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International Sustainability Standards Board (ISSB)

Emmanuel Faber, ISSB Chair

Sue Lloyd, ISSB Vice-Chair

Response to ISSB Exposure Drafts IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures

The Canadian Public Accountability Board (CPAB) is pleased to respond to the ISSB's IFRS S1 and IFRS S2 Exposure Drafts. This letter represents our views and comments on both documents.

CPAB is Canada's independent audit regulator responsible for overseeing firms that audit Canadian reporting issuers. Our mandate is to promote high quality, independent auditing that contributes to public confidence in the integrity of financial reporting.

While CPAB's mandate as an audit regulator does not directly encompass sustainability-related disclosures presented outside of the audited financial statements, this information is important to stakeholders and can be an important input into audited financial information.

CPAB is supportive of the ongoing work of the ISSB to deliver a comprehensive global baseline of sustainability-related disclosure standards and the overall objective to require entities to disclose information about significant sustainability-related risks and opportunities. The reliability of sustainability-related reporting is important and CPAB supports moving toward assurance requirements for certain of these disclosures. As assurance providers and regulators begin to encounter sustainability-related disclosures more frequently, we anticipate they may face some challenges in determining whether the entity has complied with the proposals the ISSB has outlined. These challenges are discussed below.

Please note that the views expressed in this letter are preliminary and we expect our perspectives on these topics to continue to be shaped by evolution and innovation in this area including how sustainability-related information is presented and used. Our views have been shaped by discussions with audit committees, standard setting bodies, international and domestic regulators, and audit firms. CPAB encourages the ISSB to coordinate and collaborate with other standard setters around the world, including those setting assurance and ethical standards, to support international alignment and comparability.

Completeness, accuracy, reliability and comparability of sustainability-related reporting

Assessing the completeness of an entity’s sustainability-related disclosures may be challenging for assurance providers, particularly in the early stages of implementation. This could be due to a lack of understanding of potential sustainability-related risks and opportunities that an entity may face, as well as the significant level of judgement required in assessing the materiality or significance of many of these disclosures. This could become an even bigger challenge when certain sustainability-related topics are not explicitly covered by an IFRS Sustainability Disclosure Standard. CPAB recommends the ISSB consider addressing this challenge by introducing additional disclosure requirements related to the key judgements and assumptions used by an entity to determine whether sustainability risks or opportunities were “significant”, and thus ultimately disclosed.

Due to the diverse nature of sustainability-related disclosures, a large amount of information underlying these disclosures may be sourced from non-financial systems or areas which may not currently be subject to a robust set of internal controls. This could impact the accuracy of the information being disclosed as well as comparability year over year. Sustainability-related disclosures will also require higher levels of estimation and input from external sources, for example data relating to Scope 3 Greenhouse gas (GHG) emissions. Adequate internal control processes and oversight over the underlying data will be important. We recommend the ISSB consider requiring reporting issuers to disclose a description of the internal control processes and oversight used to prepare the sustainability-related disclosures. This will complement the governance disclosures already outlined in IFRS S1. In addition, those providing assurance over this information will need to ensure appropriate testing procedures are designed.

Verifiability and enforceability

The breadth of knowledge and skills required to provide assurance over sustainability-related disclosures may extend beyond the current skillsets of traditional financial statement auditors. Sustainability-related risks and opportunities involve complex long-term estimation and assumptions. Assurance providers may need to prepare by investing in upskilling or training and ensuring appropriate involvement of sustainability experts and specialists. We expect the most challenging disclosures on which to provide assurance will be forward looking information and qualitative reporting. Forward looking reporting involves a significant level of estimation and assumptions, while qualitative disclosures may be challenging due to the need to assess materiality for qualitative information.

Paragraph 73 of the IFRS S1 Exposure Draft states “there are various possible locations in general purpose financial reporting in which to disclose sustainability-related information.” CPAB acknowledges the ongoing debate in many jurisdictions regarding the appropriate location for sustainability-related disclosures as well as who should be providing assurance over such disclosures. Regardless of where the sustainability-related disclosures are made, financial statement auditors will need to consider the impact of sustainability-related disclosures on their audits. This would include not only sustainability-related disclosures made within a reporting issuer’s financial statements but also the impacts of sustainability-related risks on financial

statement balances and estimates as well as consideration of whether a material inconsistency exists between other information included in an entity's annual report and the financial statements.

Lastly, regardless of who provides assurance over sustainability-related disclosures outside of the audited financial statements, it is CPAB's view that independence and ethical behavior by assurance providers is important to support public confidence in the integrity of sustainability reporting.

Materiality

We encourage the ISSB to consider providing or directing users to additional guidance related to materiality determinations. The current approach of aligning the definition of materiality with the IASB's Conceptual Framework and IAS 1 is a reasonable approach and would likely be familiar to many users and preparers. However, materiality in the context of sustainability-related disclosures, as well as their linkage to general purpose financial statements, is complex given the mix of quantitative and qualitative characteristics. Those performing assurance engagements may encounter challenges in determining and assessing materiality.

In addition, we recommend the ISSB consider making some disclosure requirements, such as those related to governance processes, mandatory. Paragraph 60 of the IFRS S1 Exposure Draft states that "an entity need not provide a specific disclosure that would otherwise be required by an IFRS Sustainability Disclosure Standard if the information resulting from that disclosure is not material". CPAB believes this introduces a risk that users of general purpose financial statements will not have, in some cases, access to relevant information to understand the governance processes, controls and procedures used to monitor and manage sustainability-related risks and opportunities.

CPAB looks forward to ongoing discussions and consultation on this topic. If you have any questions about our response or wish to discuss any of our observations in more detail, please contact me (carol.paradine@cpab-ccrc.ca).

Yours truly,



Carol A. Paradine, FCPA, FCA
Chief Executive Officer