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Dear ISSB colleagues,

Exposure Draft: IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

We welcome the opportunity to respond to your Exposure Draft: IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information.

The Quoted Companies Alliance *Accounting, Auditing and Financial Reporting Expert Group* has examined the proposals and advised on this response from the viewpoint of small and mid-sized quoted companies. A list of Expert Group members can be found in Appendix A.

If you would like to discuss our response in more detail, please do let us know.

Yours sincerely,

Tim Ward
Chief Executive

Q1 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?**

Overall, we support the Draft's approach focusing on investors and disclosure of sustainability-related information related to risks and opportunities material to enterprise value. We also agree that entities should report on all significant sustainability-related risks and opportunities and that ISSB standards should address sustainability reporting in the near future. Even though entities should already be monitoring and reporting on key potential risks, additional guidance and global baseline reporting requirements would be useful to all entities, and in particular, smaller entities.

Many entities, especially smaller entities, will struggle with the requirement to report under ISSB standards on all significant sustainability-related risks and opportunities and it is important that the ISSB takes the capacity of smaller entities into consideration. A possible solution to this issue could be to either adopt a phased-in approach to the implementation process and/or allow entities to provide an in-depth report only when specific IFRS Sustainability Disclosure Standards will be developed for each area. We believe that these two options would be more appropriate for smaller entities.

In addition, we also believe that there is still some degree of uncertainty on the meaning of "significant sustainability-related risks and opportunities", and it is also not sufficiently clear whether it is only material information on sustainability-related risks and opportunities that requires reporting. Even though it is included in the Basis for Conclusions (BCs) that "significant risks are those that an entity prioritises for management responses" (BC40) and therefore the concept of "significant risks" refers to an entity-specific assessment of sustainability-related risks that are being managed by the entity itself, this should be explained more clearly within the standard. Furthermore, whether there is a distinction between the terms material and significant is also unclear.

As the S1 proposed standards includes both guiding principles and mandatory disclosure requirements, it would be easier for companies if these could be relocated into separate sections and kept separate from the general guidance. Lastly, the similarities and overlaps between the S1 and S2 proposals and other ISSB standards potentially make it harder for entities to understand which additional specific disclosure requirements apply to them. It is still difficult to assess whether basing S1 and S2 around the TCFD framework approach works for all sustainability topics as this could also result in an overload of unnecessarily detailed information and/or disclosure duplicates for different sustainability questions.

Q2 Objective (paragraphs 1-7)

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?**

We believe that, in their current format, the proposed objectives and definitions are not clear enough, especially in relation to the lack of distinction between the definition of "material" and "significant", as described above. We also think that the Draft needs a more wholesome definition of the term "sustainability-related" as it could be interpreted either too broadly or inconsistently. A definition of the term, as well as guidance, will help entities apply the necessary standards and act accordingly to the regulations in place.

The definition of the term "enterprise value" could also be a source of confusion for unlisted entities as it is based on market capitalisation and is inconsistent with references made throughout the Exposure Draft that enterprise value is based on expected future cash flows from the business.

Lastly, Paragraph 7 of the section on Objectives sets out a requirement for sustainability-related financial information to be comparable with information from previous periods and information from other entities and, while this might be useful for investors, it might be challenging for entities to produce information that is relevant based on an entity-specific assessment and information that is comparable with other entities or prior periods since sustainability-related risks and opportunities are always evolving. We suggest it would be more helpful for entities wishing to achieve comparability standards to specify whether any mandatory disclosure requirements have been included in the global baseline disclosure requirements.

Q3 Scope (paragraphs 8-10) – Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

Yes – we agree it should be for the jurisdiction to provide guidance on any differences in concepts or accounting/reporting requirements under different GAAPs that interact with sustainability disclosure requirements.

Q4 Core content (paragraphs 11-35)

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

Although we support the use of TCFD framework as the starting point for the disclosure requirements, we do not understand why the strategy disclosure objective is focused on the "entity's strategy for addressing significant sustainability-related risks and opportunities" instead of "the actual and potential impact of climate-related risk and opportunities on the business, strategy and financial planning". This does not capture the full range of new disclosure requirements on the impacts of sustainability-related risks and opportunities. Entities that have previously reported in accordance with TCFD should be provided with the necessary information on any changes to the approach so that they will be able to modify their approach accordingly.

Furthermore, we found significant overlap between governance disclosure and risk management disclosure since they both focus on how to manage sustainability-related risk, and this might cause some confusion amongst entities trying to address these.

It is important to note the extensiveness of the governance disclosure requirements included on governance procedures on sustainability. This might lead to the procedure becoming a boilerplate reporting procedure rather than a significant sustainability disclosure procedure. A focus on current period governance actions and outcomes might serve entities more in their disclosure-making process. In relation to disclosure objectives for metrics and targets, some clarification and guidance should be provided in the draft metrics and targets to refer to information used to assess, manage and monitor the entity's performance and in S1/S2 requirements include other specific mandatory disclosures which require other metrics that are considered material for investors in assessing enterprise value.

Clarification is required in relation to strategy disclosures, as paragraph 16 regarding the requirement to make disclosures on "risks and opportunities that could reasonably be expected to affect the entity's business model, strategy and cash flow" is inconsistent with the overall requirement to disclose exclusively on risk and opportunities assessed as significant by the entity.

We also note that the Exposure Draft does not explain how the ISSB's sustainability-related governance disclosures interact with the governance disclosures required under local reporting requirements and codes. This needs to be addressed by the ISSB.

We would also like to highlight several concerns that have been highlighted by our membership in regard to the strategy disclosure. These concerns can be distilled into four main areas:

1. **Timeframes** – entities require more guidance on how to determine timeframes over the short, medium and long-term

2. **Effects on value chains** – small and mid-sized entities' absence or limited resources will consequently affect their ability to gather information on risks and opportunities

3. **Financial effects** – entities will require more guidance on how to quantify or isolate the effects of other business risks/matters on their financial statement. The introduction of this requirement should also be phased in or accepted in qualitative form for entities to adapt to such a requirement

4. **Resilience** – entities will require more guidance on quantitative scenario analysis, especially in relation to how the analysis should be performed depending on the different types of sustainability issues

Q5 Reporting entity (paragraphs 37-41)

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

First of all, we agree that the sustainability-related financial information should be required to be the same for the reporting entity as the related general purpose financial statements. We also agree, to a limited extent, with the requirement to disclose information on sustainability-related risks and opportunities using resources along the entity's value chain. We believe this is important for reporting on significant information, however, this might result in a relatively complicated process for some entities, especially smaller entities as they might have limited resources to dedicate to data collection and less power to require information from their value chain. While, for specific sectors, models are currently being developed to determine the full value chain, it might be useful if entities disclosed how they determined the value chain so that users can then assess the disclosures that are being made. Lastly, we also agree with the requirement for identifying the related financial statements. We think this should not be a problem if all material sustainability-related disclosures are covered in the annual report.

Q6 Connected information (paragraphs 42-44)

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

While we do recognise that connectivity is essential for all users, we do think it could be difficult to put into practice. The Exposure Draft should explain in more depth that there should be a connection between the different aspects of sustainability, as well as between sustainability matters and financial statements and sustainability matters and other reporting frameworks included in the general-purpose financial reporting, such as narrative reporting as part of the strategic report/management commentary or corporate governance disclosures. In order to back this up, additional guidance or illustrative disclosure examples could be provided to entities. We also think that this might cause issues for some entities in relation to commercial sensitivity in disclosing trade-offs.

Q7 Fair presentation (paragraphs 45-55)

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

The point on fair presentation is clear, however, it might be challenging for entities to put into practice the point on aggregation and disaggregation of sustainability-related information. We disagree with the idea that entities are required to refer to the source of guidance to identify sustainability-related risks and opportunities and related disclosures.

We believe that the sources listed are useful as they are in the present moment for non-mandatory references to entities making sustainability-related disclosures. Entities who are currently applying standards, such as SASB, should be encouraged to continue to use them until IFRS Sustainability Disclosure

Standards are fully developed. These sources and frameworks have not yet been through the appropriate IFRS due process, so entities adopting the IFRS Sustainability Disclosure Standards should not be expected to adopt and apply them as well as any subsequent IFRS Sustainability Disclosure Standards developed. This is especially true for jurisdictions around the world that already have sustainability and non-financial reporting requirements as this may limit the scope of adoption globally. The purpose of IFRS Sustainability Disclosure Standard is to create a single set of global reporting standards that have been through the IFRS due process. The additional sources of guidance should therefore not have a mandatory standing.

Furthermore, smaller entities might not have the resources necessary to carry out such a review of sources of guidance or industry/geography reporting practices. Alternatively, we believe that a requirement explaining the approach adopted for material sustainability risks and opportunities for areas where there is no directly applicable IFRS Sustainability Disclosure Standard would be more useful for entities. Existing global jurisdiction requirements and refences should be included in the list of relevant references considered.

Q8 Materiality (paragraphs 56-62)

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

Overall, we believe that the definition and application of materiality is clear, and we support the alignment of the definition with the IFRS conceptual framework and IAS 1. However, we do think it might be challenging for entities to apply such definition in the context of sustainability-related disclosures. While the Illustrative Guidance is useful for entities, the Draft should offer entities more support in the form of educational materials, illustrative examples or the equivalent of the IFRS Practice Statement 2. In relation to the proposal to relieve entities from disclosing information prohibited by local laws or regulation, we agree with the proposal as long as the omitted disclosures are identified and explained as this will help with the adoption of a global standard.

Q9 Frequency of reporting (paragraphs 66-71) – Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

We believe that releasing the sustainability-related financial disclosure at the same time as the financial statements where they relate is sensible as this would allow consistency and connectivity between the disclosures. However, this might be challenging for the entities that publish the disclosures at different times. Therefore, entities will need some time to adjust to the requirement in order to implement this new reporting systems and processes.

Q10 Location of information (paragraphs 72-78)

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

We believe that permitting disclosures outside the annual report and general purpose financial reporting with cross-references would be particularly helpful to those entities residing in places where their jurisdiction requires them to produce separate sustainability reports. We do think that the information provided in the draft is not sufficiently specific and it can be difficult to distinguish it from other information and can therefore be misleading and confusing for entities cross-referencing.

To enhance consistency and connectivity with reporting, we would suggest including in the draft the need to indicate a preference for including the disclosures within annual reports/general purpose financial reporting in order to encourage entities to limit disclosures to material and significant content. The majority of UK statutory disclosures are included in the entities' annual reports, however, corporate governance disclosures, such as the QCA Corporate Governance Code, are included on the entities' websites. The FCA's TCFD comply-or-explain reporting is also being including on entities' websites as well.

In relation to entities being allowed to make integrated disclosures, we believe this should be highlighted more in the draft. We also think that moving it to the section on connectivity would clarify the suggested approach to a greater extent. This is because entities should be integrating both sustainability matters and sustainability disclosures with the rest of their reporting on governance, strategy and risk management.

Q11 Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)

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

We believe that the requirement to restate comparatives retrospectively for changes in estimates will be extremely complex for certain entities. The requirement is different to the approach under IFRS because sustainability reporting cannot be restated in the current year as part of double-entry accounting in the way that financial reporting can. Estimates are expected to be revisited several times due to the nature of sustainability reporting and metrics that are continually evolving. Therefore, the draft should clearly state that only material changes in estimates need to be restated.

It should also be clarified in the proposed standards the distinguishment between changes in estimates and errors and, for the changes in estimates, it should be distinguished between changes in inputs and changes in estimation techniques. While we do support disclosure requirements highlighting sources of significant estimation uncertainty, it should be clearer what is meant by "significant for this purpose" and there should be more general guidance on the area.

We also 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, however, we recognise that there are some IFRS standards that impose specific measurement models preventing this, such as IAS36 which restricts the use of cash flows related to enhancement and restructuring in value in using impairment models. This could also form part of business forecasts for sustainability reporting purposes reflecting business model changes from sustainability risks and opportunities and transition plans. Furthermore, some fair value measurement techniques could also result in differences. A requirement for entities to disclose where financial data, assumptions and scenarios differ from those used in the financial statement should be included. This has also been suggested by regulators and investors as helpful disclosure.

Q12 Statement of compliance (paragraphs 91-92) – Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

While we think it is reasonable to expect entities to comply with all the requirements when giving a statement of compliance, it will be challenging for entities to fully comply with all requirements, especially at the beginning as they might lack the data, systems and processes for carrying out full compliance. This is also especially true for smaller entities, and we believe that a comply-or-explain approach will be helpful for them and encourage wider adoption of the standards. We also believe that a phased introduction of the standards would help these smaller entities at the beginning of the adoption process.

Q13 Effective date (Appendix B)

a) **When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.**
b) **Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?**

Entities will require sufficient time to be able to adhere to the requirements and the extensive number of new disclosures included in the standards. The workload will include addressing data collection, systems, processes and controls, and we believe entities will need several years to be fully compliant with this new type of reporting. Furthermore, smaller entities might need more time and a phased approach or the introduction of different aspects of the requirements would help them better adapt to the standards. Lastly, we agree with ISSB providing relief from disclosing comparatives in the first year of application.

Q14 Global baseline – Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

We believe that the draft has potential to act as a comprehensive global baseline for the assessments of enterprise value subject to the inclusion of our suggestions. The idea of providing a global baseline itself may be challenging as there are significant differences in the proposals from EFRAG to the SEC. Our main concern lies on the fact that some aspects of the proposal will be too demanding for some entities. This is especially true for smaller entities as the global baseline might require a level that is too high for them to comply with. An example is the mandatory status of the sources of guidance, such as SASB, as the need for both quantitative and qualitative disclosures expected from all entities might be an excessive requirement for smaller entities.

Q15 Digital reporting – Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

We believe that a digital taxonomy would benefit all entities in due course, however, we think it may be more appropriate to prioritise the efforts and resources of the ISSB into finalising the standards and observing how entities go about adopting them in order to facilitate the development of an accurate taxonomy and digital reporting.

Q16 Costs, benefits and likely effects

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

We think that costs will probably be high in the initial years of adoption of the proposals, especially for smaller entities with limited experience on sustainability reporting.

Q17 Other comments

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

We have no comments.

Appendix A

The Quoted Companies Alliance *Accounting, Auditing and Financial Reporting Expert Group*

Rochelle Duffy (Chair)	PKF Littlejohn LLP
Elisa Noble (Deputy Chair)	BDO LLP
Edward Beale	Western Selection PLC
Matthew Brazier	Invesco Asset Management Limited
Anna Hicks	Saffery Champness LLP
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Michael Hunt	ReNeuron Group PLC
Clive Lovett	Bilby PLC
Laura Mott	Haysmacintyre
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