UKEB
UK Endorsement Board

IFASS Paper - connection between sustainability and financial reporting

Executive Summary

Project Type	Monitoring
Project Scope	Various

Purpose of the paper

The Appendix to this paper presents a staff paper for discussion with global National Standard Setters (NSS) at the Forum for Accounting Standard Setters (IFASS). It has been prepared at the request of the IFASS secretariat and in consultation with the staff of the Canadian Accounting Standards Board (AcSB).

The paper is proposed for discussion at the IFASS meeting on 12 January 2023.

Summary of the Issue

The IFASS secretariat invited the UKEB Secretariat to submit a paper and deliver a presentation on the connectivity between sustainability disclosures and financial reporting. Given that this is directly within the UKEB's remit as per the letter from Lord Callanan[1] to the ISSB, we agreed to developing this staff paper after consultation with the UKEB Chair. The Secretariat has engaged with AcSB staff on aspects of the paper, as the focus of the AcSB is also on the overlap and interaction with IFRS Accounting Standards.

The **intention for this paper** is to start a conversation amongst the NSS to better understand the areas of connectivity between IASB and ISSB standards. This should:

1. help develop a common understanding amongst the NSS of the areas of overlap between the work of the two global standard setters;
2. enable consideration of the potential solutions; and
3. help identify common issues across the different jurisdictions that would then need to be referred to the two Boards.

In addition, any body of work thus developed by the NSS may also be a useful input for the IASB and ISSB as they align on their approach, standards, and agenda consultations.

[1] Letter from Lord Callanan to the ISSB regarding their exposure drafts IFRS S1 and IFRS S2

To develop this paper, we reviewed the comment letters written to the ISSB by UKEB and other NSS, identified key connectivity and alignment themes, and, where they were suggested, noted any proposed solutions for consideration.

The **main themes** identified in the paper are:

- **Conceptual Framework-related themes**: implications for the framework; materiality
- **Assets**: recognition; measurement; impairment:
- **Liabilities**: confidential and commercially sensitive information; recognition approach;
- **Fair value measurements**
- **Disclosures**: estimation uncertainty; objectives of sustainability disclosures; certainty; policy disclosure; reporting of outcomes against previously disclosed plans; internal pricing
- **Other considerations**: scope and control
- **Management Commentary**: inability to comply; field testing

The **next steps** currently envisaged are that:

1. the Board considers and approves this Staff Paper drafted by the UKEB Secretariat for discussion with IFASS members at the January 2023 IFASS meeting.
2. following discussion at IFASS and consultation with the Board, the UKEB Secretariat may develop further papers, in collaboration with other NSS, on the key themes identified in this paper or during discussion with IFASS.

A verbal update on the discussions and response from IFASS members will be provided to the UKEB January 2023 meeting.

Decisions for the Board

1. Does the Board have any comments regarding the proposed content of the paper at Appendix A?
2. Does the Board have any comments on the next steps as outlined above?

Recommendation

The Board provides comments on the paper on the connection between sustainability and financial reporting for the IFASS meeting on 12 January 2023.

Appendices	
Appendix A	Paper for IFASS: Connectivity between sustainability disclosures and financial reporting

UK Endorsement Board

Appendix A:

Connectivity between sustainability disclosures and financial reporting

Background

1. At the closing session of the September International Forum of Accounting Standard Setters (IFASS), the Chair asked members to suggest future topics for discussion. Several members advised that connectivity between IFRS Sustainability Disclosure Standards and IFRS Accounting Standards would be of interest.

2. At the request of IFASS, the UK Endorsement Board (UKEB) Secretariat agreed to write an introductory paper regarding the connection between sustainability and financial reporting, in consultation with the Canadian Accounting Standards Board (AcSB).

3. The paper aims to identify key connectivity themes to start the conversation amongst National Standard Setters (NSS). This may also be a useful input for the International Accounting Standards Board (IASB) and International Sustainability Standards Board (ISSB) as they align on their approach, standards, and agenda consultations.

UK status and remit

4. In the UK, no organisation has yet been delegated a statutory function to consider and adopt IFRS Sustainability Disclosure Standards for use in the UK. Work to develop the necessary framework is ongoing and a consultation on the endorsement and adoption mechanism will be published next year.

5. In the meantime, the Government, has tasked the UKEB to assist them by carrying out work to consider the overlap of the ISSB's proposed IFRS Sustainability Disclosure Standards, with the IASB's IFRS Accounting Standards, and to influence both the boards in the UK public interest.

Introduction

6. The NSS community welcomed the exposure drafts IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ("draft IFRS S1") and IFRS *S2 Climate-related Disclosures* ("draft IFRS S2") and acknowledge many areas of alignment with the IASB's *Conceptual Framework for Financial Reporting* (the "Framework"), IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

7. NSS noted that the approach should broadly improve connectivity between financial reporting and sustainability disclosures, due to the ISSB's focus on sustainability-related **financial** disclosures, to assist stakeholders to better understand the information presented in an entity's annual report.

8. Preparers are becoming increasingly aware of the step change required from a voluntary sustainability framework, where 'best endeavours' are acceptable, to a mandatory compliance framework where requirements are specific and may be subject to assurance and enforcement by third parties, e.g., auditors and regulators.

9. Larger preparers are currently considering how to identify the sustainability data to be collected across their organisations and supply chains. They are also considering the organisational architecture that will be required to ensure they have processes in place to validate the information before publishing at the same time, and for the same period, as their financial reports.

10. Some of these preparers are now integrating the Environmental, Social and Governance (ESG) teams into their financial reporting teams. As the finance teams have experience with controls-based environments, evidence based assurable reporting and the responsibility for the financial reporting timetable, a joint team would be best placed to meet the sustainability disclosure requirements.

11. Because of this organisational change, the finance teams are likely to become the 'single customer' for both ISSB disclosures and IASB accounting standards. The avoidance of overlaps or disconnects between reporting under the two sets of standards will be critical to how preparers design, and then invest in, their data collection and systems and processes to comply with the disclosure requirements. They will also be reliant on the international boards' alignment and connectivity to avoid any significant jurisdictional level implementation and application issues.

12. Investors and capital markets also require the ability to assess and connect historic accounting information with the new forward looking and longer-term sustainability disclosures. As the customer of the sustainability and financial information prepared by companies using the IASB and ISSB standards, investors will require a holistic and coherent view of an entity, within and across jurisdictions, to inform their capital allocation decisions.

Objective and approach

13. The objective of this paper is to start a conversation amongst NSS regarding the level of alignment between the IASB and ISSB standards.

14. IFASS members identified several areas relating to connectivity and alignment between sustainability disclosures and financial reporting in their Comment Letters to the ISSB on draft IFRS S1 and draft IFRS S2. These comments were based on both stakeholder outreach within their jurisdictions and their extensive endorsement experience with IASB Accounting Standards.

15. During the preparation of this paper, we undertook a review of these Comment Letters to identify key connectivity and alignment themes, and, in some cases, proposed solutions for consideration.

16. In addition, we considered the potential implications for connectivity arising from Nick Anderson's 2019[2] and 2020[3] articles on the effects of climate-related matters on financial statements identified and illustrated how companies should consider climate-related matters through the application of IFRS Accounting Standards.

17. Where a theme is found to be common across jurisdictions, a further detailed discussion may be required at future IFASS meetings.

ISSB & IASB remit

18. At COP 26, the IFRS Foundation announced the establishment of a sister board to the IASB, to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. The Foundation had consulted on the ISSB's establishment and there was strong support for the proposals from jurisdictions across the globe. The ISSB was considered to be the most appropriate body to issue global sustainability standards as, working with the IASB, under the IFRS Foundation's due process, both boards can ensure that the standards they develop lead to companies providing cohesive, comprehensive and consistent reports and disclosures.

19. The objectives of the IFRS Foundation, set out in its Constitution, are to develop, in the public interest, through both its boards, the IASB and the ISSB, high quality, understandable, enforceable and globally accepted standards for general purpose financial reporting, based on clearly articulated principles.

20. While the IASB is responsible for developing a set of accounting standards, and the ISSB is responsible for developing a set of sustainability disclosure standards, these complementary sets of IFRS Standards are intended to result in the provision of high-quality, transparent and comparable information in financial

2 IFRS Standards and climate-related disclosures (Nov 2019)
3 Effects of climate-related matters on financial statements (Nov 2020)

statements and in sustainability disclosures that are useful to investors and other participants in the world's capital markets in making economic decisions.

21. Information arising from the application of IFRS Standards, whilst designed to meet the needs of investors and other capital market participants, may also be useful to other parties.

22. The Foundation's Constitution also states that the ISSB is required to develop IFRS Sustainability Disclosure Standards acknowledging the importance of their interoperability with other reporting initiatives that address the broader information needs of other parties.

Current position

23. The ongoing redeliberations of the ISSB, on both its exposure drafts, and the ISSB's significant capacity building plans are anticipated to strengthen connectivity and alignment between ISSB disclosures and financial reporting.

24. At the ISSB's November meeting[4] initial discussions were held regarding the types of quantitative, qualitative and connected information required to report sustainability risks and opportunities. The prospective and longer-term nature of some of the sustainability disclosures may not (yet) meet the IFRS Accounting Standards requirements for recognition, measurement and disclosure in the financial statements. Therefore, from a user perspective, the financial information disclosed in the management commentary of an annual report, or a separate sustainability report, may still not appear to connect with, or be consistent with, the information in the financial statements of the same annual report.

25. The provision of explanations, regarding the different bases of preparation between information provided in sustainability-related financial disclosures information included in the financial statements, may benefit users. For example, an indication that the financial statements are reporting on past performance whilst forward-looking estimates are used in the sustainability disclosures, that different time horizons may have been used for the two sets of disclosures and, that only the financial statements are subject to independent audit.

26. We also commend the significant momentum created by the ISSB. The ISSB intends to finalise substantive redeliberations on draft IFRS S1 and draft IFRS S2 by the end of 2022 and to issue the final standards as early as possible in 2023. This will be followed by an Agenda Consultation. We are also encouraged by the proposed inclusion of a 'Connectivity in reporting – management commentary and integrated reporting'[5] project.

4 General Sustainability-related Disclosures and Climate-related Disclosures - Current and anticipated financial effects and connected information

5 ISSB Consultation on Agenda Priorities

UK Endorsement Board

Overarching connectivity themes

27. Below are the key connectivity themes identified. For ease of reference, we have categorised the themes as related to: conceptual framework; assets; liabilities; fair value measurement; disclosures; other considerations; and management commentary. However, there may be other ways of categorising these themes, which can be considered during further exploration of these themes.

Conceptual Framework-related themes

Implications for the Framework

Additional or amended conceptual framework

28. The IFRS S1 Exposure Draft includes proposals for definitions and requirements that are consistent with the IASB's Conceptual Framework for Financial Reporting ("the framework"). This is an acknowledgement of the view expressed by others, for example the European Reporting Lab report[6] which stated, 'As regards financial information, its major strength results from the existence of a robust and generally accepted conceptual framework.' The framework defines the boundaries for financial information and articulates concepts for users, materiality, the reporting entity, time horizons, monetary items and 'other characterises' such as the level of control over resources and their recognition and measurement. The inclusion of the definitions and requirements within IFRS S1 results in the proposed standard being detailed and lengthy, which may impact on its usefulness.

29. A potential consideration for the ISSB: Some standard setters suggested that the ISSB should consider separating the conceptual elements of draft IFRS S1 into a general requirement standard and seek to develop a separate sustainability conceptual framework (in the longer term). This may serve to declutter the exposure drafts and provide more focus on their connectivity with financial reporting. A conceptual framework for the ISSB standards will form the basis for the setting of further standards by the ISSB and the practical application of the standards, achieving more consistency in the reporting.

30. A potential consideration for the IASB and ISSB: Some standard setters suggested as an alternative to developing a separate ISSB conceptual framework, amending the existing IFRS Conceptual Framework to include sustainability-related definitions and requirements (where required).

6 APPENDIX 4.4: STREAM A4 ASSESSMENT REPORT INTERCONNECTION BETWEEN FINANCIAL AND NON-FINANCIAL INFORMATION February 2021

Additional or amended conceptual framework

31. Development of an additional conceptual framework or amendments to the existing framework would need to engage with a wide range of issues – from the objectives of the two different types of information – financial and sustainability – to consideration of the elements of the different reports as well as the other issues to do with recognition, measurement and materiality.

32. Some of the NSS had already started to consider this issue. For example, a NSS highlighted that Conceptual Framework paragraph 2.36 notes, "…reports are prepared for users who have a reasonable knowledge...even well informed and diligent users may need to seek the aid of an advisor…" and that this did appear to be reflected in draft IFRS S1. There may be a lack of clarity regarding the users of the sustainability reporting, especially considering the increasing and widespread interest in these types of disclosures.

33. Potential consideration for the ISSB: Given the potentially technical and complex nature of sustainability disclosures, there may also be merit in including similar text in the exposure draft (if a decision is made to develop one) to help users that are already familiar with IFRS standards.

34. Potential consideration for the IASB: Consider whether the description of the users currently in the Framework is sufficient to include a definition for the intended users of sustainability disclosures.

Materiality

35. Several NSS noted the criticality of alignment between the boards on the concept of materiality as the initial determining factor for disclosures and therefore the basis for connectivity and alignment between sustainability and financial reports.

36. The ISSB has recently redeliberated the definition proposed in the exposure drafts and tentatively agreed to use the same definition as that used in IFRS Accounting Standards.

Practice statement collaboration or separation

37. Several NSS commented on the opportunity for the ISSB and IASB to work collaboratively to amend IFRS Practice Statement 2 *Making Materiality Judgements* to clarify the application guidance for IFRS Sustainability Disclosure Standards and to create an integrated reporting approach.

38. Some NSS also suggested that the ISSB consider aligning the application of materiality with Practice Statement 1 *Management Commentary* and then develop a separate Practice Statement specifically for the application of materiality for sustainability related financial disclosures.

39. Potential considerations for IASB and ISSB: Assess the benefits and implications of taking a joint or separate approach to materiality application guidance. If a separate approach is taken, the IASB may need to consider conducting an Effects Analysis on its current standards and projects to determine the full implications for accounting standards.

Assets

Recognition

Costs incurred relating to climate-related risks and opportunities

40. Costs incurred as a result of climate-related risks and/or opportunities may affect whether some expenses relate to items that satisfy the definition of an asset and can be recognised (for example, an item of property, plant and equipment or an intangible asset).

41. Potential consideration for the IASB: It is possible that additional application guidance to the relevant standards may be required to assist entities to consider whether costs incurred relating to climate-related risks and/or opportunities meets the definition of an asset as well as the criteria for recognition. Further work may indicate the need to take additional steps relating to the relevant standards.

42. Draft IFRS S2 requires the disclosure of plans for restructuring or asset enhancements as part of the entity's strategy to manage climate-related risks and opportunities. The accounting standards have specific requirements regarding the recognition of assets of subsequent expenditure on assets (i.e. meet the definition of an asset and the criteria for recognition. There are no criteria or anything similar to these criteria are not in draft IFRS S2 and may mislead users into thinking the asset enhancement disclosures should have resulted in assets being recognised in the financial statements.

43. Potential consideration for the ISSB: Adding additional disclosure requirements relating to asset enhancements to explicitly state whether the enhancement led to the recognition of an asset or not. Alternatively, additional guidance.

Measurement

Reassessment of useful lives and residual values

44. IAS 16 and IAS 38 set out requirements for entities to review the estimated residual values and expected useful lives of assets annually and to recognise any changes. Reporting of climate-related matters under draft IFRS S2 may highlight that the residual values and/or useful lives may be affected, say by legal restrictions or obsolescence. Consequently, an entity may need to reassess the residual values and/or useful lives of its assets, affecting the measurement (carrying value and depreciation/amortisation charge)

45. Potential consideration for IASB and ISSB: It is possible that additional guidance to the relevant standards may be required to assist entities to fully consider the implication of disclosing climate-related impacts in their sustainability report on the measurement of existing assets. Further work is required to indicate the need to take additional steps relating to the relevant standards.

Time horizons of asset lives

46. Draft IFRS S1 currently only refers to the time horizons relating to asset lives and the timing of any liabilities and provisions for them in the financial statements. as 'short, medium and long term'. The accounting standards refer to current (within 12 months) and non-current (after more than 12 months). This may be confusing to users as they may not be able to align the ISSB disclosures with the financial statement disclosures relating to time horizons.

47. Potential consideration for the ISSB: Further guidance may be required from the ISSB regarding time horizons.

Risk disclosures relating to financial assets:

48. IFRS 7 requires disclosure of information about an entity's financial instruments including information about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Climate-related matters may expose an entity to risks relating to financial instruments e.g., the effect on expected credit losses. It is important to clarify connectivity between the disclosure of the risk management process related to climate (and other sustainability issues) and financial risk disclosures mentioned above.

49. Potential consideration for IASB and ISSB: Consider whether additional guidance to the relevant standards may be required to assist entities to fully disclose the connectivity between the disclosures required under the respective standards. Further work is required to fully understand the need to take additional steps relating to the relevant standards.

Financial assets with ESG-linked features

50. As part of the IASB's post-implementation review of IFRS 9 – *Classification and Measurement*, stakeholders expressed concern about the diversity in practice in assessing the contractual cash flows of financial assets with ESG features, a key issue being whether these assets should be measured at amortised cost or at fair value.

51. Potential consideration by the IASB: Additional guidance is required to assess whether financial assets with ESG-linked features have SPPI cash flows. We understand the IASB is already undertaking an urgent project to address this issue. The key consideration would be to ensure that any changes to the standard can cope with any future developments in the product market.

Impairment

Identifying impairment indicators

52. IAS 36 *Impairment of Assets* set out the requirements when an entity needs to estimate the recoverable amount of an asset such as goodwill or property, plant, and equipment. Reporting of climate-related matters under draft IFRS S2 may highlight that an entity's assets may be affected, say by legal restrictions or obsolescence. This may lead to an indicator of impairment and consequently, an entity may need to undertake an impairment test.

53. Potential consideration for IASB and ISSB: It is possible that additional guidance to the relevant standards may be required to assist entities to fully consider the potential impact climate-related matters may have on the recoverable amount of an asset. Further work may indicate whether and the extent of any additional steps relating to the relevant standards.

Disclosure relating to impairments

54. NSS observed that users may require further explanation when trying to connect the requirements of IAS 36 with draft IFRS S1 disclosures. Examples of potential disconnects included impairment testing, where accounting standards require value-in-use calculations to be calculated on an individual asset or cash-generating unit, whereas the exposure drafts refer to the disclosure of a range of scenarios.

55. Potential consideration by IASB and ISSB: Adding more specific requirements relating to the disclosure around impairment of assets resulting from climate-related issues, possibly aligning it more closely with the disclosures required by IAS 36.

Intangible assets

56. With an increasing focus on climate change and consequently, carbon credits, there is likely to be increased scrutiny of the related disclosures as well as potentially raising questions around the recognition of these items as intangible assets. Similarly, the increased focus on ESG in general is highlighting issues such as human capital.

57. Potential considerations for the IASB and ISSB: The IASB would need to consider the accounting treatment and disclosures of these types of items during its work to develop a standard on intangible assets. This is a key area where the boundary between the two Board's standards will need clear definition given that intangibles inhabit a spectrum that traverses the sustainability matters as well as financial reporting matters. we consider that this is a key area where the two Boards would need to work collaboratively to ensure that the boundaries and interlinkages are clearly defined.

Liabilities

Confidential and commercially sensitive information

Sensitive Disclosures

58. IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* acknowledges the need to maintain the confidentiality of provisions for litigation if that would seriously prejudice an entity's position in a legal dispute. Furthermore, some NSS noted that draft IFRS S1 may require the disclosure of this information which could undermine the protections provided under IFRS Accounting Standards. In addition, the requirement to disclose sources of funding to implement a sustainability strategy goes beyond that required by accounting standards and could also be considered commercially sensitive by an entity.

59. Potential considerations for the ISSB: Further clarification on both areas, supported by a range of specific illustrative examples would aid stakeholders understanding of the extent and nature of these requirements.

60. Potential considerations for the IASB: Assess the extent to which the proposed ISSB disclosure requirements may conflict with the provisions in IAS 37.

Recognition approach

Consistency of Approach

61. IFRS Accounting Standards require the recognition of a liability in the current financial reporting period if there is knowledge of a possible impairment within the next financial year.

62. One NSS noted that paragraph 14(b) of IFRS S2 contains a requirement to disclose "climate-related risks and opportunities […] for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year."

63. They observed that the meaning was unclear as under IFRS Accounting rules a liability would already have been triggered.

64. Potential consideration for the ISSB: The ISSB may need to elaborate on the intended meaning of this paragraph to avoid an apparent conflict with the recognition criteria in accounting standards.

65. Potential consideration for the IASB and ISSB: the two boards would need to ensure that stakeholders clearly understand the reporting implications on the financial reports of the climate or other sustainability related risks being identified in the sustainability report.

Fair value measurements

66. Climate-related matters may affect the fair value measurement of assets and liabilities in the financial statements (per IFRS 13), and especially the Level 3 unobservable inputs with the assumption made by market participants. It is important to ensure that stakeholders are clear on the connectivity between the respective standards.

67. Potential consideration for IASB and ISSB: From a high-level perspective, additional guidance to the relevant standards may be required to assist entities to fully consider the potential impact climate-related matters may have on the fair value measurement of assets and/or liabilities. Further work may clarify the need to take additional steps relating to the relevant standards.

Disclosures

Estimation uncertainty

Scope of uncertainty

68. Paragraphs 125–133 of IAS 1 *Presentation of Financial Statements* set out disclosure requirements relating to estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of an asset or liability within the next financial year.

69. Reporting of climate-related matters under draft IFRS S2 may highlight that an entity's assets or liabilities may be affected. Consequently, additional disclosures relating to an asset or liability subject to estimation uncertainty may be required in the financial statements.

70. An NSS noted that draft IFRS S2 paragraph 79 states 'When metrics cannot be measured directly and can only be estimated, measurement uncertainty arises' which appeared to limit estimation uncertainty to metrics alone. However, sustainability-related financial disclosures can be subject to a significant degree of uncertainty through the application of judgement and assumptions by an entity's management and experts.

71. Potential considerations for the ISSB: The ISSB may wish to consider aligning the proposed approach with paragraphs 125 to 133 of IAS 1 to ensure the scope for estimation uncertainty reflects all affected areas.

Objectives of sustainability disclosures

Purpose and specific objectives

72. IFRS Accounting Standards, such as IAS 1, include a Purpose section in the standard, which provides helpful contextual information for those applying the standard.

73. A NSS noted that in draft IFRS S1, the Introduction section acts in a similar way, but is not intended to form part of the final text. They also recommended that the ISB consider the stakeholder feedback and lessons learnt from the 2021 IASB Exposure Draft *Disclosure Requirements in IFRS Standards – A Pilot Approach.*

74. They noted that stakeholder feedback and field testing had indicated that preparers found the inclusion of specific objectives, and information on users' intended use of the required information, helpful and may result in higher quality disclosures being produced.

75. Potential Considerations for the ISSB: The ISSB may wish to consider incorporating the Introduction section in draft IFRS S1 into the Purpose section of the final standard and to create specific objectives for the detailed disclosures, in addition to the core content objectives.

Communicating levels of certainty

Hierarchy of disclosures

76. Due to the different basis of preparation, stakeholders have expressed concern regarding the disconnect between disclosure in the narrative reporting and the financial statements.

77. To improve this connectivity and provide clearer signalling on the certainty of sustainability disclosures, a NSS suggested that a "hierarchy of disclosures" approach could be considered. They suggested potentially aligning this to the fair value hierarchy, as described in paragraph 73 of IFRS 13 *Fair Value Measurement*.

78. They noted that this type of approach may assist preparers to communicate both the objectivity of their data inputs and the maturity of their sustainability initiatives. It may also assist users to assess the objectivity of those disclosures and to form expectations as to when the information may be likely to be disclosed in the financial statements.

79. Potential consideration for the ISSB: The ISSB may wish to consider developing levels of certainty to enable preparers to indicate the relative reliability of their sustainability disclosures. This may serve to manage users' expectations and help them to connect information in corporate reports.

Policy disclosure

Sustainability Polices

80. IAS 1 *Presentation of Financial Statements* (paragraph 117-124) and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (para 7-9) require entities to disclose the accounting policies used in preparing the financial statements.

81. A NSS noted an apparent lack of disclosure in relation to policies used in the preparation of sustainability disclosures in draft IFRS S1.

82. Potential consideration for the ISSB: The ISSB may wish to consider requiring the disclosure of sustainability policies used to prepare the disclosures.

Reporting of outcomes against previously disclosed plans

Alignment of approach

83. IFRS Accounting Standards generally do not require the disclosure of outcomes against previously made plans. Where uncertainty exists in relation to financial risks, a more common accounting standards approach is to use sensitivity testing in financial reports to illustrate a range of potential outcomes of the risk event (for example, impairment provisions under IFRS 9 *Financial Instruments*).

84. However, draft IFRS S1 requires 'quantitative and qualitative information about the progress of plans disclosed in prior reporting periods' (paragraph 21 (b).

85. A NSS noted that while some users advised that they would find these disclosures helpful, it is unclear whether the benefits to users would be outweighed by the additional costs to preparers.

86. Potential consideration for the ISSB: The ISSB may wish to assess if sensitivity testing would be adequate to illustrate a range of potential outcomes of sustainability risks and opportunities.

Internal Pricing

Alignment of approach

87. IFRS Accounting Standards do not require the disclosure of internal transfer pricing within a group of companies as it is eliminated upon consolidation.

88. A NSS questioned the ISSB rationale for requiring the disclosure of internal carbon pricing in paragraph 21 (f) of draft IFRS S2 and noted an apparent disconnect with the IASB approach on internal transfer pricing.

89. It was also noted that the proposed disclosure of carbon pricing could potentially exposure an entity to additional risk of litigation.

90. Potential considerations for IASB and ISSB: Collaboratively consider the costs, benefits and rationale for the apparent difference in approach and conclude on whether any changes are required their approach to ensure consistency.

Other considerations

Scope and control

Alignment of approach

91. IFRS 10 *Consolidated Financial Statements* (IFRS 10) requires entities to consolidate other entities it controls in the preparation and presentation of consolidated financial statements.

92. A NSS noted an apparent inconsistency in approach for the proposed requirement to disclose Scope 1 and 2 Greenhouse Gas (GHG) emissions. While the NSS agreed that entities should be required to disclose them separately for the consolidated entity they disagreed with this approach for associates, joint ventures, and affiliates on the basis of control. They commented that it would be more consistent if the requirement was based on the same group of consolidated entities as for financial reporting.

93. Another NSS queried the meaning the term 'control' in the exposure standards and recommended further clarification. They queried whether the ISSB concept of control was intended to be the same as that in IFRS 15 *Revenue Recognition*. For example, was the scope of reporting across the entities value chain intended to be limited to activities, resources and relationships over which the reporting entity had control?

94. Potential considerations for IASB and ISSB: The boards may wish to discuss the costs, benefits and implications of taking differing views on the principle of control.

Management Commentary

Alignment of approach

95. Some NSS recommended that the ISSB consider how the proposed standards would interact with other elements of narrative reporting, including the areas of content in Practice Statement 1 *Management Commentary*.

96. There are concerns that the current disclosure requirements may be insufficient when a sustainability related matter impacted an entity's broader business model. For example, entities could be encouraged to cross reference their key assumptions used for sustainability related reporting to the financial reports to ensure consistency and alignment.

97. It was also noted that paragraphs 125-133 of IAS 1 *Presentation of Financial Statements* could be considered by the ISSB as they include more robust guidance around the disclosures needed to support management's significant judgements and assumptions.

98. The ISSB are currently considering their consultation on Agenda Priorities which includes a 'connectivity in reporting' proposal to undertake a joint project with the IASB. The project aims to develop disclosure requirements and guidance to enable entities to report connected discussion and analysis of their financial statements and sustainability-related financial disclosures.

99. Potential considerations for the ISSB: As part of the proposed joint project with the IASB consider referring to paragraphs 125-133 of IAS 1 *Presentation of Financial Statements*.

Inability to comply

Alignment of approach

100. IFRS Accounting Standards cater for situations where a preparer is unable to meet the requirement of a standard. For example, IFRS 8 *Operating Segments*, paragraph 18 notes "unless the necessary information is not available and the cost to develop it would be excessive", and paragraphs 19-24 of IAS 1 *Presentation of Financial Statements*, also provide guidance for this situation.

101. Several NSS considered that the ISSB could be more specific regarding the term "unable to do so" in paragraph 22 of the draft IFRS S1 which notes in the financial position, financial performance and cash flows section that ''An entity shall disclose quantitative information unless it is unable to do so. If an entity is unable to provide quantitative information, it shall provide qualitative information'.

102. Potential considerations for the ISSB: The ISSB may wish to use the relevant text in IFRS 8 and IAS 1 as a starting point to provide further guidance and criteria for preparers when unable to comply with the standards.

Field testing

Pre 'Go live' testing

103. As part of the IASB's due process new standards are usually field tested to provide the IASB with valuable information regarding any practical applications issues, inform effective dates and transition reliefs, and provide evidence for the costs and benefits analysis. Future exposure drafts are also field tested with users and preparers of different sizes and jurisdictions for the same reasons.

104. The outcomes of field testing also enable NSS identify any critical flaws from their local jurisdiction's perspective and enable the outcome of the field tests to be a part of the redeliberation of the exposure draft.

105. NSS recognised that numerous sustainability frameworks have been available to entities, across numerous jurisdictions, to report under, on a voluntary basis, for several years. In addition, the NSS were also conscious of the ISSB's need to balance momentum with due process. However, they also noted that, for the first-

time sustainability disclosures would be mandatory. As this means that a 'best endeavours' approach would no longer be acceptable for preparers there likely to be a high probability of unanticipated application challenges.

106. Potential considerations for the ISSB: The ISSB may wish to consider conducting limited field testing across a range of stakeholders for draft IFRS S1 and S2 in the near term. NSS could be asked to assist to form a global view and highlight any specific substantive jurisdictional issues.

Questions for IFASS members to consider

1.	To what extent do IFASS members consider connectivity between sustainability disclosures and financial reporting to be of importance?
2.	Has the paper identified the key connectivity and alignment themes?
3.	Which board do IFASS members consider should take the lead on ensuring connectivity is achieved?
4.	Which themes do IFASS members consider to be the most important?