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27 July 2022

Dear Sir

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

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network, this letter summarises views of member firms that provided comments on the ED.

We strongly support the formation of the ISSB and its development of sustainability disclosure standards to be used as a global 'baseline' of reporting requirements. These can then be adopted in multiple jurisdictions, giving a consistent starting point, with country-specific requirements being added as considered appropriate by different jurisdictions. This approach, which would result in converged terminology, definitions and concepts, is critical in avoiding fragmentation of jurisdictional requirements and the potential for entities to be required to prepare multiple sustainability reports.

We note that a number of sustainability reporting initiatives are currently in progress, including in the EU and the US, and encourage the ISSB to work with the organisations involved in developing requirements to maximise a building blocks approach and minimise the risk of regulatory fragmentation which would result in non-comparable, inconsistent information for investors and potentially significantly increased costs for preparers. Convergence of requirements is necessary, rather than alignment where what appear to be similar reporting requirements are structured and defined differently.

We agree with many of the proposals in the ED. However, as noted in our responses to the detailed questions, we believe that it would be appropriate to define a number of additional terms that are used in the ED in order to clarify their requirements. We also note that in some cases, disclosures are required unless an entity is 'unable to do so'. This appears to be a very high hurdle, and we consider that a different threshold may be more appropriate, such as whether it is impracticable to obtain certain information, or it cannot be obtained without undue cost or effort.

A ‘climate first’ approach

The ED would require entities to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. This is, of course, appropriate; however, there are different levels of maturity in sustainability reporting around the world, and there is currently significant focus on climate-related matters.

In this context, we believe that it may be appropriate for disclosures about climate-related matters to be prioritised, with an earlier effective date than wider sustainability disclosures. This could be achieved through a later effective date for paragraphs in IFRS S1 which require reporting on wider sustainability matters, with earlier adoption being strongly encouraged.

This approach would have the potential for consistent climate-related disclosures being made sooner than would be the case if entities needed immediately to disclose information about all significant sustainability-related risks and opportunities because entities would be able to report more quickly on a single sustainability topic. It might also encourage and enable jurisdictions in which sustainability reporting is relatively immature to adopt IFRS Sustainability Disclosure Standards at an earlier date.

Hierarchy of sources of guidance

Paragraph 51 of the ED sets out a hierarchy of guidance to be considered in addition to IFRS Sustainability Disclosure Standards. This requires that an entity ‘shall consider’ these sources. We believe that to specify this as a requirement is inappropriate, and that this should instead say that an entity ‘may consider’ these sources.

Disclosures prohibited by local laws or regulation

The ED proposes that an entity need not disclose information otherwise required by the ED if local laws or regulations prohibit the entity from disclosing that information. Some support this proposal as they believe that the flexibility would permit (and potentially encourage) a broader number of jurisdictions to adopt IFRS Sustainability Disclosure Standards more quickly. However, others believe that the proposal is not appropriate, because it brings a risk of jurisdictional ‘greenwashing’ through the prohibition of disclosure of certain material information (e.g. GHG emissions or human rights matters). It would also introduce a relatively straightforward mechanism for jurisdictional ‘carve outs’ from the requirements of IFRS Sustainability Disclosure Standards, which is an outcome that significant efforts have been made to avoid in relation to IFRS Accounting Standards.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan.

Andrew Buchanan

Global Head of IFRS and Corporate Reporting

Appendix

Question 1

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?

<u>BDO response</u>

Question 1(a) – we believe the ED is clear. However, we believe the addition of a cross-reference to paragraph 2, referencing paragraphs 50-55 would enhance clarity. This is because paragraphs 50-55 explain how an entity identifies sustainability-related risks and opportunities, including the guidance and other sources that entities are either required to, or may, consider.

As noted in our response to question 4 of the ED, we observe that 'sustainability-related financial information' is defined in the ED, but 'sustainability' itself is not. This may make it more challenging for entities to identify appropriate risks and opportunities, particularly when an IFRS Sustainability Disclosure Standard does not address that topic.

Question 1(b) – we agree.

Question 1(c) – we believe it is clear how the proposed requirements in the ED would be applied together with IFRS S2.

Question 1(d) – as noted in our response to question 13, we believe that the ISSB should consider a phased 'climate first' approach in which IFRS S1 and S2 would become effective at the same date, except for paragraphs 2, and 50-55, of IFRS S1, along with any other paragraphs requiring the identification of all sustainability-related risks and opportunities which would be applicable from a later date. This is because we believe that the most urgent need is for climate-related sustainability disclosures, and an initial requirement to provide disclosures for this area only would enable them to have an earlier effective date.

Additionally, many of the requirements in IFRS S2 are very complex (e.g. the disclosure of scope 3 emissions by all entities) and will require a significant work effort to implement by a large number of entities worldwide. This work effort in isolation will already be a challenge for entities to prepare and then for auditors to verify. Requiring entities to identify all material sustainability related risks and opportunities and associated information in addition to this requirement will be challenging, if not impossible for some entities to implement in the short-term.

However, if a phased 'climate first' approach were to be followed, we believe that it would be appropriate for the paragraphs with a later effective date to be permitted to be adopted early, with this being 'strongly encouraged'. This would acknowledge that some jurisdictions are more advanced in sustainability reporting than others, and that regulatory authorities in those jurisdictions might choose to require early adoption of the requirement for publication of a full suite of sustainability disclosures.

Please also see our response to question 13.

Question 4

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?

BDO response

Question 4(a) – we agree with the disclosure objectives and the definitions, which build on the well understood recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

However, we believe that the ISSB should define 'sustainability-related risks and opportunities' or 'sustainability', which would assist entities in meeting these disclosure objectives.

The ED defines both 'sustainability-related financial disclosures' and 'sustainability-related financial information'. However, both of these definitions include 'sustainability-related risks and opportunities', which is not defined. It is important that preparers and auditors clearly understand the intention of the ISSB, particularly when IFRS S1 proposes that 'material information be disclosed about all significant sustainability-related risks and opportunities' prior to topical IFRS Sustainability Disclosure Standards being issued.

Disclosure of sustainability-related information and the verification of that information by auditors (particularly, the completeness of those disclosures) is a nascent area. Entities have typically applied voluntary frameworks with less explicit definitions, and entities have often chosen to disclose only some sustainability-related information. With the introduction of requirements that will be mandatory for many entities for the first time, clarity in the scope of the proposals is important.

The Basis for Conclusions includes information about the ISSB's views on sustainability-related risks and opportunities (BC38-39). We believe it would be appropriate for these paragraphs to be included in the final standard.

Question 4(b) – we believe the disclosure requirements are appropriate to their stated disclosure objective.

Question 5

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?

<u>BDO response</u>

Question 5(a) – we agree because financial statements and the document that will include the required sustainability-related financial disclosures are interconnected and, on a combined basis, will provide users with information to assess the total enterprise value of an entity.

Question 5(b) – we do not believe the requirement to disclose information about sustainability-related risks and opportunities within an entity's value chain are entirely clear.

As noted in our response to the IFRS S2 ED, we observe that IFRS S2.21(a)(vi)(4) exempts entities from including scope 3 emissions when that information would be provided by entities in the value chain and a faithful measure cannot be obtained. We understand that this requirement exists because entities in the value chain may be unable or unwilling to provide information necessary to faithfully measure scope 3 emissions.

In contrast, IFRS S1.15(b) requires entities to disclose information about the effects of significant sustainability-related risks and opportunities on its business model and value chain. This requirement would apply to other sustainability-related topics (e.g. water usage, labour practices) because of IFRS S1.2 and 50-55. IFRS S1.22 states that quantitative information shall be disclosed unless an entity is 'unable to do so'. Therefore, IFRS S2 exempts certain quantitative information from being included in scope 3 emissions if a 'faithful measure' cannot be obtained, but a different requirement ('unable to do so') applies to other sustainability-related topics.

We interpret that an entity being 'unable to do so' is a very high hurdle to demonstrate, since this would mean that there is no potential way for an entity to obtain the necessary information. We believe this would be difficult to demonstrate in practice and to verify from an audit perspective.

We agree that sustainability-related financial information related to an entity's value chain provides useful information to users, however, it must be clear whether the IFRS Sustainability Disclosure Standards would require an entity to seek out information that would not otherwise be available to it. For example, assume Entity A manufactures automobiles. Included in Entity A's supply chain are numerous sustainability-related risks and opportunities that may affect Entity A's enterprise value (e.g. poor labour practices in several of its part suppliers in developing countries). Entity A may be unaware of these sustainability-related risks and opportunities because management of Entity A has not previously sought out such information in its relationships with suppliers.

We believe IFRS Sustainability Disclosure Standards need to be clear as to whether Entity A would be required to seek out such information in identifying sustainability-related risks and opportunities and associated disclosures. If Entity A would be required to do so unless Entity A is 'unable to do so', then we believe this criterion should be modified as it will be impracticable for auditors to assess whether an entity is unable to obtain information without any threshold to tie this assessment to. For example, when it is impracticable to obtain the information, or the information cannot be obtained without undue cost or effort.

Question 5(c) – we agree for the same reasons noted in our response to question 5(a).

Question 7 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.

BDO response

Question 7(a) – as noted in our response to questions 1(d) and 13, we believe that the ISSB should consider a phased 'climate first' approach in which IFRS S1 and S2 would become effective at the same date, except for paragraphs 2, and 50-55 of IFRS S1, along with any other paragraphs requiring the identification of all sustainability-related risks and opportunities.

A consequence of this approach would be that in the interim period before an entity would be required to make disclosures relating to all sustainability-related risks and opportunities, fair presentation would not be achieved as defined in the exposure draft. This interim approach would be more 'rules based' and require disclosure relating to only certain sustainability-related topics. If this approach were taken, we believe that the requirements in the ED requiring fair presentation would need to be amended or the effective date of these requirements would need to be adjusted in conjunction with IFRS S1 paragraphs 2, 50-55, etc.

Question 7(b) – we agree that the sources of guidance identified in paragraph 51 of the ED provide useful information in identifying sustainability-related risks and opportunities and related disclosures, however, the paragraph states that an entity 'shall consider' those sources. We do not agree that an entity should be required to refer to these sources because such a requirement is redundant. Paragraph 53 requires an management to apply judgement in identifying disclosures that meet certain criteria, and paragraphs 45-46 set out the requirement to comply with fair presentation. We do not believe it is appropriate to set out a mandatory list of guidance that has not been subject to the due process of the ISSB. We believe it would be more appropriate to state that entities 'may consider' those sources.

Question 8

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?

BDO response

Question 8(a) – yes, we believe the definition and application is clear. Linking the definition of materiality to the concept of enterprise value means that identifying material information will be made easier because preparers, auditors and users already have a thorough understanding of information that affects the enterprise value of an entity. This is because this concept is already being applied in traditional financial reporting because much of enterprise value is captured in the items recognised in financial statements.

We also believe that despite the fact that sustainability-related risks and opportunities may have effects beyond enterprise value in the direct sense (e.g. pollution in a river affecting wildlife and nearby populations), that enterprise value captures the majority of these effects indirectly. For example, the pollution of a river will negatively affect customer sentiment and may result in government intervention and fines, which affect enterprise value.

Question 8(b) – yes, for the reasons described in our response to question 8(a).

Question 8(c) – the information provided by the Illustrative Guidance is useful in identifying material sustainability-related financial information, however, the guidance is limited to approximately 2 pages. Preparers and auditors are experienced in making materiality judgements relating to traditional financial reporting, however, those judgements are simpler because most information is expressed in a common unit of measure, being the presentation currency. Sustainability-related financial information may be expressed in a much broader variety of formats (e.g. metric tonnes of CO_2 equivalents, narrative information about risks, quantity of biodiesel consumed, etc.). We recommend that the ISSB issue additional guidance on making material judgements in the context of sustainability-related financial information.

Question 8(d) – in performing outreach with BDO firms, we have received diverse perspectives as to whether it is appropriate for IFRS Sustainability Disclosure Standards to permit an entity to express compliance with the framework despite omitting certain disclosures due to the effects of local law or regulations.

Those that believe this is not appropriate observe that IFRS Accounting Standards contain no such allowance for local laws or regulations and in some cases, jurisdictions have had to make changes to local laws or regulations to permit compliance with IFRS Accounting Standards. Some also observe that this provision may permit 'greenwashing' where certain jurisdictions may pass local laws or regulations to prohibit the disclosure of certain material information (e.g. GHG emissions, human rights matters, etc.). It would also introduce a relatively straightforward mechanism which would enable jurisdictional 'carve outs' from the requirements of IFRS Sustainability Disclosure Standards, which is an outcome that significant efforts have been made to avoid in relation to IFRS Accounting Standards. Jurisdictional greenwashing and/or carve outs would reduce the comparability of jurisdictions with different approaches to many matters of public policy, which impairs the usefulness information and also draws into question the credibility of multiple entities claiming compliance with a common framework when they disclose different information.

Others believe that this flexibility would permit a broader number of jurisdictions to more quickly adopt IFRS Sustainability Disclosure Standards. They observe that reporting of sustainability-related financial information is in its early stages in many parts of the world and making allowances for local circumstances may encourage the acceptance of sustainability reporting.

Overall, if the ISSB proceeds with this aspect of the exposure draft as proposed, we urge the ISSB to consider actions that would mitigate the effects of jurisdictional greenwashing and/or carve outs. This may include ensuring that the disclosure that information has been omitted, a description of that omitted information, and the reason(s) for its omission must be disclosed in a prominent location in the report containing the sustainability-related financial information.

Question 11

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?

<u>BDO response</u>

Question 11(a) – we believe these general features have been adapted appropriately. As noted in our response to question 11(b), we consider it appropriate to depart from the principle in IAS 8 relating to changes in estimates because sustainability-related financial information differs from amounts recognised in accordance with financial accounting requirements. As noted in BC83, if such information were not reflected in the comparative period, it would be ‘lost’ because those amounts do not affect a cumulative amount reported by the entity across periods (e.g. equity).

Question 11(b) – we agree for the reasons noted in our response to question 11(a).

Question 11(c) – we agree, however, we do not understand the criterion set out in paragraph 80 of the ED that this consistency in financial data and assumptions should occur ‘to the extent possible’. The IFRS S1 and S2 exposure drafts use various terms to establish thresholds, including ‘to the extent possible’, ‘unless an entity is unable to do so’, and ‘unable to obtain a faithful measure’. None of these terms are well understood or clear in their meaning. This is true for some terms used in IFRS Accounting Standards, however, practice has evolved over time and these terms were introduced incrementally, whereas IFRS Sustainability Disclosure Standards are introducing a large number of new terms without a definition or interpretative guidance.

Consistent with our response to question 5(b), we do not understand whether one should interpret ‘to the extent possible’ narrowly or broadly. One could interpret ‘to the extent possible’ broadly to mean that the financial data and assumptions should always be consistent because an entity is always capable of doing so as the information would be available to management. One could also interpret this requirement to mean that that financial data and assumptions should be consistent unless a conflict exists between the applicable financial reporting framework and IFRS Sustainability Disclosure Standards. We believe the ISSB should clarify the intended meaning of this requirement.

Question 13

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?

BDO response

Question 13(a) - Consistent with our response to the IFRS S2 ED, we support the actions taken by the ISSB to establish a global baseline for sustainability reporting. The application of IFRS Sustainability Disclosure Standards will provide users with important information that has been previously unavailable in many cases or provided in an inconsistent manner. It is also important that certain types of information become available in the near term to facilitate compliance and monitoring with fundamentally important global commitments, such as those made at COP26 in Glasgow, Scotland in November 2021 by the majority of world leaders.

In order for sustainability-related financial disclosures to be useful to users, they must be broadly applied, accepted by the global community and available in the near term. In order for this to occur, we believe it is necessary to balance competing interests: completeness of information vs. time required to implement the requirements.

Paragraph 2 of the exposure draft requires an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed, not only those addressed in a topical IFRS Sustainability Disclosure Standard (e.g. IFRS 2 for Climate-Related Disclosures). This may be feasible in some jurisdictions that are more advanced in their existing requirements for sustainability disclosures (although even in those jurisdictions, comprehensive reporting can be limited to the largest companies). However, for many entities and jurisdictions, the approach proposed in paragraph 2 of the exposure draft would mean transitioning in one step from either no or minimal sustainability-related disclosures to disclosures for all sustainability-related topics. We believe the work effort required to accomplish this would be very significant, which would necessitate a sufficient implementation period of at least 3 years. An immediate requirement for comprehensive sustainability disclosures also creates the risk that fewer jurisdictions will accept or ‘buy in’ to IFRS Sustainability Disclosure Standards as the burden imposed on entities may be perceived to be too high.

We observe that entities were provided with 3 or more years to implement complex and pervasive IFRS Accounting Standards (e.g. IFRS 16, IFRS 17). Providing sustainability disclosures of any kind will be a significant undertaking for many entities, including gathering the necessary information and implementing and adapting systems, processes and controls to estimate information such as scope 1, 2 and 3 greenhouse gas emissions, and financed/facilitated emissions for certain financial services entities. In the case of accounting standards, entities may have had to adapt their existing systems and processes to implement new requirements. However, almost all entities began from a starting point of having existing systems, processes and controls in place, whereas for sustainability reporting, many entities will be starting from no processes and systems whatsoever.

It is for these reasons that we believe that it would be more appropriate and in the interest of users for the ISSB to develop a phased ‘climate first’ approach to implementing IFRS Sustainability Disclosure Standards. This would involve IFRS S1 and S2 being effective at the same date, except for paragraphs 2, and 50-55 of IFRS S1, along with any other paragraphs requiring the identification of all sustainability-related risks and opportunities which would become effective at a later date. This would mean that initially, entities would only be required to provide sustainability-related financial disclosures set out in IFRS S2 relating to climate.

While many sustainability-related risks and opportunities affect enterprise value, we believe the urgency of climate-related disclosures is significant in comparison to other disclosure topics. Climate change and a just transition to a greener economy are fundamental to all businesses, governments and peoples. Initially requiring disclosure of only climate-related information would allow jurisdictions to require implementation of IFRS Sustainability Disclosure Standards more quickly than if entities were required immediately to disclose information about all sustainability-related risks and opportunities.

The later effective date of a requirement for an entity to disclose material information about all significant sustainability risks and opportunities to which it is exposed could also permit the ISSB to develop additional topical IFRS Sustainability Disclosure Standards, for implementation at that later effective date.

We note that this phased approach would also be consistent with the proposals set out by the United States Securities and Exchange Commission (SEC). The SEC is initially proposing to require disclosures about climate-related information before other sustainability-related topics. If the ISSB takes a similar phased approach, this might increase the potential for foreign-private issuers with US operations to be permitted to apply IFRS Sustainability Disclosure Standards in place of SEC requirements.

Question 13(b) – we agree for reasons consistent with our response to question 13(a). Even if the ISSB were to initially require disclosure of only climate-related financial information, this would still be a significant undertaking for many entities that have never disclosed greenhouse gas emissions, particularly scope 3 emissions. Disclosing financed emissions for entities for certain entities in the financial sector will also require significant new systems, processes and controls to be developed, as well as adjusting many lending and financing agreements to permit or require lenders to provide necessary information.

Relieving entities from having to disclose comparative information in the first year of application would reduce the costs of implementation. This approach would also facilitate an earlier effective date for the standards, which is important for the reasons we noted in our response to question 13(a).

Question 14

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?

BDO response

We believe a ‘climate first’ approach to the sustainability-related disclosure topics would be consistent with the objective of the ISSB for IFRS Sustainability Disclosure Standards to serve as a consistent global baseline.

To meet this objective, the ISSB should consider the factors noted in our response to question 13. The greater the disclosure requirements, the greatest the cost of implementation, which increases the risk of jurisdictions not choosing to require IFRS Sustainability Disclosure Standards.

The ‘climate first’ approach we have suggested would reduce the initial costs and complexity of adopting IFRS Sustainability Disclosure Standards, which would mitigate the risk of jurisdictions not adopting them and enable earlier disclosure of climate-related matters.

If jurisdictions believed that disclosure of certain additional sustainability-related financial information was necessary to meet needs of users, then they could require additional disclosures beyond climate during this phase in period (including, as noted in our response to question 1d), early adoption of the sections of IFRS Sustainability Disclosure Standards with a later effective date), which would be consistent with the objective of the ISSB for IFRS Sustainability Disclosure Standards to serve as a consistent global baseline.

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

BDO response

We do not have any other comments.