July 28, 2022

IFRS Foundation
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Dear Colleagues,

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the ISSB and welcomes the opportunity to comment on the Exposure Draft, *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*.

Our comments on the questions raised in the Exposure Draft are attached in the appendixes to this letter.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

Dr. Ahmad Almeghames

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Appendix 1: SOCPA Comments on [Draft] 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?

SOCPA Comments:

(a) SOCPA believes that the issue is not about whether or not 'the exposure draft clearly states that it requires the identification and disclosure of material information about all significant sustainability-related risks and opportunities that could affect the enterprise value even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard', rather, the issues are whether such a requirement is capable of being implemented in a sufficient manner. Specifically:

   I. is there a definition of what is meant by "sustainability" in the context of the IFRS sustainability standards that could help in setting boundaries for those risks and opportunities about which the entity makes the required disclosures?

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II. is there a list of common sustainability topics that an entity is expected, at minimum, to disclose their related risks and opportunities that could affect the enterprise value?

Some of our stakeholders believe a definition of “sustainability related risks and opportunities” should be included.

III. is there a clear distinction between the sustainability issues that impact the enterprise value and those that impact the society as a result of the entity’s operations?

It’s worth to note that not all of the sustainability related matters that arise as a result of an entities actions necessarily impact the enterprise value. As seen by the report based on a discussion by the “Group of 5” leading international sustainability standard-setters – “Reporting on enterprise value Illustrated with a prototype climate-related financial disclosure standard”, a sustainability matter can fall into one of three categories:

1. a company’s impact on all sustainability matters (the economy, the environment, and people)
2. sustainability matters that impact enterprise value; and
3. core financial information (affects monetary amounts accounted for and disclosed in the financial statements).

In addition, depending on the activities of an entity and industry it operates in, the sustainability matter can move from one category to another over time. The report goes on to quote an example of emission of Nitrogen Oxide and highlights this fact.

SOCPA’s concerns are of two-fold:

i. The ability of an entity to identify all of the sustainability-related risks and opportunities to which the entity is exposed to would largely depend on how much emphasis the organization has placed on sustainability related reporting. If the mechanism set up by the entity to identify sustainability-related risks and opportunities is not strong enough obviously the results it would generate would be very limited.

The exposure draft requires risks and opportunities to be identified even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard. We assume this would mean that an entity will have to look for guidance from other standard setters and sources as detailed in paragraph 51 of the ED. As previously stated, if the mechanism set up by the entity is not strong enough the entity in such an instance will make a very limited attempt to even look for additional guidance other than looking at other standards setting bodies.

As a result of the above, 2 operationally similar entities functioning in the same industry could end up disclosing significantly different information even if both entities have the same sustainability-related risks and opportunities.

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ii. Similarly, the determination of a sustainability matter moving from one category to another as identified above from 1 to 3, would in certain instances be straight forward (as with the example quoted in the above referred report, relating to emission of nitrogen oxide) while in many others would involve significant judgement. The structure and mechanism set up by each entity would determine how accurate the assessment of moving from one category to another be and therefore as with the case above, 2 operationally similar entities functioning in the same industry could end up with vastly different conclusions.

Important to note only category 2 and 3 are within the scope of the Exposure Draft.

(b) It is not clear why the proposed objective of this standard is different from the objective of financial reporting as set out in the *Conceptual framework for Financial Reporting*. Since the primary users of sustainability-related reporting are the same as those of financial reporting and since the required disclosures, according to the proposed IFRS S1, are specifically about *Financial Information*, the objective should be the same.

However, some of our stakeholders believe in order to meet the proposed objective a more prescriptive set or rules may be preferred. This would make it easier for comparison between similar entities without extensive notes or policy choices.

(c) As we have commented on the IFRS S1, the IFRS S2 includes many repetitions of the verbatim of many paragraphs of the IFRS S1 with the replacement of the phrase "sustainability related sustainability-related risks and opportunities" with the phrase "climate-related risks and opportunities". IFRS S1 stated in paragraph 11 that "Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise, an entity shall provide disclosures about…". Therefore, we suggest linking the two documents without repeating the same requirements. For example, IFRS S2 may state that the requirements about disclosure on governance in IFRS S1 apply to the governance of climate-related risks and opportunities. IFRS S2 and other future sustainability standards should only include those additional requirements. We suggest redrafting IFRS S1 to be confined to setting the conceptual basis and the infrastructure for the contents of the other subject specific IFRS sustainability standards.

However, some of our stakeholders believe there is a need to make clearer how the differences between developed and developing countries as well as the consideration to national priorities and plans will fit with in the exposure draft.

(d) There is no 'audit trail' for the sustainability-related disclosures as there are no transactions, events or other conditions that are reflected in the entity books. Most, if not all, sustainability-related risks and opportunities are qualitative and forward-looking information. Therefore, the challenge would be how auditors and regulators would be able to verify the accuracy and completeness of the information disclosed or the existence of information not disclosed. Based on SOCPA's concerns in (a) above it is clear that the information disclosed by each entity could vary. This would place additional burden on the auditors and regulators when validating the information disclosed.

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Question 2 — Objective (paragraphs 1–7)

The Exposure Draft sets out proposed requirements for entities to disclose sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities on an entity's enterprise value.

Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information in an entity's financial statements and sustainability-related financial information.

Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Sustainability related financial information should, therefore, include information about the entity's governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements. Sustainability-related financial information also depicts the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy, or about the entity's development of knowledge-based assets.

The Exposure Draft focuses on information about significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity's enterprise value.

(a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?

(b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

SOCPA Comments:

(a) As we stated in our response to question 1, It is not clear why the proposed objective of this standard is different from the objective of financial reporting as set out in the *Conceptual framework for Financial Reporting*. Since the primary users of sustainability-related reporting are the same as those of financial reporting and since the required disclosures, according to the proposed IFRS S1, are specifically about *Financial Information*, the objective should be the same.

SOCPA also would like to highlight that paragraph 5 of the Exposure Draft refers to:

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"Enterprise value reflects expectations of the amount, timing and certainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile……"

The use of the phrase "expectations" and "future cash flows" in paragraph 5 referred to above imply that the sustainability matter will affect the enterprise value in the future. However, in reality it could be some of these effects on enterprise value have already taken place at the reporting date. In certain instances, the effects of the sustainability matter could be even included in cash flow projections that are used to support estimates and valuations relating to future cash flows. These estimates and valuations would have been already considered in preparation of the financial statements. SOCPA therefore believes paragraph 5 will have to be rephrased to factor this aspect as well.

In addition, some of our stakeholders believe that clarity is needed in understanding from which perspective is enterprise value being viewed - management's perspective or a market participants' perspective?

(b) Although Appendix A defines "Sustainability-related financial information", it does not define what is meant by the word "sustainability" itself. Defining what is meant by "sustainability" in the context of the IFRS sustainability standards will help in setting boundaries for those risks and opportunities about which the entity makes the required disclosures.

SOCPA also believes illustrative guidance in this area would be useful in better understanding the definition.

Question 3 — Scope (paragraphs 8–10)

Proposals in the Exposure Draft would apply to the preparation and disclosure of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Sustainability-related risks and opportunities that cannot reasonably be expected to affect users' assessments of the entity's enterprise value are outside the scope of sustainability-related financial disclosures.

The Exposure Draft proposals were developed to be applied by entities preparing their general purpose financial statements with any jurisdiction's GAAP (so with IFRS Accounting Standards or other GAAP).

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

SOCPA Comments:

SOCPA believes the proposals in the Exposure Draft could be used by any entity that prepares general purpose financial statements in accordance with any jurisdiction as the principles in the Exposure Draft is significantly similar to principles in the "Group of 5" report (leading international sustainability standard-setters) – "Reporting on enterprise value Illustrated with a prototype climate-related financial disclosure standard".

However, as noted in our comments above to question 1, (a) (ii), the scope of the standard is limited to sustainability-related risks and opportunities that can only reasonably be expected to affect users' assessments of the entity's enterprise value.

The determination of a sustainability matter moving from one category to another as identified above in comments to Question 1 above (category 1 to 3), would involve significant judgement. The structure and mechanism set up by each entity would determine how accurate the assessment of moving from one category to another be and therefore, 2 operationally similar entities functioning in the same industry could end up with vastly different conclusions. i.e. some considering certain matters to be within the scope of the standard while the others considering it not to be within the scope of the standard.

However, some of our stakeholders believe that GAAP in certain jurisdictions is rule based. In contrast IFRS standards are principle based. In such a scenario, entities would be challenged to maintain consistency between the financial statements prepared under local GAAP and with the disclosures made under IFRS sustainability standards.

Question 4 — Core content (paragraphs 11–35)

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

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

Governance

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

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

Strategy

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

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

Risk management

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

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

Metrics and targets

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

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

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

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

SOCPA Comments:

(a) SOCPA agrees the disclosure objectives for governance, strategy, risk management and metrics and targets are clearly appropriately defined as they meet the Exposure Drafts overall objective.

However, some of our stakeholders believe that illustrative examples should be included for each of the sections as this would give more clarity as to what is expected from an entity who is applying IFRS sustainability standards.

(b) The disclosure requirements included in paragraph 12 – 35 are detailed. SOCPA believes the substance of all disclosures in the exposure draft will be based on the disclosures made in paragraph 26. i.e. the processes an entity uses to identify sustainability related risks and opportunities. While the Exposure Draft requires processes to be disclosed, the onus of determining what processes to be established is on the entity. If an entity chooses not to establish a certain process, then there is no related risk or opportunity identified hence no disclosure.

Example:

IFRS S2 Climate-related Disclosures, under Metrics and Targets - paragraph 19, an entity is required to disclose industry-based metrics. Appendix B sets out the industry-based metrics. In Appendix B. For example:

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1. An entity in the Meat, Poultry & Dairy industry will have to apply Industry-based requirements in volume B23 (FB-MP). This requires for example for an entity in the industry to disclose:

"Description of water management risks and discussion of strategies and practices to mitigate those risks"

2. Home Builders will have to apply Industry-based requirements in volume B35 (IF-HB). This requires for example for an entity in the industry to disclose:

"Description of risks and opportunities related to incorporating resource efficiency into home design, and how benefits are communicated to customers"

In both of the above examples if the entity does not have adequate processes in place the relevant risk and opportunities will not be identified.

While paragraph 13 of the Exposure Draft (IFRS S1) provides for a governance structure to monitor this – in practice the management would have a more hands on say on the processes rather than a governing body.

Entities operate in various environments and depending on the industry the sustainability matters that are impacted as a result would vary. A user of general-purpose financial statements would not be aware of all processes that need to be established by an entity and would depend on the entity to establish the required processes and disclose the relevant details.

SOCPA therefore suggests in addition to what is required by paragraph 26, for entities to specifically state when they have <u>not</u> established processes generally established by entities to identify such risk and opportunities. This should cover:

- Processes generally established by entities in the industry
- Processes generally established by entities to address a specific sustainability related risk or opportunity

This would ensure that entities establish a more comprehensive set of processes as well as bring a certain amount of uniformity to the disclosures. Implementation of this during the early years of the standard would be difficult. However, once the practice becomes more prevalent the users of the financial statements would immensely benefit.

SOCPA also believes the disclosure requirements in these individual sections are too extensive. While certain jurisdictions would be prepared for the standards others would not be. If the standards are to have global acceptance and adoption from the inception, SOCPA believes the ISSB should use a reasonable approach. This could be achieved by splitting the disclosure requirements to mandatory and optional disclosures. The optional disclosures over period could be made mandatory. SOCPA also suggests that the ISSB should provide illustrative examples to make adoption of the standards easier.

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Question 5 —Reporting entity (paragraphs 37–41)

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

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

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

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

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

(b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

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

SOCPA Comments:

(a) SOCPA agrees that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements as the purpose of these disclosures is for the users of financial statements to understand the impact of the disclosures on the entity's enterprise value.

In addition, some of our stakeholders believe the ISSB should provide further clarification and consideration to other cases where parent entities might face operational challenges in acquiring the needed information if those entities are not "controlled" by the parent entity when preparing a consolidated reporting. In addition to that, there might be some differences in confidentiality regimes across jurisdictions, which may prevent cross border information sharing / access by the parent entity. Due to this reason some of our stakeholders believe that the need to include joint ventures and associates should be revisited.

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SOCPA also believes additional guidance should be provided regarding intercompany transactions within the group and their implications to sustainability related risks and opportunities.

In addition, guidance also should be provided for instances in which investees (subsidiaries, joint ventures and associates) have a different yearend to the holding company. Should there be any adjustment made to the sustainability related disclosures of these investees when reported by the holding company?

(b) SOCPA agrees this requirement is clear and capable of consistent application. The definition of "Value Chain" in the Exposure Draft is detailed and clarifies the boundaries for disclosures and would provide the required guidance for the preparers. However, SOCPA believes the information required to be provided from the value chain would cost companies a significant amount. In addition, while it would be difficult for companies to obtain as well as verify this information.

SOCPA also believes it would assist preparers if the ISSB could provide illustrative examples on how companies should make judgements regarding the boundaries of the value chain that should be evaluated.

(c) SOCPA agrees with the proposed requirement for identifying the related financial statements. This will clear any ambiguity.

Question 6 — Connected information (paragraphs 42–44)

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

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

(b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

SOCPA Comments:

(a) All material sustainability-related risks and opportunities are inherently connected, with interdependence and trade-offs arising between different matters in decision making. Therefore, the requirement to ensure connectivity between various sustainability-related risks and opportunities is important and the exposure draft clearly states this.

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However, such needs for connectivity possibilities can be extensive; and their relations to the sustainability of the entity can be subjective where they will change across users' industries and regions depending on development needs. Therefore, it is suggested that examples and guidance are extended and provided separately, not in the requirements themselves.

(b) SOCPA agrees with the proposal to identify and explain the connections between sustainability-related risk and opportunities and information in general purpose financial reporting including the financial statements as this reinforces the objective of the exposure draft which is, for preparers to present clear and understandable decision-useful sustainability-related information.

However, some of our stakeholders believe identifying and explaining the connections between sustainability-related risks and opportunities and information in general purpose financial reporting can be subjective and judgmental. Stakeholders have also highlighted that these connections are not clearly emphasized in the disclosure. The standard needs to take into consideration some of the challenges related to connecting sustainability-related risks and opportunities and information in general purpose financial reporting such as but not limited to the data accuracy and availability, the period covered by the sustainability related disclosure, and the differences in the methodology used in reporting.

Question 7 — Fair presentation (paragraphs 45–55)

The Exposure Draft proposes that a complete set of sustainability-related financial disclosures would be required to present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation would require the faithful representation of sustainability-related risks and opportunities in accordance with the proposed principles set out in the Exposure Draft. Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation.

To identify significant sustainability-related risks and opportunities, an entity would apply IFRS Sustainability Disclosure Standards. In addition to IFRS Sustainability Disclosure Standards to identify sustainability-related risks and opportunities, the entity shall consider the disclosure topics in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

To identify disclosures, including metrics, that are likely to be helpful in assessing how sustainability-related risks and opportunities to which it is exposed could affect its enterprise value, an entity would apply the relevant IFRS Sustainability Disclosure Standards. In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk and opportunity, an entity shall use its judgement in identifying disclosures that (a) are relevant to the decision-making needs of users of general purpose

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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.

SOCPA Comments:

(a) The proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed is clear and it would ensure an entity provides a complete, neutral and free from error depiction of the information it is supposed to represent.

However, some of our stakeholders believe considering the amount of judgement required by the standard it would restrict the comparability between similar entities. Therefore, it would be appropriate if illustrative examples are provided.

(b) No. This will impose huge burden on companies especially in non-English speaking countries. It is also difficult to audit whether companies refer to these sources or not. It assumes that auditors know about all of these sources while in fact they are not. The purpose of establishing the ISSB is to have one source of globally accepted sustainability standards. Therefore, IFRS sustainability standards should not direct preparers to refer to other sources when preparing their reports. Otherwise the comparability and completeness of such reports across industries and jurisdictions will not be attainable. SOCPA suggests limiting the sources to those that are readily identifiable and accessible in the jurisdictional level. This will ensure that preparers, auditors and regulators are all in the same page in a given jurisdiction In this regard, we suggest deleting subparagraphs (a) to (d) of paragraph 51 and deleting paragraphs 54 and 55.

Question 8 — Materiality (paragraphs 56–62)

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

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

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

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

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

(b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?

(c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?

(d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

SOCPA Comments:

(a) The Exposure Draft which defines "Sustainability-related financial disclosures" as:

"Disclosures about sustainability-related risks and opportunities that are useful to users of general purpose financial reporting when they assess an **entity's enterprise value**,…."

While the definition of "materiality" in the Exposure Draft (IFRS S 1 – paragraph 56) is the same as the definition of "material" in IAS 1 paragraph 7, IFRS S 1 – paragraph 57 goes on to explain that "Material sustainability-related financial information provides insights into factors that could reasonably be expected to influence primary users' assessments of an **entity's enterprise value**." This explanation is consistent with the definition of Sustainability-related financial disclosures (given above) as it refers to the entity's enterprise value.

Therefore, while principally agreeing with the definition of materiality in the Exposure Draft (which is the same as in IAS 1 paragraph 7) SOCPA suggests that the definition be extended to include the concept of "enterprise value" as given below:

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*Sustainability-related financial 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***'s enterprise value**.

However, some of our stakeholders believe the decision to focus on enterprise value to assess the materiality of sustainability risks and opportunities could cause challenges due to the dynamic nature of materiality. Therefore, there is a need to apply an impact lens to determine materiality (as applied by the GRI standards). The ISSB may assess the need and applicability of including additional requirements for the disclosure of the assessment and processes undertaken to define which information is deemed to be material with regard to the enterprise value. We need to maintain the co-existence of the ISSB and GRI standards to meet multi-stakeholders' information needs.

(b) SOCPA believes that the proposed definition will need to be improved as suggested above in order to ensure that the application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity.

In addition, some of our stakeholders believe there is a need to reduce the amount of subjective judgment used in the exposure draft. Any definition of materiality will be difficult to apply unless the amount of judgment required is first addressed and clear guidance given.

(c) The Exposure Draft and related Illustrative Guidance is useful for identifying material sustainability-related financial information as it is consistent with the principals of IFRS and contains adequate details.

(d) SOCPA agrees with this proposal as local laws / regulations will always need to be adhered to. However, entities may benefit from having illustrative guidance that demonstrate how entity may select risks, opportunities and metrics among standards based on what they determine is relevant to them.

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

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

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

SOCPA Comments:

SOCPA agrees with this proposal as a user of general-purpose financial statements would be able to better understand information about its significant sustainability-related risks and opportunities when it is reported at the same time as its related financial statements. However,

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certain disclosures required by the exposure draft (example: disclosures relating to value chain) could take a significant amount of time to collate. In the modern world where financial statements are required to be released within a short period, companies could be pressurized in such situations to even disclose incomplete information.

In addition, some of our stakeholders believe the standard should consider the inclusion of guidance regarding disclosure of subsequent events.

A segment of our stakeholders also believe that sustainability considerations have longer timeframes than financial ones and are probably less prone to changes in a short period. Therefore, there could be repetition of same information and could be time consuming, resource-intensive and, potentially, cause delay in publishing the financial statements. Accordingly, the ISSB may revisit the guidance on frequency of reporting sustainability disclosures.

Question 10 — Location of information (paragraphs 72–78)

The Exposure Draft proposes that an entity be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting—ie as part of the same package of reporting that is targeted at investors and other providers of financial capital.

However, the Exposure Draft deliberately avoids requiring the information to be provided in a particular location within the general purpose financial reporting so as not to limit an entity's ability to communicate information in an effective and coherent manner, and to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting.

The proposal permits an entity to disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. However, the entity would be required to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information.

Information required by an IFRS Sustainability Disclosure Standard could also be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements.

The Exposure Draft also proposes that when IFRS Sustainability Disclosure Standards require a disclosure of common items of information, an entity shall avoid unnecessary duplication.

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

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(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?

SOCPA Comments:

(a) SOCPA believes over the last decade financial statements related disclosures (IFRS and other regulatory) have increased significantly. As a result, the average user of general financial statements / annual report sometimes is lost in the detail. If sustainability-related financial disclosures are also added to this mix, the financial statements and related disclosures would increase further. In order to ensure that the objective of this Exposure Draft is met and users of general-purpose financial statements / annual reports are provided with sustainability-related information that can be useful, SOCPA suggests the sustainability-related financial disclosures be presented as a separate section outside the audited complete set of financial statements. Management Commentary could be the ideal place, at least at the initial stage of implementation of the sustainability standards. If some of this information is already included in the financial statements and related disclosures, then these can be cross referenced to.

In addition, the general-purpose financial statements and related disclosures (IFRS and other regulatory) would be referred to in the auditors' report. Therefore, including specific sustainability-related financial disclosures in the midst of the financial statement disclosures could complicate and even mislead the users to believe that the audit opinion even covers the specific sustainability-related financial disclosures.

(b) SOCPA is not 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) SOCPA agrees that information required by sustainability-related financial disclosures can be cross-referenced to information that is available in general-purpose financial statements as long as the information is available at the same time as the information to which it is cross referenced.

(d) The Exposure Draft is quite clear and where required explains (example: paragraph 78) that entities are not required to make separate disclosures on each aspect of governance,

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strategy and risk management for individual sustainability-related risks and opportunities but are encouraged to make integrated disclosures.

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

The Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8. However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable —ie the comparatives would be restated to reflect the better estimate.

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

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

(b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?

(c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

SOCPA Comments:

(a) SOCPA believes the general features relating to comparative information has been adapted into the proposals appropriately.

(b) SOCPA agrees 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 as such information would be relevant to an understanding of the current period's sustainability-related financial disclosures as well. In these instances, if the prior year's disclosure that is being revised is significant SOCPA believes the reason for the revision should also be disclosed.

If the standard is to be interpreted as requiring the recalculation of all comparatives with updated information on assumptions, this could be a time-consuming exercise for preparers and undermine the information needs of users interested in trend analysis and assessing management's stewardship of the business.

(c) SOCPA agrees with this proposal and is not aware of any circumstances for which this requirement will not be able to be applied.

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Question 12 — Statement of compliance (paragraphs 91-92)

The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements.

The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

SOCPA Comments: SOCPA agrees with the proposal. The statement of compliance would give a user of general-purpose financial statements with limited understanding of IFRS Sustainability Disclosure Standards comfort that the entity has complied with all requirements. Also, some of our stakeholder believe that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the mandatory proposals in the Exposure Draft and IFRS Sustainability Disclosure Standard and not all relevant requirements.

Question 13 —Effective date (Appendix B)

The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard.

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

(b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

SOCPA Comments: (a) SOCPA believes the earliest an entity should be required to apply this [draft] Standard is for annual reporting periods beginning on or after 1 January 2024. While certain entities have already established processes which enable them to adopt the standard with short

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notice, majority of the entities would need time to set up their governance structure, processes, controls and procedures to identify, assess and manage sustainability-related risks and opportunities.

SOCPA would also like to suggest that for emerging economies the standard should allow for an additional year from the earliest date of application of the standard to reach full compliance.

(b) SOCPA believes if the effective date for the [draft] Standard is set for annual reporting periods beginning on or after 1 January 2024 entities would not be in a position to present comparative information. Therefore, SOCPA, agrees with the proposed relief from disclosing comparatives in the first year of application. However, if an entity has early adopted the [draft] Standard then it would have comparatives available to present when it applies the [draft] Standard in the subsequent year.

Similarly, certain entities who already make sustainability-related disclosures and provide integrated reporting in certain instances could have the required information to present comparatives. SOCPA believes the option should remain open for these entities to disclose comparatives if they have adequate information.

Question 14 —Global baseline

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

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

SOCPA Comments:

SOCPA does not believe that there are any particular aspects of the proposals in the Exposure Draft that could limit the ability of IFRS Sustainability Disclosure Standards being used as a Global baseline that others could build on.

However, some of our stakeholder believe that the global baseline approach assumes that sustainability risks and opportunities can be normalized and compared globally. This approach might be inappropriate for sustainability considerations due to their subjectivity and lack of standardization. If such an approach is to be attempted, we believe that the disclosures should introduce proportionate approaches and clear distinction with embedded flexibility

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between developed and developing countries as well as large and small financial institutions (e.g., in targets, quantification, data, etc.).

Question 15 —Digital reporting

The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption as compared to paper-based consumption is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S2 Climate-related Disclosures Standards are the sources for the Taxonomy.

It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.

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

SOCPA Comments: SOCPA would like to highlight the need to provide further clarity on how users are informed of the basis of preparation (for example definition of materiality) and level of audit assurance provided when developing the taxonomies. There might be differences between financial statement tags and sustainability information tags

Question 16 — Costs, benefits and likely effects

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

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

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

SOCPA Comments: (a) SOCPA believes there are several likely benefits by implementing the Exposure Draft. Primarily entities would be able to demonstrate commitment to transparency and would be

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able to measure impacts to improve performance. As a result of implementation of the Exposure Draft entities will also be able to attract capital and investment also increase customer loyalty.

Any entity would have to incur upfront costs in setting up a governance structure as well as setting up processes. The cost would vary from industry to industry and the size of the entity.

(b) All entities would also incur day to day costs as a result of implementation of the Exposure Draft. This would be to maintain and improve processes, staff training costs as well as costs for consultants and third-party validators to obtain independent assurance of its processes.

Question 17 — Other comments

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

SOCPA Comments:

Reading the *Conceptual Framework for Financial Reporting*, para. 1.2, together with IFRS S1, para. 1, the common denominator factor between the two pronouncements is the objective of providing information about the reporting entity that is useful to primary user "in making decisions relating to providing resources to the entity". However, the IFRS S1 adds the assessment of enterprise value as an objective of providing sustainability related disclosures.

The question to the Board is why the Board adds the "assessment of enterprise value" as an objective of the sustainability standards? is the ability to assess the enterprise value not possible using the information provided applying IFRS accounting standards?

In the basis for conclusion, the Board explained in para. BC35 that "enterprise value reflects users' assessments of future cash flows, including the value they attribute to those cash flows, reflecting the cost of capital. Enterprise value, therefore, reflects current market expectations about future cash flows". In turn, the estimation of future cash flow is a focal point to the *Conceptual Framework for Financial Reporting.*

Given the above, the Board is requested to explain why it believes that current IFRS accounting standards are not helpful in the assessment of the enterprise value to the degree that the IFRS Foundation sets the ISSB to issue sustainability standards to fill this gap.

SOCPA also has identified certain paragraphs within the standard which it believes needs redrafting. These suggestions are included as Appendix 1 for the ISSB to consider.

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Appendix 2: Drafting suggestions IFRS S1

Paragraphs (underlined additions, struck through deletions)	Reasons for amendments
1.The objective of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* is to set out the infrastructure for other subject-specific IFRS sustainability standards that would require a~~n~~ reporting entity to disclose material information about its significant sustainability-related risks and opportunities that are reasonably expected to affect assessments of an entity's enterprise value by primary users of general purpose financial ~~reporting is useful to the *primary users of general purpose financial reporting* when they assess *enterprise value*~~ and ~~decide~~ their decisions whether to provide resources to the entity	- To be in line with the recent amendments to IAS 1 and IAS 8. - To align this standard with the other IFRS sustainability standards and make this standard as an infrastructure to other subject-specific standards. - To eliminate repetition in paragraph 2. - To eliminate repetition in paragraph 9.
~~2.A *reporting entity* shall 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.	Reduce repetition. Paragraph 1 is sufficient. Further, this paragraph is part of the Objective section, which usually doesn't include requirements.
3.An entity's *general purpose financial reporting* shall include a ~~complete, neutral and accurate depiction~~ faithful representation of its *sustainability-related financial information*	- To be in line with the framework (completeness, neutrality and accuracy are the characteristics of faithful representation) - According to paragraph 11, some, if not most, required disclosures are non-financial information. They may not be even quantitative.
8.An entity shall apply this [draft] Standard in preparing and disclosing sustainability-related financial information ~~in accordance with *IFRS Sustainability Disclosure*~~	The timing is about the preparation of disclosures rather than the application of the

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~~*Standards*~~. An entity ~~apply IFRS~~ shall prepare Sustainability Disclosure ~~Standards~~ in accordance with *IFRS Sustainability Disclosure Standards* when the entity's related financial statements are prepared in accordance with IFRS Accounting Standards or other GAAP.	standard. The application is linked to the effective date of a standard.
~~9.Sustainability-related risks and opportunities that cannot reasonably be expected to affect assessments of an entity's enterprise value by primary users of general purpose financial reporting are outside the scope of this [draft] Standard.~~	Suggested amendments to paragraph 1 is sufficient.
11.~~Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise,~~ As a minimum and in the absence of a subject-specific IFRS Sustainability Disclosure Standard, an entity shall provide disclosures about: (a) governance—the governance processes, risk management and controls policies ~~and procedures~~ the entity uses to identify, assess, monitor and manage sustainability-related risks and opportunities; (b) …; and ~~(c) risk management—the processes the entity used to identify, assess and manage sustainability-related risks; and~~ (d) … Other IFRS Sustainability Disclosure Standards may permit or require additional disclosures about specific sustainability related subject.	- We believe that the first sentence of this paragraph is not appropriate. This is a general disclosure standard. When future standards are issued and permit or require otherwise, this standard will be modified. You may add a concluding sentence to this paragraph to point to the existing and future standards that would require additional disclosures about specific sustainability related subjects. - Procedures are very detailed to the degree that the disclosure of which is voluminous and of little benefit. - Paragraph C is combined with paragraph (a) to avoid repetetion.
16…	This paragraph and its subparagraphs should be moved to be subparagraph (a) of paragraph 11.

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17…	This paragraph should be moved to be paragraph No 2 in the Objective section
18…	This paragraph should be moved to be paragraph No 3 in the Objective section
26 To achieve this objective, an entity shall disclose: ~~(a) the process, or processes, it uses to identify sustainability-related:~~ ~~(i) risks; and~~ ~~(ii) opportunities;~~ (a~~b~~) the process, or processes, it uses to identify, assess and prioritise sustainability-related risks ~~for risk management purposes~~, including when applicable: (i) how it assesses the likelihood and effects associated with such risks (such as the qualitative factors, quantitative thresholds and other criteria used); (ii) how it prioritises sustainability-related risks relative to other types of risks, including its use of risk-assessment tools; (iii) the input parameters it uses (for example, data sources, the scope of operations covered and the detail used in assumptions); and (iv) whether it has changed the processes used compared to the prior reporting period; (b~~c~~) the process, or processes, it uses to identify, assess and prioritise sustainability-related opportunities; (c~~d~~) the process, or processes, it uses to monitor and manage the sustainability-related: (i) risks, including related policies; and (ii) opportunities, including related policies;	There are many repetitions in requirements for identifying risks and opportunities. This paragraph needs to be redrafted to focus the requirements in a practical manner

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(d~~e~~) the extent to which and how the sustainability-related risk and opportunity identification, assessment and management process, or processes, are integrated into the entity’s overall risk management process; and ~~(f) the extent to which and how the sustainability-related opportunity identification, assessment and management process, or processes, are integrated into the entity’s overall management process.~~	
40…	This paragraph is an expansion to paragraph 2 (which we suggested above to be merged with paragraph 1). Therefore, the best location of paragraph 40 is to follow immediately the paragraph that it elaborate on, ie., paragraph 2 (or 1 if suggestion above about combining paragraph 1 and 2 is accepted).
41…	To be relocated to follow the new location of paragraph 40 as is suggested above.

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