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Patrick de Cambourg

Phone : 01 53 44 28 53
Mail. : patrick.de-cambourg@anc.gouv.fr
Internet : www.anc.gouv.fr

PDC n° 46

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

Subject : Exposure Draft on IFRS S1: General Requirements for Disclosure of Sustainability-related Financial information and Exposure Draft on IFRS 2: Climate-related Disclosures

Dear Mr Faber, dear Emmanuel,

I am writing to you as Chairman of the French accounting standard-setter (Autorité des normes comptables or ANC) following extensive work carried out by its Sustainability Reporting Committee and due consultation with its Board to express our views on the above-mentioned Exposure drafts related to sustainability reporting.

As a European national standard setter, ANC fully supports the European Union initiative on sustainability reporting embodied into the Corporate Sustainability Reporting Directive (CSRD) and the elaboration of the related sustainability standards by EFRAG (ESRS). In this context, and fully in line with its long-standing support to the IFRS Foundation's efforts, ANC welcomes and overall supports the ISSB initiative to propose a global baseline at international level which may allow interoperability with jurisdictional standards. The initiative should reduce the fragmentation of reporting systems and foster the availability of relevant and comparable sustainability information for the benefits of investors and other stakeholders.

In order to achieve this interoperability, we consider that the following points are particularly critical: (i) the need for definition and content clarification of terms such as global baseline, 'sustainability', enterprise value, value chain; (ii) the adoption of the double materiality approach allowing an appropriate onboarding of impact materiality issues; (iii) the clarification of the role of industry-based SASB standards and other guidance in the proposed sustainability reporting structure.

Accordingly, ANC encourages the ISSB to work closely with EFRAG in order in particular to explore a possible alignment on the double materiality concept and to harmonise the definitions of all sustainability-related terms to the maximum extent possible. ANC also encourages all forms of multi-jurisdictional dialogue and cooperation.

Appendix A and B to this letter provide ANC's detailed comments on these two EDs.

Should you need any further information, please do not hesitate to contact me.

Yours sincerely,

Patrick de Cambourg

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APPENDIX A – QUESTIONS FOR RESPONDENTS RELATED TO IFRS S1

GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION

<u>Question 1—Overall approach</u>

The Exposure Draft sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it.

Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value.

(a) Does the 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?

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

(c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 Climate-related Disclosures? Why or why not? If not, what aspects of the proposals are unclear?

(d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

Comments (a) + (b) + (c):

ANC welcomes the ISSB initiative to develop global baseline standards for sustainability disclosures. This initiative should reduce the fragmentation of the reporting system and foster the availability of relevant and comparable sustainability information for the benefit of investors and other stakeholders. This is fully compatible with other initiatives such as the EU Corporate Sustainability Reporting Directive (CSRD) and the related draft European Sustainability Reporting Standards (ESRS).

ANC calls for more convergence and consistency between the various sets of standards (including EFRAG and GRI). This interoperability between standards would be beneficial to all stakeholders both for the preparation and the analysis of data. To reach this objective, the following points of concern should be taken into account:

- ANC requests that the ISSB does define the term ‘sustainability’ as it is missing in the ISSB proposal. There should be convergence on the boundaries of ‘sustainability’, for example by integrating the whole range of environmental, social and governance factors, as detailed in the EU CSRD. It would be interesting also to elaborate further from a conceptual standpoint on the the expected characteristics and content of a baseline under a principles based environment.

- ANC encourages ISSB to review systematically the definitions of the various terms and concepts, notably in relation to enterprise value, value chain, qualitative characteristics of information and of fair representation and to work with EFRAG to align them to the extent possible.

- Though ANC recognizes that part of the entity's impacts on environment and people may be taken into account under the enterprise value approach, all users, including investors, request longer-term impact analysis. As a consequence, ANC strongly advocates that ISSB should adopt the double materiality approach as in the EU CSRD by taking into account impact materiality in addition to and connection with financial materiality and by defining precisely the two concepts. In addition ANC notes that further clarification is needed in defining financial materiality in the context of sustainability reporting which is different from financial materiality for the preparation of the financial statement. Information on impact materiality is considered useful by users because it provides an understanding of the entity's impact on environment and people as well as a background for the enterprise value assessment. Accordingly, ANC encourages ISSB to work closely with EFRAG in order to strengthen alignment on the double materiality. This concept is fundamental in terms of sustainability reporting.

- In this context, more guidance is expected on the implementation of materiality assessment processes. In particular, we encourage the ISSB to provide the definition of what is covered by “significant sustainability-related risks and opportunities” as compared to material ones, and of what are the associated criteria enabling stakeholders to determine materiality, whether these criteria are qualitative or based on quantitative thresholds. As currently drafted, materiality decisions will remain judgmental, which will create auditability challenges and affect comparability.

- The role of industry-based SASB Standards and other non-ISSB guidance as mentioned in paragraph 53 is not clear enough and more guidance is required in this respect. The assessment of the relevance of these references is left in the hands of each preparer, which will not foster homogeneous practices and may compromise comparability of the data. Furthermore, ANC questions the applicability of some of these references in a jurisdiction-agnostic context. In particular, referring to US legislations and private frameworks that do not need to go through formal due process may be an issue for future developments in terms of public interest. However ANC understands that related non-ISSB guidance may cover initiatives such as GRI or ESRS and believes it is an interesting feature that should be encouraged as long as the related non-ISSB standards are not in contradiction with the ISSB principles based standard setting approach and published standards.

Auditability (d):

ANC agrees that ISSB has set out the basis for an auditable report. However, guidelines included in the ED are still expected to be clarified, in order to provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals.

<u>Question 2—Objective (paragraphs 1–7)</u>

The Exposure Draft sets out proposed requirements for entities to disclose sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities on an entity’s enterprise value.

Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity’s risk profile, and its access to finance and cost of capital.

Information that is essential for assessing the enterprise value of an entity includes information in an entity’s financial statements and sustainability-related financial information.

Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Sustainability- related financial information should, therefore, include information about the entity’s governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements.

Sustainability-related financial information also depicts the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy, or about the entity’s development of knowledge-based assets.

The Exposure Draft focuses on information about significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity’s enterprise value.

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

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

Comment on a)

ANC generally agrees with the proposed objective. However, ANC considers that the link between the objective to disclose information about significant sustainability risks and opportunities to the primary users (paragraph ‘”§”1) and materiality (as described in § 56 to 62) should be clarified:

- ANC encourages ISSB to provide definitions for ‘significant risks and opportunities’.
- ANC believes that paragraph 2, which requires material information on significant sustainability risks and opportunities to be disclosed, needs to be enhanced further. In particular, the difference between ‘material’ and ‘significant’ should be clarified, as well as the scope of application and the process to be followed. Lack of clarity may lead entities to have different interpretations and result in specific and non-comparable disclosures.
- ANC underlines that the ISSB should extend the scope of users to investors and other stakeholders, including civil society. The current drafting of this objective limits the scope of “primary users” to investors (potential or actual), which may restrict the disclosures to material information that have a financial impact for the entity only instead of material information from an impact perspective.
- Definitions are missing on time horizons related to short, medium and long-term: in IFRS S2 short term relates to 5 years, medium terms between 5 to 10 years and long term over 10 years. Are these time horizons generic and can they be transposed in IFRS S1 in order to be applied for all sustainability matters? Is there a justification to disconnect sustainability reporting time horizons from those used in the financial statements? Should it be the case does it create a risk of confusion for users? Clarification should be made with respect thereto.

Comment on b)

ANC stresses that the definition of ‘sustainability-related financial information’ and in particular of ‘sustainability’ requires further clarification.

The definition considers that the sustainability-related financial information should allow for the assessment of the entity’s enterprise value. The definition of the concept of “enterprise value” is also not clear enough and is not sufficiently connected to financial standards. When reading the definition, it seems that the entity’s equity equals its market capitalisation.

This could significantly restrict the sustainability topics to be considered. This objective differs from the GRI and European Commission initiatives.

Question 3—Scope (paragraphs 8–10)

Proposals in the Exposure Draft would apply to the preparation and disclosure of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Sustainability-related risks and opportunities that cannot reasonably be expected to affect users’ assessments of the entity’s enterprise value are outside the scope of sustainability-related financial disclosures.

The Exposure Draft proposals were developed to be applied by entities preparing their general purpose financial statements with any jurisdiction’s GAAP (so with IFRS Accounting Standards or other GAAP).
Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction’s GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

ANC agrees in principle.

ANC highlights that the second sentence of paragraph 8 does not add anything and could be misleading for some readers.

Question 4—Core content (paragraphs 11–35)

The Exposure Draft includes proposals that entities disclose information that enables primary users to assess enterprise value. The information required would represent core aspects of the way in which an entity operates.

This approach reflects stakeholder feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting, and builds upon the well- established work of the TCFD.

Governance

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on governance would be:

to enable the primary users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities.

Strategy

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on strategy would be:

to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.

Risk management

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on risk management would be:

to enable the users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall also enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.

Metrics and targets

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on metrics and targets would be:

to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.

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

Governance: ANC believes the proposed disclosure requirements meet the objective of providing information on processes, controls and procedures used to monitor and manage risks and opportunities.

Strategy: ANC believes that the disclosure objective with respect to strategy raises the question of the granularity of the strategy-related information that is expected (only strategic issues discussed at Board level or also operational issues based on management policies)?

Financial position, financial performance and cash flows: ANC points out that financial effects that have already crystallised as a result of sustainability-related risks and opportunities should already have been reflected in the financial statements under the requirements of financial reporting.

Consequently, ANC believes that the proposed disclosure requirements should only cover potential effects that may occur in the future due to sustainability-related risks and opportunities that do not meet the recognition and measurement requirements for inclusion in the financial statements at the reporting date. Financial effects of sustainability-related risks and opportunities that occur in the reporting period should be covered by financial reporting with an appropriate connection to sustainability reporting.

Alternatively, ANC suggests clarifying what the difference is between the information in paragraph 22(a) and (b) and the information in the financial statements.

ANC stresses that application guidance is needed to improve quality and comparability of the proposed disclosure requirements under paragraphs 22(c) and (d). Currently, it is not sufficiently precise for companies to understand what they are expected to disclose, and for auditors and regulators to enforce the requirement in a meaningful way. ANC acknowledges that no commonly agreed methodology exists to assess the quantitative future potential financial effects of sustainability-related risks. But ANC would suggest that an entity shall be required to ensure it applies the most mature and accurate methodologies available in its specific field for measuring the quantitative potential financial effects of its sustainability-related risks, including the use of scenario analysis, and to disclose its assumptions and the limitations of these assumptions.

Furthermore, information about changes over time in paragraphs 22(c) and (d) should include a distinction between the short, medium and long term.

From a general standpoint, ANC suggests further research on connectivity between sustainability reporting and financial reporting. This crucial element of a seamless standardised corporate reporting requires indeed additional work which should involve the IASB and the ISSB as well as other standard setters confronted with similar challenges. A « silo » approach would be detrimental to both pillars.

Resilience : ANC underlines that the proposed requirements on resilience could be improved by extending disclosures beyond the proposed 'results' of analysis to include more provisions around the processes involved to conduct the analysis.

Furthermore, the proposed requirements should specify the scope of the resilience analysis, including whether the analysis relates to the whole entity or part of it, the upstream and downstream activities in the value chain which are covered, and the significant sustainability risks considered. Focus should be made on an entity's broader value chain, which is fundamentally important.

Globally, the proposed requirements on scenario analysis lack clarity in terms of what specific information needs to be considered by an entity when undertaking the analysis. How a global and comparable baseline regarding scenario analysis will be achieved, given that the selection of scenarios is at the discretion of the entity?

Risk management: ANC notes that the risk management process does not state that it should correspond to materiality assessment. Indeed, ISSB does not articulate these two concepts, which may create confusion among preparers and users.

Furthermore, ANC observes that prioritisation guidelines are not homogeneous between IFRS S1 and IFRS S2. Paragraph 17(b)(ii) in IFRS S2 requires the disclosure of how an entity prioritises climate-related risks relative to other risks, while paragraph 26(b)(ii) in IFRS S1 asks for the prioritisation of sustainability-related risks relative to others (including, presumably, climate). ANC suggests that the proposed requirements should clarify how an entity shall conduct this prioritisation, including the steps to be followed and criteria to be considered, in order to provide accurate and comparable information.

Finally ANC would like to point out that the process for identification of risks and opportunities (Risk Management part) comes after the disclosure of the significant risks and opportunities (Strategy part) which may be understandable with one topic like climate but might become more complex to understand with several different topics that would have to be prioritised.

Metrics and targets: ANC notes that metrics (at least on topics other than climate) and targets (very open scope and open definition) should be defined by the entity itself. This will result in non-comparable reporting between entities, which is in contradiction with the proposed requirement in paragraph 47(a) which states that "a fair presentation also requires an entity to disclose information that is relevant, representationally faithful, comparable, verifiable, timely and understandable". ANC understands this as a step in an appropriate direction of travel, but suggests to clarify as soon as possible the standard setting agenda beyond climate and the reference to non-ISSB related guidance.

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

ANC believes that the disclosure requirements may not provide comparable, faithful and representative information, as their definition is left to the discretion of each entity and as the accompanying requirements are not prescriptive enough. However when a jurisdiction, such as the EU for instance, has established more prescriptive provisions and as long as these provisions are fully compatible with the principles established by the ISSB the above concern does not exist.

Question 5—Reporting entity (paragraphs 37–41)

The Exposure Draft proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements.

The Exposure Draft proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Such risks and opportunities relate to activities, interactions and relationships and use of resources along its value chain such as:

- its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain;
- the assets it controls (such as a production facility that relies on scarce water resources);
- investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and
- sources of finance.

The Exposure Draft also proposes that an entity disclose the financial statements to which sustainability-related financial disclosures relate.

Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?

ANC observes that the proposed scope is expected to be the same as the one for financial reporting. ANC highlights that this definition is not fully in line with EU initiatives and the GRI where the scope is expanded to the upstream and downstream value chain. Yet, it is consistent with the single materiality lens considered in the objective. In order to propose a global baseline and achieve interoperability between standards, ANC would encourage ISSB to work closely with EFRAG and the GRI on the definition of its scope.

(a) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

(b) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

ANC stresses that the concept of value chain is not sufficiently clear for determining the extent to which the value chain needs to be considered and proposed definition should be enhanced. ANC encourages ISSB to work closely with EFRAG and the GRI on the definition of the value chain as it is an important concept that should be aligned globally.

ISSB should provide more clarity with respect to the disclosure requirements in this regard as paragraph 40 seems to limit the disclosure of information to assets financially controlled only. For instance, the approach for franchises and affiliated companies for which there is significant operational influence, but not financial control should be clarified.

For example, should an entity be required to identify significant climate-related risks and opportunities in the value chain, up to a point where they have influence? ANC considers that impacts, risks and opportunities should be disclosed on the full value chain and policies, targets, actions plan and resources should only cover the value chain under operational influence. This is a point of divergence between EFRAG, the GRI and ISSB, which needs more alignment with the objective of a common baseline.

Question 6—Connected information (paragraphs 42–44)

The Exposure Draft proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between (a) various sustainability-related risks and opportunities; (b) the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets; and (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements.

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

(b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

Comment on a):

ANC advocates that connectivity within sustainability reporting and between the entities' financial and sustainability reportings is fundamental to support holistic and cohesive disclosures. Consequently, ANC supports the idea that the assumptions underlying the preparation of the financial and sustainability reporting should be consistent.

However, ANC observes that in some cases the IFRS Accounting Standards do not permit assumptions to be fully aligned with data used for sustainability-related disclosure (IAS 36) which may lead to the information being prepared on different assumptions, thus reducing the alignment between disclosures. Examples on how to deal with such inconsistencies due to the texts could be added in paragraph 44.

Comment on b):

ANC questions why paragraph 42 states that the connections between various sustainability risks and opportunities should be provided, instead of referring directly to "significant sustainability-related risks and opportunities" as in the previous paragraphs. We consider that paragraphs 42 and 43 are too generic and that more clarifications is needed in this respect.

ANC believes that the proposed requirements are too vague and open to interpretation by the entity.

ANC notes that paragraph 44 includes examples of connected information. ANC encourages ISSB to include examples in other sections to increase consistency.

Question 7—Fair presentation (paragraphs 45–55)

The Exposure Draft proposes that a complete set of sustainability-related financial disclosures would be required to present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation would require the faithful representation of sustainability-related risks and opportunities in accordance with the proposed principles set out in the Exposure Draft. Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation.

To identify significant sustainability-related risks and opportunities, an entity would apply IFRS Sustainability Disclosure Standards. In addition to IFRS Sustainability Disclosure Standards to identify sustainability-related risks and opportunities, the entity shall consider the disclosure topics in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

To identify disclosures, including metrics, that are likely to be helpful in assessing how sustainability-related risks and opportunities to which it is exposed could affect its enterprise value, an entity would apply the relevant IFRS Sustainability Disclosure Standards. In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk and opportunity, an entity shall use its judgement in identifying disclosures that (a) are relevant to the decision-making needs of users of general purpose financial reporting; (b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and (c) are neutral. In making that judgement, entities would consider the same sources identified in the preceding paragraph, to the extent that they do not conflict with an IFRS Sustainability Disclosure Standard.

Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?

a) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why?

b) Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

ANC points out that interplay between cross-industry and industry-based metrics, and notably the proposed use of the

SASB Standards to identify significant sustainability-related risks and opportunities, has to be clarified.

Given that “sustainability” is not defined, nor the list of topics that will be covered by future Sustainability IFRS, ANC observes that Appendix B of IFRS S2 mixes sector specific KPIs relating to climate and to other sustainability-related topics such as water, air pollution, etc. As an example, it is stated in page 376 on real estate/metrics/water management that: “the entity shall disclose (1) the total amount of water, in thousands of cubic meters, that was withdrawn by the portfolio area”. We question what the link to climate risks is. Consequently, we are of the opinion that the ISSB should provide additional guidance on the criteria for selecting the metrics that will have to be disclosed. Should they be considered as outside the Sustainability IFRS reporting scope, or as mandatory disclosure requirements? As currently drafted, materiality decisions will remain judgmental, which will create challenges for auditability and comparability.

Indeed, ANC would encourage ISSB to provide clarity on whether and when the disclosures related to sector specific information are mandatory or non-mandatory. ANC‘s analysis and understanding is as follows:

- General principle: IFRS S1 paragraph 51 stipulates that “to identify risks and opportunities, an entity shall consider the disclosure topics in the industry-based SASB Standards". .

- Climate-related provisions: IFRS S2 paragraph 20 stipulates that “an entity shall disclose (b) industry-based metrics (as set out in Appendix B)”.IFRS S2 paragraph 22 further stipulates that “in preparing disclosures to fulfil the requirements in paragraph 21(b)–(g) (cross-industry metrics), an entity shall consider whether industry-based metrics associated with disclosure topics could be used in whole or part to meet the requirements”;

- When reviewing Appendix B of IFRS S2 that “has the same authority as the other parts of that [draft] Standard” (introduction), it can be noted that most of the proposed Metrics, which are derived from selected SASB metrics, start with the sentence: “The entity shall disclose…”. This sentence is used 597 times in appendix B. The word “shall” is used 2039 times in Appendix B. The terminology “shall consider“ is only used to refer to existing technical reporting frameworks (19 times).

- From the above, ANC’s understanding is that Appendix B of IFRS S2 is mandatory and should be taken into consideration for the risk analysis and for the assessment of cross-industry metrics in relation to climate. However the Appendix B metrics shall be taken into consideration only for those industries the entity operates in. On average for one industry this represents a limited number of metrics (4/5). In addition ANC incidentally observes that all requirements in the climate standard as stipulated in Appendix B may not be fully relevant (e.g.: water and waste metrics).

From the above, ANC’s understanding is also that beyond the IFRS S2 Appendix B metrics the other SASB metrics can be considered as a non-mandatory reference when determining how reporting on significant sustainability matters other than climate (i.e., not covered by IFRS S2). Other references can be considered (such as GRI or ESRS for instance) and therefore the entity will decide on how to report on those matters in the most appropriate way, as long as it does not contradict the IFRS S1 principles. As a consequence, by contrast with the SASB metrics appended to IFRS S2, these other SASB metrics are not mandatory. ANC therefore recommends to clarify that these industry-based requirements should only be used as reference guidance where an IFRS Sustainability Disclosure Standard for a specific topic does not yet exist.

Should ANC’s understanding be aligned with the ISSB’s understanding, appropriate clarification should be considered to avoid confusion.

Some definitions of key concepts such as ‘fair presentation’ differ from the ones provided by other reporting frameworks. In this context, we urge the ISSB and EFRAG to work closely in order to facilitate the interoperability and avoid differences and even double reporting for entities that operate globally.

ANC acknowledges that the proposed definitions are inspired by the IFRS conceptual framework, but we note some inconsistencies as follows:
- ‘relevance’ in paragraph 2.6 to 2.10;
- ‘representationally faithful’ in paragraph 47 vs. ‘faithful representation’ in Appendix C and in CC paragraph 2.12 to 2.19;
- the wording of comparability, verifiability and understandability is not aligned.

Why these definitions are located in an appendix in IFRS S1 as they are a critical part of the conceptual framework in the financial side is questionable.

ANC highlights that a reference to Appendix C should be made in paragraph 47 (a).

Question 8—Materiality (paragraphs 56–62)

The Exposure Draft defines material information in alignment with the definition in IASB's Conceptual Framework for General Purpose Financial Reporting and IAS 1. Information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'.

However, the materiality judgements will vary because the nature of sustainability- related financial information is different to information included in financial statements. Whether information is material also needs to be assessed in relation to enterprise value.

Material sustainability-related financial information disclosed by an entity may change from one reporting period to another as circumstances and assumptions change, and as expectations from the primary users of reporting change. Therefore, an entity would be required to use judgement to identify what is material, and materiality judgements are reassessed at each reporting date. The Exposure Draft proposes that even if a specific IFRS Sustainability Disclosure Standard contained specific disclosure requirements, an entity would need not to provide that disclosure if the resulting information was not material. Equally, when the specific requirements would be insufficient to meet users' information needs, an entity would be required to consider whether to disclose additional information. This approach is consistent with the requirements of IAS 1.

The Exposure Draft also proposes that an entity need not disclose information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. In such a case, an entity shall identify the type of information not disclosed and explain the source of the restriction.

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

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?

a) 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?
b) 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?

ANC would encourage ISSB to further analyse the boundaries between financial and impact materiality from a conceptual perspective. Indeed, impacts seem to be only considered when they are a source of financial risks and opportunities. Therefore, sustainability-related risks and opportunities that cannot reasonably be expected to affect the assessment of an entity's enterprise value are considered outside the scope of this [draft] Standard" (IFRS S1 §8). We question how the boundaries between the impacts that may affect the enterprise value and those that may not are defined. When does an impact become financially material? Is the criterion "investors' concerns" relevant, objective and precise enough? At this stage, there is no underlying conceptual definition of such a criterion. It is inspired by "markets" with a potential short-term bias. In addition, it is not clear on what basis the entity has to deem a risk and/or opportunity to be « significant ».

ANC stresses that no guidance with respect to materiality assessment is given in the ED regarding its implementation.

ANC underlines that the concept and application of materiality need greater clarity, notably as to what is 'material' vs. 'significant' or 'relevant'.

ANC believes that the concepts of "materiality" and "financial materiality" are fundamental for selecting and verifying the information to be reported. So as to facilitate the interoperability of the EFRAG and ISSB frameworks and the reporting for the entities, we encourage the ISSB and EFRAG to work closely in order to clarify the definitions with respect thereto and to use similar terminology to address similar concepts.

ANC suggests that the current drafting of sustainability-related materiality assessment approach will create challenges for comparability and auditability. Paragraph 57 of IFRS S1 states that the standard "does not specify any thresholds for materiality or predetermine what would be material in a particular situation". In this context, materiality decisions will remain judgmental which may not be auditable. In this context while we recognise that the definition of standardised thresholds is challenging, ANC suggests to provide additional guidance and examples for materiality decision to be less prone to be considered judgemental and therefore difficult to audit.

ANC notes that there is a risk of overload regarding sustainability-related disclosures when several topics are covered by IFRS sustainability standards. Numerous climate-related disclosures are required in relation to governance and strategy. If the same level of granularity is required in the future IFRS standards addressing other sustainability matters, management reports may become overloaded. Should not the ISSB create a strategic level of materiality to limit the reporting burden in the future IFRS Sustainability standards? Will all the Governance and Strategy disclosure requirements be duplicated for the other topics in the way they are for climate?

Besides, ANC considers that the proposed approach which focuses on investors' needs and factors that could influence their assessment of an entity's enterprise value constitutes a first step only. A double materiality approach (taking full consideration of impact materiality in addition to and connection with financial materiality) seems to be more appropriate in the current context where climate change has already started to hit the economic players. ANC notes that IFRS S2 already considers GHG emissions (Impact materiality) as material information.

Question 9—Frequency of reporting (paragraphs 66–71)

The Exposure Draft proposes that an entity be required to report its sustainability- related financial disclosures at the same time as its related financial statements, and e sustainability-related financial disclosures shall be for the same reporting period as the financial statements.

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?

ANC agrees in principle. However, we note in practice that there are instances where the date of collection of the sustainable data is over rolling 12 months which does not correspond to the reporting period of the financial statements. We are of the opinion that collecting real data over a same duration, even if on a different period, is more useful to the user and preparer while still allowing for comparability. Indeed, there is no concept of provisions for sustainability data which can be corrected ex-post, and estimating data over a 12 month period based on 10 month data does not make sense for some metrics (e.g.: number of workplace accidents…). This is currently common practice for some entities subject to NFRD reporting.

Question 10—Location of information (paragraphs 72–78)

The Exposure Draft proposes that an entity be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting—ie as part of the same package of reporting that is targeted at investors and other providers of financial capital.

However, the Exposure Draft deliberately avoids requiring the information to be provided in a particular location within the general purpose financial reporting so as not to limit an entity's ability to communicate information in an effective and coherent manner, and to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting.

The proposal permits an entity to disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. However, the entity would be required to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information.

Information required by an IFRS Sustainability Disclosure Standard could also be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements.

The Exposure Draft also proposes that when IFRS Sustainability Disclosure Standards require a disclosure of common items of information, an entity shall avoid unnecessary duplication.

a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?
b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?
c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross- referenced? Why or why not?
d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk

management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

ANC welcomes the proposed requirements, which are in line with the EU proposal.

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)

The Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8. However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable —ie the comparatives would be restated to reflect the better estimate.

The Exposure Draft also includes a proposed requirement that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements, to the extent possible.

(a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?

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

(c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

ANC agrees on these paragraphs.

Question 12—Statement of compliance (paragraphs 91-92)

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.

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 this proposal? Why or why not? If not, what would you suggest and why?

ANC agrees with the concept of a statement of compliance.

Question 13—Effective date (Appendix B)

The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard.

(a) When 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.

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

ANC highlights that effective date of application will depend on the time required to implement the standards, which will depend on the degree of convergence of the IFRS standards with other related initiatives. Therefore, ANC considers not to be in a position to answer this question at this stage.

Question 14—Global baseline

IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of sustainability-related risks and opportunities. Those needs may be met by requirements set by others, including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

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

ANC acknowledges the importance of a global baseline for the sustainability reporting standards. A clear definition of what a baseline can be is of paramount importance. Is it based on principles only? Is it requiring a limited number of « basic » information? Is it related to one aspect only of materiality? As an example IFRS S2 does appear to include impacts in a relatively granular manner, even under on a principles based approach. A clarification is therefore needed to eliminate possible ambiguity in that respect.

ANC urges the ISSB to work closely with EFRAG in order to clarify the boundaries between impact and financial materiality, and define relevant criteria to determine material information, while resolving resulting differences between the standards to the extent to which it is possible. This will enable the facilitation of the interoperability between the ISSB framework and the other initiatives, notably the EFRAG and GRI frameworks.

Question 15—Digital reporting

The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption as compared to paper-based consumption is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S2 *Climate-related Disclosures* Standards are the sources for the Taxonomy.

It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

ANC recognises that digital reporting should be taken into account. However, working on digitisation requires a stabilised, complete and aligned proposal. Thus, ANC considers that the priority should be to work on the common baseline with EFRAG and GRI by aligning the concepts and proposing common definitions. Digitisation will come as an immediate second step.

ANC also suggests to consider a coordination between the digitisation efforts of the various initiatives and to foster multi-tagging of a disclosure when such a disclosure is complying in substance with different standards.

Question 16—Costs, benefits and likely effects

The ISSB is committed to ensuring that implementing the Exposure Draft proposals appropriately balances costs and benefits.

(a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?

(b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

ANC believes that expected costs of implementation are difficult to assess at this stage. A relevant assessment of the expected costs, benefits and likely effects will only be possible when more specific application guidance is available and when convergence for a global baseline is reached. A careful assessment in due course is recommended.

Question 17—Other comments

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

ANC points out that audit work may be difficult to perform in some cases and may lead to difficulties expressing an audit opinion as we identify missing guidance, as well as the need for clarification and standardisation of KPIs.

For instance, "an entity shall disclose the metrics it uses to manage and monitor sustainability-related risks and opportunities, and the metrics it uses to measure performance, including progress towards the targets it has set". When a metric has been developed by an entity, it shall comply with IFRS S1 §30 & 31. This definition is not precise enough and does not provide suitable criteria against which to provide assurance.

Moreover, the definitions of the six cross-industry metrics in paragraph 21 of IFRS S2 (particularly b, c, d, e) are not precise. Examples are provided in the illustrative guidance with no proper definition. As an example, paragraph 21(e) requires the disclosure of capital deployment (i.e., "the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities), and is completed in the illustrative guidance with "percentage of annual revenue invested in R&D of low-carbon products/services". This guidance is not comparable with the number of pages of explanation needed to define the equivalent concept (Green CapEx) in the EU Taxonomy.