To:
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Re: Consultation on Exposure Draft for Disclosure of Sustainability-related Financial Information

I welcome the opportunity to provide feedback to the International Sustainability Standards Board (ISSB) on the Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ([Draft] IFRS S1) and Exposure Draft IFRS S2 Climate-related Disclosures ([Draft] IFRS S2).

The views expressed in this submission are my own.

General comments

The development of standards for sustainability-related financial disclosures at a global level are urgently need. Aligning of concepts, terminology and metrics for sustainability reporting is needed for enterprises in all countries. Without this the users of sustainability reporting will continue to be confusion and there is the potential for the misunderstanding or misuse of information (or lack of information).

The ISSB is a suitable global body for developing sustainability disclosure standards at a global level. However, the expertise of the Board and the Technical Readiness Working Group needs to be extended in order to develop acceptable standards and in particular the concepts and metrics reported on within the standards.

The expertise needed to determine appropriate concepts and metrics to be included in the standard for sustainability reporting goes beyond traditional accounting, and a consultation process with environmental scientists and stakeholders is not enough to determine what

what is material and what is not, especially in terms of the scope (e.g. for paragraph BC25, what is complete?).

Environmental scientists are needed to help identify the concepts that need to be measured and the most appropriate metrics and methods for measurement. They are also needed for determining thresholds of environmental impact and calculating risks to enterprises of particular environmental dependancies. Not having environmental scientists on the Board and working group, hence part of the core decision making processes, risks a lack of acceptance of any sustainability reporting standards, proposed metrics and methods by the scientific community, which may in turn affect the credibility of the standards in the minds of investors or the general public. This would defeat at least part of the motivation for producing such standards.

Climate related disclosures are a suitable starting point, but disclosures related to other environmental risks and opportunities, and in particular biodiversity, need to be developed quickly.

Question 1. Overall approach

The approach needs an arching conceptual framework and scope.

The United Nations System of Environmental Economic Accounting provides a conceptual framework that could be used in the development of sustainability-related financial disclosures. This framework would put the sustainability related information into a broader context.

System of Environmental Economic Accounting is an international statistical standard providing a comprehensive framework for the recording of natural capital and ecosystem services, which represent the dependencies of enterprises on the environment. This system also covers, extraction of natural resources (timber, fossil fuels and minerals), use of inputs such as water and energy, air and water pollution and generation of solid wastes which are used or generated by enterprises and have impacts on the environment. As such the System of Environmental Economic Accounting is a ready made framework that can be adapted and scaled for enterprise level reporting of sustainability related financial disclosures

The System of Environmental Economic Accounting would help provide a practical guide to the definition of sustainability related financial information (i.e. the definition provided in paragraph BC26). The need for a broad definition is understandable but there is also a need to provide guidance for what needs to be considered for understanding the factors affecting enterprise value and environmental condition.

Alignment with the United Nations conceptual model would help determine within enterprises what is material. Alignment with concepts, definitions and metrics would also facilitate data comparison, enable independent industry and national benchmarking, and understand the cumulative impacts of economic activity and the associated risks to enterprise value.

Question 2. Objectives, paragraphs 1 to 7

Paragraph 2 begs the question what is significant? Without an overarching conceptual framework what is material and what is significant is difficult to determine. Material is the "what", while significant is a threshold. What is material and what is significant needs to be determined, probably by environmental scientists.

Similar questions occur in paragraph 3 in particular what is "complete" and what is "accurate"?

Question 3. Scope paragraphs, 8 to 10

A key point of interpretation is in paragraph 9: what is "reasonable"? An overarching conceptual framework would help determine what is reasonable or at least reasonably within scope, showing the dependencies of enterprises on the environment and the impact of enterprises on the environment. This would also enable guidance on what is reasonable be developed. Again scientists will be required to determine what is reasonable from an environmental perspective.

Including not for profit and public sector within the scope is logical.

Question 4 Core content (para 11-35)

For the governance, the expertise, knowledge and skills of the body and individuals needs to be disclosed. A broad range of knowledge and skills is required, and environmental science is a necessary part of this.

Again, for sustainably related risks and opportunities an overarching conceptual framework would help to identify the expertise needed. This will relate to identifying the impacts on the environment and the dependencies of the enterprise on the environment, hence the risks to enterprise value.

It would help if short medium and long term should at least have indicative indications. E.g short-term is less than 3 years; medium-term is 4-10 years and long-term greater than 10 years

For paragraph 26 environmental scientists will be needed to identify the likelihood of an impact and the severity of the impacts of particular events to individual enterprises and to identify thresholds. Paragraph 26 (c) mentions processes and the expertise necessary to undertake these processes should be identified.

The issue of metrics is paramount. In these comment I have taken that the world "metric" as shorthand as the measurement of a concept (see my response to Question 17 "Other comments"). If suitable metrics are not identified and defined and are left to individual enterprises to determine, then there is a high risk that users of sustainability reporting will be unable to compare between enterprises and those responsible for validating metrics will have enormous challenges. While the metrics need to be standardised, they should be some freedom with the methods used for their measurement to allow for changing technology and the evolution of data sources and methods.

With the standardisation of metrics, paragraph 34 becomes redundant.

Question 5. Reporting entity paragraphs 37 to 41

As environmental dependencies and impacts are all context specific, enterprises with multiple establishments should report risks related to each establishment. The aggregation of all the establishments into a single enterprise may make difficult the interpretation of information. For example they may be a particular risk in a particular area which is severe, but in the context of the overall enterprise the risk or dependency is not obvious. Some kind of spatial representation of risk is appropriate. My response to Question 7 is related.

For paragraph 40 the list of examples is not exhaustive, and this is indicated by the words "such as". Air pollution, water pollution, and land assets are examples which could be added.

Question 6 Connected information, paragraphs 42 to 44

And overarching conceptual framework for understanding the linkages between the environment and enterprises would help enormously with understanding the connections between the different risks and opportunities.

Graphical representations of the connections would help.

Questions 7. Fair presentation, paragraphs 45 to 55

Paragraph 49 relates to the reporting entity (Question 5) and is good to see acknowledgement of it here. There are many examples of where disaggregation is needed. For example, risks from sea level rise irrelevant in coastal areas but not in inland areas. If an enterprise has multiple centres of operation, then the enterprises needs to be disaggregated and the risks to each part of enterprises separately identified.

The risks and opportunities are all in particular spaces. An issue here is that the scope of the reporting becomes very large, particularly for large enterprises and if reporting extending into supply-chains. Some bounds will need to be set and how these bounds should be set is a question requiring further thought (and relates to Question 8).

Question 8. Materiality, paragraphs 56 to 62

The definition of material information is from previous IASB framework. 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*'.

This is a very general definition, open to interpretation.

Question 8 recognises that the primary users of general purpose financial reporting may not necessarily be the primary users of sustainability reporting. What is material to the users

interested in sustainability reporting may be broader in scope than the primary uses of general purpose financial reporting.

While it is true that what is material might change year-to-year, place-to-place, and enterprise-to-enterprise, there is almost certainly information that is material to virtually every enterprise. For example, water use, energy use, air pollution (including CO2 emissions), dependence on ecosystem services and natural capital assets and vulnerability of particular assets and income streams to particular environmental risks (floods, fires, drought). A list of these should be developed as part of the general requirements and not left entirely to individual enterprises to determine.

Such a list will make the application of materiality much clearer. At present the vague definition would allow the exclusion of information which many would consider material. A minimum set of information should be defined as material.

Without a minimum set of information it would be possible for an enterprise to claim that they are disclosing sustainably-related financial information in line with IFRS/ISSB standards by simply saying that nothing is material to their operations.

Question 9. Frequency of reporting, paragraphs 66 to 71

I agree that sustainably related financial discloses should be required at the same time is the financial statements to which they relate. The information is connected. If the information is reported at different times, then the information is not easily connected and would likely encourage siloed management and reporting of information.

Question 10. Location of information, paragraphs 72 to 78

No comment.

Question 11. Comparative information sources of estimation and outcome and certainty and errors, paragraph 63 to 65 79 to 83 in 84 to 90

Including information on the accuracy of reporting is sensible. If the methods are explained and the limitations are clear, then users are able to judge the usefulness of the information.

It would be useful to distinguish errors in estimation from differences due to changes to the methods of estimation.

Question 12 Statement of compliance

No comment.

Question 13. Effective date

The effective data should be as soon as possible, and one year would seem appropriate. If the effective date is longer then enterprises may unnecessarily prevaricate. If enterprises are unable to fully comply then I can report what they have done and explain the reasons for not fully complying.

Sustainability reporting should be compulsory in the long term. In the short term companies that choose not to report should explain why they are not reporting now and when such reporting is likely to commence. Comply or explain is an interim measure.

Question 14. Global Baseline

No comment

Question 15. Digital reporting

No comment.

Question 16. Costs benefits and likely impacts

No comment.

Question 17. Other comments

The lack of an overarching conceptual framework for sustainability related financial disclosures is a concern. This is mentioned in my general comments and in responses to various questions.

I'm also going to be pedantic. There are concepts, metrics and methods. For example, weight is a concept and a metric for weight is a kilogram. A scale (such as I have in my bathroom) is method used to measure my weight. How accurate are kilograms (the metric) is nonsense. How accurate are my scales (the method) that is used to measure my weight kilograms (the metric) is the real question.

The first thing that needs to be agreed are the concepts you then need to agree on the metric and finally on the method to measure the metric. I think the issue here is that the concepts to be measured or not yet fully agreed. For sustainability-related finiancial information you need to have common concepts, including a common conception of risk, or at least the factors contributing to risk, before you can start to measure risks. This is related to factors like the likelihood of an event occurring and the severity of impact should the event occur. This is risk management 101 and does not seem to have been considered explicitly in this reporting framework.

An overarching conceptual framework would help identify the concepts that need to be measured for sustainability reporting. Once these are established, then metrics and methods can be agreed and the accuracy of these can be assessed and reported.