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International Sustainability Standards Board
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RESPONSE TO THE EXPOSURE DRAFT (ED) ON IFRS S1 *GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION*

The Institute of Singapore Chartered Accountants (ISCA) appreciates the opportunity to comment on the ED above published by the International Sustainability Standards Board (ISSB) in March 2022.

To solicit meaningful feedback from key stakeholders on the ED, ISCA undertook the following initiatives:

- Conducted a one-month public consultation to seek feedback from its members;

- Solicited feedback on the ED from the ISCA Sustainability and Climate Change Committee and its Sustainability Reporting Quality Sub-Committee, which comprise experienced individuals with subject matter knowledge in sustainability-related matters, including practitioners from accounting firms, C-suite executives from large corporations and regulators; and

- Organised two focus group sessions to engage preparers of sustainability reports and assurance practitioners to obtain their views on the ED.

On the whole, ISCA supports the ISSB's aim for the IFRS Sustainability Disclosure Standards (the Standards) to serve as a comprehensive global baseline of sustainability disclosures. As highlighted in our earlier comment letter in response to the IFRS Foundation Trustees' Consultation Paper on Sustainability Reporting, there is an urgent need for consistency and comparability in sustainability reporting.

We recognise that this is not an easy task given the varying levels of maturity amongst preparers and users of such information as well as the need to **avoid the perception of the Standards being 'yet another standard'** which could then lead to further fragmentation in the market.

Hence, we commend the ISSB for its efforts and the speed at which actions are being taken. The ISSB's diligence in carrying out numerous outreach activities to raise awareness of the EDs, including in the ASEAN region, is much appreciated as well.

We agree that there is an urgent need globally for high-quality and reliable reporting of environmental, social and governance (ESG) matters. We also firmly believe that all entities, regardless of size, should eventually adhere to a common set of sustainability reporting requirements. Having said that, we recognise that time and patience are needed given the challenges in achieving this common objective, which we detail further below. We hope that standard-setters and regulators globally can work together and commit to an acceptable timeline for adoption of the Standards.

We wish to share the following overall comments and suggestions which are applicable to both ED IFRS S1 and ED IFRS S2 *Climate-related Disclosures*:

1. **Balancing aspiration and reality**

   We appreciate and understand the rationale behind the current design of the EDs, which aspires to provide comprehensive baseline information useful for the assessment of enterprise value and capital allocation decisions. In attempting to achieve that objective, the EDs appear to be all-encompassing (for example, the need to disclose material information about all significant sustainability-related risks or opportunities). We believe that **due consideration needs to be given to the current state of sustainability reporting as well as the readiness of preparers**.

   Although sustainability reporting has gained significant traction globally in recent years and maturity of preparers are improving, issues such as 'cherry-picking' (e.g. preparers only reporting on those areas which they are ready), lack of reliable data and inadequate talent pool are still commonplace. Coupled with the complexities of sustainability reporting requirements and limited resources available, these have led to relatively low levels of reporting by small-and-medium enterprises (SMEs).

   It is difficult to expect the landscape to immediately progress from the current state to one where many preparers could fully comply with the Standards. Based on the current form of the EDs, even large corporates may find it challenging to comply with the Standards' requirements. Through our outreach, we hear views that the requirements in the EDs are being **set too high as a baseline**, for example the requirements to disclose information about the effects of significant sustainability risks and opportunities on its value chain, particularly considering the gap in today's practices.

In addition, given the need to rely on information from third parties, such as along the value chain as required by ED IFRS S1 and Scope 3 greenhouse gas emissions as required by ED IFRS S2, the ability of an entity to comply with the Standards is, to a certain extent, linked to how widely adopted the Standards are.

Hence, we believe that more emphasis should be placed on increasing the rate of adoption by **easing the path toward adoption of the Standards**, while progressing to the desired aspiration as the landscape matures further.

A more supportive approach to facilitate easier adoption of the Standards may then be more encouraging, particularly for the SMEs which typically play critical roles along the value chain.

A few suggestions are included under point no. 2 below.

2. Recognition of sustainability as a journey

We believe that the Standards could be more adoption-friendly if there are elements or provisions which recognise that sustainability is a journey. In this regard, the following are some suggestions for the ISSB's consideration:

a. Introduction of **transitional provisions and practical expedients** or a **phased approach** to provide some leeway towards certain requirements (such as Scope 3 emissions) in the early years of adoption or in specific circumstances (please see our response to Question 5 on reporting entities).

b. **Different tiers of compliance** – It is unlikely that companies can go from zero to being able to prepare sustainability disclosures in full compliance with the Standards in a short span of time if the bar is set too high from the outset. This may deter a company from even starting as it will need to invest years of efforts before seeing any meaningful returns.

   Given that there are many different stages of maturity and readiness amongst preparers, having different tiers of compliance with the Standards could be helpful in encouraging companies to embark on sustainability reporting using the Standards.

c. **Starting with a more prescriptive and narrow set of requirements** – Bearing in mind the state of sustainability reporting today as mentioned in point no. 1 above, there could be merits to starting with a set of more prescriptive and narrow requirements. This could also include having a set of core ESG metrics to serve as a starting point.

Although this approach may not be ideal vis-à-vis the objective of a comprehensive global baseline, this approach could get more companies, including SMEs, started on this journey. There can also be quick wins in terms of higher level of consistency and comparability in reported information. The Standards can then progress to be more principles-based, like ED IFRS S1, as preparers (and users) mature.

3. Clarity, comparability and verifiability

We hope that more examples or application guidance materials can be included in the Standards to provide more clarity to key terms, definitions and concepts, such as materiality, significant risks or opportunities, the evaluation of enterprise value as well as the extent to which a company's value chain has to be determined (i.e. how far up and/or down the line of value chain do companies have to consider). This will help in driving consistency and comparability in reported information.

Assurance over sustainability-related financial information remains challenging (please see our response to Question 1 (d) below), and we hope that the ISSB will work closely with the International Auditing and Assurance Standards Board (IAASB) on the bespoke sustainability assurance standards, which the IAASB is expecting to issue for public consultation in 2023.

4. Interoperability with other major sustainability reporting standards/frameworks, particularly Global Reporting Initiative (GRI)

The ongoing collaborative efforts between the ISSB and the GRI are much needed and appreciated. We believe that the results of these efforts, particularly in ensuring the interoperability of the Standards with the GRI Standards, are critical in driving global adoption of the Standards. This is because there are currently many GRI reporters in the market, given the GRI framework's popularity. We have heard feedback from some GRI reporters that they would prefer not to take any action towards adopting the Standards until there is clarity on the interoperability front.

It appears that there is impetus for the ISSB to expedite the progress of its collaborative work with the GRI.

5. Self-contained standards

We support the approach which the ISSB has taken by building on existing established standards/frameworks such as SASB Standards and CDSB Framework.

However, some confusion arises when navigating the Standards, particularly where there are requirements which refer to those other standards/frameworks (please see our response to Question 7 on Fair Presentation).

It becomes unclear the extent to which adopters of the Standards will also need to understand and comply with the requirements of those other standards/frameworks.

Hence, it may be preferable for the Standards to be more self-contained and for all mandatory requirements and considerations to be included within the Standards themselves. We propose that references to other sustainability reporting standards/frameworks be considered only as non-mandatory guidance materials.

6. Emphasis on ethics

With the rising significance of sustainability information, the importance of ethical behaviour by those preparing such information cannot be overstated.

While we note that the IFRS Accounting Standards similarly are silent on ethics, our view is that a different approach may be required for the Standards. Financial reporting is typically performed by professional accountants who are subject to the ethical code of conduct promulgated by professional accountancy bodies or by national regulators.

The same cannot be said about sustainability reporting. The sustainability reporting process may involve individuals of varying backgrounds, who may or may not be professional accountants or belong to another profession, where its professionals are subject to ethical codes of similar rigour as the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA).

Given the nature of sustainability-related financial information and the risk of greenwashing, we hope that the ISSB and IESBA could work together in developing a framework or standard of ethical conduct for the purpose of sustainability reporting which will be adhered to by all preparers of sustainability reporting, not just professional accountants.

Our responses to selected questions in the ED are as follows:

Question 1 – Overall approach
(a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer? (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) Yes, the requirement is clearly stated in the ED.

(b) The proposed requirements would generally meet the proposed objective of the ED if preparers are able to fully comply with them. However, as mentioned under point no. 1 earlier in this letter, it is unlikely in the current state that most preparers will be able to fully comply with all the requirements of the ED.

In addition, there remains a significant level of interpretation that is afforded under the ED. To better meet the objective of the ED, there could be more quantitative disclosures which are objectively verifiable and comparable.

We recognise though that this may be challenging in the current context and this could be an area of progress in the coming years as ISSB and the International Accounting Standards Board (IASB) develop stronger connectivity between sustainability-related financial information and information in the financial statements.

(c) It would be helpful if more examples/guidance are provided to illustrate how the proposed requirements of the ED and the other Standards are applied together in an understandable and integrated manner.

(d) We believe that auditors and regulators will face difficulties given the nature of sustainability-related financial information required by the ED. While certain information could be verifiable, such as historical quantitative and qualitative information which are factual in nature, sustainability-related financial information prepared in compliance with the ED will include forward-looking statements and qualitative disclosures which are highly subjective in nature.

The IAASB's Non-authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting Assurance Engagements (EER Guide) highlights some of the challenges faced in assurance engagements over sustainability information, such as qualitative information which are inherently subjective. The challenges raised in the EER Guide are generally applicable to sustainability-related financial information as required by the ED as well.

To reduce the risk of greenwashing and undue reliance on assurance engagements over sustainability-related financial information, the inherent limitations of such assurance engagements need to be clearly articulated. There needs to be further clarity and consensus (and subsequently education) over which types of information can be assured and which cannot be.

We would like to reiterate our earlier point no. 3 of this letter on the importance of the ISSB working closely with the IAASB on the bespoke sustainability assurance standards.

Question 2 – Objective
(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?

(a) Yes, the proposed objective is clear.

(b) The clarity can be enhanced with more guidance or illustrative examples on how to evaluate if sustainability-related financial information affects enterprise value (EV). This is a matter which involves significant judgement. For instance, incidents which negatively affect an entity's reputation may or may not affect either market capitalisation or net debt.

There could also be further clarity on the differences between sustainability-related financial information and 'sustainability-related financial disclosures' as defined in the ED for the avoidance of confusion.

Question 4 – Core content
(a) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

We find the approach of building on the work of the TCFD to be an elegant one, as the TCFD Recommendations are widely used and cover the core elements of how companies operate.

Disclosures in relation to 'Strategy', however, can be sensitive. One potential struggle which adopters of the Standards may face would be to what extent should they disclose and meet the requirements of the Standards without losing their competitive advantage through disclosing business sensitive information. Further illustrative examples and application guidance could be helpful in this respect.

Question 5 – Reporting entity
(a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why? (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?

(a) In our view, this requirement makes sense conceptually as it is consistent with the aim of building connectivity between sustainability-related financial information and the financial statements.

However, there may be prevalent challenges faced by companies in complying with this requirement in today's context:

- Subsidiaries within a group may be at differing levels of maturity when it comes to sustainability reporting, especially if they are in different geographical locations. Hence, it is not uncommon to observe instances where groups of companies prepare sustainability reports but only certain subsidiaries or business lines are scoped in (instead of the entire group).

- There could be difficulties in obtaining sufficient and reliable information from entities which are not controlled by the reporting entity, for instance associates or joint ventures. We hear feedback that there are already hurdles today in obtaining sufficient and reliable information from these parties even in the preparation of the financial statements and it would be only more challenging when it comes to obtaining sustainability-related financial information.

- Where there are acquisitions or mergers during a financial year, a reporting entity may face the possibility that the acquired or merged entity does not possess a sufficient level of maturity in sustainability reporting. This challenge will be exacerbated if the timing of the acquisition or merger occurred close to the financial year end. In such instances, the reporting entity risks not being able to produce a sustainability report in compliance with the Standards.

In light of these challenges, we believe that it would be helpful if there are transitional provisions and practical expedients or if the ISSB introduces different tiers of compliance as suggested under point no. 2 in this letter.

(b) We appreciate the importance of extending the requirements for disclosures to the value chain as this can serve to compel other entities in the ecosystem to scale up disclosure capabilities.

However, we believe that clarity of this extension is necessary to ensure consistency and comparability. It is not clear from the ED how far up or down the value chain a reporting entity needs to consider.

Naturally, there are limitations to accessing information from suppliers or other third parties due to fears of divulging sensitive information which could affect competitive advantages as well as concerns over potential litigation risks. There is also no obligation for the suppliers or third parties to share any information in the first place.

For the reporting entity, there could also be a risk of undue reliance on the information obtained from these external parties, particularly as it would be difficult to assess the reliability of such information.

In this regard, we hope the ISSB can provide more application guidance and illustrative examples.

Question 6 – Connected information
(a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not? (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?

(a) Yes, the requirement is clearly worded.

(b) While we agree with the need for connectivity between sustainability-related risks and opportunities and the financial statements, we do not think that it is very clear how such information on the connections can be meaningfully provided by preparers. While the examples of connected information in paragraph 44 of the ED are useful, they are not sufficient to lead to meaningful explanations of the connections, especially in terms of connectivity to the financial statements.

This is probably due to the inherent differences in the nature of the information. The focus of both sets of information can be very different. What is material non-financially might not be material financially. For example, the activities carried out to achieve green-building status could be material in the context of IFRS S1 and IFRS S2. However, these activities may not carry significant effects to the financial statements in the current context.

We hope that the ISSB and IASB can work together in providing added clarity and guidance over the relationship between sustainability-related financial information and the financial statements.

Question 7 – Fair representation
(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 is clear. However, the requirements under paragraph 51 give rise to some confusion. This is discussed further under (b) below.

(b) Paragraphs 51 (a) and (b)

As highlighted earlier in this letter under point no. 5, we support the approach which the ISSB has taken by building on existing established standards/frameworks such as SASB Standards and CDSB Framework.

However, paragraph 51 (a) and (b) of the ED require the entity to consider disclosure topics in the SASB Standards and the ISSB's non-mandatory guidance, such as the application guidance under the CDSB Framework. This raises questions over the boundaries of the respective standards and to what extent is an entity expected to understand and comply with the requirements of those other standards.

In addition, we find it conflicting for paragraph 51 (b) to require mandatory consideration of ISSB's non-mandatory guidance.

As mentioned in point no. 5 earlier in this letter, it may be preferable if the Standards are more self-contained and for all mandatory requirements and considerations to be included within the Standards. If references need to be made to other sustainability reporting standards or other external sources, these should only be non-mandatory guidance materials. This is especially since it can be quite granular for a baseline standard to require consideration of such a wide range of topics and guidance from other standards and frameworks. One approach could be for the inclusion of a set of core ESG metrics as a starting point.

Paragraph 51 (c)

Paragraph 51 (c) requires an entity to consider the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting.

We believe that this scope is too wide and demanding for most, if not all, entities.

It begs the question whether an entity, in say Southeast Asia, applying IFRS Accounting Standards (or a local adaptation) would be expected to also comply with the most recent pronouncements of say, the UK Financial Reporting Council or the U.S. Securities and Exchange Commission or the Australian Accounting Standards Board.

This would not be feasible and practical, and we propose that the wording of this paragraph be amended from 'shall consider' to 'may consider'.

Question 8 – Materiality
(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?

While the definition of materiality in the ED is clear, we foresee many application difficulties and interpretation challenges as the evaluation of materiality, particularly given the nature of sustainability-related financial information (which tend to be more qualitative in nature other than metrics and targets) is subject to a high degree of judgement and there is also lack of clarity on how such information affect EV.

On this note, we note that GRI 101 standard does have a definition of "significant" which includes "Impacts that are considered important enough to require active management or engagement by the organization are likely to be considered significant", and it would be useful to understand from the ISSB if that would be a potential source of definition.

More illustrative guidance on this aspect would certainly be welcomed.

Consistent with point no. 4 earlier in this letter, it would also be helpful if there is clarification or guidance on how the definition of materiality in the ED interoperate with the concepts of materiality adopted by other major standards, such as the GRI (impact materiality) and the European Sustainability Reporting Standards (double materiality). This is important because sustainability at its core is not just about an entity's enterprise value, it is also about the impact on the people, planet, communities, etc.

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

The proposed restatement of comparatives in the ED to reflect the better estimate is not consistent with the corresponding treatment for changes in accounting estimates in the financial statements as per IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, where changes in estimates are effected prospectively.

The inconsistency with IAS 8 could result in confusion when reading both the sustainability-related financial disclosures and financial statements as well as additional work required to reconcile the two sets of information. This also goes against the ISSB's objective to build connections between the information in these two sections.

As such, the ISSB should consider aligning the requirements for changes in estimates in the sustainability disclosures with those for the financial statements.

Question 13 – Effective date
(a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.

We wish to draw reference to points no. 1 and no. 2 of this letter in which we have highlighted the need to balance the aspiration of the ED and the current state of sustainability reporting as well as the recognition of sustainability as a journey.

It is difficult to suggest a reasonable effective date based on the current form of the ED as it may be too challenging for immediate adoption by many companies. Public-listed and multi-national corporations aside, there are many SMEs which have not embarked on sustainability reporting and are staying on the sidelines until reporting requirements and practices are more matured and certain. This is expected given the practical need to make the most out of the limited resources which they have.

To encourage sustainability reporting and wider adoption of the Standards, we wish to reiterate our earlier suggestions in point no. 2 in this letter, which include:

a. Introduction of **transitional provisions and practical expedients** or a **phased approach**
b. **Providing for different tiers of compliance**
c. **Starting with a more prescriptive and narrow set of requirements**

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

We wish to reiterate the importance of ethical conduct in the preparation of sustainability-related financial information (please see point no. 6 above) as well as the need to demonstrate the interoperability of the Standards with other major sustainability reporting standards, particularly the GRI Standards which are currently widely adopted (please see point no. 4 above).

Should you require any further clarification, please feel free to contact Mr Terence Lam at terence.lam@isca.org.sg or Mr Donaphan Boey at donaphan.boey@isca.org.sg.

Yours faithfully,

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