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CA IS A DIFFERENCE MAKER

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DELIBERATION OF EXPOSURE DRAFT IFRS SUSTAINABILITY DISCLOSURE STANDARDS

This publication is the perspective of the authors, prepared as material for discussing related issues, and does not represent the position of CCR TF on this issue. The position of IAI's CCR TF is only determined after going through the due process procedure and discussion process as required by IAI.

The International Sustainability Standard Board (ISSB) is currently redeliberating the Exposure Draft IFRS Sustainability Disclosure Standards (ED) based on feedback on the Exposure Draft collected over 120-days consultation, which ended in 29 July 2022. In October and November 2022, the ISSB took some decisions to redeliberate the ED, as shown in Figure 1.

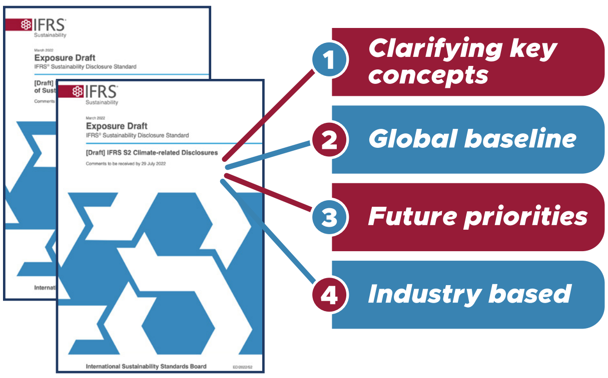

Figure 1. Key Points on Deliberation of ED

1. *Clarifying key concepts*

ISSB decided to clarify some terms. First, ISSB decided to remove the term *'enterprise value'* from the objective and the assessment of materiality, but no change in concept. Second, ISSB decided to remove the term *'significant'* to describe which sustainability risks and opportunities an entity would be required to disclose while continuing to redeliberate the application of materiality and the process used by preparers to identify an entity's sustainability-related risks and opportunities to provide useful information to primary users. Third, ISSB also confirmed the use of the same *material* definition as in IFRS Accounting Standards.

The term *'enterprise value'* was included in the ED to help explain the scope of sustainability-related financial disclosures. However, the use and definition of enterprise value in ED causes some challenges in respondents' perspectives, as follows (a) an inconsistencies with the IASB's Conceptual Framework; (b) it may unduly narrow the scope of sustainability-related financial disclosures; (c) the definition of *'enterprise value'* in Appendix A is not wholly consistent with the description in paragraph 5 and throughout the Basis for Conclusions; (d) the Appendix A definition specifically references market capitalization, which led some respondents to incorrectly assume that ED was not intended for application to private companies; (e) it is also noted that debt investors may not be primarily concerned with assessments of enterprise value; (f) the term *'enterprise value'* has a particular and potentially conflicting definition in European legislation. Therefore, the ISSB decided to remove the term *enterprise value*. This approach would create alignment with the IASB's Conceptual Framework concerning the objective of reporting and the definition of materiality.

Besides *'enterprise value'*, ISSB also decided to remove the term *'significant'*. This term in the context of *'significant sustainability-related risks and opportunities'* was included earlier to provide greater clarity on the broad requirement for a reporting entity to disclose material information about sustainability-related risks and opportunities to which it is exposed. However, this term creates more confusion than clarity. These terms may be unnecessary, given the existing *'materiality filter'* combined with the definition of primary users and an understanding of the types of decisions these users make.

The last decision regarding the key concept is the term *'materiality'*. The definition of ISSB materiality was developed based on the objective and definitions of *'material'* and *'materiality'* in the IASB's Conceptual Framework and IAS 1. This alignment aims to facilitate connectivity between sustainability-related financial information and information in the financial statements. Even though we also noted that the materiality should be considered as *"double materiality",* which means we should see not only the preparer's perspective but also the user's perspective. The materiality level will be different depending on many perspectives.

All these decisions are highly in line with the feedback given by most jurisdictions. For example, the Financial Reporting Council (FRC), the Japanese Institute of Certified Public Accountants (JICPA), the Australian Accounting Standards Board (AASB), the Association of Chartered Certified Accountants (ACCA), and the Indonesia Task Force on CCR asked for further clarification on the terms *'significant'*, *'sustainability related'*, *'enterprise value'* and consistency application for terms *'materiality'* and *'enterprise value'*.

Similar feedback was also received from Siemens Energy who support the alignment of the materiality definition to the IFRS Conceptual Framework and IAS 1, because in their opinion the term *"materiality"* is used inconsistently within the ED. Furthermore, they argue that the interaction between the terms *'material'* and *'significant'* are difficult to understand. While Tata Steel Limited recommended additional guidance in the initial years on what constitutes *'significant'*. They also argue that in assessing whether an issue is significant, entities should apply multiple lenses, which are global lenses, regional lenses, and sectoral lenses.

Rolls-Royce plc also said that *'enterprise value'* should be defined and addressed much earlier within the standard. Because this concept has never been defined in the context of IFRS. ConocoPhillips also has the same view that the definition of materiality should be consistent with other well-established and time-tested precedents. Not only preparers but also accounting firms, such as PWC, EY, KPMG, and Deloitte view that alignment of the definition of materiality with IFRS Accounting Standards would provide clarity and consistency with the financial statements and result in an approach that is consistent with the IFRS Foundation's mission to provide transparency to global capital markets. This alignment also assists in achieving comparability of baseline sustainability reporting while not obscuring material information.

2. Global baseline

Most of the feedback from respondents view that as a comprehensive global baseline for the disclosure of sustainability-related financial information and the implementation of these standards will face many challenges. Therefore, for now, the ISSB has made 4 decisions. First, the ISSB will prioritize several key topics for decision-making to facilitate ongoing dialogue with jurisdictions working on jurisdiction-specific disclosure requirements. Second, confirmed disclosure of Scope 1-3 emissions, with relief provisions for Scope 3 decided at a future meeting. Third, confirmed use of the TCFD architecture. Fourth, modifying some disclosures and language concerning transition plans to facilitate alignment.

Many respondents in their comment letters were concerned about data challenges in Scope 3 GHG emissions disclosures, which are data availability and data quality. Preparers argue that they may be unable to collect data because several reasons, such as (1) they may not control the entities in its value chain and therefore be unable to get the GHG emissions data from the entities in the value chain; (2) measurement of GHG emissions estimates may be unfaithful; (3) it may be challenging for preparers with complex corporate structures to collect data; and (4) this information is complex and time-consuming, which creates challenges for entities to prepare and disclose at the same time as financial statements. Furthermore, preparers also faced data quality challenges, because preparers are unable to correctly assess which of the 15 Scope 3 GHG emissions categories are relevant to investors as a measure of the entity's transition risks, including which entities in the value chain would be relevant for each category. They also argue that data disclosed may not be accurate or consistent across entities due to measurement methods that are still being developed. All of these challenges raised by preparers can result in lower-quality disclosures of Scope 3 GHG emissions information.

The decision to consider a relief provision for Scope 3 in a future meeting organized by ISSB is in line with most global feedback. PWC views that the disclosure of Scope 3 GHG emissions involves several challenges, such as data availability, use of estimates, calculation methodologies, and other sources of uncertainty. EY said that in the case of Scope 3 emission, it is important for entities to better understand the reasons for the different treatment of disclosures for comparatives of estimates between sustainability-related financial information and financial information. Some preparers also have the same view, such as TotalEnergies who said that they need guidance from ISSB on methodologies to be used in Scope 3 emission calculations. Because, currently companies tend to use various methodologies, with some differences amongst them, deviating from consistent, comparable, and reliable disclosures.

Moreover, some preparers such as Shell International B.V., UBS Group AG, and Lloyds Banking Group plc, appreciate and support the alignment of this standard to well-established TCFD architecture. Comments from other jurisdictions also agree with these suggestions. Such as JICPA, the Malaysian Institute of Accountants (MIA), and the Indonesia Task Force on CCR. Indonesia Task Force on CCR especially stated in the comment letter that entities will be facing difficulty to identify and gather all the information needed, thus will be very expensive to comply with. Thus, the implementation of Scope 3 should be up to the entity to understand what data is available to the entity regarding the requirement. Preparers such as Energera also argue that disclosure of Scope 3 emissions should be removed from this ED. Because they think that it is not reasonably possible to accurately estimate Scope 3 emissions for accounting purposes.

3. Future priorities

The ISSB understands that building a foundation of the standards must be the future priority. Therefore, the ISSB decided to make the following items as priorities: (1) Support adoption and application, including supporting materials; (2) Develop a digital taxonomy; (3) International applicability of SASB Standards; (4) Connectivity with the IASB; (5) Interoperability with others – e.g. GRI and EFRAG, and (6) Research incremental enhancements to Climate Standard. Moreover, the ISSB also decided to consult on new areas of work in the first half of 2023.

Most respondents who submitted the comment letters support the adoption and application of the standards, such as the Malaysian Accounting Standards Board, the Canadian Accounting Standards Board, The Institute of Chartered Accountants of Nigeria, the Indonesia Task Force on CCR, and JICPA.

Moreover, many respondents expressed support for the development of a digital taxonomy for sustainability-related financial information. However, respondents suggested additional efforts needed for the successful implementation. ISBB needs to cooperate with stakeholders for consistent global implementation and developed educational or supporting materials to help with consistent application. Some suggested tagging numerical information or metrics first and narrative information at a later stage to relieve some pressure from stakeholders.

Accounting and Corporate Regulatory Authority and Singapore Exchange Regulation argue that this digital taxonomy will facilitate the comparison of companies within and across industries, thereby improving the accessibility and useability of sustainability-related financial information. The Institute of Chartered Accountants of India said that it could be a reliable tool to support companies in the transition to climate neutrality and a sustainable economy.

4. Industry-based

Feedback during the consultation indicated support from investors for industry-specific disclosures as decision-useful. Therefore, the ISSB tentatively agreed to maintain the requirement that entities provide industry-specific disclosures, make Appendix B of S2 (Climate-related) illustrative examples, with the view to make the topics and metrics mandatory in the future following further consultation, take time to further ensure that disclosures are relevant across jurisdictions and consider alignment with others. This decision is consistent with the responses to the Trustees' 2020 consultation on sustainability that recommended that the ISSB build upon existing sustainability standards and frameworks. This decision is also consistent with the TRWG's climate-related disclosure prototype.

Some respondents disagree with the decision to mandate industry-based requirements at this time because of several reasons, which are (1) ISSB should focus on overarching standards; (2) it needs further improvements to the international applicability of the SASB Standards before being included as requirements; and (3) it needs more time to familiarize with the content and engage with the standard-setting process.

However, many respondents, including almost all respondents from North America, indicated their support for industry-specific disclosures and encouraged the ISSB to continue building upon existing, widely adopted frameworks such as the TCFD and SASB Standards in ED. A few respondents noted that they appreciated that the SASB Standards can evolve relatively quickly to address emerging sustainability-related issues. Investors also give their support for industry-specific disclosures due to better comparisons between peer companies. While many European respondents suggested that any industry-based requirements should be further evolved to align with other standards, such as Global Reporting Initiative (GRI) and European Sustainability Reporting Standards (ESRS) to enable better interoperability and ease of reporting.

Bank of America supports disclosing industry-based metrics in line with the SASB standards. European Banking Authority also supports and welcomes this approach to improve its international applicability, especially for commercial banks and the disclosures of financed and facilitated emissions. Furthermore, Deutsche Bank has the same opinion as the decision taken by ISSB, which recommends a differentiation in disclosure requirements depending on the size and industry of a reporting entity.

Preparers such as The Vanguard Group, Inc., Claus Beckenhaub, and good.lab have the same opinion as the ISSB. Siemens Energy believes that these efforts will improve the effective functioning of the capital markets. Good.lab argued that material information for different industries differ significantly, therefore this approach makes proposed ISSB standards unique and more acceptable to both corporates and investors as an ESG standard.

Reference:

IFRS Foundation. (2022) Comment Letters on General Sustainability Related Disclosures. Available at: *https://www.ifrs.org/projects/work-plan/general-sustainability-related-disclosures/exposure-draft-and-comment-letters/#view-the-comment-letters (Accessed: 6 December 2022)*.

IFRS Foundation. (2022) Comment Letters on Climate-Related Disclosures. Available at: *https://www.ifrs.org/projects/work-plan/climate-related-disclosures/exposure-draft-and-comment-letters/#view-the-comment-letters (Accessed: 6 December 2022)*

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THE INDONESIAN TASK FORCE ON COMPREHENSIVE CORPORATE REPORTING

As a response to the sustainability reporting initiative from the International Federation of Accountants (IFAC) and IFRS Foundation, in December 2020 the Institute of Indonesia Chartered Accountants (IAI) organized the Task Force on Comprehensive Corporate Reporting (Indonesia Task Force on CCR). Led by IAI as the recognized Professional Accountancy Organization and standard-setter for financial reporting, membership of the Indonesia Task Force on CCR consisted of representatives of key stakeholders in Indonesia, as presented in figure below.

Following are some of the Indonesia Task Force on CCR responsibilities, as follows:

1. Reviewing and submitting responses to documents published by the IFRS Foundation (especially ISSB) regarding the issue of sustainability.
2. Conducting hearings with regulators regarding the development of sustainability issues.
3. Actively involved in various events at international and national levels related to the development of sustainability issues both as speakers and participants.
4. Raising public awareness regarding the development of sustainability disclosure through webinars and article publications.

Membership of the Indonesia Task Force on CCR


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Steering Committee and Member
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Steering Committee and Member
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DPN: Dewan Pengurus Nasional
DKSAK: Dewan Konsultatif Standar Akuntansi Keuangan
DSAK: Dewan Standar Akuntansi Keuangan
TISAK: Tim Implementasi Standar Akuntansi Keuangan