avoid duplications and may even help evidence connections between the different reports.
- (77) We also think that it is clear that entities should not make separate disclosures on each core content but rather in an integrated way, reflecting on strategy from the top-bottom levels. However, we recognise that in practice different sustainability topics may be managed by different teams, which challenged integrated disclosures. Field testing and outreach with preparers should give a clearer view on this element as well as any areas for improvement.

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

Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8. However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable —ie the comparatives would be restated to reflect the better estimate.

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

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

- (78) Accountancy Europe agrees that provisions on comparative information, sources of estimation and outcome uncertainty, and errors are adequate and have been adopted appropriately in the ED.
- (79) We also agree that if an entity has a better measure of a metric reported in the prior year, it should disclose the revised metric in its comparatives. This will facilitate comparability and will provide users with relevant information thus improving transparency.
- (80) Lastly, we also agree that financial data and assumptions within sustainability-related financial disclosures should be consistent with corresponding financial data and assumptions used in the entity's financial statements.

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

Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements.

The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

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

- (81) Whilst we understand the ISSB's rationale in providing a relief on the statement of compliance in case certain disclosures conflict with local laws or regulation, we strongly suggest the ISSB to include a requirement for disclosures on such cases for transparency purposes. A 'comply or explain' terminology could be used to evidence whether the report fully complies with ISSB standards, evidence any areas of non-compliance (if any) and explain the reason for diverging from the ISSB standards.
- (82) As a result, only for cases where there are conflicts with local laws and regulations, e.g., on forward looking information, the ISSB could consider allowing for a statement of compliance 'with the exception for' the conflicting element. The ISSB should work with jurisdictions, for example via its jurisdictional working group and future Sustainability Standards Advisory Forum to minimise such conflicts to the largest extent possible.
- (83) On another note, we do not support a partial statement of compliance as it would be difficult to operationalise and would not result in more reliable information. A partial statement of compliance creates confusion, is very difficult to provide assurance on, and increases costs in understanding which elements of the report adhere to which ISSB standards, and for what reasons other parts are not complied with.

Question 13—Effective date (Appendix B)

The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard.

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.

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

- (84) Accountancy Europe strongly suggests the ISSB to consider feedback from outreach or field testing in determining the effective date of the final standard. This would give the ISSB a clear indication of the time needed from preparers to apply these requirements.
- (85) We agree with the ISSB's proposed relief from disclosing comparatives in the first year of application.

Question 14—Global baseline

Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of sustainability-related risks and opportunities. Those needs may be met by requirements set by others, including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

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

- (86) Accountancy Europe agrees that the proposals of this ED would result in a comprehensive global baseline for the assessment of enterprise value. However, for this to be a success in practice, the ISSB should improve definitions and guidance (please refer to our suggestions in previous question). The Board should also collaborate as much as possible with its jurisdictional working group and future Sustainability Standards Advisory Forum to align standard to a maximum possible extent.

Question 15—Digital reporting

The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption as compared to paper-based consumption is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S2 Climate-related Disclosures Standards are the sources for the Taxonomy.

It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.

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

- (87) Accountancy Europe appreciates that the ISSB is considering digitalisation from the start. We invite the ISSB to extend its collaboration with other sustainability standard setters and initiatives, including EFRAG, to align important digitalisation elements such as scope, definitions, and the tagging approach.
- (88) We also suggest the ISSB reaches out to digital reporting specialists for input on the architecture of the envisaged IFRS Sustainability Disclosures Taxonomy before building that Taxonomy. The Taxonomy architecture is a major factor that determines how difficult (or easy) it will be for reporters to tag particular disclosure requirements digitally.
- (89) We recommend the Taxonomy development team has a feedback mechanism with the team developing IFRS sustainability standards. Experience has shown that the process of developing a digital taxonomy, based on a paper-based standard, can highlight inconsistencies, overlaps, gaps and other issues in such a standard. A feedback loop could therefore enhance the quality of the standard itself.

Question 16—Costs, benefits and likely effects

ISSB is committed to ensuring that implementing the Exposure Draft proposals appropriately balances costs and benefits.

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

- (90) Accountancy Europe believes that there are some requirements of this ED that will be too costly to prepare. We particularly refer to our comments in paragraphs 58 – 62 regarding the requirement to refer to other standards (e.g., SASB standards, CDSB Framework) when identifying sustainability-related risks and opportunities, which we believe will result in undue costs. Further outreach or field-testing with preparers would also further inform the ISSB on any additional costs of these proposals.
- (91) 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](#).¹⁴ 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.

¹⁴ U.S. Securities and Exchange Commission (2022), Press release: *SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors*, see: <https://www.sec.gov/news/press-release/2022-46>

Question 17— Other comments

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

- (92) We notice that the ISSB does not provide a definition for ‘sustainability’, even though this is an overarching and consistent concept throughout the ED. We understand that the ISSB is trying to limit the scope by defining ‘sustainability-related financial disclosures’ and ‘sustainability-related financial information’. However, we think that also defining ‘sustainability’ will help companies better determine the scope and boundaries of their assessments. Therefore, we suggest positively defining ‘sustainability’, i.e., determining what it is, rather than negatively defining it (what it is not).
- (93) Whilst we appreciated Appendix C of the ED, we urge the ISSB to bring forward these concepts and other sustainability-related concepts in the future conceptual framework for sustainability reporting.
- (94) ESRS will be mandated in the EU as per the [Corporate Sustainability Reporting Directive proposal](#).¹⁵ Whilst ESRS are developed under a double materiality lens to serve broader stakeholders, we note that the ISSB’s proposals on enterprise value would cover a large extent of the ESRS scope as well. The EU will be the one of the first regions to mandate sustainability reporting standards, therefore, we suggest the ISSB to work with EFRAG to converge standards to the greatest extent. This would in turn facilitate applicability of ISSB standards.
- (95) We suggest the IASB and ISSB better determine their respective scope of works and boundaries in addressing interconnected topics. Both the IASB and ISSB standards refer to materiality, serve the same primary users, use the same reporting entity and consider same timeframes. In addition, we also noted overlaps between the two sets of standards. For example, paragraphs 15d and 22 of the ED address some topics from the financial reporting perspective which we would have expected to be under the IASB’s scope. Therefore, clarifying what would fall under IFRS accounting standards and IFRS sustainability standards would be useful for stakeholders.
- (96) On the other hand, the IASB [will add](#)¹⁶ to its workplan a maintenance and consistent application project on climate-related risks, and a research project on intangible assets. Both these topics are connected with the scope of work for the ISSB too. Therefore, it will be important for both Boards to collaborate on connected topics, and to clearly determine who does what.
- (97) Accountancy Europe insists on the need for having a framework for connected reporting. Such a framework would underpin standards as well as help in determining the scope and boundaries for both the IASB and ISSB. Ideally, this framework should be managed by the IFRS Foundation or both the ISSB and IASB in order to address both standard setters’ scope and set the overarching tone for both sets of standards. In addition, the principles of this framework would guide the provisions on connectivity and enterprise value in this ED.
- (98) The Value Reporting Foundation, which houses the Integrated Reporting Framework (IR Framework) will soon be consolidated within the IFRS Foundation structures. We believe the IFRS Foundation and ISSB have a golden opportunity to build on the IR Framework as well as the work already done by the IASB on Management Commentary to build such a framework.

¹⁵ *Proposal for a Directive of the European parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting COM/2021/189 final*, see: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189>

¹⁶ *IASB Update April 2022*, see: https://www.ifrs.org/news-and-events/updates/iasb/2022/iasb-update-april-2022/?utm_medium=email&utm_source=website-follows-alert&utm_campaign=immediate#11

- (99) On that note, this ED encompasses many concepts also addressed by the [Management Commentary Exposure Draft](#)¹⁷, such as enterprise value, value creation, circularities of impacts and dependencies, contents. We appreciate ISSB's enhancement of many of the contents of the Management Commentary Exposure Draft in this ED, however, we strongly suggest the work done on that project be carried forward to develop the framework for connected reporting.

¹⁷ *Management Commentary*, see: <https://www.ifrs.org/projects/work-plan/management-commentary/#published-documents>