INTEGRATED REPORTING COMMITTEE OF SOUTH AFRICA

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Mr Emmanuel Faber

Chair, International Sustainability Standards Board
Columbus Building
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Canary Wharf
London

Dear Mr Faber

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

The IRC of SA is the national body in South Africa promoting and developing integrated reporting and integrated thinking. We have endorsed the *International <IR> Framework* as global best practice guidance on preparing an integrated report. In South Africa, the preparation of an annual integrated report is a recommended practice of the *King IV Code of Corporate Governance Practice* (King IV). The King IV Code falls within the Listings Requirements of the JSE. The IRC produces technical information papers and FAQs for preparers of integrated reports; these are available on www.integratedreportingsa.org

We welcome the formation of the International Sustainability Standards Board (ISSB) and the release of its first Exposure Drafts. Our comments on [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* are set out in the Appendix.

We are pleased at the application of the 'Building blocks' approach and see this as facilitating jurisdictional reporting requirements and multi-stakeholder information needs.

Yours sincerely

Leigh Roberts CA(SA)
CEO – IRC of SA

Appendix

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 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?

Response

(a)(b): We appreciate the initiative of the ISSB in developing standards for the disclosure by entities of their significant sustainability-related risks and opportunities over the short, medium and long term. We have some concerns over certain concepts and terms used in the Exposure Draft, which are set out below:

Enterprise value

- We believe the concept of "enterprise value**"** may not be entirely appropriate or fit for purpose in sustainability reporting, because sustainability information is much broader than the financial information usually associated with the enterprise value term. As stated in the Exposure Draft, the definition is based solely on the expectations of future cash flows. As such, entities may be steered towards ignoring disclosure of sustainability matters because they cannot be easily assessed for effects on, or quantification of, future cash flows.
- The narrowness of the enterprise value definition belies the reality that many of an entity's impacts and dependencies on society and the environment will, at some stage, affect its cash flows over the short, medium and long term. An example of this is an entity's culture which cannot be readily assessed for cash flow influence, but as corporate history shows it has affected cash flow and performance. Another example is the failure to protect the natural environmental systems which leads to floods, and results in operational losses and environmental penalties and legal costs. Reputational damage effecting social licence to operate could also impact cash flows through loss of customers and high staff turnover. Investors should be given information on an entity's complete range of sustainability matters spanning from its dependencies on resources to its impacts on society and the environment in order to make fully informed investment decisions for the short, medium and long term.
- We point out that the term enterprise value is seemingly at odds with the explanation and acknowledgement in the Introduction section (page 5) of the Exposure Draft which states: "Sustainability-related risks and opportunities arise from an entity's dependencies on resources and its impacts on resources, and the relationships the entity maintains that may be positively or negatively affected by those impacts and dependencies".
- We suggest the term 'sustainability risks and opportunities and impacts' offers a more complete disclosure approach than enterprise value linked to cash flows and urge its use in the Exposure Draft.

- Regarding the wording in the definition of “sustainability-related financial information”, which refers to “sufficient basis to users to assess the resources and relationships on which an entity’s business model and strategy for sustaining and developing that model depend". This could be re-phrased as: ‘information that could affect investors’ assessment of the entity and its performance and prospects over the short, medium and long term’. This alternative encompasses the necessary broader perspective.
- From a societal perspective, impacts that are externalised by an entity sees the cost and the longer term consequences thereof having to be dealt with by society rather than the causing entity. This is an inequity.

Integrated thinking

- Related to our comments on enterprise value set out above, is our concern that sustainability issues cannot be seen in isolation. To truly understand sustainability risk and opportunities, integrated thinking is necessary.
- As defined in the *International <IR> Framework* (2021), page 53, integrated thinking is “The active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation, preservation or erosion of value over the short, medium and long term”. Importantly, the definition acknowledges the effects on the six capitals and that these effects may be positive, neutral or negative.
- Integrated thinking also acknowledges that an entity’s impacts on the six capitals may not immediately translate into a financial effect or may be difficult to quantify in financial terms.
- Without integrated thinking, it is more difficult for the entity, and thus its investors, to understand the complete sustainability-related risks and opportunities it faces over the short, medium and long term.
- Integrated thinking allows for better analysis of the trade-offs across the six capitals made by an entity in its strategic decisions. Without such disclosure, it will be more difficult for investors to assess how the entity’s leadership is dealing with such risks.
- In understanding integrated thinking, we caution the ISSB against reliance on the Integrated Thinking Principles, as published by the VRF, as they do not accurately reflect the value erosion/ negative impacts side of value creation.

Significant, material and other terms

- The Exposure Draft defines “material”, but there is no definition of “significant” as used in “significant sustainability-related risks and opportunities”. Nor is there a definition for “sustainability-related risks and opportunities”. These definitions are critical as they feed directly into what is considered disclosable. This ambiguity may be especially problematic for assurance purposes.
- A definition for “sustainability” is needed as the general usage of the term is expansive and varied.
- Clarify whether the requirements in the Exposure Draft are at all times limited to “sustainability-related financial information” since the term "information" is used in some places.
- Similarly, the Exposure Draft sometimes refers to “sustainability-related risks and opportunities”, rather than “significant sustainability-related risks and opportunities”.
- Define outcomes, as used in the business model definition and other places. We suggest the definition set out in the *International <IR> Framework*, namely: “The internal and external consequences (positive and negative) for the capitals as a result of an organization’s business activities and outputs”. This definition addresses both actual and potential effects over time. As the Exposure Draft does not refer to the six capitals, this term could be replaced by ‘resources and relationships’.
- We encourage refinement of the above definitions with consideration of our suggestions regarding enterprise value and integrated thinking.

(c) To better understand how the proposed requirements in the Exposure Draft would be applied together with other future IFRS Sustainability Disclosure Standards, including the [Draft] IFRS S2 *Climate-related Disclosures,* it would be useful to know the topics of the other standards on the horizon. Further, refer to the response above under Integrated Thinking in this regard.

(d) Without clarity into certain of the key terms (outlined in our response to question (a)), it may be challenging for assurers and regulators to determine whether an entity has complied with the proposals as entities may interpret these key terms differently.

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?

Response

(a) We draw your attention to our response to Question 1 regarding enterprise value and integrated thinking. We suggest the use of the term' sustainability risks and opportunities and impacts' because this offers a more complete disclosure practice.

Further, the objective should include a time-frame and we suggest the specific inclusion of 'the short, medium and long term'. This is an important clarification.

(b) No, the definition is not clear. As noted in our response to Question 1, there is no definition given for "sustainability" or "significant sustainability-related risks and opportunities". The definition of "sustainability-related financial information" in Appendix A is narrow and we note that it is better explained in paragraph 6 of the Exposure Draft.

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?

Response

The Exposure Draft can be regarded as GAAP agnostic and this can support the global uptake.

With regards to the statement "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". We highlight our responses to Questions 1 and 2 here and emphasise that the understanding of what will affect an entity's value must be informed by a complete assessment of sustainability risks and opportunities and impacts (that is, integrated thinking).

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?

Response

(a) On Governance, we suggest the objective include "these disclosures shall also enable users to assess whether those processes are integrated into the entity's overall governance processes".

In line with our assertion that integrated thinking is critical to informed decision-making, we suggest adding the word 'impacts' at the end of the sentence "monitor and manage sustainability-related risks and opportunities". As noted in King IV Report on Corporate Governance for South Africa, 2016™" (King IV), page 26, "The survival and success of organisations are intertwined with, and related to, three interdependent sub-systems: the triple context of the economy, society and the natural environment". The governing body of an entity has a stewardship role and its responsibility for the entity's longevity should be made clearer in the Exposure Draft.

With regard to Strategy, Risk management, and Metrics and targets; we suggest including the word 'impacts' given the risks that they pose to the entity and its strategy over time.

Clarity is needed on whether the intention of paragraph 11, which states "Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise..." is that this standard (IFRS S1) would be subordinate to any other standard that prescribes something different? If this is the intention, it opens the door to a risky exception to this Exposure Draft/ Standard.

(b) Further to the comments above advocating for the inclusion of impacts, we suggest including the following:

Governance

- Disclosure of whether, and how often, the governing body receives information on the entity's impacts on society and the environment over the short, medium and long term.
- Disclosure should on whether, and how often, the governing body is given information on the quality of the entity's relationships with key stakeholders. Disclosure on stakeholder engagement appears to be absent and yet it is a governance and operational process critical to understanding the sustainability issues facing an entity, especially social.
- Disclosure of the core KPIs used by the governing body, as well the controls in place over this information.
- Governance disclosure should include the link between sustainability performance to remuneration. [Draft] IFRS S2 addresses this directly, but it should also be a part of this Exposure Draft.

Strategy

- Disclosure should highlight whether the entity has to or already has adapted its strategy to build the entity's resilience in an uncertain environment.
- Disclose the risk-related opportunities that have already been acted on, those marked for near-term take-up, and longer term consideration.
- The structure of this section, with its sub-sections, is confusing given that there is duplication with other sections.

Risk management

- In disclosing the process of determination of risk, include the consideration of impacts over time and the expectations of stakeholders.
- Consider incorporating the TCFD risk categories.
- Consider disclosing information on: Expectations ahead of legal compliance; signify the risks that are beyond the control of the entity; and, how the current risk management processes accommodate sustainability risks given the varying time horizons.

Metrics and targets

- Disclose how the sustainability-related metrics and targets are integrated with the other strategic objectives of the entity, including monitoring and management.
- Long-term ambition should be clearly articulated and how the metrics and targets are benchmarked against either industry standards, peers or national goals.
- Consider including the term 'Performance' in this heading to more accurately cover the disclosure information addressed.

We suggest that the forward-looking nature of sustainability matters ('Outlook' in the *International <IR> Framework*) should feature more prominently in the Exposure Draft. We note that such information is more prominent in [Draft] IFRS S2.

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 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?

Response

We agree that the value chain, upstream and downstream, is an important part of sustainability disclosure and should necessarily be included.

Consider highlighting those sustainability matters that affect the entity's region or its entire value chain, such as regional water scarcity.

The IFRS definition of reporting entity, based in IFRS 10's control definition, may obfuscate what is considered to be within an entity's value chain. For instance, an entity might exclude some negative information in its value chain for being beyond their IFRS control and thus out of scope for reporting.

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?

Response

Sustainability risks and opportunities do not exist in a silo. Sustainability information should be connected because this reflects the integrated reality of the business.

Sustainability risks and opportunities can only be fully identified, understood, and managed if they are integrated into an entity's overall governance, risk management, strategy, performance and remuneration processes. To support this, the concept of connected information in paragraph 43 should be expanded around the concept of integrated thinking as set out in our earlier comments and the *International <IR> Framework*. It is important to realise that connectivity is integrated thinking.

The necessary overall integration can successfully be shown in the integrated report using the *International <IR> Framework.* This is evidenced by the global experience in the annual integrated reports of over 2 500 entities around the world and in its ten-year history

We are strong advocates for the preparation of the integrated report using the *International <IR> Framework*. Notwithstanding the current developments in sustainability reporting, the ISSB Exposure Drafts included, the integrated report retains its position as the only external report of the entity which shows the overall, holistic and integrated view of strategy (financial, operational and sustainability), risks and opportunities (financial, operational and sustainability), and performance (financial, operational and sustainability) in the context of the entity's overall governance and its external and internal operating environments. The integrated report is a concise and quick read giving the overall picture, after which users can delve into more detailed and subject-specific reports.

<u>Question 7 - Fair presentation (paragraphs 45–55)</u>

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.

<u>Response</u>

(a) The ability to offer a complete set of sustainability-related financial disclosures is dependent on the entity's ability to identify the significant sustainability-related risks and opportunities to which it is exposed, and this includes its impacts, actual or potential, over the short, medium and long term. We recommend the inclusion of other allowed reference sources, see (b) below. We point out that the SASB standards largely do not focus on impacts. We encourage the inclusion of impacts in the industry-based supplements and indicators to achieve completeness and comparability

Consider information allowing for the holding entity and the subsidiary entities and controlled investment information to be separately identifiable.

(b) For completeness and interoperability, we recommend expanding the stated reference resources to include those that are not specifically aimed at investors needs but are nevertheless a very relevant source of information on sustainability topics, risks and opportunities and impacts:

- The GRI Standards - The GRI Standards focus on impacts on society and the environment which can point to potential risks and opportunities to the entity over time. As stated earlier, most impacts can have an effect on the entity and its cash flows over time. We note the ISSB's current work with the GRI and encourage closer alignment and interoperability.
- The six capitals outlined in the *International <IR> Framework* - The concept of the capitals offers an extremely useful completeness check for an entity to assess whether it has considered all inputs' dependencies and impacts over the short, medium and long term.
- The European Sustainability Reporting Standards (SRS) - The ESRS Exposure Drafts are also a useful resource for non-EU entities. We encourage closer alignment with these standards for the benefit of completeness and assisting to reduce the reporting burden on multi-operational entities.

Definitions for "significant" and "sustainability" (as noted in our response to Question 1) are needed to support achievement of the fair presentation objective.

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, and in these cases it should be disclosed that the information was not disclosed because it was considered to not be 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 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?

Response

Materiality is critical concept that must be understood for the standards to be useful and comparable, and we believe increased clarity and guidance is needed.

As detailed in our earlier responses, we have concerns regarding the ISSB lens of materiality. A key question is whether the single-lens focus (investor and enterprise value alone) adequately captures the breadth of sustainability-related risks and opportunities (including those stemming from impacts), with concerns raised that this approach potentially closes the door to understanding how larger issues impact reputation, potential regulation, and thus the entity.

It is worth considering the definition of materiality in the *International <IR> Framework*, page 53, "Material/materiality. A matter is material if it could substantively affect the organization's ability to create value in the short, medium or long term". This definition focuses on what is material after considering impacts on the six capitals and the stakeholders' needs and expectations.

We believe that the ESRS drafts, which adopt a double materiality position reporting on "sustainability risks and opportunities and impacts", better encompasses the stewardship role of an entity's governing body and better reflects accountability through balanced and transparent reporting.

In our response to Question 1 we offered suggestions regarding enterprise value and we believe these suggestions can help resolve our concern over materiality.

In other comments: A clear definition of "significant" and "material" is needed; include a reference to time horizons, short, medium or long term; and there should be a specific requirement for an entity to disclose its process of determining materiality in order for users to ascertain the completeness of its process.

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 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?

Response

We support the proposal, given the connectivity and integration of disclosures.

We believe that the effective date of the standard should allow sufficient time for entities to prepare the necessary data systems to enable an entity to report its sustainability-related financial disclosures at the same time as financial statements. Practically, many entities may not currently be able to achieve this.

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—i.e. 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?

(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?

Response

(a) We agree with the non-prescriptive proposals on the location of sustainability-related financial disclosures as this allows for flexibility and jurisdictional needs.

More clarity will be needed on how the required disclosure information is "clearly identifiable". For example, would a tool like the GRI indices used by entities demonstrate a complete set of information in accordance with these standards?

In the Exposure Draft, the context within which reference is made to the integrated report suggests that the integrated report is the same as the management commentary. Paragraph 73 reads: "Management commentary can be known by or incorporated in reports with various names, including management's discussion and analysis, operating and financial review, integrated report and strategic report." We point out that the integrated report is not management commentary but rather a holistic, overall report on how the organisation has created, preserved or eroded value over time, within its context. The integrated report is often seen as the 'voice' of the governing body because reporting is an important part of its accountability.

We strongly endorse the view that there should be a separate integrated report based on the prevailing global best practice guidance of the *International <IR> Framework*. Unlike the sustainability report, which houses detailed sustainability information, and the financial report, which houses detailed financial information, the integrated report is the only report in the corporate reporting suite that affords an overall and holistic view of an entity. Such information offers users information on the organisational overview, the external environment affecting the entity, the business model, strategic objectives, performance against those strategic objectives and the risks and opportunities facing the entity, as well as its overall governance structure and processes.

We point out that the integrated report is more widely adopted globally than management commentary.

(b) We are not aware of jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft.

(c) We agree that information required by the standards can be included by cross-reference. However, regarding the statement "provided that the information is available to users of general purpose financial reporting on the same terms and at the same time" - clarity is needed here to ensure that this does not mean that the reports that are referenced to are subject to the IFRS standards. This would be impractical.

We highlight the need for the effective date of the standard to allow sufficient time for entities to be able to report their sustainability-related financial disclosures at the same time as their financial statements.

(d) It is clear in the Exposure Draft 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.

We emphasise that the integrated report offers opportunity to show the material sustainability disclosures in the context of the entity's overall and integrated disclosure of material information related to governance, strategy, risks and opportunities, and performance against set strategic targets and metrics.

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 - i.e. 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?

Response

(a) We point out that the use of the term "amount" in paragraphs 64 (a) and (b) could be overly restrictive as to the nature of the information being reported.

(b) Given the nature of sustainability-related information, particularly with regards to the reliance on estimates, the future-focused nature, and the increasing maturity of entities' reporting journeys, we support the view that if an entity has a better measure of a metric than that reported in the prior year that it should disclose the revised metric in its comparatives, but it should also disclose the original metric as that was how the matter was measured and managed at that time.

The restatement of comparatives to reflect an improved estimate provides useful comparative information, however, it could also create confusion as to what is considered errors as opposed to changes in estimates. This may result in issues with certain regulators on restated comparative information. Further, we query whether materiality should guide the decision-making process with regards to whether or not to restate comparatives. It will be necessary to clarify under what circumstances this is allowed and what disclosure would be required to explain this. We highlight the difference in approach for financial reporting, where an entity would only restate if there was an error or change in accounting policy, and only requires restatement for "material errors", which is helpful to ensure that the requirements are not too onerous.

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?

Response

We agree with the proposal but recommend that there is an adequate adoption period to allow entities to comply properly, and that there are provisions in the interim where entities have applied other standards and/or regulatory reporting requirements not specifically addressed by the IFRS standards.

To support a swift adoption, a 'comply or explain' compliance approach might be considered, with early adoption allowed.

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?

Response

(a) As mentioned earlier, the maturity of certain entities' sustainability systems may need to develop because while some entities have been disclosing sustainability information for years, others are still on a journey. Further, entities will face the challenge of not only reflecting on what should be disclosed in terms of the standards, but also re-assessing what has been reported previously.

The effective date should take these challenges into account, however, it should also strongly encourage early adoption. A 'comply or explain' approach could be considered, with early adoption allowed.

We hope that there is swift finalisation of the standards giving more certainty to entities and acknowledging the need for urgent action on climate and other sustainability issues.

(b) We agree with the Exposure Draft providing the proposed relief from disclosing comparatives in the first year of application as this can allow for a more practical and pragmatic adoption.

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?

Response

We agree with the global baseline/ building blocks approach given the specific focus of the ISSB standards and see it as a practical solution to deal with jurisdictional regulatory reporting requirements and the need to meet multi-stakeholder information requirements in an entity's reporting.

We believe that the building blocks approach in sustainability reporting will be enhanced by a separate integrated report applying the global best practice guidance of the *International <IR> Framework*. The integrated report as a standalone and concise report brings sustainability, operational and financial information together in a cohesive and understandable value creation, preservation and erosion story over time.

In carrying out the building blocks approach, we envisage a 'layered' approach to sustainability reporting with an entity starting with the ISSB standards as the global baseline and then layering national and multi-stakeholder information and other relevant entity-specific sustainability information. We expect that entities in South Africa will continue with the established practice of preparing an integrated report using the guidance of the *International <IR> Framework* because it shows the holistic view of the entity's strategy, risks and opportunities, performance, governance and external environment in a concise report.

It is important that the ISSB standards are robust, complete, fit for purpose and suitable to meet the needs of emerging markets in order for them to be accepted globally as a suitable baseline, rather than any alternative standards being regarded as the baseline.

We encourage the ISSB's work in aligning its standards with the ESRS and the GRI, and that this alignment is timeously achieved in the interests of easing the reporting burden on preparers.

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)?

Response
Given the objective of global consistency and comparability, the digital consumption and ability to analyse such data digitally is an essential extension of the global baseline standards.

Considerable international work and effort has, and is currently, being applied to the development of taxonomies across the world and for greater efficiency and ease of use, there should be alignment with the existing regulatory taxonomies.

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?
Response
There will be benefits to entities reporting on sustainability issues and metrics in a manner that is comparable, across industries and over time. These benefits can include, among others:

- Deeper understanding of how sustainability issues affect the entity leading to better informed internal decision making and value management.
- Improved awareness of global and regional sustainability challenges and their outlook.
- Improved understanding of an entity's approach to and management of sustainability issues from the investor community and providers of finance, which can lead to more stable financial systems and improved access to capital.

Some disclosures and data requirements will place a burden on businesses, often proportional to their scale, in applying these standards and the costs of applying the standards should not be underestimated. This is further compounded by the likely requirement for the information to audited or assured. The cost impact will need to be weighed up against the benefits. It is therefore essential that the focus remains on the most material aspects of significance to the entity, investors and other users.

Question 17 - Other comments

Do you have any other comments on the proposals set out in the Exposure Draft?
Response
We strongly endorse the view that there should be a separate integrated report based on the prevailing global best practice guidance of the *International <IR> Framework*. As outlined in the *International <IR> Framework* (January 2021), page 2, among its many aims, an integrated report aims to:

- "Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital".
- "Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time"

Unlike the sustainability report, which houses detailed sustainability information, and the financial report, which houses financial information, the integrated report is the only report in the corporate reporting suite that affords an overall and holistic view of an entity. Such information offers users information on the organisational overview, the external environment affecting the entity, the business model, strategic objectives, performance against those strategic objectives and the risks and opportunities facing the entity, as well as its overall governance structure and processes.