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27 June 2022

Dear Erkki,

Comment Letter on
IFRS S1 Sustainability-related Financial Information Prototype
IFRS S2 Climate Related Disclosures Prototype

<u>Context</u>

I commend the work of the IFRS Foundation and the establishment of the ISSB and provide these comments based on 30+ years' experience in sustainability reporting. As Executive Director of Materiality Counts, I am a recognised expert in materiality, stakeholder engagement, strategy, sustainability and integrated reporting. Working across many sectors in Australia, New Zealand and further afield, I have produced multiple award-winning Reports. My sustainability reporting expertise has been recognised via appointment to many expert advisory panels:

- International Audit and Assurance Standards Board (IAASB) Sustainability Reporting Reference Group.
- Australian Accounting Standards Board (AASB)/Auditing and Assurance Standards Board (AUASB) Sustainability Reporting Project Advisory Panel.
- IAASB Extended External Reporting (EER) Assurance Project Advisory Panel.
- International Integrated Reporting Council (IIRC) Technical Advisory Group.

My comments are strategic in nature. I provide more detailed contribution through my membership of the above panels.

Question 1 – Overall approach & Question 3 - Scope

<u>Application: To existing types of non-financial reporting</u>

There is widespread confusion amongst reporting entities regarding the broad implications of these new reporting standards. Many assume that a new type of reporting will be required, expressing concerns that they are only now becoming mature in their non-financial reporting through Sustainability Reports, Integrated Reports, Strategic Reports in the UK and more. Hence, a statement of purpose is needed to make it clear to reporters that these new standards are intended to be applied to any form of non-financial reporting, not specifically to "Sustainability Reports" and certainly not requiring entities to produce Sustainability Reports where that is not currently their strategic approach to reporting.

Question 2 – Objective

Connectivity: Between sustainability reporting and financial reporting

The title of IFRS S1 is problematic. Sustainability disclosures are not all financial. Many are, but sustainability is multi-faceted across the six capitals, not just financial capital. A standard on sustainability disclosures needs to be grounded in materiality and encompass human, intellectual, social and relationship, manufactured and natural capital, as well as traditional financial capital. Whilst it is widely accepted that value relating to social licence to operate ultimately influences reputation and share price for listed entities, i.e. financial, sustainability-related information is much broader than financial. Hence, reconsideration of the title and therefore scope of this standard is encouraged.

Question 4 – Core content & Question 6 – Connected information

SDGs: Integration with the SDGs

One of the barriers to achieving a groundswell of consistent sustainability reporting in recent decades has been indicator fatigue. The sheer volume of sustainability indicators spread across geographies has been overwhelming. Investors cannot compare the performance of one entity to another with such a wide range of different indicators used to report sustainability performance. Capital markets cannot compare "apples with apples" when sustainability reporting from one Report to another vary with such magnitude. Two things hold the key to addressing this. One is materiality determination such that the reporting entity reports on the issues of most importance to key stakeholders and the organisation itself, alongside the most relevant performance indicators.

The second is the United Nations Sustainable Development Goals (UN SDGs) and the targets beneath the goals. The SDGs presents a real and present opportunity for global consistency and their integration with IFRS S1 and S2 is encouraged. Naturally, the Global Reporting Initiative (GRI) provides a well-established source of potential indicators across sustainability. Specific climate change and greenhouse gas (GHG) emission protocols also exist on a global and jurisdictional scale. These sources of indicators will prove useful and hopefully reduce some "reinventing of the wheel". However, it is the UN SDGs that provide a globally aligned and universally acknowledged foundation for this work on sustainability and climate-related disclosures.

Question 5 – Reporting entity

Value chain: Consistent understanding and boundaries

Financial value versus enterprise value would benefit from explanation, alongside clarity on what makes up the value chain, what needs to be included and the boundaries.

Question 7 – Fair presentation

Assurance: Reporting and assurance must go hand-in-hand

Capital market confidence in reporting depends on the credibility of these Reports. Investors look to Report assurance for independent credibility and strength of governance and internal controls for organisational credibility. When developing reporting standards, it goes without saying that assurance standards must align and be fit-for-purpose. This is raised not because there is a gap or effort has not commenced in this space, rather to highlight it as a top agenda item as these reporting standards are progressed.

Question 8 - Materiality

Materiality: Definition and guidance

Materiality is the foundation for strategy and reporting. Ultimately, those issues that are most important to a reporting entity's key stakeholders and to the organisation itself should form the basis of its strategy and reporting. "Most important" relates to the value the organisation creates (preserves or erodes) across the six capitals and minimising any negative impact. Materiality includes financial and non-financial issues. Materiality needs to be demystified to allow all reporters and Report users to use it as a foundation to ensure that Reports cover the most important information. Use of terms such as "double materiality" and "significant" make it less accessible. Clarity of connectivity to risk and establishing wider understanding that risk informs materiality will also help to remove some of the "smoke and mirrors" that have taken root in this space. It doesn't need to be complex, on the contrary, it needs to be clear and consistent. Integration of financial and non-financial materiality is needed. I have significant expertise and experience in materiality and I would be pleased to assist further.

Question 17 – Other comments

Director concerns: Future looking statements

In some jurisdictions, such as Australia, Directors express concerns regarding the inclusion of future-looking statements in Annual Reports. This has come to the fore with respect to non-financial reporting, such as Integrated Reports. The driver is a lack of "safe harbour" legislation to protect Directors from liability relating to such statements. This concern is raised for consideration with respect to forward oriented sustainability reporting.

I trust that these comments are useful at a strategic level and reiterate my offer to assist specifically on materiality, in which I have substantial expertise and experience to share.

Thank you for the opportunity to comment on these important, and long overdue, reporting standards and thank you to IFRS for taking a lead in such a critical area.

Yours sincerely,

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Governance Roles:
Banksia Foundation Audit and Risk Committee (Chair)
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