Comment letter: [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

29 July 2022

Overview

The Responsible Investment Association Australasia (RIAA) thanks the international Sustainability Standards Board (ISSB) for the opportunity to comment on [Draft] IFRS S1.

RIAA strongly supports the ISSB’s mission of establishing a comprehensive global baseline for broader sustainability-related disclosures. The ISSB Standards will significantly improve the extent and accuracy of sustainability-related information in our markets. It will enable investors and others to more accurately gauge the risks and value of companies, and to make better-informed decisions. It will ultimately boost efforts towards improving sustainability outcomes globally, including under the UN Sustainable Development Goals.

The draft Standard is a significant step forward in establishing comprehensive and consistent disclosure of sustainability risks and opportunities beyond climate change. This reflects the importance of a range of corporate sustainability issues to investors. These include nature-related risks and opportunities, and those related to the human rights of First Nations Peoples, workers and other impacted communities.

Provided the general standard is fit-for-purpose, it will strengthen the comprehensiveness, comparability and utility of disclosures under emerging standards for many years. S1 is a particularly important global ‘building block’. While we are broadly supportive of the objectives of proposed S1, this submission makes a number of recommendations that could improve the clarity of the Standard and better enable reliable and consistent disclosures to be made under the standard.

Recommendations

1. Clarify that the definition of ‘materiality’ focuses on long term view and a consideration of a company’s impacts and dependencies on people, the planet and the economy as an important element of S1.
2. Remove ‘significant’ from S1 and require an entity to identify material information with investors.
3. Require an assessment of board member skills and competencies in sustainable development and sustainability risk in Governance disclosures.
4. More clearly define ‘value chain’.
5. Require entities to describe their value chain.
6. Require entities to disclose the standards and guidance they are using in their disclosures.
7. Refer to a list of current guidance sources, which is published and maintained by the ISSB.
8. Clarify the process for materiality assessment, including how time horizons should be incorporated.
9. Clarify how reporting entities can integrate the disclosure of common information.
10. Provide guidance clarifying what constitutes ‘reasonable’ estimates and what disclaimers/qualifiers on disclosures are acceptable under the Standard.
11. If a reporting entity does not provide historic data for revised metrics, require the entity to explain why.
12. Closely align S1 with other global standards in development, including the TNFD.
Response to questions

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?

In RIAA’s view, overall the proposals are reasonably clear in relation to what an entity would be required to disclose and how S1 and S2 will be applied together (subject to our specific comments below). The proposals broadly meet the stated objectives of S1. However, improvements could be made regarding the clarity of ‘material’ and ‘significant’.

Firstly, the definition of materiality encompasses a broad view of the risks and opportunities that may affect enterprise value. This includes ‘information about a company’s impacts and dependencies on people, the planet and the economy when relevant to the assessment of the company’s enterprise value’.

From an investor perspective, enterprise value encompasses the external impacts a company has on people, planet and the economy that will financially impact the company in the medium to long term. These would include external impacts that lead to consumer backlash, stranded assets, action by regulators, litigation, law reform or other potential consequences which will affect enterprise value. A long-term view of enterprise value is critical to investors as primary users of the disclosures under the proposed standards. This comprehensive interpretation of materiality on enterprise value – sometimes referred to as double materiality – is an important element of the standards that should be further clarified by the ISSB.

Secondly, the term ‘significant’ in S1 (as well as S2) is not clearly defined and is causing some confusion. We recommend that instead, entities be required to disclose material information, and work to identify and clearly justify what is material.

While we are not best placed to comment on whether the proposals are suitable for auditors and regulators, we have provided comment below on where there may be challenges for investors in verifying information.

---

1 ISSB, Snapshot of Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and Exposure Draft S2 Climate-related Disclosures, page 3
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?

In RIAA’s view, the proposed objective is clear.

Question 3—Scope
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?

RIAA is not placed to comment on this, particularly given Australia and New Zealand have adopted the IFRS Accounting Standards.

Question 4—Core content
(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?

In RIAA’s view, the objectives for each pillar are generally clear and appropriate.

We note that Governance disclosure requirements may be particularly important. Governance disclosures enable investors to assess whether the oversight, processes, lines of responsibility, internal controls and other requirements are in place for an entity to pursue its strategy, manage its risks and meet its targets.

The core disclosure requirements could be improved by:
• Requiring an assessment of board members’ skills and competencies in sustainable development and sustainability risks, through, for example, a skills matrix (related to paragraph 13(a)),
• more clearly defining ‘value chain’.

Recommendation 3: Require an assessment of board member skills and competencies in sustainable development and sustainability risk in Governance disclosures.

Recommendation 4: More clearly define ‘value chain’.
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?
(c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

RIAA broadly supports these proposals. They will provide a clearer, more comprehensive and integrated picture of the entity, connecting sustainability-related information to the entity’s financial statements.

However, to ensure the disclosures are meaningful to users, the Standard should require entities to describe their value chain, to ensure the extent of the business that has been considered in the disclosures is clear. In addition to our recommendation under Question 4, this requirement will better clarify the extent and nature of a company’s strategy and disclosures.

Recommendation 5: Require entities to describe their value chain.

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?

RIAA broadly agrees with the connectivity requirements, which reflect the close relationship between various elements of general purpose financial reports and sustainability reports. This will encourage more fit-for-purpose reporting, enabling investors to understand how sustainability risks and opportunities are being managed and how these feed into a company’s financial outlook.

Question 7—Fair presentation
(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.

RIAA supports the principles-based requirements to:
- provide additional disclosures to where needed to enable users to assess the implications of sustainability risks and opportunities on enterprise value, and
- not obscure information or aggregate dissimilar information.

To improve consistency of approach when reporting aggregated information, the guidance could provide further detail and clarity on which ‘characteristics’ a company should consider when deciding whether or not to aggregate information.

We broadly agree with the sources of additional guidance identified in the draft Standard. This requirement could be enhanced by the Standard requiring reporting entities to disclose which standards and guidance they are using,
and by the standard referring to a current list of relevant guidance sources published and maintained by the ISSB (for example, on the ISSB’s website).

**Recommendation 6:** Require entities to disclose the standards and guidance they are using in their disclosures.

**Recommendation 7:** Refer to a list of current guidance sources, which is published and maintained by the ISSB.

**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?*

(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?*

RIAA broadly agrees that the definition of ‘materiality’ is clear, and reiterate our earlier comments about the breadth of the materiality definition under the Standard.

However, the process and application set out in the draft Standard and the guidance could be clearer on some aspects, such as how an entity incorporates the different time horizons into the materiality assessment. We note the Principles of Responsible Investment’s (PRI’s) draft submission (pp 20-21) makes recommendations as to how the process could be clarified to provide a more meaningful materiality assessment. Clarity in the assessment process is very important, in order to make disclosures consistent and comparable for investors and other users.

In relation to the proposal to relieve an entity from disclosing information if local laws or regulations prohibit it, we are not currently aware of any such laws or regulations in Australia or Aotearoa New Zealand. If this proposal is justified by requirements in particular jurisdictions, and forms part of the final Standard, we support it being subject to the requirement to identify the type of information not disclosed and the relevant restriction. The omission of material information is relevant for investors to know, and we would expect reporting entities to take a limited and consistent approach to non-disclosure.

It will be important in the implementation of the Standards that local laws such as those related to privacy and business confidentiality are not unduly used to prevent disclosures, and that jurisdictions are encouraged to consider this.

**Recommendation 8:** Clarify the process for materiality assessment, including how time horizons should be incorporated.
Question 9—Frequency of reporting
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?

RIAA supports this approach, which will ensure there is connection and consistency between relevant aspects of the financial statements and sustainability disclosures.

Our preference is to aim towards a position where there is aligned reporting but we recognise the existing practical limitations on the ability to do so. We note that where investors are also reporting entities, they will heavily rely on investee company disclosures, which are provided at different times and relate to different reporting periods. This will raise challenges for investors preparing disclosures, particularly in the early reporting periods. Experiences and lessons learned from entities that are reporting against TCFD standards will be important to understand in this regard.

Question 10—Location of information
(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?

RIAA agrees with the proposals about the location of sustainability disclosures. Although it means disclosures may be less consistent and comparable for users, it accounts for any differences in domestic implementation, and should enable a reporting entity to provide information in the most appropriate way for the particular users of its disclosures.

We are not aware of any requirements in Australia or Aotearoa New Zealand that would interfere with an entity providing the information as required.

We support the proposal that information can be provided by cross-reference. We note the PRI’s draft submission (p 22) that this provision should be subject to the information being subject to the same checks and/or audit as the general purpose financial reporting.

Clause 78 could be clearer if it explicitly stated how the disclosure of common information can or should be integrated, for example, by stating that common information should be included under the core content/four pillars.

Recommendation 9: Clarify how reporting entities can integrate the disclosure of common information.
Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors
(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?

In RIAA’s view, these features are well-balanced and have been adapted appropriately in the draft Standard.

The provisions on measurement uncertainty, aggregated risk, disclosure of assumptions and disclosure of errors will all go towards increasing investors’ confidence that they can rely on the disclosures. While acknowledging the inherent uncertainties in providing information about future events and outcomes, disclosure of this information – across a broad range of sustainability issues – is becoming increasingly important for investors to assess and incorporate into decision making. The guidance could aide in the preparation of consistent and useful disclosures by clarifying what constitutes ‘reasonable’ estimates, and what disclaimers/qualifiers on disclosures are acceptable under the Standard.

We support the requirement to disclose revised metrics in comparatives, including on a historical basis where it is available and material to users (as it often will be to investors).

This will be particularly important in early reporting periods, as data and methodologies develop, and presumably improve, across a range of industries and areas of sustainability. Robust disclosure of methodologies and assumptions will be critical as data and metrics develop. This enables investors to assess how effectively a company is working towards more complete and insightful disclosures about its position and strategy. The guidance should clarify that if an entity does not adjust historic reporting, it should disclose why.

We agree that the financial data and assumptions in sustainability disclosures should be consistent with those that correspond in financial statements. We are not aware of any circumstances in Australia and Aotearoa New Zealand where this will not be able to be applied.

<table>
<thead>
<tr>
<th>Recommendation 10:</th>
<th>Provide guidance clarifying what constitutes ‘reasonable’ estimates and what disclaimers/qualifiers on disclosures are acceptable under the Standard.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation 11:</td>
<td>If a reporting entity does not provide historic data for revised metrics, require the entity to explain why.</td>
</tr>
</tbody>
</table>

Question 12—Statement of compliance
Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

RIAA supports the proposal that an entity include an explicit and unqualified statement that it has complied with the sustainability Standard requirements. This will assist with investors’ verification of information.

However, we refer to our comments above about relief from making certain disclosures where prohibited under local laws or regulations. Given the global nature of markets, we note the inherent risks in a situation where investors are relying on disclosures made by an entity claiming compliance without having made full disclosures under the Standard. We are not aware of any need for this relief in Australia and Aotearoa New Zealand. If this relief is required, clear information about the non-disclosure and the reason will be important.
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.
(b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

While the ISSB may have further work ahead in developing S1, RIAA would submit that the effective date should not prevent jurisdictions which are leading or well-progressed on sustainability disclosures to adopt the Standard, with appropriate, tailored domestic transition arrangements.

Question 14—Global baseline
Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

In RIAA’s view, the proposed global baseline is broadly suitable for the intended purpose, particularly as it builds on established elements of the TCFD framework. We are not aware of anything that would prevent the Standard being used as intended in Australia and Aotearoa New Zealand.

Question 15—Digital reporting
Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

While RIAA broadly supports the proposed approach, we do not have any specific comments at this stage.

Question 16—Costs, benefits and likely effects
(a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?
(b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

The ISSB Standards, as a comprehensive global baseline for sustainability-related disclosures, should significantly improve the consistency, reliability and comparability of sustainability related disclosures globally.

A global baseline will enable investors to better understand, compare and analyse disclosures. This will boost understanding of their investment risks, shape investment strategies and make more efficient decisions. It will also enable investors to meet their beneficiaries’ increasing expectations of management and transparency on sustainability issues.

From the perspective of reporting entities, a comprehensive global baseline would, over time, streamline reporting costs, lower transaction costs, facilitate smoother cross-border capital flows, reduce market segmentation and increase market confidence, and has the potential to improve internal understanding of risks and opportunities. It could inform more sustainable business opportunities and ventures. ‘Good’ reporting against the ISSB Standards will signal to investors that an entity is committed to improving the sustainability of its business, and is capably managing its related risks and opportunities.

RIAA sees value in ISSB considering First Nations Peoples’ rights as a key sustainability issue in a future program of work. The prompt implementation of the ISSB’s comprehensive global baseline domestically will enable more progressed countries to swiftly move forward with enshrining a range of sustainability disclosures.
**Question 17—Other comments**

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

We agree with the PRI’s draft submission (p 28) regarding the need for the ISSB Standards to support the ‘building blocks’ approach. That approach will enable entities to go beyond the ISSB Standards’ focus on ‘enterprise value’, meet the requirements of different jurisdictions’ regulations, or the Global Reporting Initiative and prepare for the baseline to be lifted in the future.

We support the PRI’s comments that consistency and alignment is needed in conceptual frameworks and common disclosures (pp 28-29).

We note that the draft Standard is being developed in parallel to the Taskforce on Nature-related Financial Disclosures (TNFD) framework, which is currently in the early beta phase. We urge close alignment of the ISSB’s and TNFD’s work, to ensure robust, consistent global standards emerge from the valuable work being undertaken by both organisations. The same is important in the development of any other global standards.

**Recommendation 12:** Closely align S1 with other global standards in development, including the TNFD.

---

**About RIAA and our members**

RIAIA champions responsible investing and a sustainable financial system in New Zealand and Australia and is dedicated to ensuring capital is aligned with achieving a healthy society, environment, and economy.

With approximately 500 members managing more than US$29 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across New Zealand and Australia. RIAA’s membership includes superannuation funds, KiwiSaver default providers, fund managers, banks, consultants, researchers, brokers, property managers, community trusts, foundations, faith-based groups, financial advisers, financial advisory groups, and others involved in the finance industry, across the full value chain of institutional to retail investors.