

26 September 2023

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

Dear Mr Faber

Proposed IFRS Taxonomy - IFRS Sustainability Disclosure Taxonomy

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Sustainability Standards Board (ISSB)'s *Proposed IFRS Taxonomy - IFRS Sustainability Disclosure Taxonomy* ('Proposed Taxonomy').

We encourage the ISSB to finalise its initial IFRS Sustainability Disclosure Taxonomy. In our more detailed comments, in the Appendix, we identify some matters that we would like the ISSB to consider before finalising the Taxonomy. The most significant of these relates to the proposed level of tagging. We think the taxonomy should provide elements at a much more granular level than proposed, but that the ISSB should also make it clear that the existence of a more detailed element does not compel an entity to tag its disclosures to that level. We see the determination and prescription of the level of tagging as a matter for securities regulators.

We have made some suggestions for additional steps the ISSB could take to make it easier for preparers to apply the taxonomy and suggested that it would be useful to capture connections between disclosures. We have also suggested that the ISSB should field test the Taxonomy with a view to developing application and educational guidance to support it and, as such, we believe that the field testing could be undertaken using the finalised Taxonomy. These suggestions for additional steps need not delay finalisation of the Taxonomy.

Lastly, the application of the IFRS Accounting Taxonomy has not been the subject of a post-implementation review. We see the development of the IFRS Sustainability Disclosure Taxonomy as an appropriate time to consider undertaking such a review. The Proposed Taxonomy uses much of the architecture of the IFRS Accounting Taxonomy. Understanding how consistently entities tag financial statement disclosures could help the IFRS Foundation develop application guidance, or highlight areas where the architecture of the taxonomies might need to be reconsidered. A review could also include assessing the implications of recent, and anticipated, developments in AI on the purpose, design and maintenance of the taxonomies.

Our detailed responses to the questions in the Consultation Document are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely

A handwritten signature in grey ink, appearing to read 'V. Poole', with a stylized flourish at the end.

Veronica Poole
Global IFRS and Corporate Reporting Leader

Appendix

Question 1— Appropriate reflection of disclosure requirements in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*

Do you agree that the Proposed IFRS Sustainability Disclosure Taxonomy appropriately reflect the disclosure requirements in:

- (a) (a) IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*; and
- (b) (b) IFRS S2 *Climate-related Disclosures*?

Why or why not? If not, please specify what changes you suggest and why.

Please see our comments in response to Question 5.

Question 2— Usability of the IFRS Sustainability Disclosure Taxonomy

Do you agree that the Proposed IFRS Sustainability Disclosure Taxonomy will facilitate:

- (a) users of general purpose financial reports to consume sustainability-related financial information digitally;
- (b) regulators to require the digital reporting of sustainability-related financial information; and
- (c) preparers to implement digital reporting of sustainability-related financial information, enabling tagging without undue cost?

Why or why not? If not, please specify what changes you suggest and why.

This is a difficult question to answer in the absence of observed practice. The IFRS Accounting taxonomy is dominated by financial disclosures and the IFRS Accounting Standards provide structure, such as reconciliations. The structured nature of this information should make it easier to tag disclosures in a consistent manner. In contrast, although entities will bring structure to their sustainability-related disclosures we expect differences in how entities present the information. This could make it more challenging for preparers to tag the same information in the same way or for users to extract the information they need.

We encourage the ISSB to work with preparers and entities that provide tagging services to field test the application of the taxonomy. Two types of field testing could be undertaken. The first could involve preparers being asked to tag a common set of sustainability-related disclosures, to assess the consistent tagging of an underlying set of information. The second could involve entities tagging their own, selected, disclosures and comparing the disclosures and tagging across entities. The results of the field testing could help the ISSB develop guidance to assist in the consistent application of the taxonomy.

Question 3— Other comments on the general features of the Proposed IFRS Sustainability Disclosure Taxonomy

Do you have any other comments on:

- (a) the general features of the Proposed IFRS Sustainability Disclosure Taxonomy (paragraphs 1–41)?
 - (i) In particular, do you agree with the specific proposed categorical elements and their properties? (See Appendix F—General features of the Proposed IFRS Sustainability Disclosure Taxonomy—List of categorical elements).
 - (ii) Why or why not? If not, please suggest changes to the elements or their properties.
- (b) specific IFRS Sustainability Disclosure Taxonomy elements or the groups of elements to which they relate (see the Proposed IFRS Sustainability Disclosure Taxonomy files or its visual representation in IFRS Taxonomy Illustrated)?

Connections between disclosures

The taxonomy proposal states that “... the ISSB does not propose specific technical mechanisms in the Proposed IFRS Sustainability Disclosure Taxonomy to reflect connections between related disclosures.” Given the importance of connections between different sustainability-related risks and opportunities and the financial statements we think the ISSB should, as a matter of priority, examine how the connections that preparers identify and disclose when complying with the IFRS Sustainability Disclosure Standards can be captured digitally.

Our understanding is that this could require changes to the XBRL specifications. However, these connections are an essential component of the IFRS Sustainability Disclosure Standards and as the reporting develops it will be important to capture this connectivity.

Cross-referencing

As the proposals note, “paragraphs 63 and B45–B47 of IFRS S1 permit an entity to include information needed to comply with a disclosure requirement by cross-referencing another report published by the entity.” The proposal is for entities to use narrative taxonomy elements for a specific disclosure requirement, “in a manner akin to the way such information is reflected on paper or in a PDF (for example, ‘please refer to Notes 3–6 of the financial statements’).”

In our view a user should be able to extract and consume a tagged disclosure whether that disclosure is in a sustainability report, a narrative report or in the notes to the financial statements. It is not clear from the approach described in the proposal whether this is what is intended. Paragraph 88(a) of the proposal states that the ISSB could create guidance for preparers and regulators:

explaining that information incorporated by cross-reference should be tagged using the IFRS Sustainability Disclosure Taxonomy, regardless of the report or document in which such information is disclosed (see paragraph 12(b)).

An entity might include in its financial statements disclosures that provide information required by both an IFRS Accounting Standard and an IFRS Sustainability Disclosure Standard, which the entity incorporates in its sustainability disclosures by cross-reference. When this happens, in our view, the disclosures might need to be tagged using both taxonomies—i.e. double tagging—to ensure that a user can extract the

information whether they are approaching it from the perspective of an IFRS Accounting Standard or IFRS Sustainability Disclosure Standard.

Categorical elements

We support the use of categorical elements. The use of true or false seems to be a simple way to confirm whether a user can expect to see additional disclosures about a particular matter. Similarly, when a Standard sets out a specified list of categories or classes it is appropriate to use that list to describe the category (such as whether the climate-related risks are transition or physical risks).

Question 4— Reflecting the relationship between IFRS S1 and IFRS S2

Do you agree with the ISSB's proposal to create a single set of elements to reflect the corresponding disclosure requirements relating to the core content in IFRS S1 and IFRS S2 (paragraphs 42–55)?

Why or why not? If not, please specify what changes you suggest and why.

As we understand it, the taxonomy assumes that many elements are “corresponding disclosure requirements” and, as a consequence, one element could have more than one IFRS reference associated with it. The documentation supporting the taxonomy states that the IFRS reference “indicates the corresponding paragraph/section in the IFRS Sustainability Disclosure Standard for a given disclosure.” The existence of many references means that the element cannot purport to capture a specific concept. For example, the Proposed Taxonomy assumes that how different sustainability-related risks and opportunities are incorporated in remuneration policies should use a shared or common element. Suppose the ISSB also had a Standard addressing health and safety in the workplace. The approach proposed means that if an entity has separate disclosures about how climate and health and safety performance metrics are factored into remuneration the taxonomy will associate the health and safety references and the climate references to both disclosures. This appears inconsistent with the stated purpose of the references.

One of the consequences of assuming that disclosure requirements in different standards correspond to each other is that differentiating between disclosures in the tagging process relies on consistent application of dimensional modelling—i.e. the association of dimensions to an element such as a class or category. In the example of health and safety and climate, entities would need to use axes and members in the same way to ensure that the same disclosures are tagged in the same way.

The IFRS Foundation has experience with this approach because it is used in the IFRS Accounting Taxonomy. We think the IFRS Foundation should consider reviewing the use of dimensions by those applying the IFRS Accounting Taxonomy to assess whether the tagging is consistent. The results of such a study could help the ISSB to identify the type of guidance that could help preparers.

Question 5— Granularity of narrative disclosures

- (a) Do you agree with the ISSB’s proposal that, as a principle, distinct taxonomy elements should be created for narrative information that is expected to be both separately understandable to users of general purpose financial reports and readily identifiable for tagging (paragraph 65)? Why or why not? If not, what principle would be more appropriate?
- (b) Do you agree that creating elements that represent the first-level subparagraphs of IFRS S1 and IFRS S2 (for example, paragraph 30(a) or 30(c) of IFRS S1 (see paragraph 67)) would generally be consistent with this principle? Why or why not?
If not:
 - (iii) should taxonomy elements generally represent narrative data sets that are more detailed or less detailed than the first-level subparagraphs. Why?
 - (iv) should the elements suggested in response to (i) be provided in addition to the proposed elements (creating a hierarchical structure) or as an alternative to the proposed elements? Why?
- (c) In which, if any, cases do you think elements representing another level of disclosure requirement instead of the first-level subparagraphs in IFRS S1 and IFRS S2 would be more appropriate? Why?

We strongly support the principle that the level of tagging should ensure that the narrative information captured by a taxonomy element is understandable on its own. That is to say, information should be tagged at a level that ensures the information meets the qualitative characteristic of completeness—a complete depiction includes all material information necessary for primary users to understand the risk or opportunity being depicted (IFRS S1:D9-11).

However, we disagree with the proposed approach of assuming that the first-level paragraph is the appropriate basis for establishing that tagging level. We note that 24 per cent of the proposed text elements are tagged to the second-level subparagraphs or lower, without a clear rationale for why the ISSB chose to tag those particular items at a lower level. It is possible that the need to tag to a lower level is a simple reflection of how the Standards have been drafted. For example, in IFRS S2 almost all of the disclosures for climate-related metrics (including narrative information about the metrics) are set out in IFRS S2:29. The proposed taxonomy includes elements tagged to third-level subparagraphs of IFRS S2:29. In drafting the disclosures the ISSB could easily have set out the requirements in several additional primary paragraphs and used fewer subparagraphs. And therefore we believe it would be inappropriate to assume and state that creating elements that represent the first-level subparagraphs would generally be consistent with the principle that distinct taxonomy elements should be created for narrative information that is expected to be both separately understandable to users of general purpose financial reports and readily identifiable for tagging.

Detailed elements

As a principle, the Proposed Taxonomy should have elements for every disclosure, whether that disclosure is in a separate sub-paragraph or combined with other disclosures within a sub-paragraph.

Creating an element for every disclosure should not imply that a preparer must tag to that level. As we have stated, we strongly support tagging narrative information so that it is understandable on its own—a

contextual block of information. However, that should not prevent an entity from electing to also tag additional disclosure elements within that contextual block. If the Proposed Taxonomy does not provide elements at this more granular level then when an entity elects to tag to a lower level than provided by the Taxonomy, the entity will need to create an extension element which potentially reduces comparability.

We see the determination and prescription of the level of tagging as a matter for securities regulators. However, the Taxonomy should provide elements that not only allow entities to block tag contextual disclosures, but also allow for the tagging of components of these blocks if the entity, or a securities regulator, considers it appropriate to do so. The provision of more granular elements is also likely to be necessary to support the global baseline. The tagging level will need to be compatible with how other requirements, such as ESRS, are tagged.

Appendix H of the Proposed Taxonomy illustrates the approach that has been taken, using IFRS S1:44. The Proposed Taxonomy has elements for paragraphs 44(a), 44(a)(ii), 44(b) and 44(c). This means an entity that elects, or is required by a regulator, to block tag the whole risk management disclosure would need to create an entity-specific extension element. Similarly, an entity electing or required to tag separately the information in paragraphs 44(a)(i),(iii), (iv), (v) or (vi) would also need to create extension elements.

Our view is that the Proposed Taxonomy should have elements for each paragraph and sub-paragraph, in this case 44, 44(a), 44(a)(i), 44(a)(ii), 44(a)(iii), 44(a)(iv), 44(a)(v), 44(a)(vi), 44(b) and 44(c), as illustrated by the extract below:

44 To achieve this objective, an entity shall disclose information about:													
(a)	<p>the processes and related policies the entity uses to identify, assess, prioritise and monitor sustainability-related risks, including information about:</p> <table border="1"> <tr> <td style="vertical-align: top;">(i)</td> <td>the inputs and parameters the entity uses (for example, information about data sources and the scope of operations covered in the processes);</td> </tr> <tr> <td style="vertical-align: top;">(ii)</td> <td>whether and how the entity uses scenario analysis to inform its identification of sustainability-related risks;</td> </tr> <tr> <td style="vertical-align: top;">(iii)</td> <td>how the entity assesses the nature, likelihood and magnitude of the effects of those risks (for example, whether the entity considers qualitative factors, quantitative thresholds or other criteria);</td> </tr> <tr> <td style="vertical-align: top;">(iv)</td> <td>whether and how the entity prioritises sustainability-related risks relative to other types of risk;</td> </tr> <tr> <td style="vertical-align: top;">(v)</td> <td>how the entity monitors sustainability-related risks; and</td> </tr> <tr> <td style="vertical-align: top;">(vi)</td> <td>whether and how the entity has changed the processes it uses compared with the previous reporting period;</td> </tr> </table>	(i)	the inputs and parameters the entity uses (for example, information about data sources and the scope of operations covered in the processes);	(ii)	whether and how the entity uses scenario analysis to inform its identification of sustainability-related risks;	(iii)	how the entity assesses the nature, likelihood and magnitude of the effects of those risks (for example, whether the entity considers qualitative factors, quantitative thresholds or other criteria);	(iv)	whether and how the entity prioritises sustainability-related risks relative to other types of risk;	(v)	how the entity monitors sustainability-related risks; and	(vi)	whether and how the entity has changed the processes it uses compared with the previous reporting period;
(i)	the inputs and parameters the entity uses (for example, information about data sources and the scope of operations covered in the processes);												
(ii)	whether and how the entity uses scenario analysis to inform its identification of sustainability-related risks;												
(iii)	how the entity assesses the nature, likelihood and magnitude of the effects of those risks (for example, whether the entity considers qualitative factors, quantitative thresholds or other criteria);												
(iv)	whether and how the entity prioritises sustainability-related risks relative to other types of risk;												
(v)	how the entity monitors sustainability-related risks; and												
(vi)	whether and how the entity has changed the processes it uses compared with the previous reporting period;												
(b)	the processes the entity uses to identify, assess, prioritise and monitor sustainability-related opportunities; and												
(c)	the extent to which, and how, the processes for identifying, assessing, prioritising and monitoring sustainability-related risks and opportunities are integrated into and inform the entity's overall risk management process.												

The Standards provide clear guidance on which disclosures are intended to be contextual and which are intended to be discrete. By not creating elements for some paragraphs and sub-paragraphs, the Taxonomy is specifying which blocks of disclosures should be tagged together, which risks interpreting how the IFRS Sustainability Disclosure Standards should be applied.

Question 6— Facilitating digital reporting of sustainability-related financial disclosures globally

- (a) Are there any aspects of the proposals related to the Proposed IFRS Sustainability Disclosure Taxonomy that should be changed to enhance the IFRS Sustainability Disclosure Taxonomy's ability to facilitate digital reporting of sustainability-related financial disclosures globally? If so, please specify what changes you suggest and why.
- (b) What implementation guidance and supporting materials and other resources, if any, would be useful to those using the IFRS Sustainability Disclosure Taxonomy, what issues do you think they should focus on and why?

Our comments in response to the other questions focus on field testing and reviewing existing practice. We think that this type of work would highlight the areas in which any implementation guidance and supporting materials would be most helpful.

Question 7— Other comments

Do you have any other comments or suggestions on the Proposed IFRS Sustainability Disclosure Taxonomy?

The application of the IFRS Accounting Taxonomy has not been the subject of a post-implementation review. We see the development of the IFRS Sustainability Disclosure Taxonomy as an appropriate time to consider undertaking such a review. The Proposed Taxonomy uses much of the architecture of the IFRS Accounting Taxonomy. Understanding how consistently entities tag financial statement disclosures could help the IFRS Foundation develop application guidance, or highlight areas where the architecture of the taxonomies might need to be reconsidered. A review could also include assessing the implications of recent, and anticipated, developments in AI on the purpose, design and maintenance of the taxonomies.