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Paris, 29 July 2022

Exposure Draft (ED) IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Dear Mr. Faber,

Mazars is pleased to comment on the International Sustainability Standards Board's first EDs issued in March 2022, i.e. IFRS S1 on General Requirements for Disclosure of Sustainability-related Financial Information, and IFRS S2 on Climate-related Disclosures (please consider our separate comment letter in this regard), which constitute the proposals aiming at establishing a global baseline of sustainability disclosures, meaning a set of standards to be used around the world to meet primary users' needs in the area of sustainability reporting.

Although we believe the ISSB can play a major role in the development of transparent and reliable corporate reporting of an entity's value creation model and support its mission to achieve a comprehensive global baseline to meet the information needs of investors, we have reservations with the proposals made so far.

Overall, the ED needs to be more pragmatic, concrete and precise to ensure deliverability, consistent application, relevance, comparability and reliability. We are concerned that the current structure, where the areas to be covered are not well defined, may result in excessive and defensive disclosure of little value to users. Finally, we believe that the proposals under IFRS S1 are too principle-based and that insufficient detail may result in it being difficult to achieve consistency or for assurers to express a reliable opinion on reporting.

Besides, we think it is important for the ISSB to bear in mind that many companies will be complying with sustainability reporting standards for the first time and therefore have no experience in identifying the minimum sustainability topics to be covered and how to conduct a materiality analysis. Also those standards and associated guidance need to ensure and drive scalability and auditability. We therefore believe it is essential that sufficient application guidance is given directly in the standards published by the ISSB (or as an appendix to them) so that these companies do not have to find the answers to the practical questions they will inevitably ask themselves in other frameworks.

In more details, here are the key concerns we want to highlight.

Seek alignment as much as possible with other initiatives especially that of the European Union

Despite the urgent need to have high-quality standards that are applied widely by companies to report reliable and comparable information relating to sustainability matters, we strongly encourage the ISSB to especially go on working with EFRAG in Europe to achieve consistency and comparability wherever possible between IFRS Sustainability Disclosure Standards and European Sustainability Reporting Standards (ESRS). This being said, we are well aware that full alignment may not be achievable as EFRAG's work is driven by the Corporate Sustainability Reporting Directive and should result in more rule-based standards.

However, it would be detrimental to corporate reporting if ISSB and EFRAG's frameworks were not aligned on major topics as it would increase complexity and costs both for users and preparers. Interoperability between these frameworks will therefore have substantial benefits for stakeholders.

Allow sufficient time and resources to issue high-quality Standards

Although the ISSB was able to build on the work done by the TRWG, given that the first ISSB's public meeting has taken place only a few days ago and that the ISSB will reach 14 members during the third quarter of 2022, it seems very ambitious to consider that the first IFRS Sustainability Disclosure Standards will be ready to be issued by the end of 2022.

We urge the ISSB to take the time necessary to set IFRS Sustainability Disclosure Standards in accordance with the rigorous due process established following targeted amendments to the IFRS Foundation Constitution to accommodate the ISSB.

While we understand the need to move fast, this should not pre-empt the debate that the ISSB will need to hold in redeliberating on the proposals, with possible important changes to the EDs taking into consideration the opinion of all stakeholders expressed during the consultation period.

It is essential that the ISSB, in its most complete and therefore most experienced configuration, should discuss the proposals and properly reflect feedback to reach a broad consensus that will reduce the need for subsequent substantial amendments that would risk its credibility.

Clarify the underlying conceptual approach to materiality

The conceptual approach to materiality is inherent to the objectives of sustainability reporting that the ISSB wishes to set. Following the IFRS Foundation's Consultation Paper on Sustainability Reporting issued in September 2020, we understand that it has been decided not to commence with an explicit double-materiality approach which would have substantially increased the complexity of the task to be performed by the Board and could have potentially impacted or delayed the adoption of the Standards.

The ED therefore focuses on the sustainability information most relevant to users of general purpose financial reporting to help them assess enterprise value and decide whether to provide resources to the entity. BC31(b) further indicates that IFRS Sustainability Disclosure Standards are conceptually and practically complementary to – but not a replacement for – reporting on an entity's significant impacts on people the environment and the economy.

At the same time, paragraph 6 of the ED indicates that sustainability-related financial information could include information about the entity's reputation, performance and prospects as a consequence of the actions it has undertaken, such as its relationships with people, the planet and the economy, and its impacts and dependencies on them.

Even if there is obviously a connection between a company's impact on the environment and the risks and opportunities for that company, we believe the ISSB should clarify from the outset the underlying conceptual approach to materiality for IFRS Sustainability Disclosure Standards so that they are consistently applied by entities.

Clarify how to identify the sustainability-related information to be disclosed

The ED proposes requirements and guidance for an entity to disclose material information about its significant sustainability-related risks and opportunities in order to help investors to assess the entity's enterprise value.

The ED does not include a definition of key terms such as 'sustainability-related' and 'significant'. It only defines 'sustainability-related financial disclosures' and 'sustainability-related financial information' acknowledging, under paragraph BC27, that the description of sustainability-related financial information is intentionally broad and does not determine the particular information that must be provided though the information to be disclosed is limited to that which relates to the entity's significant sustainability-related risks and opportunities and that affect enterprise value and is also limited to that which is material. We believe a core (and short) list of areas to be considered as part of "sustainability" would be worth considering which preparers could then augment with additional areas if they felt this was necessary (or their investors applied pressure for them to do so).

The ED is also unclear on whether the information to be provided should be identified based on the outcome of the entity's analysis of its significant sustainability-related risks and opportunities or simply by referring to IFRS Sustainability Disclosure Standards which list the information to be provided to primary users of general purpose financial reporting.

Additionally, the ED creates confusion around the use of the concept of information materiality, which is derived from the Conceptual Framework for Financial Reporting and IAS 1, and the requirement to disclose sustainability-related financial information covering *significant* sustainability-related risks and opportunities.

In our opinion, the lack of clarity around how to identify which sustainability-related information to be disclosed will result both in excessive irrelevant boilerplate disclosures in some areas and lack of comparability or omission of important topics in others.

Adopt a gradual approach focusing on climate first

We welcome the ISSB's efforts to respond to pressing demands to disclose information about all sustainability-related risks and opportunities and acknowledge that investors' information needs are broader than the climate priority only.

However, we believe the ED should not include proposed requirements and guidance to support the disclosure of information not specifically addressed by an existing IFRS Sustainability Disclosure Standard so as to cover all topics beyond climate.

Overall, the amount of requested information is too ambitious / broad especially with reference to paragraph 51 of the ED which, in the building process period of the ISSB's Standards, requires an entity to consider SASB Standards, CDSB Framework, etc. We fear the result of this could be that IFRS Sustainability Disclosure Standards will fail to provide transparency on key areas and also have an unfavourable cost-benefit ratio for companies.

In this context, there is a high risk that these Standards will not be rapidly endorsed by any jurisdiction, even for listed companies, and therefore that the ISSB fail to achieve the establishment of a global baseline.

Besides, imposing a temporary requirement (i.e. until the ISSB's set of standards is complete or almost complete) to rely on guidance that has not been endorsed by the ISSB will probably lead to entities having to do the work of identifying sustainability-related disclosures twice, since it is premature at this stage to know what the content of other IFRS Standards will be, and thus to what extent they will be aligned with the guidance initially applied by preparers. This two-stage approach does not seem satisfactory to us, given the very high costs that it would entail for entities and the difficulties that investors would have in accessing stable and therefore comparable information.

Thus, we recommend that the ISSB first concentrate on IFRS S2, as the SEC has with its draft sustainability standard on climate issued earlier this year, and subsequently consider addressing other ESG topics (and sub-topics).

This being said, should the ISSB decide to maintain the approach as currently drafted under paragraph 51, we would recommend clarifying that considering "the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting" (as required under paragraph 51(c)) enables, in practice, to refer to ESRS.

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Redefine the purpose and content of IFRS S1

As already outlined, we would recommend that IFRS S1 focus on general principles for the presentation of sustainability-related financial information without including requirements and guidance to support the disclosure of information not specifically addressed by another existing IFRS Sustainability Disclosure Standard until other topic-specific standards are published.

Besides, even if the ISSB's objective for this ED is to serve a similar role for sustainability-related financial disclosures as the IASB's Conceptual Framework for Financial Reporting, IAS 1 and IAS 8 serve for general purpose financial statements prepared in accordance with IFRS Accounting Standards, we are of the opinion that as currently drafted, the ED is mostly a conceptual guideline and not a standard, as it is inspired by different frameworks, especially TCFD Recommendations, which are not standards nor built as such.

We therefore suggest that the core content of IFRS S1 be ultimately more precise and less principle-based in order to avoid boilerplate disclosures and leave less room for interpretation. We also suggest that the qualitative characteristics of useful sustainability-related financial information which are currently presented under appendix C be included in a separate document, forming a specific Conceptual Framework for sustainability reporting.

Finally, given the difficulty in understanding what should be disclosed, and the possible huge amount of information required to be able to demonstrate unqualified compliance with the ISSB's Standards, we fear that few jurisdictions or companies will want to adopt / enforce them. Verifiability of such information, and particularly of its completeness, especially by assurers, will also be challenging.

Our detailed comments on the questions raised in the ED are set out in the Appendix below.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

Michel Barbet-Massin

Head of Financial Reporting Advisory

Jean-Luc Barlet

Head of Quality Management & Compliance

Appendix 1 – ED IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Question 1—Overall approach
The Exposure Draft sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it.   *Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value.*   *(a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?*   *(b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?*   *(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?*   *(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?*

(a) We believe the ED states clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which it is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard.

(b) However, we also believe that the proposed requirements set out in the ED do not meet its proposed objective.

Indeed, IFRS S1 should ultimately include clearer definitions / guidance of key terms / concepts and in particular: 'sustainability-related', 'sustainability-related risks and opportunities', 'significant'. Besides, we also find it difficult to understand why the ED defines 'sustainability-related financial disclosures' and 'sustainability-related financial information' seemingly in a slightly different way. In our view, this creates unnecessary confusion.
IFRS S1 should also include more guidance on how the significant risks and opportunities are to be identified. The ED does not clearly state whether an entity has to conduct a structured materiality analysis (the requirements of paragraph 26 in this regard are too vague) or whether the entity should only refer to the disclosure requirements provided by the Standards (pursuant to paragraph 51) in order to assess whether they are applicable / lead to providing material information (see below the interaction between the concept of information materiality and the identification of significant risks and opportunities).

In our opinion, IFRS S1 should describe a systematic and logical approach to be followed based on which the entity will be able to demonstrate that the significant risks and opportunities have been properly identified notably in light of the feedback from the entity's stakeholders. The identification of significant risks and opportunities should therefore not only reflect management's view of them based on a high-level assessment. Besides, for a lot – the majority potentially – of entities, sustainability reporting and materiality assessment in particular will be entirely new exercises. We therefore cannot assume that these entities will know how to go about the materiality assessment part. Thus, the ISSB should ensure that it provides sufficient detail on how to implement such analyses, which are complex to carry out in practice. Auditors should also be able to rely on procedures that well document the approach that has been conducted and its outcome.

Additionally, IFRS S1 should make the use of the concept of information materiality explicit in the sustainability report. According to the current proposals, if one topic has been deemed 'significant' following the identification of significant risks and opportunities made by the entity, the entity may yet not disclose any information in this regard after having applied its judgment to identify 'material' sustainability-related financial information. However, if no information at all is provided as regards the judgement made, it will be confusing for the users of the sustainability report since they will not be able to determine whether it is because the topic is not significant or because the information related to this topic is not material (per paragraph 56 of the ED).

(c) IFRS S1 should provide general disclosure requirements as cross-cutting elements applicable to all ESG topics about how sustainability is embedded in the decision-making process throughout the organization (i.e. the governance pillar), how it is embedded in the strategy and how it is managed in terms of the risks and opportunities sustainability entails for the company (i.e. the risk management pillar). IFRS S2 should therefore not duplicate what is already asked through the disclosure requirements in IFRS S1. Therefore, we believe paragraphs 6 and 18 of IFRS S2 ED, though relevant, are not sufficient to ensure that IFRS S2 only complements IFRS S1 regarding governance, strategy and risk management.

(d) Due to the large number of assumptions and judgements required and lack of certainty in respect of future plans and macroeconomic conditions, we are concerned that it will, in practice, be very difficult or impossible to audit quantitative disclosure about individual line items and thus difficult to give an unqualified audit opinion, which may have negative consequences, particularly, for listed entities.

We also note that, in previous consultation exercises in respect of financial accounting standards, investors generally did not want management to provide "processed" figures but would rather have the underlying information in order to apply their own assumptions.

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?*

First and foremost, we reiterate the opinion expressed in our comment letter issued in December 2020 answering the IFRS Foundation's Consultation Paper on Sustainability Reporting according to which it is critical that all aspects of materiality be considered equally, meaning that impact materiality should be considered at a level equivalent to financial materiality.

The ED includes proposals according to which entities should disclose sustainability-related information in relation to significant risks and opportunities that enables primary users (i.e. mainly investors) to assess enterprise value.

At this stage, the focus thus seems to be made on financial materiality only, consistently with the building blocks approach adopted by the ISSB and the collaboration with GRI aiming at ultimately having a broader multi-stakeholder focus with a reporting on all sustainability matters that reflect significant positive or negative impacts on people, the environment and the economy.

However, under paragraph 6 of the ED, it is indicated that sustainability-related information "could" include information about the entity's reputation, performance and prospects as a consequence of the actions it has undertaken, such as its relationships with people, the planet and the economy, and its impacts and dependencies on them. Besides, during its outreach activities, the ISSB has indicated that lots of impacts are to be taken into account for assessing an entity's enterprise value and that, as such, the materiality the ISSB is considering with IFRS S1 is not very different from a double materiality promoted by other Frameworks and especially the EFRAG's one.

This being said and acknowledging that the concept of an 'entity's enterprise value' is complex and quite broad, we believe IFRS S1 should more clearly indicate whether sustainability-related information should cover all sustainability-related aspects or not. Indeed, it may not be obvious to all that the assessment of an entity's enterprise value requires to take into account not only the significant sustainability-related risks and opportunities to which an entity is exposed but also significant impacts the entity have on the planet, people and the economy. As already mentioned, there is a critical need for a clearly articulated approach to identifying significant risks and opportunities. This should inevitably lead the ISSB to describe further how impacts on environment and people have to be considered as part of this process.

Also referring to paragraph 6 of the ED, we wonder why the ISSB is encouraging entities to include specific information about development of knowledge-based assets as no further explanation or guidance is given around this. We recommend the ISSB to wait until it has further worked with the IASB on intangibles before any requirement or guidance is issued for sustainability reporting purpose.

We also reiterate that the definition of 'sustainability-related financial information' is not clear enough especially since 'sustainability' is not defined in the ED as mentioned under question 1. IFRS S1 should be clarified to foster relevance and comparability and to make sure not to leave room to too much judgement.

Additionally, we believe the ISSB should clarify how the concept of materiality as presented under paragraph 50 of the ED will interact with the requirement to disclose sustainability-related financial information covering *significant* sustainability-related risks and opportunities reasonably expected to affect users' assessments of the entity's enterprise value.

As far as we understand, materiality judgements will need to be made to select sustainability-related financial disclosures that enable users of general purpose financial reporting to have insight into the significant-related risks and opportunities to which the entity is exposed.

However, the 'two-steps' approach is not clearly described in the ED and the use of 'material' alongside the use of 'significant' may create harmful confusion, especially if the selection of sustainability-related financial disclosures is made by people not used to applying the concept of information materiality to which financial teams are used when preparing financial statements under IFRS Accounting Standards.

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?

Yes we agree. However, we believe it is necessary that the ISSB stratify the information required for different categories of companies. Indeed, the same amount of information cannot be asked for big listed and smaller companies since available resources and experience in providing sustainability-related information are very different.

We therefore believe the ISSB should have the same approach as the IASB had when developing an IFRS Accounting Standard for small and medium-sized entities (i.e. 'IFRS for SMEs') providing some reliefs compared to what is required for bigger companies.

Question 4—Core content (paragraphs 11–35)

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

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

Governance

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

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

Strategy

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

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

Risk management

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

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

Metrics and targets

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

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

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

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

We welcome the fact that ISSB's Standards especially build upon the well-established TCFD Recommendations. We consider that the disclosure objectives for governance, strategy, risk management and metrics and targets are clear and appropriately defined. We also consider that the disclosure requirements for governance, strategy, risk management and metrics and targets are appropriate to their stated disclosure objective.

However, and as mentioned under question 1, we believe IFRS S1 should be refocused on governance, strategy and risk management in order to provide disclosure objectives and requirements to be applied by an entity as cross-cutting elements covering all ESG aspects. This will enable entities to provide more concise information and will lead them to make connections between all sustainability-related topics. As a consequence, and in order to avoid duplication, IFRS S2 should not incorporate disclosure objectives and general disclosure requirements for governance, strategy and risk management but should concentrate on disclosures that complement the information already provided in accordance with IFRS S1. In contrast, metrics and targets should only be included in topical standards covering ESG topics like IFRS S2 on climate and not in S1.

Concerning strategy and the disclosure requirement relating to enabling users to understand the effects of significant sustainability-related risks and opportunities on an entity's financial position, financial performance and cash flows for the reporting period and the anticipated effects over the short, medium and long term, we consider such requirement will be hard to implement and to audit since anticipated effects in relation to longer term risks and opportunities involve significant assumptions and judgements.

We thus recommend the ISSB to work with the IASB to clarify what should be included in the financial statements and which sustainability-related information should complement the information already presented under IFRS Accounting Standards, this topic being directly related to connected information (see question 6).

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Question 5—Reporting entity (paragraphs 37–41)

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

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

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

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

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

(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?

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

(a) We agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements but clarity would be welcomed on how to manage a situation where a subsidiary is non-material for financial statements purpose but is material regarding sustainability assessment. In such situation, we believe sustainability-related disclosures should also cover that subsidiary.

(b) We agree with the fact that relevant sustainability-related information should cover not only the significant risks and opportunities arising at the reporting entity level but also throughout its value chain considering the reporting entity's business model and the external environment in which it operates. However, we believe it is necessary to clarify the key concept of 'value chain' as it is currently difficult to assess how far an entity should go in order to identify its interdependencies with other entities and what should be encompassed in practice. Having said that, precisely defining what is the value chain is probably more a Conceptual Framework issue. It would, nevertheless, be necessary to provide additional application guidance in this regard.

(c) Yes we agree with the proposed requirement for identifying the related financial statements to which the sustainability-related financial disclosures relate, especially if the sustainability-related financial disclosures are not provided at the same time as the financial statements to which they relate, as suggested in our answer to question 9.

Question 6—Connected information (paragraphs 42–44)

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

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

(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?

The concept of 'connected information' / 'connectivity' is key and yet the ED lacks clarity around what this concept covers exactly, how it should be understood and therefore which information should be provided to ensure that users of general purpose financial reporting get all the information they need in order 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 statements.

In our opinion, the ISSB should state more clearly that connected information is a critical feature for sustainability-related financial information to ensure consistency between information provided inside and outside the financial statements in relation with sustainability-related topics. As far as we understand, providing connected information is a first step towards providing more integrated information.

Besides, and based on the examples provided under paragraph 44 of the ED, it is unclear which information should be disclosed in the financial statements and which information should be provided as a complement to the financial statements, adopting a holistic approach. In any case, information should not be duplicated, but appropriate cross-references should be made where necessary. We believe application guidance and additional examples of connectivity would be helpful in order to encourage entities to report consistent information without duplication.

Careful consideration should be given to disclosure relating to financial matters where these are on a different timescale or for a future period not covered by the financial statements to avoid an expectation gap. This could be a challenging topic for auditors.

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.*

(a) Yes the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, is overall clear, especially considering the need to provide additional disclosures when compliance with the requirements in IFRS Sustainability Disclosure Standards is insufficient to enable users to assess implications of sustainability-related risks and opportunities on the entity's enterprise value.

However, IFRS S1 could be supplemented with guidance relating to the principles of aggregation / disaggregation of information particularly in order to assess whether items are dissimilar. In that regard, building upon the IASB's current project on Primary Financial Statements would probably be relevant.

(b) We agree with the sources of guidance listed under paragraph 51 of the ED enabling to identify sustainability-related risks and opportunities and related disclosures beyond IFRS Sustainability Disclosure Standards even if, and as mentioned in our cover letter, we recommend the ISSB to adopt a gradual approach focusing on climate first. Should such an approach be ultimately retained, reference to that guidance would be unnecessary.

This being said, and should IFRS S1 address sustainability-related disclosures beyond IFRS Sustainability Disclosure Standards, we consider an entity should not be <u>required</u> to consider all of these sources. Instead, an entity <u>may</u> only consider this guidance whenever it is deemed appropriate, ESRS in particular for European companies.

Imposing a requirement to consider all the sources listed under paragraph 51 would probably be too costly and too complex to apply consistently, particularly for smaller entities or those with multiple operations. Put differently, it is not reasonable to believe that an entity could consider, and to demonstrate it has considered, all the guidance listed here. It should be up to an entity to look at the guidance that it deems to be the most relevant in order to address the sustainability-related topics that need to be covered with appropriate disclosures.

We note it would also be difficult for assurers and regulators' enforcement teams to assess compliance with and consideration of the full range of these sources.

We are also concerned that the order in which the different sources are presented (commencing with the disclosure topics in the industry-based SASB Standards) suggests some sort of hierarchy intended by the ISSB in respect of the guidance. If this is the case, the ISSB should be clearer about that.

We believe this should be clarified (as made under IAS 8 paragraphs 11 to 12 for financial statements purpose) especially since the proposed use of SASB Standards seems mandatory whereas other guidance, such as CDSB Framework application guidance, would not be (which seems contradictory with the suggestion in this section, that all these sources should be considered).

Question 8—Materiality (paragraphs 56–62)

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

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

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

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

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

(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?

(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?

(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?

As stated in our answer to question 2, it is unclear how the information materiality principle interacts with the objective of providing disclosures about *significant* sustainability related risks and opportunities.

Though we understand the ISSB seeks alignment between financial and sustainability-related materiality, we struggle to understand how the materiality assessment described under paragraphs 56-62 should be made for sustainability-related information, considering an entity should first identify its *significant* risks and opportunities. We therefore recommend the ISSB to develop similar guidance as the one that exists under IFRS Accounting Standards with IFRS Practice Statement 2: Making Materiality Judgements.

Even with a level of alignment, materiality will be different here because:

- Sustainability-related information is more forward-looking and incorporates more uncertainties and assumptions. Indeed, sustainability-related risks and opportunities by their nature take into account longer-term effects;
- Sustainability-related information is more qualitative and even where quantitative information is available it may be less precise or certain;
- Reporting boundaries are not the same, with sustainability-related information addressing topics throughout the value chain.

It is therefore harder to assess, in the context of providing sustainability-related information, which information is immaterial and does not have to be disclosed. Judgements to be made by an entity will thus be important and difficult to challenge, especially by auditors but also by investors.

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

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

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

Yes, we agree that in principle an entity shall report its sustainability-related financial disclosures at the same time as its related financial statements but we would recommend that the ISSB give flexibility to entities in the first years of application of IFRS Sustainability Disclosure Standards. Indeed, it will be very challenging to be in a position to report a huge amount of new information in a very short period of time given the tight deadlines companies usually have to provide their financial statements (especially for the ones that are listed). Currently, financial statements are often published before sustainability-related financial information.

We would also like the ISSB to clarify that sustainability-related financial disclosures are not mandatory for interim periods but only for annual period reports.

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 cross-referenced? Why or why not?*

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

As a first general comment, we would recommend that the ISSB provide application guidance in the form of illustrative sustainability-related disclosures to address the main possibilities available within IFRS S1 relating to the structure of such information within an entity's general purpose financial reporting (as it is the case for IAS 1 guidance on illustrative financial statements structure).

(a) Yes we agree with the proposal according to which information required by IFRS Sustainability Disclosure Standards should be part of an entity's general purpose financial reporting.

We also agree that there should not be a requirement for any particular location within the general purpose financial reporting for the sustainability-related information.

However, IFRS S1 should make it clear that such information should be easy to find and to access wherever it is located within an entity's general purpose financial reporting.

This being said, it can also be noted that lots of investors prefer to have all the information (relating both to sustainability topics and to financial statements) in the same place as it is easier to read and to make connections between both pieces of information.

(b) We are not aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the ED despite the proposals on location.

(c) We agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced, taking into consideration the transitional provisions we have suggested in our answer to question 9 above.

(d) We support making integrated disclosures but we believe paragraph 78 could be clearer on how to report in an integrated manner in order to avoid duplicating information. As mentioned above, illustrative examples would be welcomed.

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

The Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8.

However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable —ie the comparatives would be restated to reflect the better estimate.

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

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

(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?

(a) We overall agree with the way these proposals have been adapted from well-known corresponding concepts for financial statements contained in IAS 1 and IAS 8.

(b) However, in details, we disagree with the proposal consisting in disclosing comparative information reflecting updated estimates, where it is relevant and practicable to adjust comparative amounts.

Firstly, this approach is different from what is required by IAS 8, and secondly, we believe this will prevent there being a clear reference for the historical information which remains unchanged from one period to another. It will also add complexity since an entity will have to restate retrospectively comparative information as soon as an estimate is updated, which may frequently occur considering sustainability-related information is subject to lots of uncertainties and judgement from the entity and considering dynamic materiality an entity is expected to adopt.

(c) We agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible.

Question 12—Statement of compliance (paragraphs 91-92)
The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements.
The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.
Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

We agree with the proposal according to which the entity would be required to include an explicit and unqualified statement that it has complied with all of ISSB's requirements.

Nonetheless we wonder whether entities will be in a position to include such an explicit and unqualified statement and therefore to state full compliance with IFRS Sustainability Disclosure Standards considering the fact that applying these Standards will be very challenging for them, at least in the first years of application.

Question 13—Effective date (Appendix B)
The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard.
(a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.
(b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

(a) Consistently with the IASB's approach when the Board issues IFRS Accounting Standards that constitute major changes with previous accounting requirements, we believe there should be at least two years between when a final ISSB's Standard is issued and its effective date. Early adoption should be permitted.
We also believe that the ISSB should not minimize the fact that, apart from the very large companies which already disclose sustainability information with a level of requirement close to that which will be expected with the IFRS Sustainability Standards, most companies do not currently have the information and internal control systems enabling them to easily fulfil the disclosure requirements listed in the standards. Therefore, it is very important that the ISSB allow sufficient time for them to properly set their internal reporting systems and procedures to comply with the IFRS requirements.

(b) Yes, we agree since it will be very challenging and costly for companies to gather all the information to be provided in accordance with IFRS Sustainability Disclosure Standards.

Question 14—Global baseline

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

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

Should the ISSB eventually decide to require the application of SASB Standards and other guidance such as the CDSB Framework, we believe this would be an impediment to a global baseline for sustainability reporting as the volume of disclosure required would be too costly and too challenging to implement.

As mentioned in our cover letter, the ISSB should continue to work with other organisations and EFRAG in particular in order to seek alignment between its own and other sets of standards as much as possible.

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)?

We support the digitisation of reporting and believe that the ISSB can capitalise on the IASB's experience in this regard and should develop a taxonomy that is consistent with IFRS Accounting taxonomy on topics for which there is an overlap in order to main connectivity within digital reporting.

Question 16—Costs, benefits and likely effects

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

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

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

We encourage the ISSB, before issuing the final Standards, to conduct field-work tests in order to more accurately measure the cost-benefit ratio of the proposals.

Given the amount of information that will have to be disclosed, the huge uncertainties around some topics and the complexity of taking into account the value chain for reporting boundary purposes, it is likely that costs will be very high especially for entities which do not currently report sustainability-related information based on well-established frameworks or standards.

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

Given the fact that there will probably be a significant period of time before IFRS S1 and IFRS S2 become effective and are widely applied, we would suggest the ISSB create a "Transition Resource Group" in the same way the IASB did it when it published major standards such as IFRS 15 or IFRS 17. This will allow entities and any other interested party to raise application issues already identified before the IFRS Sustainability Disclosure Standards are applied for the first time. This should foster consistent application and therefore contribute to providing comparable information.