July 29, 2022

International Sustainability Standards Board  
Columbus Building  
7 Westferry Circus, Canary Wharf  
London, E14 4HD

By email: commentletters@ifrs.org

Dear Board Members

Consultation on the draft IFRS Sustainability Standards

We are writing on behalf of the Global Accounting Alliance (GAA) in response to your request for comment on the draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (“S1”) and draft IFRS S2 Climate-related Disclosures (“S2”) (collectively referred to as “the Exposure Drafts”).

Introduction

The GAA was formed in November 2005 and serves as a forum for 10 leading professional accountancy bodies representing 1,400,000 members in over 180 countries around the globe. Professional accountants play an important role in global capital markets helping organizations meet the evolving information needs of investors and other stakeholders including on environmental, social and governance (ESG) issues. The GAA’s purpose is to serve the public interest by leading the advancement of a high-quality accounting profession by sharing information and collaborating, among GAA members, and advocating on international issues important to the profession.

The GAA’s members include the following professional accountancy bodies:
- Association of International Certified Professional Accountants
- Chartered Accountants Australia and New Zealand
- Chartered Accountants Ireland
- Chartered Professional Accountants of Canada
- Hong Kong Institute of Certified Public Accountants
- Institut der Wirtschaftsprüfer in Deutschland e.V.
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants of Scotland
- Japanese Institute of Certified Public Accountants
- South African Institute of Chartered Accountants
The Exposure Drafts contain proposals that are of great importance to the GAA, and we appreciate the opportunity to comment.

As mentioned in our response to the IFRS Foundation’s Consultation Paper on Sustainability Reporting, we believe there is an urgent need for global sustainability reporting standards. We believe that a single set of high-quality sustainability reporting standards will serve the public interest and bring significant benefits to the global economy, capital markets, and society at large.

We also believe that the International Sustainability Standards Board (ISSB) has a central role to play in establishing a comprehensive global baseline for a global sustainability disclosure system.

**Collaboration and coordination in establishing a comprehensive global baseline (S1 question 14 and S2, question 11)**

The burden of potentially differing reporting requirements is a key concern among stakeholders globally. In addition to the ISSB Exposure Drafts, there have also been several recent local jurisdictional proposals for sustainability and climate-specific disclosures (e.g., U.S. Securities and Exchange Commission (SEC) proposed rule on climate-related disclosures, European Sustainability Reporting Standards being developed by the European Financial Reporting Advisory Group (EFRAG) and New Zealand’s mandatory climate-related disclosure standards being developed by the External Reporting Board). There is significant confusion among stakeholders about how the ISSB’s Exposure Drafts would interact with these proposals. While these various proposals may be conceptually aligned to some degree, they currently require different disclosures which may result in unnecessary cost, duplication, and inconsistency in sustainability reporting.

We are pleased to see that the ISSB has established the Jurisdictional Working Group, an international consultative group to look at the compatibility of jurisdictional initiatives on climate-related disclosure to address this problem. As part of this collaboration, we encourage the ISSB to consider the feedback provided on local jurisdictional proposals when finalizing its own standards. Working with local regulators and standard setters to achieve consistency in sustainability reporting requirements should be a priority for the ISSB to support wide adoption of a single set of global standards and promote harmonization and convergence, to the greatest extent possible.

We also agree that global sustainability disclosure standards should build upon the work of existing bodies and applaud the ISSB’s imminent consolidation of the Value Reporting Foundation and the recent Memorandum of Understanding with the Global Reporting Initiative (GRI). While the ISSB is currently focused on the needs of investors, we also recognize that it is important that the IFRS Sustainability Disclosure Standards can work with other standards designed to meet the information needs of a wider group of stakeholders, like those developed by the GRI. We encourage the ISSB to continue to monitor and engage with initiatives in new and emerging sustainability areas in developing its suite of IFRS Sustainability Disclosure Standards in the future.

Collaboration and coordination are also important between sustainability disclosure initiatives and financial reporting standard-setting. Working closely with the International Accounting Standards Board (IASB) should also be a key priority.
Clear terminology and guidance needed to enable comparability (S1 question 7)

The overarching goal of the ISSB should be to develop a globally consistent, comparable, reliable, and verifiable corporate sustainability reporting system that provides a clear and accurate picture of an organization’s ability to create sustainable value over time that can also be used as a baseline for jurisdictional initiatives.

We believe sustainability standards should be built on sound principles and provide sufficient detail for consistent application. Further work is required to ensure the proposed standards, including key terms and definitions, are clear, concise, and understandable in order to aid consistency and comparability. For example, the term “sustainability” is not defined, and this is particularly important in the context of issuing sustainability reporting standards. The use of the terms “significant” and “material” could be confusing as currently drafted, and there also appear to be certain inconsistencies. Greater clarity in these areas would ensure that preparers understand what is expected of them and also facilitate the provision of assurance on the reported disclosures.

In some areas, the Exposure Drafts refer to or rely on certain external frameworks, standards and guidance developed by other bodies. The use of these alternative reporting frameworks could result in the selection of different methodologies, options, and interpretations. While this approach may provide preparers with flexibility, this may result in significant challenges in terms of comparability and verifiability of the disclosures. Investors and other stakeholders need information to be comparable to allow informed decision making. A clear hierarchy to assist with the selection of the appropriate framework and a description of acceptable methodologies is essential for achieving high quality disclosure and ensuring that the information is neutral and comparable. More work is also needed on the extensive industry-based material and disclosure requirements.

Assurance (S1 questions 1, and 2)

Independent assurance on sustainability disclosures would enhance the credibility of the information and provide investors and other providers of capital with greater confidence in the quality of the sustainability reporting. It is important that the ISSB develop standards that have the essential characteristics necessary to enable an independent practitioner to perform an assurance engagement. Robust criteria and definitions are essential.

The preparation and assurance of sustainability related information bring some challenges that need to be addressed. Sustainability reporting is inherently more complex and may also be subject to significant judgement and estimation uncertainty. Users would benefit from greater transparency around the various assumptions companies make, the methodologies used, and explanations about any inherent limitations in measurement, evaluation or assurance of the data. It is also very important that the ISSB work closely with the International Auditing and Assurance Standards Board (IAASB) to ensure that assurance can be obtained on the sustainability information. We note that the IAASB has introduced a project to develop an assurance standard on sustainability / ESG reporting.
Education, guidance, and scalability (S1 questions 13 and 16)

The proposed disclosure requirements in the Exposure Drafts are extensive and represent more than what is currently regarded as a minimum set of disclosures based on current market practices and capabilities. Smaller entities, in particular, have not prepared similar disclosures in the past and therefore will need to develop systems, processes, and controls. The cost and time needed to comply with the proposals should not be underestimated. For example, when preparing Scope 3 emissions disclosures, entities will need to develop processes to prepare and collect reliable data from third-party sources. It is important for the ISSB to consider the readiness and capability of preparers and how this may impact the widespread adoption of certain aspects of the standards. This might include the need to adopt a phased-in approach for smaller entities to ensure that there is sufficient capacity in the corporate ecosystem to enable the orderly and effective adoption of these standards. We also encourage the ISSB to consider field testing to better understand how the proposals might be applied by entities of different sizes, particularly smaller entities.

There is a need for education to support high quality implementation of the standards. Additional guidance and examples of disclosures in the more complex areas would also be beneficial. The GAA is committed to supplementing the efforts of the ISSB by developing relevant educational programs and resources to build professional capacity in sustainability reporting.

Conclusion

The GAA supports the ISSB’s efforts to establish a comprehensive global baseline for sustainability reporting. However, we recognize that establishing a comprehensive global baseline for sustainability reporting will take time and some amendments may be required to achieve a baseline that is capable of consistent application and over which assurance can be obtained. Building professional capacity to support implementation of the standards and ongoing collaboration globally with regulators, standards setters, policy makers and key players within the sustainability reporting ecosystem will be critical.

Yours sincerely,

Jim Knafo, CPA CA CGMA
Chief Executive Officer
Global Accounting Alliance