The Institute of
Chartered Accountants
of Pakistan

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HEAD OFFICE

July 29, 2022 *(Submitted Electronically)*

International Sustainability Standards Board
London, United Kingdom

Comments on Exposure Drafts - IFRS S1, *General Requirements for Disclosure of Sustainability Related Financial Information* and IFRS S2, *Climate-related disclosures*

Dear Board Members,

The Accounting Standards Board of the Institute of Chartered Accountants of Pakistan (ICAP/ Institute) is pleased to comment on the two Exposure Drafts (EDs) IFRS S1 '*General Requirements for Disclosure of Sustainability Related Financial Information*' and IFRS S2 '*Climate-related disclosures*' issued by the International Sustainability Standards Board (the Board/ ISSB).

We welcome and support the ISSB's formation and its objective to create a comprehensive global baseline of sustainability-related disclosure standards for investors and capital markets to help them to make informed decisions.

We also appreciate ISSB's efforts in developing proposals that would require entities to disclose information that enables investors to assess the effect of significant sustainability-related risks and opportunities and climate-related risks and opportunities on its enterprise value.

Our overarching comments are provided below with detailed responses to the consultation questions of ED IFRS S1 are set out in the Appendix to this letter. Our detailed comments on key areas of ED IFRS S2 are also provided in the Appendix to this letter.

Clarity on important terms and scope of sustainability

In the ISSB's Sustainability Disclosure Standards, enterprise value is a fundamental concept. We suggest that further explanation and clarity is provided on the linkages between the sustainability-related disclosures, financial reporting and the enterprise value.

A shared understanding of the boundaries of 'sustainability' is also important for clarity, consistency and comparability. We note that the expression 'all of the significant sustainability-related risks and opportunities' in the ED is relatively broad as the range of environmental, social and governance (ESG) topics is very wide. Further, the definitions of 'sustainability' and 'significant' are not provided in the ED. We suggest ISSB considers defining these terms for clearer and common understanding. It would also be helpful to learn about the sustainability-related topics (e.g., human rights, water, biodiversity, pollution, governance, etc.) that ISSB plans to cover, and entities would accordingly be considering for sustainability reporting under IFRS Sustainability Disclosure Standards.

Conceptual Framework

We observe that the content of ED of IFRS S1 includes the concepts and discussions contained in the Conceptual Framework for Financial Reporting under IFRS Accounting Standards (i.e. IAS 1, *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors).* We recommend that the ISSB considers developing the conceptual framework and placing of the areas relating to conceptual principles in the conceptual framework.

Proportionality and scalability

We note that the EDs of IFRS S1 and IFRS S2 are too complex for a vast majority of entities. The IFRS Sustainability Disclosure Standards would be highly challenging to be implemented especially in emerging and developing countries. We suggest the ISSB to explicitly consider proportionality and scalability in its standard-setting activity.

We suggest that the ISSB considers developing a set of limited scope and simplified sustainability disclosure standards for entities without public accountability or for small and medium-sized entities.

Further, the entities that are in relatively early stage of applying the IFRS Sustainability Disclosure Standards may apply the limited scope and simplified sustainability disclosure standards. The ISSB may start with the minimum viable requirements that can be applied by entities across jurisdiction and which can then be scaled up with the evolving and improving sustainability reporting regime.

On the proposed requirements of ED IFRS S2 we suggest that Scope 1 emission are considered as mandatory. While disclosing Scope 2 & 3 emission are suggested to be categorized as voluntary, as collecting information across value chain and disclosing it will be highly complex, subjective and difficult to verify.

Disclosure of commercially sensitive information

We note that the core content of the EDs is consistent with the recommendations of the Task Force for Climate-Related Financial Disclosures (TCFD). However, it would extend beyond climate - related sustainability-related risks and opportunities.

On the extent of disclosures, we share our stakeholders' concerns regarding the provision and dissemination of entity's commercially sensitive information, particularly in the strategy related disclosures.

Boundaries of sustainability-related disclosures

We note that the proposed disclosures of sustainability-related risks and opportunities extend beyond the entity, requiring coverage of the entity's value chain. Ordinarily, value chain would include upstream and downstream entities for varied sizes and structures. Further, value chain may also involve entities across various jurisdictions. We foresee a challenge for obtaining data about the value chain. In a vast majority of cases, the reporting entity is not expected to have control on the entities in its value chain. It is recognized that the sustainability related risk and opportunities arising upstream and downstream value chain are difficult to obtain, analyze and include in the disclosures as entity has no control over such information.

Other sources of non-mandatory guidance

We support the proposed principle and hierarchy for using other sources for reporting under IFRS Sustainability Disclosure Standards.

However, we believe that the requirement to consider sources other than IFRS Sustainability Disclosure Standards should not be categorized as mandatory. These should be provided as directional guidance. It is also suggested that all mandatory disclosures (including SASB

Standards) are embedded in the IFRS Sustainability Disclosure Standards. This would limit the authoritative guidance on the subject at one place and would also provide a common point of reference for all stakeholders.

Reporting entity

The proposals define the reporting boundary as being consistent with the financial statements. In principle, we agree that the sustainability-related disclosures should be provided for the same reporting entity as the financial statements. However, as noted earlier the boundary of sustainability reporting extends beyond the financial reporting, and this would be an area of concern and challenge for the reporting entity.

We also suggest that the explicit guidance is provided in the IFRS S1 for the reporting entities that are within the group and are required to prepare standalone and consolidated financial statements. It is also suggested that clarity is provided over the treatment of associates, joint ventures and other non-consolidated investments.

Reporting timelines

Sustainability reporting is a new area of reporting for many jurisdiction and entities. We believe that the sustainability reporting 'at the same' as the financial reporting would over-burden the entities. The concurrent reporting would require deployment of additional resources and operational reforms. The resulting annual report would also contain too much information for the user to retain attention. Therefore, in initial years of application allowing a time gap (at least 60 days) between the two reporting deliverables may be considered as it would enable to reduce cost with elimination of undue efforts and segregated yet connected information that will enhance the user comprehension.

Global baseline

We have identified that the extent of detailed information required under the IFRS Sustainability Disclosure Standards would be a challenge for many entities. We have fears that this situation may impede the ISSB's vision of developing standards as the global baseline for sustainability reporting. Further, this could also affect the ISSB's proposed building-blocks approach.

Adoption of ISSB Standards

At present, the landscape of sustainability reporting unlike financial reporting (IFRS Accounting Standards as used in over 140 countries) does not reflect a standardized framework, approach and maturity. The application of ISSB issued standards is foreseen to be subjective as sustainability related risks and opportunities vis-a-vis norms and measures thereof for an entity in a developed market would differ materially from an entity operating in an emerging, less developed market. The varied level of legal infrastructure and institutional understating and experience with sustainability reporting (as per ISSB set principles and requirements) would impact the adoption and application of IFRS Sustainability Disclosure Standards.

Challenges for the auditors

The disclosure of significant sustainability-related risks and opportunities would require management judgments, estimates and forward-looking data and impacts. We foresee that the auditors and regulators would face challenges in testing and ensuring the completeness and veracity of the sustainability related disclosures made by the entity. The challenges relating to the data reliability and availability (particularly about the value chain) would also affect the auditor's ability to complete assurance engagements in a timely manner.

Need for guidance and illustrative disclosures

We strongly suggest ISSB to consider developing and providing detailed illustrative disclosures to complement the industry-based sustainability disclosure requirements. The understanding and application of IFRS Sustainability Disclosure Standards require a significant amount of subjectivity and evaluation on multiple qualitative aspects; hence, it is necessary to have standardized illustrative disclosures for improving understanding and comparability.

We hope our comments are helpful to the ISSB's deliberation on the EDs.

Should you require further clarification on our comments, please contact the undersigned, at sohail.malik@icap.org.pk

Yours truly,

Sohail Malik
Director Technical

Encl. As above

Appendix

ICAP Comments on
Exposure Drafts - 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 (ED) 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 ED state clearly that an entity would be required to identify and disclose material information about all 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 ED meet its proposed objective (paragraph 1)? Why or why not? c) Is it clear how the proposed requirements in ED 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 ED 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?

Comments

a) We believe that the ED of IFRS S1 clearly states that an entity would be required to identify and disclose material information about all the significant sustainability-related risks and opportunities to which the entity is exposed and which can affect the enterprise value (even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standards). However, in the ED the link between the sustainability disclosures and the enterprise value is not very clear. We suggest that this aspect is further explained and clarified.

   We also note that the expression 'all of the significant sustainability-related risks and opportunities' in the ED is relatively broad. It is suggested to provide guidance and further clarity about significant sustainability-related risks and opportunities that are common to all industries.

   Further, the definitions of 'sustainability' and 'significant' are not provided in the ED. We suggest that definitions be provided to make these concepts clear. We also note that the spread of environmental, social and governance (ESG) is very wide, and it would also be relevant to understand in what direction and spectrum the ISSB refers to sustainability and which topics (e.g., human rights, water, biodiversity, pollution, governance, etc.) it envisages to cover under IFRS Sustainability Disclosure Standards. A shared understanding of the boundaries of 'sustainability' is important for clarity, consistency and comparability.

The term ‘sustainability-related financial information’ is defined in the appendix of the ED. Without explanation of ‘sustainability’ there are likely to be various and wide-ranging interpretations of what constitutes 'sustainability-related financial information'. This could lead to unintended consequences caused by inconsistent application of the standard. 'Sustainability-related financial information' should be further clarified, as besides financial information, sustainability reporting also involves important and significant qualitative disclosures. The use of the phrase ‘financial information’ could cause confusion. To avoid this unintended confusion, the ISSB may consider removing the reference to ‘financial’ and use the term ‘sustainability-related information’.

The ISSB may consider including requirements for the entity to disclose the judgements made in determining which sustainability-related risks and opportunities are ‘significant’.

(b) We note that the proposed requirements of the ED meet the proposed objective.

(c) It is clear as the purpose of both the IFRS S1 and IFRS S2 are interlinked but not the same. We note that the proposed requirements of EDs are quite broad and involve subjectivity.

We also observe that the content of ED of IFRS S1 includes the concepts and discussions contained in the Conceptual Framework for Financial Reporting and IFRS Accounting Standards (i.e. IAS 1, *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors).* We recommend that the ISSB considers developing the conceptual framework and placing of the areas relating to conceptual principles in the conceptual framework.

(d) The proposed requirements of IFRS S1 and IFRS S2 are broad. The disclosure of significant sustainability-related risks and opportunities would require management judgments, estimates and forward-looking data and impacts. It is feared that auditors and regulators would be facing challenges in testing and ensuring the completeness and veracity of the sustainability related disclosures made by the entity. It would be challenging for auditors to provide an overall opinion to the entire set of sustainability information when a significant amount of information is qualitative, forward-looking and relates to value chain. The areas of EDs which may pose challenges for the auditors and regulators includes:

- Management judgments in the identification of (or not selecting) a sustainability topic and/or a sustainability risk or opportunity;
- The criteria used by the management to measure and prepare sustainability-related targets, metrics and financial information;
- Forward-looking information, including the disclosure of anticipated effects on financial performance, position and cash flows (which is similar to forecasts); and
- The expanded scope and boundary of value chain.

Further, there could be challenges in verifying the data about emissions. In particular, the emissions that are arising from an entity’s upstream and downstream activities as well as financed and facilitated emissions. From the auditor’s perspective the challenges include the reliability and availability of source data, the completeness of emissions (particularly Scope 3) and the ability to complete the assurance engagement within a reasonable timeframe (as the information would pertain to upstream and downstream value chain from which an entity needs to collect data).

Question 2—Objective
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 ED 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. 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. 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 of ED)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

Comments

a) We note that the sustainability reporting is a new area for our constituents. The general objective of the ED (i.e. disclosing sustainability related financial information) is clear as it will provide the primary users to assess the enterprise value of the entity and decide whether to provide resources to entity.

In the ISSB's Sustainability Disclosure Standards, enterprise value is a fundamental concept. We recommend that the ISSB develops additional explanation and guidance on enterprise value and how it interacts with general purpose financial reporting and statements.

We foresee a practical challenge with quantifying certain sustainability matters and determining the impact on an entity as the impact is likely to be forward looking and involve subjective judgements. The fact that there may be subjectivity for instance as to which sustainability-related risks are material, indicates difficulties in comparing disclosures of different entities.

b) As noted in our response to question 1 (above), the term 'sustainability' and 'significant' need to be defined in the standard. The shared understanding of 'sustainability' and 'significant' will improve consistency and comparability.

The reference to 'sustainability-related financial information' also need a clearer definition.

Question 3—Scope
Proposals in the ED 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 ED 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?

Comments

We agree with the proposed approach of making the IFRS Sustainability Disclosure Standards neutral to the financial reporting framework. Therefore, permitting the use of IFRS Sustainability Disclosure Standards alongside the local GAAP financial statements.

However, we note that the EDs of IFRS S1 and IFRS S2 are too complex for a vast majority of entities. The proposed requirements would be onerous creating unnecessary and disproportionate burden on the medium and small-sized entities. The disclosure at the same level will give rise to the cost benefit issue for small and medium sized entities. We suggest that the ISSB considers developing a set of limited scope and simplified sustainability disclosure standards for entities without public accountability or for small and medium-sized entities. Further, the entities that are in relatively early stage of applying the IFRS Sustainability Disclosure Standards may apply the limited scope and simplified sustainability disclosure standards.

Question 4—Core content
The ED 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. The objectives of sustainability-related financial disclosures are to enable the primary users of general-purpose financial reports to understand entity's governance, strategy, risk management and metrics and targets in relation to the sustainability-related risks and opportunities. 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?

Comments

We note that the general objective of disclosing information on governance, strategy, risk management and metrics and targets are clear.

For Pakistan entities sustainability reporting is a new area. Some of our stakeholders have raised concern regarding the disclosure requirements as they have noted that disclosures may result in provision and dissemination of commercially sensitive information. We note that the IFRS Accounting Standards acknowledge the requirement to maintain confidentiality of commercially sensitive information (until such time as specified thresholds are met). A similar approach shall be outlined in the IFRS Sustainability Disclosure Standards.

The wide spectrum of required information and relative subjectivity may create inconsistency between disclosures made by different entities within the same industry.

Strategy
In relation to strategy, we propose that 'business model' is also covered as this is a core element of an entity's strategy and assessment of enterprise value. The provision of information about an entity's business model, would help the primary users to understand the context of disclosure of core contents in a better manner.

The proposed Standard requires disclosure of material information about sustainability-related risks and opportunities across a company's value chain. The sustainability-related financial information relevant to a company would depend on many factors, such as the company's activities or the industry to which it belongs, the locations in which it operates, its products and manufacturing processes and the nature of its reliance on employees and supply chains. Disclosures would be specific to each company and while the definition of value chain is broad, the information a company would be required to provide is limited to that necessary to enable investors to assess the company's enterprise value.

From the sustainability reporting's perspective, we foresee a challenge for obtaining data about the value chain. Value chain would generally include upstream and down-stream entities. The entities would be of varied structures and sizes. Further, value chain may also involve entities across various jurisdictions. In a vast majority of cases, the reporting entity is not expected to have control on the entities in its value chain. We believe that the sustainability related risk and opportunities arising upstream and downstream value chain are difficult to obtain, analyze and include in the disclosures as entity has no control over such information.

Resilience
Under the EDs of IFRS S1 and IFRS S2, entity would disclose an analysis of the resilience of its strategy and cash flows to significant sustainability-related risks (including quantitative information where possible). The EDs do not provide a definition and explanation of resilience. Based on our reading of the proposed standards the term 'resilience' can be explained as entity's ability to adjust to the uncertainties arising from sustainability-related risks. We suggest that 'resilience' is defined in the standard as this will assist entities to apply the concept and the proposed requirements in a consistent and comparable manner.

We understand that scenario-analysis is a common way of analysing resilience of the strategy to particular risks. The Board might consider providing explanatory material in the Illustrative Guidance on the attributes of resilience and the specific information to be provided so as to meet the disclosure objective as stated in the EDs.

Financial statement impacts over time
We understand that the sustainability-related risks and opportunities (and the strategies that management implements to manage those risks and opportunities) impact the financial statements. The EDs require explanation of how significant sustainability-related risks and opportunities impact financial position, financial performance and cash flows. This information would need to explain the effects identified at the reporting date and anticipated over the time horizon (short, medium and long-term).

To facilitate application, it is proposed that further guidance (by way of examples) is provided to explain and exhibit the extent of disclosures expected for the financial statements impacts over time. Further, the 'anticipated effects' need clarity with respect to practicality as it would require specialists to determine the future impacts.

Time horizons
We agree with the proposed approach of providing flexibility to entities in determining the short, medium, and long-term time horizons. It is suggested that guidance (without defining strict time bands) in this area is provided through the use of examples

Metrics and targets

We do not agree with the proposed approach of requiring entities to disclose metrics and targets from other sources (i.e. other than IFRS Sustainability Disclosure Standards). The inclusion of this requirement in paragraph 28 of ED of IFRS S1 indicates that the entity is mandatorily required to consider and disclose metrics and targets provided in other sources. We believe that other sources should be provided as a non-mandatory guidance, and the mandatory requirements should be restricted to the metrics and targets that are specified in the IFRS Sustainability Disclosure Standards.

Question 5—Reporting entity
The ED proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements. 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 requirement 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?

Comments

The proposals define the reporting boundary as being consistent with the financial statements. In principle, we agree that the sustainability-related disclosures should be provided for the same reporting entity as the financial statements. However, we note challenges in the practical application of the proposed requirements.

We consider that the sustainability-related financial information is broader than the information reported in the financial statements. Some of the sustainability-related risks and opportunities would be within the entity, but many others arise through-out the value chain. The practical application of EDs will become a challenge as they require disclosure of sustainability related information pertaining to relationships and value chains. We have noted our concerns on this area in our response to question (3) above. It is also pertinent to mention that the scope/boundary of value chain under proposed sustainability standards differs from the financial reporting.

In Pakistan, group companies are required to prepare standalone as well consolidated financial statements. We suggest that the explicit guidance is provided in the IFRS S1 for the reporting entities that are within the group and are required to prepare standalone and consolidated financial statements. It is also suggested that clarity is provided over the treatment of associates, joint ventures and other non-consolidated investments. The ED of IFRS S1 does not provide guidance on how these should be included by the reporting entity.

Question 6—Connected information
The ED 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?

Comments

In principle, we agree with the requirement that the sustainability reporting should be included as part of the entity's general purpose-financial reporting. The requirements of the ED are clear on this area. However, as explained earlier, our stakeholders have concerns relating to the disclosure of commercially sensitive information.

Question 7—Fair presentation
The ED propose that a complete set of sustainability-related financial disclosure 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 propose principles set out in the ED. Apply IFRS Sustainability Disclosure Standard, 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 an entity shall use its judgement in identifying disclosures. In making that judgement, entities would consider the same sources identified in the preceding paragraph. 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.

Comments

a) The proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, are clear.

   However, the amount of judgement involved (as discussed earlier) will make 'fair presentation' and assurance of it, challenging, subjective and debatable.

b) The ED outlines the sources of material for identifying sustainability-related risks and opportunities. The ED also specifies the hierarchy for use of other sources, including SASB Standards.

We note that the sources of guidance to identify sustainability-related risks and opportunities and related disclosures would be helpful to the entities. It would be a useful point of reference in the absence of a specific IFRS Sustainability Disclosure Standard.

We also support the proposed 'hierarchy' which includes important provisions on the use of other standards and frameworks such as the SASB Standards.

However, we believe that the requirement to consider sources other than IFRS Sustainability Disclosure Standards should not be categorized as mandatory. These should be provided as directional guidance. It is also suggested that all mandatory disclosures (including SASB Standards) are embedded in the IFRS Sustainability Disclosure Standards. This would limit the authoritative guidance on the subject at one place and would also provide a common point of reference for all stakeholders.

Question 8—Materiality
The ED 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 the 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'. 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. 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 breath 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 ED 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 ED if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

Comments

We agree with the proposed definition of materiality and its alignment with the definition of materiality in the IFRS Foundation's Conceptual Framework for Financial Reporting.

We suggest following for improving the understanding and application of the critical aspect of materiality:

- guidance on how to perform materiality analysis is provided;

- factors that entities should consider when assessing what is material (paragraph 56), for example, the likelihood and impact of the event (potential amounts involved), frequency (how often), duration (short-, medium- or long-term); and

  Inclusion of a list of factors is expected to support consistency in the materiality assessment across entities and also between preparers, auditors, regulators and other users of the sustainability information.

- further explanation regarding the interaction of financial statements materiality with the sustainability reporting materiality and how these materiality levels could affect the enterprise value would be helpful.

Question 9—Frequency of reporting
The ED 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 proposals 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?

Comments

We have concerns about the proposed requirement to report sustainability-related financial disclosures 'at the same time' as financial statements. The sustainability disclosures should be required at annual frequency only (no interim reporting).

We note that sustainability reporting would evolve in coming periods. In context of sustainability reporting, in Pakistan, like many other emerging and developing economies, a vast majority of entities do not have well-established and time tested data gathering infrastructure. The challenges that the entities will face on identification of disclosures for sustainability risks and opportunities, data collection, computation and reporting greenhouse gases (GHG) emissions will far exceed what they experienced in financial reporting. Our stakeholders have noted that sustainability reporting 'at the same' as the financial reporting would create a tension between the entity's ability to provide holistic information and the ability to provide timely information. The concurrent reporting would require deployment of additional resources and operational reforms. The resulting annual report would also contain too much information for the user to retain attention. Therefore, allowing a time gap (at least 60 days) between the two reporting deliverables may be considered as it would enable to reduce cost with elimination of undue efforts and segregated yet connected information that will enhance the user comprehension.

Question 10—Location of information
The ED proposes that an entity be required to disclose information required to the IFRS Stainabilities 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 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. The ED 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 ED despite the proposals on location? c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure

Standard 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?

Comments

a) We agree with the proposal that an entity be required to disclose information required to the IFRS Stainabilities Disclosure Standards as part of its general-purpose financial reporting.

Regarding the location of sustainability information, it is suggested that IFRS S1 clearly mentions that this information shall not be included in the financial statements.

b) We are currently not aware of any Pakistan-specific requirements that would make it difficult for an entity to provide the information required by the ED.

c) We support the proposal that information can be included by cross reference.

d) We agree it is clear that entities are not required to make separate disclosures on each aspect of sustainability, but rather provide integrated disclosures.

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors
The ED sets out proposed requirement for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contains 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 ED 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 ED 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 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 be able to be applied?

Comments

(a) We note that most of the general features have been appropriately adapted from the IFRS Accounting Standards (IAS 1 and IAS 8).

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

(c) The financial data and assumptions within the sustainability-related financial disclosures should be consistent with corresponding financial data and assumptions used in the entity's financial statements.

Question 12—Statement of compliance
The ED proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the ED 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 ED 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?

Comments

We agree with the concept of statement of compliance. However, we believe that an entity that is not compliant with IFRS sustainability standards or any part of it due to prohibition under local laws and regulations should be either prevented from asserting compliance with IFRS Sustainability Disclosure Standards or such entity should be required to disclose the part of IFRS Sustainability Disclosure Standard that has not been complied with.

Question 13—Effective date (Appendix B)
The ED 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 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?

Comments

(a) We believe that the effective date of the standard should be decided after considering the stakeholders' feedback. For the sustainability reporting, entities would be at different and varied stages of readiness. However, for many entities, jurisdictions and regulators the sustainability reporting under the standardized and established frameworks is a recent development. In Pakistan the entities as well as other stakeholders need to develop understanding of the sustainability reporting requirements and then need to bring it in processes, systems and infrastructure for effective application of the ISSB issued standards. The regulators, assurance providers and other stakeholders also need to develop infrastructure to support the implementation of IFRS Sustainability Disclosure Standards.

We believe that the effective date should allow a timeline of at least 2-3 years (after issue of the standard) to enable the entities to build required governance and sustainability risk management capability and to ensure availability of required data. Earlier application should be encouraged. The ISSB may also consider developing a phased approach and consider it in setting the effective date.

(b) We agree with the proposal of not requiring comparative information for the first-time application of IFRS S1.

Question 14—Global baseline
IFRS Sustainability Disclosure Standards are intended to meet the needs of users of general purpose financial reporting to enable them to make assessment 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 ED 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?

Comments

Overall, we are of the view that the IFRS Sustainability Disclosure Standards would ensure a common set of sustainability-related reporting requirements. However, as explained in our earlier responses we have concerns that the extent of detailed information required under the IFRS Sustainability Disclosure Standards would be a challenge for many entities. This could adversely affect in making the standards as global baseline. Further, this could also affect the ISSB's proposed building-blocks approach.

The IFRS Sustainability Disclosure Standards would be highly challenging to be implemented especially in emerging and developing countries. We suggest the ISSB to explicitly consider proportionality and scalability in its standard-setting activity. The ISSB should start with the minimum viable requirements that can be applied by entities across jurisdiction and which can then be scaled up with the evolving and improving sustainability reporting regime.

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. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosure Taxonomy is being developed by the IFRS Foundation. The ED and [draft] IFRS S2 *Climate -related Disclosure 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 ED that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

Comments

We welcome ISSB's consideration, and we support the creation of digital taxonomies and tagging for sustainability standards.

Question 16—Costs, benefits and likely effects
The ISSB is committed to ensuring that implementing the ED proposals appropriately balances costs and benefits. a) Do you have 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?

Comments

a) Sustainability related disclosures would result in increased awareness of risks and opportunities amongst the users of the general-purpose financial reporting revealing how business influences and is impacted by sustainable development, raising early warning triggers for sustainability risks to which an entity may be exposed to thus reduction in social, economic and environmental failures, improved legal and regulatory compliance and enable the investors to take timely and informed decisions. The cost related to implementing sustainability reporting may differ from one company to another. However, some common cost factors to consider are HR related expenses for hiring professionals/ specialists, training of existing and new hires for capacity building on sustainability reporting tools, techniques, standards and reporting, and last but not least the cost of developing organisational framework, systems, tool and techniques for recording and reporting of sustainability related risk and opportunities;

   The proposal will bring right share of attention to sustainability related risks & opportunities. Also, connecting sustainability related risks with enterprise value will make these risk considerations more specific and objective. Companies that have an established enterprise risk management (ERM) function/ capability will get a head start in adopting this standard, since risks related to sustainability and their business impact are often included in the risk taxonomy of the organization. However, companies that do not currently have risk function may have to incur significant cost, therefore, sufficient time should be provided so companies can devise their implementation plans.

b) Companies having an established and mature ERM capability can leverage work done under ERM framework for sustainability related financial information disclosure. However, companies that do not have the risk function will have to incur significant cost for establishment and functioning of the department as current financial reporting personnel may not have the expertise to comply with the requirements of the said standard. It is worth noting that having a mature ERM capability is a 3 to 5 years journey, depending on the size and complexity of the organization.

   Many respondents raised many challenges that entities will face in adopting ISSB standards, including:

   - The lack of supply of appropriately skilled people in the short to medium term;
   - The time and costs needed to develop and/or recruit staff with appropriate skills; and
   - Known operational difficulties in collecting consistent and quality data.

   Hence, we suggest that the ISSB adopt a proportionality approach in terms of timing and extent of application of the standards.

Question 17—Other comments
Do you have any other comments on the proposals set out in the ED?

Comments

Agenda consultation
We note that the ISSB has committed to issuing an agenda consultation to inform its future priorities and we encourage the ISSB to move towards publication of this quickly. We therefore welcome the ISSB considering possible topics for its agenda consultation at its meeting (held in July 2022). We are aligned with the ISSB on prioritizing the climate, however, we consider that there are other sustainability matters that also need to be addressed, for example, social, water and biodiversity.

Proportionality and applicability
The ISSB may start with the minimum viable requirements that can be applied by entities across jurisdiction and which can then be scaled up with the evolving and improving sustainability reporting regime.

The ISSB may also consider the need for a reduced disclosure standard similar to the IFRS for SMEs, as this would increase the capacity of smaller entities to meet the requirements and help jurisdictions with scoping discussions relating to the adoption of IFRS Sustainability Disclosure Standards.

Guidance material
We strongly suggest ISSB to consider developing and providing detailed illustrative disclosures to complement the industry-based sustainability disclosure requirements. The understanding and application of IFRS Sustainability Disclosure Standards require a significant amount of subjectivity and evaluation on multiple qualitative aspects; hence, it is imperative to have standardized illustrative disclosures to improve understanding and comparability.

Adoption of IFRS Sustainability Disclosure Standards
We note that the application of IFRS Accounting Standards is generally considered standardized across the globe (where IFRS Accounting Standards are adopted/used). However, the landscape of sustainability reporting does not reflect a standardized framework and approach. At present, different jurisdictions and different industries are at varied levels of journey towards sustainability reporting. The application of ISSB issued standards is foreseen to be subjective as sustainability related risks and opportunities vis-a-vis norms and measures thereof for an entity in a developed market would differ materially from an entity operating in an emerging, less developed market. For effective implementation of sustainability reporting, the existence, understating and implementation of other legislations (for example environmental laws, human rights laws) is also relevant and important. The varied level of existence, understating and implementation would impact the adoption and application of IFRS Sustainability Disclosure Standards.

We also understand that the timeliness and readiness of the adoption of IFRS Sustainability Disclosure Standards would depend on jurisdictional state of affairs of putting in place a process or a legal framework around the adoption of the Standards. This may require government and institutional decision-making process, bringing in changes on the legal framework and developing the regulator and standard-setters structure, capacity and scope of activities. These fundamental steps and activities might not match with the speed and accelerated phase of ISSB standard development and work plan. The ISSB when setting the global set of standards for sustainability reporting should be aware of the ground realities and factors that can impede or support the standards in becoming a global base line and common language for sustainability reporting.

ICAP Comments on
Exposure Draft - IFRS S2, *Climate-related disclosures*

1. We agree that the proposed objective of the Exposure Draft will support the disclosure of information that will enable users of general-purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value.

   However, it is pertinent to note that the basis for conclusions document does not define the scope of 'climate-related risks and opportunities'. A shared understanding of the boundaries of 'climate-related risks and opportunities' is important for clarity, consistency and comparability. The approach of not defining climate-related risks and opportunities makes application too broad resulting in challenges. We recommend clarification / definition of climate-related risks and opportunities.

2. We generally support the proposed requirements on the governance related risks and opportunities associated to climate-related matters.

3. As explained in our responses on the ED of IFRS S1, we support the principles-based approach to the definition of the time horizon for reporting, however, it would be useful to provide examples and guidance on drivers that issuers are expected to use to select the relevant time-horizons to make sure that disclosure is comparable amongst different issuers.

4. The proposed requirements in the draft IFRS S2 involve a significant degree of judgement and assumptions relating to developments of complex climate-related phenomena and their impacts on issuers. Enforcement challenges may therefore arise, in particular on the use of scenario analysis, the anticipated effects of significant climate-related risks and opportunities on companies' financial position, financial performance and cash flow over a short, medium and long term and certain data requirements for the value chain. On value chain we have shared our concerns and possible challenges for preparers and auditor, in the responses to ED IFRS S1.

   Disclosures related to risks and opportunities in the value chain need to be specified to which level the entity needs to go. It is important to identify, to which level an entity should review to be able to identify risks and opportunities.

   We have noted our comments on the boundary of value chain in our responses to ED of IFRS S1 and same would be relevant for the ED of IFRS S2.

5. We suggest that the effective date of application for IFRS S2 is set at the same time as that of IFRS S1.

6. As noted in our comments on ED IFRS S1, we suggest that ISSB considers the proportionality of the proposed requirements for application by entities that are an early stage of sustainability reporting.

   We suggest that Scope 1 emission are considered as mandatory. While disclosing Scope 2 & 3 emission are suggested to be categorized as voluntary, as collecting information across value chain and disclosing it will be highly complex, subjective and difficult to verify.