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GENERAL REQUIREMENTS EXPOSURE DRAFT: COMMENTS ABOUT A RESPONSIBLE REPORTING

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Abstract:
Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (General Requirements Exposure Draft) was published by the International Sustainability Standards Board (ISSB) in March 2022 as a standard for how to present sustainability-related information. The goal of this research is to analyse the feedback received on the initial exposure draft of the IFRS S1. The goal will be reached by using content analysis to bring out the opinions of respondents and show how the standard is moving. This would give the public a full set of financial information related to sustainability. The goal of the public consultation is to create a global database of sustainability-related presentations that investors can use to figure out how much an enterprise is worth. Because both financial and non-financial information is important, the public is very supportive of the ISSB's proposal, as shown by the large number of comment letters that were sent. Sustainability and reporting are usually each dealt with in their own document. But more and more businesses are putting together a single report that includes information about the environment, sustainability, staff, and the business as a whole.

Keywords: *ISSB, Sustainability, Comment letters*

JEL classification: *M40, M41, Q56*

1. Introduction

Investors have concerns about transitional risks, such as stranded asset risks, as the economy shifts toward low or zero emissions alternatives. This concern is reflected in the increasing demands for climate risk disclosures and the action by the IFRS Foundation, the SEC, and other authorities around the globe. In other words, as the economy shifts to alternatives that produce low or zero emissions, assets (both recognized and unrecognized value) may end up losing their capacity to generate a suitable economic benefit before reaching the end of their initially anticipated economic lifespan. This is because the economy is shifting to alternatives that produce low or zero emissions. This involves financial accounting experts doing impairment analyses on tangible, on-book assets. But the problem is more complex than that. The unseen or intangible value that a company delivers investors must be taken into account. The ability of the entity to keep its adaptability and generate cash flows well into the future may be included in this value. Corporations are moving toward a new way of reporting financial information, in which investors will be given information to help them judge an entity's ability to continue to perform well and provide goods or services in a sustainable way for the foreseeable future.

Through sustainability reporting, businesses expose the effects of sustainability issues, resulting from risk and opportunity analyses. The role of sustainability reporting is to present an organization's economic, social and environmental impact, combined with its values and governance model. Through this reporting, economic, social and environmental performance can be measured, understood and presented.

As a result of sustainability reporting, businesses are thinking more carefully about how their actions affect the people and the environment. Businesses may be more open about potential threats and benefits by using this kind of reporting. Sustainability reporting is a means of informing stakeholders of the risks and possibilities facing the company. In order to make an informed choice about providing resources to a company, investors, lenders, and other creditors seek information on the significant

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Vol. 74, issue 2 Year 2022
DOI: 10.56043/reveco-2022-0013

sustainability-related risks and opportunities the entity faces. Without these supplementary data, the entity's financial statements would be lacking. More openness leads to better judgments, which aids firms in gaining and retaining customer confidence (Beerbaum, 2022).

The incorporation of sustainability measurements and tools into reporting, including as social, environmental, and governance metrics, demonstrates the market's interest in non-financial indicators, including sustainability. Information collection is intrinsically linked to the accounting transactions disclosed in financial, non-financial, and sustainability reports. While most people see the value in sharing information about how well a company is doing in terms of sustainability, there currently isn't a set of uniform accounting standards that defines what that means (Gulluscio et al., 2020).

The 'Group of five' an informal name for the leaders of five sustainability reporting standards-setting organizations (CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB)), have urged businesses to begin generating climate-related financial disclosures in line with their sustainability standards template. The Group came together in 2020 to release a joint statement of intent outlining their goals for a unified corporate reporting framework and promising to work together to make this vision a reality.

The Group agreed that the IASB's methodology for generating standards, including its Conceptual Framework for Financial Reporting and its approach to promulgating accounting standards, would be useful in creating standards for environmental and social responsibility. All of this led to an open letter being sent to the International Organization for Securities Commissions (IOSCO). Given its track record in international standard-setting, its well-established standard-setting processes, and its well-established governance structure, the letter argued that the IFRS Foundation should have a more prominent role.

The IFRS Foundation formally announced the establishment of the ISSB in order to offer a uniform global standard for sustainability reporting in the financial sector. Separate from the IFRS Financial Reporting Standards issued by the IASB, the IFRS Sustainability Disclosure Standards is published by the ISSB. To better inform global financial markets, IFRS sustainability standards is forcing corporations to provide information about their influence on sustainability topics critical to determining enterprise value and making investment decisions (Suwardy, 2021).

The International Sustainability Standards Board (ISSB) published the Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (General Requirements Exposure Draft) in March 2022 to give the market a complete set of sustainability-related financial information. Analysis of the letters of comments on the initial standard General Requirements Exposure Draft is the study's primary goal (IFRS S1). To highlight respondents' opinions and chart the course of the standard, content analysis will be employed to achieve the goal.

2. Literature review

The process of conducting corporate transactions while taking into account economic, environmental, and social considerations in order to preserve the interests of society is referred to as accounting for sustainability, also known as sustainability reporting (Gil-Marín et al., 2022). This information is then disclosed in either non-financial reports or sustainability reports. In order to harmonize the techniques and methodologies that will be employed, it is crucial to establish an uniform vocabulary given that the parameters of research on sustainable accounting are not well defined. Only after that would it be possible to deal with the difficulties posed by sustainability accounting. The terms environmental accounting, sustainability accounting, sustainability reporting, non-financial reporting, social performance, social disclosure, and accountability are among those that are understood.

Several studies link sustainable development, sustainable practices, and the sustainable development goals to sustainable accounting. Since 1976, academics have been discussing numerous issues in the accounting profession. Therefore, academic academics have been interested in and focused on the topic of environmental disclosure for almost forty years (Elgobbi & El-Ghannai, 2018). Likewise,

Vol. 74, issue 2 Year 2022
DOI: 10.56043/reveco-2022-0013

the issue of scarcity has been addressed for decades. It may be characterized as the fundamental economic issue of finite resources and rising demand for certain commodities. The consideration of these factors is important to the customers in the decision-making process.

A sustainability report is a report that an organization creates to provide information about the organization's performance in the areas of economics, environment, society, and governance. In other words, sustainability reporting is the process of evaluating, disclosing, and holding companies responsible to stakeholders both inside and outside the organization for their capacity to manage social consequences and advance sustainable development goals (Calabrese et al., 2017).

The reporting of non-financial information has a negative impact on long-term sustainability. Additionally, it is a style of transparency reporting when businesses formally provide details unrelated to their economics. Examples of this kind of information include details on human rights, environmental, social, and labor rights, as well as anti-corruption measures. It assists businesses in measuring, comprehending, and effectively communicating the consequences of the aforementioned areas, as well as in efficiently setting goals and managing change (Krawczyk, 2021).

Directive 2014/95/EU of the European Parliament and of the European Council says that large companies that are public interest entities and have more than 500 employees on average during the financial year (the date of the balance sheet) must also include in the management report a non-financial statement with the information needed to understand the financial year. This statement must also be included in the management report if the company is going to be subject to the requirements of Directive 2014/95/EU. The goal of the directive is to get companies to come up with ways to make it easier to combine non-financial data with the many frameworks that are already in place. Some of these are the corporation's growth, effectiveness, position, and influence, at least in terms of environmental, social, and employment issues; the corporation's respect for human rights; its efforts to avoid corruption and bribery; and its efforts to stop corruption and bribery (PwC, 2022).

3. Data and methodology

A consultation on the International Sustainability Standards Board's (ISSB) first two proposed standards—one on climate change and one on general sustainability-related disclosures—began in March 2022. The proposed recommendations, when finalized, would produce a comprehensive global baseline of sustainability-related disclosures that would fulfil the information needs of investors for assessing business value. A public record of the perspectives expressed to the ISSB with the hope of influencing the resultant standard can be found in the comment letters and survey submitted in response to the Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (General Requirements Exposure Draft). In this article, the analyze focuses on the content of the comment letters sent in response to the General Requirements Exposure Draft.

Complex as it is to set international standards, finding a system that is useful to everyone may require input from a wide variety of stakeholders. Due process, in which anybody interested in this issue can participate, is followed in the process of establishing and subsequently developing standards because of the wide range of people who utilize them.

Although comment letters are a crucial component of the standard-setting procedure, little is known about how the responses are evaluated. IFRS Foundation describes the process of the evaluation as the following. The initial comment letter summaries are followed by extensive examination of respondents' views on key areas of a consultation document. These in-depth analyses are posted online alongside the final project feedback comments. They analyze comment letters by taking into account the responders' points of view and the rationale and evidence they offered in defense of those points. Instead, then simply counting how often someone has a certain opinion, they give more weight to how well they justify it using analysis and evidence. They use the responses to affirm, modify, or withdraw a proposal, evaluate alternatives, and build the final requirements based on the respondents' explanations and evidence. Therefore, this study offers an examination of some of the arguments contained in these

Vol. 74, issue 2 Year 2022
DOI: 10.56043/reveco-2022-0013

comment letters, with an emphasis on the perspectives of replies, and outlines the trajectory of the standard.

According to the report presented at the World Standard-setters Conference, in September 2022, ISSB received 720 responses from stakeholder groups, such as Preparers (41%), Public interest organisations (15%), Investors (13%), Accounting/auditors (11%), Academia (6%), Regulators (5%) and Policy makers (3%) which emphasizes a high level of interest and market engagement globally (Lloyd et al., 2022). Due to the large number of responses, only qualitative analysis will be done on the comment letters in order to understand the respondents' viewpoints on this standard and achieve the goal of the article.

4. Results and discussions

The first question was about the overall aim of the draft, the application with other IFRS Sustainability Disclosure Standards and if it would serve as an appropriate foundation for audit and regulations. The vast majority of respondents agree that the draft makes it clear that an entity is required to identify and disclose material information regarding the sustainability-related opportunities and risks to which it is exposed, regardless of whether or not such opportunities and risks are explicitly covered by an IFRS Sustainability Disclosure Standard. Many of the people who answered agreed that the proposed requirements meet the suggested goal. They qualified their responses by asking for more clarification on the definitions and meanings of the terms and concepts like enterprise value, sustainability-related financial information and sustainability-related risks and opportunities. Concerning the application with other IFRS Sustainability Disclosure Standards, most respondents agreed that it was clear that the proposed requirements would be applied together with another standard. However, they offered suggestions on how to prevent the essential content requirements from being repeated across the standards, as this can result in redundant disclosures or confuse preparers. Many of the people who answered, especially the people who use the information, stressed how important it is to have effective and strict assurance to give confidence in the integrity of the financial information that is shared about sustainability. Several respondents also said it was important to work with the International Auditing and Assurance Standards Board, audit firms, accounting experts, and preparers to make sure that sustainability-related financial disclosures can be subject to acceptable assurance over time.

The second question was about the clarity of the proposed objective and the definition of disclosing sustainability-related financial information. Responses to the proposed objective of financial disclosure in relation to sustainability were conflicting. Some of the respondents agreed with the proposed objective, while others emphasized its complexity and even disagreed with it because the resulting information wouldn't satisfy the needs of the stakeholders. Additionally, they asked for more clarification on the meaning of financial information connected to sustainability and/or other related concepts, such as enterprise value and sustainability-related risks and opportunities.

The vast majority of those who answered agreed that organizations that make general-purpose financial statements using GAAP or IFRS Accounting Standards could use the draft recommendations. They claimed that although accepting that there might occasionally be differences, it helps to establish a global baseline. Numerous respondents thought the ISSB need to offer advice to preparers on how to handle potential differences.

Disclosure objective and requirements for the core content of the draft were questioned in question 4. Many respondents agreed that the disclosure objectives for governance, strategy, risk management, metrics, and targets are established clearly and appropriately. To effectively satisfy the disclosure objectives and ensure consistent implementation, several respondents—including preparers—asked for more support and advice when implementing the proposed standards. The respondents offered their thoughts on the core content presented in General Requirements Exposure Draft (S1) and Climate Exposure Draft (S2). They recommended for the inclusion of generic requirements in S1 that may be covered by other IFRS Sustainability Disclosure Standards without duplicating effort. Some have requested that the ISSB consult with the IASB on similar words and phrasing in order to maintain uniformity. The implications of material sustainability-related risks and opportunities on an entity's

Vol. 74, issue 2 Year 2022
DOI: 10.56043/reveco-2022-0013

financial situation, financial performance, and cash flows are particularly relevant when it comes to the requirements (paragraph 22 of S1).

About governance, numerous respondents requested that the ISSB take into account the interactions between these requirements and national governance frameworks, codes, and laws as well as supranational governance principles like the G20/OECD Principles of Corporate Governance. The respondents also favored including business model disclosures under the strategy disclosure criteria. Some of them suggested adding "business model" to the title of the strategy disclosure requirements to emphasize its importance.

When asked about the reporting entity in question 5, nearly all of those who responded agreed that the same reporting entity as the relevant financial statements should also be required to provide financial data relating to sustainability. Nevertheless, several people brought up the fact that more detailed instructions were necessary in order to make the requirements understandable. According to the opinions of the remaining respondents, it would be difficult to create sustainability-related financial data for the same reporting organization as the relevant financial accounts. According to what they said, conducting an analysis of the opportunities and threats posed by sustainability at the group level might not be appropriate for certain kinds of companies, such as conglomerates.

The connection between various sustainability-related risks and opportunities was emphasized by the majority of respondents at question 6. Most respondents said they would welcome more illustrated guidance and examples, and many preparers asked for further clarification on how to know if they had achieved this requirement. Many respondents did, however, raise concerns about the challenges of actually putting the proposed regulations into practice.

For an entity's sustainability-related risks and opportunities to be presented fairly the Exposure Draft recommends a full set of sustainability-related financial disclosures. If the recommended principles in the Exposure Draft are to be followed, then the presentation must accurately reflect the risks and opportunities associated with sustainability. It is assumed that using IFRS Sustainability Disclosure Standards will produce sustainability-related financial disclosures that achieve a fair presentation, along with supplementary disclosure when necessary. The majority of respondents agreed that the proposals were clear, but some said they would have appreciated more guidance on information aggregation when it came to question 7, which asked about the proposal's clarity to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information. Many users and some respondents emphasized the necessity of implementing an industry-based strategy to identify risks and opportunities associated to sustainability. Many of these respondents agreed that the SASB Standards are a valuable tool for identifying sustainability-related risks, opportunities, and related disclosures. However, they also stated that the S1 should be more explicit about the SASB Standards' function in enhancing disclosure comparability and easing reporting requirements. Other respondents said that additional field testing and due process are needed to make sure that the disclosure themes and metrics in the SASB Standards are applicable in all countries.

Regarding the clarity of the definition and application of materiality, question 8 received mixed responses. Some of the respondents supported the ISSB's decision to adopt the IASB's Conceptual Framework's definition of materiality as its own and agreed that materiality should be evaluated for each company separately. Other respondents voiced concerns about the modification of the concept of materiality and proposed attempting to concentrate judgments on information that is logically anticipated to have an impact on the choices of primary users while omitting references to the assessment of an entity's enterprise value. They also expected difficulties in using materiality in the context of financial data related to sustainability.

Concern over the reporting frequency was raised in question 9. Most survey participants agreed that sustainability-related financial data need to be disclosed alongside conventional accounting information. Consumers will get a clear, complete, and integrated view of an entity's performance and the risks and possibilities associated to its sustainability, respondents said, if data for the same time

Vol. 74, issue 2 Year 2022
DOI: 10.56043/reveco-2022-0013

period is shared at the same time as the financial statements. This will help them make better decisions about how to allocate capital.

Related to the location of information (question 10), most respondents agreed with the recommendations for where to place financial disclosures relating to sustainability. However, many respondents indicated worry that the suggested location criteria would create possible issues, such as long reports, an overflow of information for consumers, and trouble understanding what has changed from period to period. In response to worries about their capacity to report concurrently with financial reporting, some respondents wanted additional flexibility about the location of information and more clarification on the definition and application of "general purpose financial reporting". A lack of specificity regarding the location of the information raised concerns among some respondents that it would result in variations in practice and restrict the capacity to compare. Some responders requested further explanation or examples of what is meant by "clearly recognizable and not concealed" when information is prepared using both the IFRS Sustainability Disclosure Standards and extra requirements, such as jurisdictional reporting obligations. Several respondents also asked for guidelines or examples to show when disclosures can conceal financial facts relevant to sustainability.

Question 11 puts in discussion the comparative information, sources of estimation and outcome uncertainty and errors. The majority of respondents stated that the recommendations have been adequately modified from the general features. Most respondents agreed with both the overall notion of giving comparable data for earlier time periods and the idea that organizations should disclose a changed metric in their comparatives if they have a better measure of a metric. The complexity of updating estimates for earlier periods, the decision-usefulness of updated estimates, the need to distinguish between the effects of new information that becomes available before and after the reporting date, the need to more clearly differentiate requirements relating to errors and estimates, and the need to support the impracticability exception are some of the challenges that respondents noted with regard to the application of the suggested requirements.

Companies should include an unambiguous and unqualified declaration that they have met all criteria of the appropriate IFRS Sustainability Disclosure Standards, since this was a popular proposal among respondents (question 12). Several submissions asked the ISSB to consider making it a condition of the certification of conformity that entities explain why they aren't complying with the rule when, for example, disclosure would be illegal under local law or policy. Others stated that providing and qualifying this information is critical for compliance and assurance, as well as cross-jurisdictional comparison.

About setting the effective date (question 13), most respondents suggested an effective date for S1, including that S1 be effective as soon as possible or within one year of the final standard being issued; an effective date of two or more years and an effective date of three or more years. Many respondents emphasized the importance of giving yourself enough time to comply with the proposed standards. For example, many preparers stated that following the recommendations will require a lot of planning, and many users agreed that it is crucial to give companies enough time to create excellent sustainability-related financial disclosures.

Almost everyone who took part in the survey welcomed the development of the IFRS Sustainability Disclosure Standards as a positive step toward establishing a universally accepted standard for disclosing financial information relevant to sustainability in international capital markets. The majority of respondents emphasized the significance of interoperability with jurisdictional initiatives and other sustainability-related standards. This includes the following examples: almost all European preparers emphasized the significance of interoperability with the EFRAG's proposals to reduce reporting burdens and complexity; many respondents welcomed the establishment of the Jurisdictional Working Group and the Sustainability Standards Advisory Forum by the IFRS Foundation; and many respondents emphasized the significance of interoperability with jurisdictional initiatives (Kasim & Jadeja, 2022).

The ISSB's intentions for the digital reporting of financial information related to sustainability that has been developed in conformity with the IFRS Sustainability Disclosure Standards were largely endorsed by respondents (question 15). The advantages of digital reporting, like quick and affordable access to data, were frequently noted by users. Following the completion of the draft S1, several responders, including preparers, accounting professionals, audit firms, and accounting standard-setters, emphasized the significance of gradually implementing the establishment of a taxonomy and digital reporting.

About the cost of implementation (question 16), nearly all preparers claimed that the plans would be expensive to implement, citing the expense of creating and putting in place internal controls on data and reporting systems, both of which would be novel to many preparers. As preparers would need to find the right expertise, many of whom would be doing so for the first time, to handle data collection and disclosure, some respondents also stated that human expenses were expected to be significant. Some respondents felt that the ideas should also take into account the expenses of assurance.

5. Conclusions

The creation of IFRS Sustainability Disclosure Standards as a complete worldwide baseline of sustainability-related financial reporting for the global capital markets was supported and warmly welcomed by almost all respondents.

The amount and diversity of comments received during the stakeholder comment period on IFRS S1 demonstrated the strength of the stakeholder response. More than 700 people completed surveys and/or comment letters. These respondents represented a variety of geographical and stakeholder groups. The high response rate implies that IFRS S1 and the ISSB's efforts to create IFRS Sustainability Disclosure Standards in general are of significant and widespread interest to the global financial markets.

The one stakeholder type that provided the most feedback was preparers. It also notes that the number of responses from users is high compared to the average response rates to consultations from other standard-setters or agencies, such as investment groups. Investors and other users of general-purpose financial reporting appear to be very interested in IFRS S1, as evidenced by the large number of asset managers and asset owners across a wide range of sizes (in terms of assets under management), geographies, and investment strategies who provided feedback on the standard.

The need of strong cooperation with the International Accounting Standards Board was emphasized by many responders (IASB). According to the IFRS Foundation, the ISSB and the IASB are in a unique position to facilitate the integration of sustainability-related financial disclosures into financial statements. In addition, many respondents stressed the need for consistent and clear terminology between the IFRS Accounting Standards and the IFRS Sustainability Disclosures Standards. A few respondents also mentioned how crucial it is to encourage integrated disclosures. They were happy to hear that the International Framework would be expanded upon and integrated.

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Vol. 74, issue 2 Year 2022
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