AASOC Auditing and Assurance Standards Oversight Council

AcSOC Accounting Standards Oversight Council

Submitted via IFRS online portal

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Subject: IFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Information

Dear Mr. Faber and Ms. Lloyd,

As Chairs of Canada's Auditing and Assurance Standards Oversight Council (AASOC) and Accounting Standards Oversight Council (AcSOC), we welcome this opportunity to provide feedback on the Exposure Draft on *IFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Information*. Given the proliferation of sustainability-related standards and frameworks, we recognize the need for a comprehensive global baseline for sustainability disclosure standards. We further acknowledge the urgency of the climate disclosure agenda, and see both IFRS S1 and IFRS S2 as important contributors to achieving the commitments set out in the Glasgow Climate Pact and other agreements.

To contextualize our comments, we recently approved the creation of a Canadian Sustainability Standards Board, which aims to be operational by no later than April 1, 2023. In the same way the Canadian Accounting Standards Board works with the IASB, the Canadian Sustainability Standards Board will work in lockstep with the ISSB, contributing to a comprehensive global baseline for sustainability disclosure standards and supporting the adoption of IFRS Sustainability Disclosure Standards in Canada.

During this important transition period, we are pleased, as representatives of the public interest oversight bodies of Canada's existing standard-setting boards, to convey national reactions to [draft] IFRS S1. Such perspectives were collated by Sustainability Standards staff within Canada's standard-setting team and reflect extensive engagement with a cross-section of market participants. Underpinned by an education and awareness campaign, market feedback was collected via virtual roundtables, interviews and online surveys. These forums attracted several market segments, including:

- Academia
- Assurance providers
- Consultants
- Governments
- Industry associations
- Legal professionals
- Non-profits
- Regulators
- Reporting entities (public and private sectors)
- Users (business valuators, ESG analysts and fixed income, money market, investment fund, pension fund and sustainable fund managers)

In hearing from these diverse market segments, we received equally diverse and valuable perspectives. In responding to the Exposure Draft (see Appendix 1), we've made no attempt to reduce these perspectives to a single common view or to develop an 'average answer' to the questions posed. Rather, we highlight those areas in which there is general consensus, and signal where there are divergent – and sometimes competing – perspectives in the interest of best navigating and resolving those differences.

The process of reviewing and compiling responses to the Exposure Draft was overseen by an Expert Panel featuring ten highly qualified individuals with diverse market perspectives. We gratefully acknowledge the following Expert Panel members for their time, expertise and active engagement:

Bindu Dhaliwal
Vice-President, Environmental, Social & Governance
CIBC

Brian Minns
Managing Director, Responsible Investing
University Pension Plan (UPP) Ontario

Caroline E. Davis
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Should you have any questions regarding our attached responses, please do not hesitate to contact Lisa French, Vice-President, Sustainability Standards (lfrench@frascanada.ca).

Yours sincerely,

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Chair, AASOC

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1 Overall approach

a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of 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?

YES Paragraph 30 references a need to disclose material information about sustainability-related risks and opportunities and paragraphs 53-55 underscore that sustainability-related risks and opportunities may or may not be addressed by topic-specific IFRS Sustainability Disclosure Standards. In the absence of topic-specific standards, entities should consult other sources and/or apply management judgement to identify material risks and opportunities and disclose information accordingly. Of minor note, a reinforcement of this point much earlier in IFRS S1 would help entities.

b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?

QUALIFIED YES We are generally supportive; however, we note that the proposed redirection by paragraph 54 to other standards, frameworks and jurisdictional requirements presents assurance concerns, for its lack of a clear hierarchy. And, although representatives of the corporate litigation, legal counsel and securities law fields acknowledge the early state of sustainability standards, they too are concerned about the absence of a hierarchy among other pronouncements, or the lack of standardized disclosure items. In their view, the open-ended nature of paragraph 54 seems to allow entities to pick and choose among those standards with which they are most familiar, complying with each at their own discretion. This raises several issues, insofar as it:

- Undermines the objective of comparable disclosures across entities
- Enables entities to overlook particular matters with no consequence
- Creates litigation risk vis-à-vis negligence to use a standard that *'should'* have been consulted.

Despite these pervasive concerns, we see an implied hierarchy based on the order in which items are presented in paragraphs 52 to 54, as well as early signals of an intended end state. We also infer an interest in minimizing disruption to those entities currently using other standards and frameworks in the absence of topic-specific IFRS Sustainability Disclosure Standards.

RECOMMENDATION: We recommend clarifying the intent of paragraph 54 and signalling the intended path for IFRS Sustainability Disclosure Standards adoption in relation to other pronouncements.

Finally, and notwithstanding the preceding commentary, we believe entities should clearly identify their use of other standards, frameworks and jurisdictional requirements. This provides insight into underlying methodologies and local practice, and perhaps supports a longer-term convergence of standards.

RECOMMENDATION: We recommend that paragraph 54 be amended to require the identification of other standards, frameworks and jurisdictional requirements used by an entity.

2 Objective (paragraphs 1–7)

a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?

QUALIFIED YES We agree with the general direction of paragraphs 1 and 2; however, we find two elements of the current phrasing problematic.

1. **Enterprise value.** In our view, the term *enterprise value* is not well understood, particularly among non-investors. (Please see our response to Question 8(a) for a more fulsome analysis of the challenges and interpretations.)
2. **Materiality versus significance.** Many, including both users and preparers of general purpose financial reporting, have questioned how the characteristics of *significant* and *material* differ.

RECOMMENDATION: For a clearer, more concise objective statement, one that addresses confusion arising from the terms *enterprise value* and *significant*, we recommend modifying paragraph 1 along the following lines:

> *The objective of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information is to require an entity to disclose material information about its ~~significant~~ sustainability-related risks and opportunities ~~that is useful~~ to inform the decisions of the primary users of general purpose financial reporting. ~~assess enterprise value and decide whether to provide resources to the entity.~~*

We offer further market feedback, to be considered in the context of other jurisdictional input:

Opportunity-related disclosure. Some Canadian investors see the value of IFRS Sustainability Disclosure Standards as *'providing access to previously unavailable information to support investment decisions.'* They believe that IFRS S1 offers no 'additionality' where opportunity-related disclosures are concerned, as such information is readily available elsewhere. In fact, including opportunities in paragraphs 1 and 2 could compel entities to list a host of opportunities in the name of compliance (ref: paragraph 91), obfuscating more pertinent information.

RECOMMENDATIONS: We believe a continued emphasis on *materiality*, in line with our above recommendation, will alleviate the risk of entities providing a long list of opportunities with little regard for their likelihood or potential impact. A reinforcement of the principle of *fair presentation*, and the need to avoid obscuring material information with immaterial information (ref: paragraph 48) will also help here. Finally, we suggest that the ISSB consider providing illustrative guidance on the treatment of opportunities, as this aspect of disclosure tends to be less familiar to entities.

Limitations. In the same way paragraph 6 clarifies that sustainability-related financial information is *broader* than financial statement information, the ISSB should clarify that sustainability-related financial information is *narrower* than that found in traditional sustainability reporting. Given considerable market confusion regarding scope, and frequent references to double-materiality, the ISSB should clarify what its standards do <u>not</u> cover, either within the standards themselves or elsewhere. Based on our market consultation, we believe that relying on the *enterprise value* concept to clarify the scope of IFRS S1 is an ineffective strategy.

b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

NO Four themes emerged from our market engagement:

- The exposure draft's silence on the definition of *sustainability* is a concern.
- The term *sustainability-related* could be removed or substituted by any other term and the definition would still stand. This suggests that the specific subject matter (i.e. sustainability) requires further elaboration.
- The distinction between *sustainability-related financial information* and *sustainability-related financial disclosures* is unclear. Implementation challenges aside, this ambiguity could be problematic as the final standard is translated into other languages.
- Opportunity-related disclosures, included in the term's definition, introduce a burden to reporting entities with little incremental utility to investors. (Notably, this was not a widely-held view among users. Please see our Question 2(a) response for a fuller explanation).

RECOMMENDATIONS: We recommend: (1) clarifying the ISSB's interpretation of the term *sustainability* and (2) providing illustrative examples of what could be included in the scope of *sustainability-related financial information*, whether at a high level in the definition or through more detailed, illustrative examples in the accompanying explanations and guidance.

4 Core content (paragraphs 11–35)

a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

QUALIFIED YES Taken independently, the stated objectives are clear and appropriately defined. However, in our view, and reflecting recurrent feedback from Canadian market participants, the text is highly repetitive and unnecessarily wordy. As a result, we see considerable opportunity to streamline and condense the stated objectives.

RECOMMENDATION: As a starting point, consider reducing paragraph 15 to a set of simple themes and presenting further detail in the ensuing sections. (In relation to those ensuing sections, and as a minor formatting note, a more pronounced distinction between section and sub-section titles might clarify the standard's structure and reduce the sense of repetition between, for example, the treatment of risks in paragraphs 17-20 and risk management disclosures in paragraphs 25-26.)

b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

QUALIFIED YES On a positive note, we believe the required disclosures align with the stated disclosure objectives. In particular, we firmly support paragraph 26, as its process-related information provides insight into the quality and extent of the entity's risk management approach. We also appreciate paragraphs 28 and 30, which require the disclosure of entity-specific metrics used to measure and monitor performance, over and above those prescribed by the industry-based SASB Standards. Such disclosure provides enhanced insight into the entity's data-driven decisions.

On the other hand, our engagement with Canadian market participants shows a high degree of scepticism around entities' aspirational targets (particularly those related to decarbonization) in terms of their plausibility. Therefore, although we agree with disclosures about *targets*, *target attributes* and *progress against targets* as a means of driving behavioural change and accountability, we also see a need to address the plausibility issue, or 'greenwashing' concern.

RECOMMENDATION: We recommend that the same process rigor afforded to risk management (ref: paragraph 26) also be applied to target setting. As currently framed, paragraphs 27 to 33 leapfrog two important elements, namely the: (i) approach to, or criteria for, defining targets and (ii) capacity to achieve targets based on reasonably likely obstacles.

6 Connected information (paragraphs 42–44)

a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?

QUALIFIED YES A small segment of Canadian market participants noted that the current wording is subject to misinterpretation and that further guidance is needed.

RECOMMENDATION: We recommend that the connectivity requirement be clarified through further illustrative examples.

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?

QUALIFIED YES Our market consultation revealed support for the integration of sustainability and financial information. However, as noted in our Question 6(a) response, some market participants requested illustrative examples of connected information, including guidance on how to quantify sustainability risks and opportunities and then link this information to enterprise value.

RECOMMENDATION: Although paragraph 44 contains examples of connected information, we recommend that the concept be further elaborated in supplementary implementation guidance.

8 Materiality (paragraphs 56–62)

a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?

NO On the one hand, we firmly agree with aligning the definition to that of the *Conceptual Framework for General Purpose Financial Reporting* and *IAS 1*. In our view, interoperability begins with a consistent disclosure lens, and to depart from the financial reporting approach would cause significant disruption. On the other hand, our market engagement has surfaced two prevailing concerns:

1. **Formal definition of materiality.** The materiality concept is identified as a characteristic of useful information, but is not itself found in the *Defined Terms* section. Moreover, the

description provided in paragraph 56 is detached from the concept of enterprise value, which is itself critical to informing an entity's scope of considerations.

RECOMMENDATION: We recommend that the materiality concept be added to the list of Defined Terms. We further recommend that the bridge between materiality and enterprise value be more clearly established.

2. **Enterprise value.** During our market engagement, the enterprise value concept has proved more a distraction than a helpful mental construct. Some are confused by the term's inclusion and see the concept almost as an interference. This is evident in calls to *'align materiality approaches across financial and sustainability reporting'*, despite substantive agreement between paragraph C8 of [draft] IFRS S1 and paragraph 2.11 of the IASB's *Conceptual Framework for Financial Reporting (2018)*.

   In other cases, the enterprise value definition seems to have reinforced a short-term financial capital or financial statement lens, as evidenced by calls to *'expand the definition of materiality to also include non-financial considerations'.*

   Finally, and to illustrate an entrenched short-term financial capital lens, some entities interpret the exposure draft's materiality determination process as follows:

STEP 1		STEP 2		STEP 3
Estimate market capitalization	→	Develop corresponding financial thresholds	→	Identify material matters

   In our view, the ISSB's intent to extend entity considerations beyond near-term financial statement performance – as expressed on page 28 of the IFRS Foundation Trustees' Feedback Statement on the Consultation Paper on Sustainability Reporting – is unclear in the [draft] IFRS S1 text. This is owing partly to the exposure draft's definition of enterprise value (value of equity plus debt), which fails to adequately connect the dots between: (a) sustainability-related risks and opportunities, (b) risk-adjusted discount rates and borrowing costs and (c) enterprise value. We appreciate that paragraphs 5 and 6 attempt to bridge these concepts; however, our consultations confirm a continued fundamental misunderstanding among market participants. In fact, we estimate that fewer than 5% of the Canadian stakeholders we consulted appreciate that IFRS Sustainability Disclosure Standards capture both the inner and middle zones of the *'nested materiality'* diagram presented on page 7 of Reporting on enterprise value Illustrated with a prototype climate-related financial disclosure standard. We suspect this understanding came from reading the prototype document or attending an IFRS Foundation or Value Reporting Foundation presentation during the exposure draft period.

   Feedback from one market participant crisply embodies the preceding concerns: *The Exposure Draft includes two expressions of materiality: one focused on information used by investors and the other on enterprise value. Maybe one turns into the other?'*

   RECOMMENDATION: We strongly recommend that the concept of enterprise value be more clearly defined and explained.

Notwithstanding our support for a consistent materiality approach across financial and sustainability standards, subject to our two preceding recommendations, we raise two further areas for ISSB attention:

- **Concept of reasonable investors.** A point was raised on the *'reasonably expected to influence the decisions of primary users'* premise on which the materiality definition centres. For sustainability topics, there is likely to be a greater divergence of views among primary users – whether based on geopolitical, cultural or other factors – than observed in financial reporting. While some users consider embedding social and environmental matters into the investment analysis as part of their fiduciary duty (given the impact on long-term returns), others do not. The question for entities becomes, *'Which of these views represents the reasonable user?'*
- **Management discretion.** Some users oppose the mention of materiality in [draft] IFRS S1. As a baseline standard aimed at driving comparability, this leeway opens the door to entities with-holding information. Such users urge that, if IFRS S1 continues to permit management discretion (which we support), entities must be required to provide their reason for non-disclosure.

b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?

NO Based on our extensive market consultation, we believe that, so long as enterprise value and its role in the materiality assessment remain unclear, sustainability-related matters with longer-term financial implications will go under-reported. (Perhaps of more theoretical than practical concern, some entities could be inclined to over-report sustainability matters that are of less relevance to primary users, based on their misunderstanding of materiality.) We suggest that, barring a clearer definition of materiality, entities should disclose the process through which materiality was determined.

c) Is the Exposure Draft 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?

NO Based on our market engagement, there is persistent confusion and concern over how material sustainability-related financial information can be identified. We believe the exposure draft and accompanying illustrative guidance can reduce this confusion by clarifying:

- **How entities should interpret and apply the term 'all significant sustainability-related risks and opportunities' in paragraph 2.** Assurance providers describe the term as loosely-defined and open-ended with potential adverse implications on:
  - Reporting burden and boilerplate, particularly if entities are expected to consider all conceivable risks and then document why, or why not, each has been disclosed
  - Compliance statements, particularly if entities are expected to satisfy IFRS S1 in addition to topic-specific standards.
- **How the enterprise value lens factors into the materiality assessment.** We believe the plain language approach of the IFRS Foundation Trustees' *Feedback Statement on the Consultation Paper on Sustainability Reporting* (Apr 2021) more effectively explains the links between an

entity's positive or negative impacts on the environment and society, business model resilience and investors' assessment of enterprise value.

- **How the perspectives of Indigenous Peoples factor into risk assessments.** As noted in our Question 17 response, the rights and interests of Indigenous Peoples are often inseparable from sustainability-related matters. Safeguarding the rights of Indigenous Peoples is a global imperative, one that should be embedded in entities' risk identification and management approaches via the requirements and guidance of IFRS S1.

- **How to factor future-oriented considerations into the materiality assessment.** Given their long-term nature, many are uncomfortable with the potentially dubious policy, technology and societal assumptions that will underpin materiality assessments. This is especially true for climate-related transition risks and net-zero strategies.

- **How to factor low-probability risks and opportunities into the materiality assessment.** Despite the high-level explanation of aggregate risk in paragraph 82, some regard the consideration of low-probability events as counter to the materiality principle.

  Notably, some primary users of general purpose financial reporting consider paragraph 82 an overreach, insofar as it requires reporting entities to estimate the aggregate effects of low-probability events. We recommend that the standard consider an alternate approach, one that marries common finance practice and accounting standard requirements. In particular, for quantifiable risks and opportunities, entities should have the option to indicate one or two standard deviations on both sides of expectations, then list low and high probability events. This not only signals the range of factors that could – individually or in combination – affect future outcomes, but it also rightly shifts the assessment of aggregate risk to *users* rather than *preparers* of general purpose financial reporting. This option provides a simple, consistent and cost effective alternative to that proposed in paragraph 82.

d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

YES If jurisdictional laws or regulations preclude reporting certain information, entities are bound to respect those laws or regulations. We agree that in such cases, entities should identify the type of information not disclosed and explain the source of the restriction.

9 Frequency of reporting (paragraphs 66-71)

Do you agree with the proposal 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?

QUALIFIED YES Based on our engagement with Canadian market participants, there is broad agreement that a holistic picture of entity performance and impacts – enabled by aligned reporting periods – should be the ultimate goal. Investors were almost universally agreed on this point. For their part, company boards also see value in aligned reporting, as this integrated view of risk, performance and prospects leads to better, and more timely, decisions. An overarching picture is also convenient to those serving on boards of several different companies.

Notwithstanding this agreement in principle, smaller reporting entities consistently cite a range of operational challenges including:

- Staff constraints
- Lack of specialized knowledge
- Limitations in data collection processes
- Incremental consulting costs
- Inadequate assurance methodologies.

Some Canadian entities disclose environmental performance and impacts in accordance with provincial initiatives. Such initiatives include defined annual compliance deadlines, which may or may not align with an entity's financial year-end. While it might be operationally feasible for large, experienced entities to, for example, align Scope 1 and 2 emissions disclosure with financial reporting within two to three years, this is not likely the case for Scope 3 emissions. Smaller entities are likely to face longer transition windows for the reasons outlined above.

Finally, we see the development and widespread adoption of an XBRL taxonomy for sustainability disclosure as a critical enabler, one that can expedite the intended alignment. We, therefore, hope that the maturation of technology and reporting software will help close the gap between financial and sustainability reporting cycles.

RECOMMENDATION: We support the alignment of financial and sustainability disclosure; however, we recommend that this be required within one year after the effective date. This timing is premised on an effective date of two years after a final Standard is issued (please see our Question 13(a) response).

12 Statement of compliance (paragraphs 91-92)

Do you agree with the exposure draft's proposal regarding a statement of compliance? Why or why not? If not, what would you suggest and why?

The Question 12 preamble covers two proposals: an unqualified statement per the first paragraph and relief arising from conflicts with local laws or regulations per the second. Our response addresses these two parts separately.

> ***First paragraph of Question 12 preamble:*** *The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft 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.*

Do you agree with the 'unqualified aspect' of the proposal regarding a statement of compliance?

NO We disagree for two reasons. First, the preamble to Question 12 notes that to assert compliance, an entity must comply with IFRS S1, as well as all requirements of applicable IFRS Sustainability Disclosure Standards (e.g. IFRS S2 in the case of climate-related disclosure). However, in our view, the proposed wording of paragraph 91 does not adequately communicate the need to comply with both the General Requirements standard and topic-specific standards.

RECOMMENDATION: We recommend that paragraph 91 be amended to clarify the scope of IFRS Sustainability Disclosure Standards to which entities must comply.

Second, the need for an unqualified statement of compliance in paragraph 91 poses a significant stumbling block, particularly in the early years of adoption. In fact, its 'all or nothing' approach will likely impact the quality of reported information by, for example, driving boilerplate disclosure.

RECOMMENDATION: We recommend replacing the binary requirement of paragraph 91 with a middle-ground explanation of where the entity is on its compliance journey.

> ***Second paragraph of Question 12 preamble:*** *The Exposure Draft 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 the 'relief aspect' of the proposal regarding a statement of compliance?

YES We agree that if local laws or regulations prohibit reporting certain information, entities should not be prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

13 Effective date (Appendix B)

a) **When the 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?**

Based on our engagement with Canadian market participants – including preparers and users of general purpose financial reporting – there is widespread agreement that compliance with IFRS S1, as proposed, will be challenging in the near term. Notwithstanding this reality, the importance of IFRS Sustainable Disclosure Standards is broadly recognized, on the basis that they:

- Create a level playing field for preparers by driving consistency in disclosure and methodologies
- Prompt behavioural change within entities, leading to better managed and more resilient entities
- Hold entities accountable for stated commitments and, in so doing, curb greenwash
- Facilitate comparisons across industry peers to inform capital allocations at a time most needed.

With these considerations in mind, expectations of full compliance in the near term should not be a barrier to getting started. Our market consultation points to a recommended effective date of **two years** following IFRS S1 issuance for large companies.

There is broad recognition that small entities will require more time, and there are several ways to address near-term implementation challenges. These include flexible approaches (multiple ways to comply with a given requirement), phased-in requirements (prioritization of select disclosure requirements in the early stages of adoption, with others to follow) and graduated/staggered starts based on entity characteristics, such as workforce size or market capitalization. Certain of these measures will be at the discretion of local securities regulators and legislators.

b) **Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?**

YES For many Canadian entities, there will be little to no data to which comparisons can be made.

14 Global baseline

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used as the global baseline? If so, what aspects and why? What would you suggest instead and why?

YES As noted in our response to Question 1(b), the open-ended nature of paragraph 54, which points to other standards, frameworks and jurisdictional requirements as source standards, poses a concern to Canadian market participants. Among the other challenges raised in our Question 1(b) response, this redirection introduces variation and, therefore, undermines comparability and compromises the notion of a single global baseline.

On the other hand, we appreciate the ISSB's intent to minimize disruption to those entities already using other standards and frameworks in the absence of topic-specific IFRS Sustainability Disclosure Standards.

RECOMMENDATION: Based on the above considerations, we recommend clarifying the intent of paragraph 54 and signalling the intended path for IFRS Sustainability Disclosure Standards adoption in relation to other pronouncements.

We would also take this opportunity to encourage the IFRS Foundation to continue bilateral discussions with jurisdictional regulators and standard setters to align with, or point to, the ISSB global baseline standards. This measure is especially important to multi-listed entities.

17 Other comments

Do you have any other comments on the proposals set out in the Exposure Draft?

YES When finalizing IFRS S1, we encourage the ISSB to consider the following additional points:

- **Effective date relative to IFRS S2.** Given the earlier-mentioned scoping concerns and open-ended nature of paragraph 54, IFRS S1 is likely to be applied inconsistently. Assurance providers, in particular, are concerned about this paragraph and the lack of clear hierarchy among *'the pronouncements of other standard-setting bodies'* to which it refers.

  Assurance providers and entities alike are unclear on the scope of considerations set out in paragraphs 2 and 40, given their use of the word *'all'* and the subjectivity of assessing what might or might not affect enterprise value.

  Within this context, if a statement of compliance requires full adherence to <u>both</u> IFRS S1 and IFRS S2 (see our response to Question 12), then regulators could struggle to mandate IFRS S2 in short order.

  RECOMMENDATION: We recommend that the above-noted issues be resolved without impeding the release of IFRS S2. Notably, Canadian and US securities regulators are currently focusing on mandatory climate-related disclosures, so we encourage this topic-specific standard to continue to progress at pace. This sequencing will allow an expedited path to mandatory adoption of climate-related disclosures within jurisdictions.

- **Reference to Indigenous Peoples' rights.** For Indigenous Peoples, environmental and human health are deeply intertwined, with community cohesion, spiritual and cultural practices, language, traditions and food security all depending on a healthy natural environment. Accordingly, risks related to Indigenous rights are often inseparable from sustainability-related matters, including climate change. The Intergovernmental Panel on Climate Change has noted that Indigenous Peoples are key in forest conservation and climate stability. Further studies show that ancestral lands, and land under title by Indigenous Peoples, are the most biodiverse and best conserved on the planet.

  Given this context, an assessment of impacts on and perspectives of Indigenous Peoples should drive reporting entities to ensure free, prior and informed consent if there are infringements on Indigenous rights.[1] If free, prior and informed consent is not achieved, project costs may escalate due to factors such as delays in obtaining permits or uncertainty about site access. Other risks may arise from the impact on the entity's reputation with key sources of capital or insurers. Local Indigenous businesses may refuse to be part of a project's supply chain, resulting in extra costs as supplies must be transported to the site from farther away. In some cases, a project may be unable to proceed at all.

  We also feel it essential to underscore that sustainability considerations are forward-looking, and that Indigenous Peoples are often at the forefront of flagging negative impacts of corporate behaviour that need to be addressed. There are numerous examples where Indigenous Peoples' traditional territory has been negatively impacted, for example, by contamination with hazardous waste, clearcutting to create agricultural land, accidental or intentional flooding, or atmospheric pollution. In addition to their considerable societal, cultural and environmental toll, these activities can negatively impact enterprise value through their effects on an entity's reputation – and its cash flow, if legal proceedings result. Therefore, when preparing disclosures, entities should be required to assess the impacts on Indigenous Peoples, as many live in areas affected by industrial activity (including mining, agriculture and hydropower).

  RECOMMENDATION: We recommend that reporting entities be required to assess and disclose their impacts – particularly those related to strategy, risk and performance – on Indigenous Peoples.

- **Clarify the scope of entities to whom IFRS S1 applies.** While jurisdictional authorities will decide if, or how, to mandate IFRS Sustainability Disclosure Standards, it is unclear to whom IFRS S1 *intends* to apply. With its paragraph 1 reference to *enterprise value* – itself rooted in market capitalization – the exposure draft may appear, to some, to focus solely on publicly-traded companies. On the other hand, reference to the *'primary users of general purpose financial reporting'* would seem to include private companies and public sector entities, whose value can be assessed in other ways.

  This interpretation becomes all the more important when we consider, first, the significance of climate change and other sustainability matters to all segments of the economy and, second, the growing expectation that, in time, most value chain participants will be required to disclose relevant sustainability performance and impact information, if not through regulatory or legislative mechanisms, then in response to supply chain pressure. This broader inclusion supports economy-wide transformation and encourages large, listed companies to drive systemic change within their industries and supplier ecosystems. This notion is expressed more concretely in paragraph 21(a)(vi)(3) of [draft] IFRS S2, which addresses Scope 3 emissions information received from value

[1] The principle of *free, prior and informed consent* is protected by international resolutions and conventions such as the United Nations Declaration on the Rights of Indigenous Peoples (2007), Convention on Biological Diversity (1992) and International Labour Organization Convention 169 - Indigenous and Tribal Peoples Convention (1989).

chain entities. This inclusive approach aligns with the proportionality ambitions[2] noted in recent ISSB/IFRS Foundation presentations.

RECOMMENDATION: We recommend that the ISSB clarify the entities to whom IFRS S1 applies. In our view, this clarity will assist:

- Non-listed entities, as they develop their disclosure roadmap and capacity building
- National standard setters, as they consider the scope of future standard-setting activities
- The public, as it digests the goals and implications of IFRS Sustainability Disclosure Standards.

- **Materiality versus significance.** As noted in our response to Question 2(a), many Canadian market participants have questioned the difference between *significant* and *material*. From a grammatical standpoint, we acknowledge the application of these *adjectives* to two different subjects (i.e. *material* information about *significant* risks and opportunities). However, we believe this convention is nuanced and reporting entities are unlikely to appreciate that materiality is an attribute of information rather than the underlying subject matter. We further note that the terminology convention applied to [draft] IFRS S1 differs from that in IFRS® Practice Statement Exposure Draft (ED/2021/6), where the latter refers to *key matters* rather than *risks and opportunities*. Here, we see an opportunity to align conventions across IASB and ISSB pronouncements.
- **Sustainability-related financial disclosures.** As noted in our response to Question 2(b), we find the distinction between *sustainability-related financial disclosures* and *sustainability-related financial information* unnecessarily complicated. In our view, the former is simply the communication – via external reporting – of the latter. We therefore see no need to define the term *sustainability-related financial disclosures*.

[2] Achieved by providing alternate ways to satisfy disclosure requirements, as in paragraphs 14 and 15 of [draft] IFRS S2.

Biodiversity and conservation on ancestral lands and land under title by Indigenous Peoples

1. A 2021 report by the ICCA Consortium shows that Indigenous Peoples are responsible for maintaining increasingly vanishing 'ecologically intact' environments, which account for up to 21% of the land on Earth.

   SOURCE: ICCA Consortium. 2021. *Territories of Life: 2021 Report*. ICCA Consortium: worldwide, www.report.territoriesoflife.org

2. A 2021 report, based on a review of more than 250 studies, demonstrates the importance and urgency of climate action to protect the forests of the indigenous and tribal territories of Latin America as well as the indigenous and tribal peoples who protect them.

   SOURCE: FAO and FILAC. 2021. *Forest governance by indigenous and tribal peoples. An opportunity for climate action in Latin America and the Caribbean.* Santiago. FAO. www.doi.org/10.4060/cb2953en

3. A 2020 study finds that at least 36% of the world's remaining intact forest landscapes - continuous tracts of forest and other natural ecosystems - are located within Indigenous territories.

   SOURCE: Julia E Fa, James EM Watson, Ian Leiper, Peter Potapov, Tom D Evans, Neil D Burgess, Zsolt Molnár, Álvaro Fernández-Llamazares, Tom Duncan, Stephanie Wang, Beau J Austin, Harry Jonas, Cathy J Robinson, Pernilla Malmer, Kerstin K Zander, Micha V Jackson, Erle Ellis, Eduardo S Brondizio, Stephen T Garnett, *Importance of Indigenous Peoples' lands for the conservation of Intact Forest Landscapes*, Front Ecol Environ 2020; 18(3): 135– 140, www.esajournals.onlinelibrary.wiley.com/doi/full/10.1002/fee.2148

4. A 2020 study shows that in some regions, Indigenous control of lands seems to reduce deforestation as much as formal protections, or even more.

   SOURCE: Vicky Tauli-Corpuz, Janis Alcorn, Augusta Molnar, Christina Healy, Edmund Barrow, *Cornered by PAs: Adopting rights-based approaches to enable cost-effective conservation and climate action*, World Development, Volume 130, 2020, 104923, ISSN 0305-750X, www.sciencedirect.com/science/article/pii/S0305750X20300498

5. A 2019 study finds that Indigenous territories harbor more biodiversity than protected areas in Brazil, Australia, and Canada.

   SOURCE: Richard Schuster, Ryan R. Germain, Joseph R. Bennett, Nicholas J. Reo, Peter Arcese, *Vertebrate biodiversity on indigenous-managed lands in Australia, Brazil, and Canada equals that in protected areas*, Environmental Science & Policy, Volume 101, 2019, Pages 1-6, ISSN 1462-9011, www.sciencedirect.com/science/article/pii/S1462901119301042