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Mr Emmanuel Faber
International Sustainability Standards Board
IFRS Foundation
Opernplatz 14
60313 Frankfurt am Main
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Our ref BOD/288

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Dear Mr Faber,

Comment letter on proposed IFRS® Sustainability Disclosure Taxonomy

We appreciate the opportunity to comment on the International Sustainability Standards Board's (ISSB) Proposed IFRS Taxonomy – *IFRS Sustainability Disclosure Taxonomy*. We have consulted with, and this letter represents the views of, the KPMG network.

Overall message (relevant to question 1 and 2)

We recognise the important role that digital reporting can play in the efficient use of sustainability-related financial disclosures by making extraction and comparison of information easier. We therefore welcome the ISSB's decision to prioritise development of the taxonomy and congratulate it on the publication of the Proposed Taxonomy so soon after the issue of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.

We support the overall architecture and design of the proposals. Aligning the taxonomy with IFRS S1 is the best way of accommodating the highly entity-specific disclosures that companies will generally need to make. We think that the additional proposed industry-based tagging requirements complement this approach to support comparability where that is likely to be appropriate.

The remainder of this letter provides our high-level comments and observations on key aspects of the proposals. We have linked these comments to the specific questions included in the consultation document.

Architecture – Single set of elements (relevant to question 2, 3 and 4)

We support basing the taxonomy architecture on a single set of elements that are aligned with IFRS S1. We believe that IFRS S1 provides a robust structure for sustainability reporting and the Proposed Taxonomy architecture is a natural extension of this.

We note that the IFRS S1 based design of the proposals focuses on the *types of information to be provided* rather than the *types of risk or opportunity to be addressed*.

As a result, the proposals do not provide for separate tags to be applied to different types of sustainability-related risks or opportunities.

We support this simpler approach over a multi-dimensional design that also tags information by type of risk or opportunity. This is because:

- as acknowledged in paragraph 21 of IFRS S1, the interconnected nature of sustainability-related risks and opportunities means that it is not always appropriate to separate individual risks and opportunities or the information about them; and
- the complexity of multi-dimensional tagging, particularly for preparers that have not previously applied a taxonomy to their sustainability-related financial disclosures, may lead to inconsistent or incomplete practice.

We recognise that some users may prefer analysis of sustainability-related financial information by type of risk. In this regard, it is helpful that the proposed industry-based taxonomy elements provide for the tagging of climate-related financial information where appropriate. Nevertheless, we suggest that the ISSB keeps the question of multi-dimensional tagging under review for a future iteration of the taxonomy depending on the extent to which reporting practice under IFRS Sustainability Disclosure Standards is consistent with this.

Categorical elements (relevant to question 3)

We support the proposal to introduce specific categorical elements (i.e. Boolean elements and extensible enumerations).

However, in some cases the proposed categorical elements may not be useful without additional information to understand the context of the categorisation. For example, the proposed Boolean element 'Management uses controls and procedures to support oversight of risks and opportunities' is likely to generate a 'true' response from many companies, but the extent to which companies are using such controls and procedures may vary significantly. We suggest the ISSB review the appropriateness of each proposed Boolean element and eliminate any elements that would not provide useful information or might otherwise require companies to provide a 'true'/'false' response where a more nuanced analysis would be appropriate.

We noted similar concerns with some of the proposed extensible enumerations. For example, Table F2 in Appendix F includes 'type of climate-related risk' as an extensible enumeration element, requiring the preparer to select either 'physical' or 'transition' risk, or both. As we noted in [our comments on draft IFRS S1](#), a company's exposure to climate-related risks can be complex. In some cases, it may not be appropriate to categorise risks as either physical or transition risks, or both.

Granularity of narrative disclosures (relevant to question 5)

We support the focus of the proposals on creating elements that generally represent the first level of subparagraph requirements in IFRS S1 and IFRS S2 on the following basis.

- A more granular approach to tagging might undermine preparers' ability to present information in a way that best supports a coherent narrative across their sustainability-related financial disclosures. In general, we expect that the disclosures below the first-level subparagraph level would most effectively be met in combination with other requirements in the same level.

For example: The disclosure requirement in paragraph 44(a) of IFRS S1 includes six second-level subparagraph requirements for describing processes and policies used to identify, assess, prioritise and monitor risks which may be best communicated in a single narrative block of text.

- Separately tagged pieces of information may be difficult to understand or potentially misleading if they are read in isolation. Disclosures at the first-level subparagraph are likely to represent the most granular level of information that can be separately understood.

For example: A water-usage metric that relates to a single site might be mistaken for an entity-wide metric if the tagged information does not also include a description of what the metric represents and how it has been prepared.

We agree with the proposed approach of requiring tagging at a more granular level of detail in some specific instances. We suggest that the ISSB review the appropriateness of granular tagging requirements as reporting practice develops.

Interoperability (relevant to question 6)

Digital reporting has an important role to play in facilitating the adoption of IFRS Sustainability Disclosure Standards globally. Interoperability of taxonomy requirements is therefore an important goal.

We are aware that other sustainability disclosure taxonomies are currently under development in various jurisdictions. For example, the European Financial Reporting Advisory Group (EFRAG) is developing a Sustainability Reporting XBRL Taxonomy for the first set of European Sustainability Reporting Standards. EFRAG's proposed taxonomy may have different elements, not only because of the different disclosure requirements, but also because of the different architecture or tagging granularity.

In this context, we think taxonomy interoperability may be best supported once interoperability of the reporting standards has been further progressed. Ultimately, taxonomy interoperability might be best supported by a mapping of IFRS Sustainability Disclosure Taxonomy categories with those used for other standards.

We support ISSB engagement with other jurisdictions and sustainability standard setters to support this, whilst recognising that a taxonomy mapping could only be developed once interoperability between the standards has been established.

Other comments on taxonomy elements (relevant to question 7)

We note that the proposals include elements derived from illustrative examples in IFRS S2, e.g. in section [219000] *Climate-related disclosures – Illustrative examples*.



We suggest that illustrative examples should not be included in the taxonomy as they do not represent authoritative guidance. Including illustrative examples in the Proposed Taxonomy may require more granular tagging than the standards require. We suggest deleting these elements.

Please contact Brian O'Donovan at brian.odonovan@kpmgifrg.com or Mark Vaessen at Vaessen.Mark@kpmg.nl if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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