29 Jul 2022
Emmanuel Faber, Chair
International Sustainability Standards Board
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Dear Emmanuel

RESPONSE TO [DRAFT] IFRS S1 *GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION* AND [DRAFT] IFRS S2 *CLIMATE-RELATED DISCLOSURES*

We welcome the opportunity to comment on the Exposure Drafts on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ([Draft] IFRS S1) and IFRS S2 *Climate-related Disclosures* ([Draft] IFRS S2) (collectively, the Exposure Drafts) issued in March 2022.

Singapore Exchange Regulation (SGX RegCo)[1] has mandated sustainability reporting for all companies listed on Singapore Exchange (SGX) since 2016. In 2022, the sustainability reporting requirement was enhanced to incorporate climate reporting based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

As a further step towards addressing the growing interest in environmental, social and governance issues globally and providing greater corporate transparency, the Accounting and Corporate Regulatory Authority (ACRA)[2] and Singapore Exchange Regulation have set up the Sustainability Reporting Advisory Committee (SRAC) to advise on a roadmap for the wider implementation of sustainability reporting for Singapore-incorporated companies.

In this letter, we are submitting the viewpoints of company preparers, service providers, investors, government agencies and regulator based in Singapore. In developing our response, we engaged with the sustainability reporting practitioners in Singapore, and sought

1 SGX RegCo is the regulatory subsidiary of SGX. It carries out the regulatory duties of SGX which is a self-regulatory organisation.
2 ACRA is the regulator of business registration, financial reporting, public accountants and corporate service providers in Singapore.

comments from the SRAC, represented by a diverse[3] group of industry leaders and champions of sustainability reporting.

Overall, we welcome the ISSB's initiative to develop a comprehensive global baseline of sustainability disclosure standards. We found a majority of the proposals to be consistent with the ISSB's objective to provide capital market participants with information about companies' sustainability-related risks and opportunities for decision-making. **Below we set out the key areas of concern** that we urge the ISSB to consider, making the issued standards viable for adoption by companies of different sizes and maturity levels. Our detailed responses are included in Appendix A.

International consolidation and alignment of sustainability reporting frameworks

We support the ISSB's efforts to consolidate and align multiple international frameworks covering sustainability reporting in a cohesive approach. We also support the ISSB's effort to work with representatives from five large jurisdictions towards achieving international alignment and consistency.

In Singapore and the Asia Pacific region, the Global Reporting Initiative (GRI) standards (and the Sustainable Development Goals framework) appear to be the dominant choice of frameworks amongst the top listed companies[4]. These companies will be interested to know how their current reporting will interact with the ISSB Standards, and collectively form a comprehensive corporate reporting regime for sustainability-related information. We look forward to the activities proposed by the ISSB and GRI to provide the necessary clarification and towards achieving alignment.

The need to phase in requirements over time to cater for the different levels of maturity

The levels of maturity in reporting sustainability-related financial information vary significantly among the companies in Singapore and the ASEAN region. The process of tracking and measuring sustainability-related financial information remains relatively challenging, even for our listed companies that had started the journey a few years ago. Furthermore, most of our non-listed companies have also not embarked on sustainability reporting. Time is therefore required to build the necessary systems, processes and competencies.

We recommend that the ISSB tiers the requirements in the Standards based on the level of complexity and mandate the complex requirements at a later date. This will provide companies with a mechanism for progressive adoption of the Standards and reduce the need for individual jurisdictions to develop their own tiering, thereby achieving consistency and comparability of sustainability-related financial information across the globe.

[3] Includes chief sustainability officers, representatives of financial institutions, institutional and retail investors, SGX-listed companies, sustainability reporting professionals and academia. For details, see https://www.acra.gov.sg/news-events/news-details/id/661

[4] Source: NUS-PwC, *Sustainability Counts, Section 5* on *The state of sustainability reporting: Key insights*, available at https://bschool.nus.edu.sg/cgs/wp-content/uploads/sites/7/2022/05/CGS-PwC-Sustainability-Counts-Asia-Pacific-Report-2022.pdf

In doing so, the ISSB should consider mandating the following disclosures a few years later, or to be revisited at the subsequent revision of the Standards:

- the requirement that the reporting entity for sustainability-related financial information shall be the same as that reported in the financial statements, given that it is a common practice for companies to define their reporting scope on a narrower basis when reporting using GRI (see page 5 of this letter);
- the sections (Core Content) of [Draft] IFRS S1 that are not essential for implementing [Draft] IFRS S2 (see pages 10 and 11 of this letter);
- the more advanced disclosure requirements in [Draft] IFRS S2, such as:
  - (i) the anticipated effects of significant climate-related risks and opportunities on an entity's financial position, performance, and cash flows over the short, medium and long term;
  - (ii) climate-related scenario analysis as an assessment of an entity's climate resilience; and
  - (iii) Scope 3 greenhouse (GHG) emissions.

  (see page 11 of this letter).

Additional clarification and illustrative examples to guide preparers and drive consistency

Whilst we agree with the related principles and requirements, a few areas would benefit from additional guidance to facilitate implementation.

In particular, the application of materiality judgements will prove difficult to many companies. Most companies do not have prior experience in assessing how qualitative disclosures, such as governance processes surrounding sustainability-related financial information, could materially affect their enterprise values. Unlike listed companies with readily available information on market capitalisation, non-listed companies have the added complexity of determining market capitalisation using valuation techniques, which could be complicated. We recommend that the ISSB provides practical guidance in these areas to help bridge the gaps, and promote consistency in market practices.

In addition, the identification and measurement of the anticipated financial effects of significant climate-related risks and opportunities will be a new exercise to many companies. We recommend that the ISSB provides more clarity and illustrates acceptable approaches to estimate the anticipated financial effects of climate-related risks and opportunities over the short, medium and long term.

Extension of global baseline to smaller companies in the value chain

In Singapore and the ASEAN region, small and medium enterprises (SMEs) form a major part of our economy. In Singapore, SMEs employed 71% of the workforce and contributed to 44%

of gross domestic product (GDP) in 2021[5]. Their contribution rates for employment and GDP are generally similar for the neighbouring countries in the ASEAN region as well[6].

As a result, SMEs typically contribute to a material part of a larger entity's value chain in Singapore and the ASEAN region. Given the interdependencies of certain disclosures, notably Scope 3 GHG emissions, there is demand for sustainability-related disclosures by SMEs. At the same time, SMEs have smaller asset size and employee counts than their larger counterparts, curtailing their ability to deploy the same level of resources to sustainability reporting.

The proposed requirements in the Exposure Drafts may inadvertently discourage SMEs from adopting them. We recommend that the ISSB introduces a simplified version of the Standards that would facilitate the inclusion of these companies.

Finally, we thank the ISSB for the opportunity to respond to its consultation on the Exposure Drafts. We hope that our feedback will provide useful consideration in producing the Standards, which we look forward to.

Yours faithfully

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[5] Source: Department of Statistics Singapore, Singapore Economy, *Number, Employment and Value Added of Enterprises*, available at https://www.singstat.gov.sg/modules/infographics/-/media/Files/visualising_data/infographics/Economy/singapore-economy21032022.pdf

[6] Source: International Federation of Accountants, *SMEs as the Backbone of Southeast Asia's Growing Economy*, available at https://www.ifac.org/knowledge-gateway/contributing-global-economy/discussion/smes-backbone-southeast-asia-s-growing-economy

Appendix A: Responses to the Exposure Drafts' questions

[Draft] IFRS S1: Question 5—Reporting entity
(a) 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?

A majority of Singapore-listed companies currently use the GRI standards and opt to define reporting scopes that are narrower than the reporting entity used in the financial statements. A 2021 study[7] on sustainability reports showed that only 21.4% of the Singapore-listed companies used a reporting scope that covered their full businesses, whilst 61.1% of them only covered subsidiaries.

If the sustainability related financial information is required to be provided for the same reporting entity as the related financial statements, we expect companies to face challenges surrounding the availability of reliable data – for entities under unilateral control (i.e. parent and subsidiaries) and entities not under unilateral control (i.e. joint ventures and associates).

Whilst we agree with the principle to use the same reporting entity for both reports, we understand that it will be practically challenging for a majority of companies to achieve this in the short to medium term. Furthermore, many companies may not be managing their sustainability-related risks and opportunities on a legal entity basis.

In addition, paragraph 37 of [Draft] IFRS S1 requires companies to follow the same consolidation approach for sustainability-related financial information as for its financial statements. This may be inconsistent with the requirement in [Draft] IFRS S2 for companies to calculate its GHG emissions in accordance with the GHG Protocol Corporate Standard (GHG Protocol), which allows the use of either the control (financial or operational) or equity approach. Given that the GHG Protocol has a comprehensive measurement framework that is widely adopted and accepted globally, the ISSB may wish to accord the same flexibility.

As such, the ISSB should consider the following:

a. allowing companies the flexibility to define their reporting scope based on how they manage their significant sustainability-related risks and opportunities as a start. To bridge the information gap, the difference(s), if material, can be explained using narrative disclosures; and

b. revisiting the proposal to use the same reporting entity for both reports through a subsequent revision of the Standards, when systems and processes to collect information have been established, and comparable and consistently prepared sustainability-related information becomes more readily available.

[7] Source: SGX-CGS, *Sustainability Reporting Review 2021, Section 5* on *Component disclosures in sustainability reports*, available at https://api2.sgx.com/sites/default/files/2022-04/Sustainability%20Reporting%20Review%202021_p.pdf)

In addition, a parent is exempted by the International Financial Reporting Standards from preparing consolidated financial statements when certain criteria are met. If a parent prepares standalone financial statements and standalone sustainability reports, the materiality of sustainability-related financial information will nonetheless be assessed vis-à-vis the parent's enterprise value, which is determined at the group level. This may lead to a disconnect between the sustainability-related financial information and financial information. The ISSB may wish to provide guidance for such situations.

[Draft] IFRS S1: Question 7—Fair presentation
(b) 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? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

We support the ISSB's intention to construct a general hierarchy on sources of information for entities to consider, apart from the requirements in the Standards. Such a hierarchy will be helpful in circumstances where there are no relevant requirements in ISSB Standards.

However, as the ISSB has not issued a comprehensive suite of sustainability standards (e.g. including specific standards on social and governance factors), the mandatory requirement in paragraph 51 of [Draft] IFRS S1 may inadvertently lead to a burdensome process, whereby companies will need to consider a broad range of other standards and market practices. In particular, by requiring "(c) the most recent pronouncements of other standard-setting bodies…" and "(d) the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies" to be considered, companies may need to undertake an extensive exercise. If some form of assurance is required, the sufficiency and completeness of the universe of considerations may also be called into question.

We therefore recommend that the ISSB includes these sources of guidance (including Appendix B of [Draft] IFRS S2 – Industry-based disclosure requirements) as reference material or guidelines, as opposed to mandating them in the Standards. This requirement can be mandated when a comprehensive suite of standards has been issued.

In addition, [Draft] IFRS S2 Appendix B makes reference to the GHG Protocol and ISO 14064-1 as acceptable calculation methodologies for industry-specific metrics. In particular, references to the ISO standards are useful as these standards provide a possible way to determine how environmental, social and governance impacts are measured and reported, thereby harmonising the execution and achievement of objectives. We suggest that the ISSB provides similar resources for other topics such as energy management and water managements as follows:

- ISO 14067 Greenhouse gases — Carbon footprint of products — Requirements and guidelines for quantification;
- ISO 14046 Environmental management — Water footprint — Principles, requirements and guidelines;

- ISO 50006 Energy management systems — Evaluating energy performance using energy baselines and energy performance indicators;
- ISO 17741 General technical rules for measurement, calculation and verification of energy savings of projects; and
- ISO 50015 Energy management systems — Measurement and verification of energy performance of organisations — General principles and guidance.

[Draft] IFRS S1: Question 8—Materiality
(a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not? (c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?

Paragraph 57 of [Draft] IFRS S1 states that "Material sustainability-related financial information provides insights into factors that could reasonably be expected to influence primary users' assessments of an entity's enterprise value". This definition is aligned with that used in the International Financial Reporting Standards, and thus will be helpful to financial preparers and users of financial statements who are well acquainted with this definition.

However, in the case of financial reporting, materiality is assessed with reference to information that is readily available, such as the entity's financial performance, position and cash flows. When the application of materiality is judgemental, there are established market practices (including qualitative factors) to guide such assessment as well.

On the other hand, the application of materiality to sustainability-related financial information will be new, even to listed companies that have embarked on their sustainability reporting journey for several years. In particular, many companies do not have experience in estimating how disclosures such as those under Governance and Strategy for managing significant sustainability-related risks and opportunities could affect their enterprise values, and identifying the material ones to be disclosed. Unlike listed companies with readily available information on their market capitalisation, non-listed companies have the added exercise of having to determine their market capitalisations, which could involve complex valuation techniques. Whilst the Illustrative Guidance for [Draft] IFRS S1 is helpful, more guidance in these areas is required to reduce the ambiguity in applying materiality.

In addition, the term "significant" is used in the Exposure Drafts when describing sustainability-related risks and opportunities. It would be helpful to clarify if there is a difference between "significant" and "material", and where appropriate, to provide a definition for "significant".

Finally, the need to re-assess materiality may lead to situations where sustainability-related financial information that was material in one reporting period becomes immaterial in the next reporting period. To facilitate identifying previously disclosed information that is unreported in the current reporting period, we recommend including a requirement to highlight such change(s), if any and to explain the reason. Notwithstanding paragraph C28[8] of Appendix C, this does not appear to be an explicit requirement in [Draft] IFRS S1.

[Draft] IFRS S1: Question 9—Frequency of reporting
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?

In practice, some Singapore-listed companies publish their financial statements earlier than at the statutory deadline to do so. For example, they may publish their audited financial statements two months from the financial year-end, ahead of the statutory deadline of four months from the financial year-end.

In the short term, it will be practically challenging for these companies to publish their sustainability reports at the same time as the financial statements. It is also not feasible to delay the publication of the financial statements as timely financial information is essential for the functioning of an efficient capital market.

Accordingly, to facilitate implementation, we recommend that ISSB amends the proposal allowing for sustainability-related financial disclosures to be provided by the deadline for the publication or circulation of the audited financial statements for the same reporting period, rather than at the time when those audited financial statements are actually released. This is akin to the treatment accorded to other reports in the annual reports, such as Chairman's Statement and Corporate Governance Report/Statement.

This proposal for sustainability-related financial disclosures to be provided at the same time as the related financial statements should be re-visited at the subsequent revision of the Standards.

[Draft] IFRS S1: Question 10—Location of information
(a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not? (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?

[8] Appendix C, paragraph C28 of [Draft] IFRS S1 states that "Clarity might be enhanced by distinguishing information about developments in the reporting period from 'standing' information that remains unchanged, or changes little, from one period to the next—for example, by separately describing features of an entity's sustainability-related governance and risk management processes that have changed since the previous reporting period."

We agree with the principle of allowing companies the discretion to choose how and where they report sustainability-related financial disclosures, consistent with the wording in [Draft] IFRS S1. This is also aligned with our current practice, where most of the Singapore-listed companies have opted to publish their sustainability reports separately from their annual reports.

To avoid duplication in reporting, paragraph 75 in [Draft] IFRS S1 allows information to be included by cross-reference, provided the information is available on the same terms and at the same time. Whilst we agree with the principle, we are concerned that the readability of information may be compromised if users are expected to navigate numerous locations to gather the required information for their decision making. This may also inadvertently lead to a substantial amount of sustainability-related information being cross-referenced to the company's websites, which may be updated without a precise approval timestamp by those charged with governance (or assurers).

To strike a balance, we recommend that the ISSB restricts cross-references from sustainability reports to a few select locations such as between the annual reports (including financial statements) and sustainability reports. Having all information in a few select locations will enhance the ability of users to connect between sustainability-related risks and opportunities and financial information. If the few select locations are restricted to reports that are filed with the regulators for public use, safeguards will be in place to prohibit unauthorised change(s) subsequently.

[Draft] IFRS S1: Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors
(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?

[Draft] IFRS S1 proposes that changes in estimates in previously reported metrics and targets be updated by restating any comparative information presented in sustainability reports. The purpose is to provide the best information possible about trends to users of sustainability-related information.

This contrasts with how changes in estimates are addressed in the financial statements (being adjusted or recognised prospectively). The inconsistency in treatments may distort the linkages between the sustainability-related financial disclosures and financial information, compromising the principle of connectedness. In particular, a retrospective change in the sustainability-related disclosures, when viewed together with a prospective change in the financial statements, may be confusing.

We recommend that the ISSB requires changes in estimates to be updated by restating any comparative information only when the related information on trends may be distorted. For other circumstances, the treatment of changes in estimates in the sustainability reports should be aligned with those in the financial statements.

[Draft] IFRS S2: Question 14—Effective date
(a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information? Why? (b) 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 in the Exposure Draft. (c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

We recommend that the ISSB tiers the requirements in the Standards based on the level of complexity, and phases them in over time. Such a tiered and phased approach will provide companies with a mechanism for progressive adoption of the Standards and reduce the need for individual jurisdictions to develop their own tiering, thus better achieving consistency and comparability of sustainability-related financial information across the world.

In doing so, the ISSB should mandate the following complex disclosures two or more years after the effective date of the Standards or at a subsequent revision of the Standards:

a. Deferring sections of [Draft] IFRS S1 that are not essential for implementing [Draft] IFRS S2

We note the urgency of climate-related disclosures given their evident effects on a company's financials as well as the world at large. We recommend that the ISSB requires only sections of [Draft] IFRS S1 that are essential for implementing [Draft] IFRS S2 to be complied with as a start. In particular, the conceptual requirements (i.e. general principles relating to Governance, Strategy, Risk Management, and Metrics and Targets) should be excluded.

In the absence of specific disclosure requirements on governance and social factors (i.e. beyond climate-related disclosures that is covered in [Draft] IFRS S2), entities may struggle to apply the general principles set out in [Draft] IFRS S1 when making disclosures on these factors. For example, it may be unclear to entities how social matters would interact with the conceptual requirements under Governance, Strategy, Risk Management and Metrics and Targets. To illustrate, [Draft] IFRS S2 requires disclosure of GHG emissions under Metrics and Targets, but it is not clear in [Draft] IFRS S1, under Metrics and Targets, which social metrics should be reported.

b. Deferring the complex disclosure requirements in [Draft] IFRS S2

We recommend that the ISSB introduces the core elements of [Draft] IFRS S2, before layering the complex requirements of [Draft] IFRS S2 at a later date. This will allow companies, especially those new to sustainability reporting, to comply with the core requirements first, before progressing to the more advanced requirements.

i. **Anticipated effects of significant climate-related risks and opportunities on an entity's financial position, financial performance and cash flows over the short, medium and long term.**

   To prepare this disclosure, companies will need to understand numerous forms of climate-related risks and opportunities, such as the examples illustrated by the TCFD[9], which will be complicated. For the long term financial effects of significant risks and opportunities, companies will also need to consider technology and knowhow that have not been commercialised or projects that have not commenced or been approved for implementation. It will be challenging for companies to gear up and make this disclosure in the short term. The ISSB may not be able to develop practical guidance on these areas to accompany the issuance of the Standards as well.

ii. **Climate-related scenario analysis, or an alternative method, to assess climate resilience, as well as how such analysis has been conducted (including time horizons, inputs and assumptions used) and the results of such analysis.**

   The conduct of climate-related scenario analysis is a highly technical endeavour, requiring specialised resources from multiple disciplines. Aside from historical information, it also involves forward-looking information based on certain assumptions. Given the complexity, the majority of companies will likely opt for alternative method and may not progress to report climate-related scenario analysis.

   Given the usefulness of climate-related scenario analysis, the ISSB should assess to remove alternative method and mandate only climate-related scenario analysis at a subsequent revision of the Standards, considering factors such as the level of reporting maturity in the landscape then.

iii. **Scope 3 GHG emissions, for which a reporting entity is required to include upstream and downstream emissions and disclose the categories included within its measurement of such emissions.**

   The ability to comprehensively collect and analyse Scope 3 GHG emissions data is dependent on the reporting preparedness of the businesses across the economy in particular the supply chain. Companies will need to be well versed with international carbon accounting and disclosure frameworks and guidance including the GHG Protocol comprising 15 categories of Scope 3 GHG emissions, and the Science Based Targets initiative criteria and requirement.

[9] Source: TCFD, *Examples of Climate-related Risks and Potential Financial Impacts*, available at https://www.tcfdhub.org/Downloads/pdfs/E08%20-%20Table%201%20&%202.pdf

In addition, these advanced requirements are heavily reliant on estimates. The ISSB should consider how the reliability of the disclosures can be better communicated. One possible way is having these disclosure be categorised in a hierarchy depending on the reliability of inputs used to derive the disclosures, similar to the fair value hierarchy used in the International Financial Reporting Standards.

[Draft] IFRS S1 and [Draft] IFRS S2: Question 17—Other comments
Do you have any other comments on the proposals set out in the Exposure Draft?

SMEs are ubiquitous in Singapore, and collectively, they form a material part of the value chain for larger companies. A set of sustainability-related disclosure standards that are proportionate to the size of SMEs and their resourcing capabilities will be more palatable. It will enable SMEs to play their part towards a low-carbon future economy, and contribute to the information needs of larger entities in the same value chain.

We recommend that the ISSB introduces a simplified version or variation of sustainability disclosure standards that befits SMEs. This will be consistent with the approach adopted by the International Accounting Standards Board, which had issued the IFRS for SMEs Standard.

Separately, we express our support for the ISSB's ongoing work to develop an IFRS Sustainability Disclosure Taxonomy. The digital taxonomy will facilitate comparison of companies within and across industries, thereby improving the accessibility and useability of sustainability-related financial information.