July 28, 2022

International Sustainability Standards Board (ISSB)
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Board Members:

Consejo Mexicano de Normas de Información Financiera (CINIF), the accounting standard-setting body in Mexico, welcomes the opportunity to submit its comments on the Exposure Draft of IFRS Sustainability Disclosure Standard IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information*, issued in March 2022 (the ED). Set forth below you will find our comments on the ED, as well as a specific section for questions included in the ED.

Overall comments

During the month of June 2022, as part of the activities carried out by CINIF for the study and analysis of the ED, we conducted extensive local outreach via virtual conferences with several selected groups of stakeholders that provided us with relevant feedback, thereby enabling us to issue a response to the ISSB that represents the Mexican consensus regarding suggestions of modifications to the ED. It is worth mentioning that we reached close to 700 participants in our outreach.

In general, in our outreach, we observed strong support, agreement and understanding of the proposals in the ED, and therefore, as the Mexican financial reporting standards body, we express our support for the proposals in the ED.

The main suggestions we would like to highlight in this document are:

- Include a definition of "sustainability" that clearly outlines the objective and scope of IFRS S1.
- Modify the definition of "enterprise value" to refer to an amount determined based on the future cash flows of the entity and not on its market value, in such a way that assessments of the materiality of sustainability-related risks and opportunities are based on the potential impact on such cash flows, instead of limiting it to the impact on an entity's market value, which would appear to be more complicated. This would allow any entity that is not a public entity (e.g., public-interest entities) and whose market value cannot easily be determined, to voluntarily, or at the request of an authority, have a general basis for its application of IFRS S1.
- Extend the possibility of using the criteria of IFRS accounting standards as a support for sustainability disclosures when applicable (for example, the usefulness of applying the concepts of IAS 34, *Interim Financial Reporting*, in the preparation of financial information at interim dates).

Answers to specific questions

This document only includes those questions of the ED and our related responses where we have some suggestions that could have a relevant impact on the objective, scope and an overall better understanding of the standard. For those questions of the ED not included in our letter, we fully agree with the proposals.

Question 2—Objective (paragraphs 1-7)
The Exposure Draft sets out proposed requirements for entities to disclose sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities on an entity's enterprise value. Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information in an entity's financial statements and sustainability-related financial information. Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Sustainability-related financial information should, therefore, include information about the entity's governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements. Sustainability-related financial information also depicts the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy, or about the entity's development of knowledge-based assets. The Exposure Draft focuses on information about significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity's enterprise value. (a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not? (b) . . .

In our view, the objective is not sufficiently clear, given that:

1. A definition of "sustainability" is not included in Appendix A, which is essential not only to provide clarity on the standard's objective but also for a better understanding of its scope. If such a definition is not included, the standard's objective of requiring information on sustainability-related risks and opportunities may not be met due to a lack of a clear understanding by both the preparers and users of the information.

2. We understand that IFRS S1 is aimed at public entities; however, by mentioning in the objective that significant sustainability-related risks and opportunities that could affect the enterprise value, which is defined as its market value, should be disclosed, we believe that the application of the standard could be complex since it is not easy to determine how the materialization of a risk or an opportunity directly affects such market value; we believe it is easier to determine the impact of such materializations on the entity's cash flows. Therefore, we suggest that the definition of

enterprise value include that it is based on the entity's cash flows as stated in paragraph 5 of the ED which recognizes that enterprise value reflects expectations of the amount, timing, and certainty of future cash flows over the short, medium, and long term. We believe that the impact on the entity's cash flows, and not the implications on the entity's market value, should be the focus of the objective of IFRS S1.

3. The objective of IFRS S1 is to disclose information about “significant” sustainability-related risks and opportunities; however, the ED does not define the term "significant"; it only defines “material”. Therefore, we suggest using a single terminology consistently and including it in the terms defined in Appendix A.

Question 5—Reporting entity (paragraphs 37–41)

The Exposure Draft proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements.

The Exposure Draft proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Such risks and opportunities relate to activities, interactions and relationships and use of resources along its value chain such as:

- its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain;
- the assets it controls (such as a production facility that relies on scarce water resources);
- investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and
- sources of finance.

The Exposure Draft also proposes that an entity disclose the financial statements to which sustainability-related financial disclosures relate.

(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?

(b) . . .

We agree that sustainability-related financial information should be required for the same reporting entity as the related general purpose financial statements.

In this regard, we suggest that IFRS S1 mention the possibility of disclosing financial information by operating segments (consistent with IFRS 8, *Operating Segments*), defined by the management information system, given that the segments could be exposed to different ESG risks; we also consider that there is a possibility of sub-segments when for example an operating segment has different geographical positions that are exposed to different climate risks.

Question 7—Fair presentation (paragraphs 45–55)
The Exposure Draft proposes that a complete set of sustainability-related financial disclosures would be required to present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation would require the faithful representation of sustainability-related risks and opportunities in accordance with the proposed principles set out in the Exposure Draft. Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation. (a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not? (b) **. . .**

We believe that overall the ED reflects the requirement to disclose sustainability-related financial information that meets the fundamental qualitative characteristic of faithful representation. However, the specific requirement in paragraph 22 to disclose qualitative information when an entity is unable to provide quantitative information, is not clear and could be inconsistent with the faithful representation concept. Taking into account that the standard requires disclosure of only significant or material information, we believe this necessarily implies the quantification of risks and opportunities. We suggest including an example of a material risk or opportunity that must be disclosed despite being unquantifiable.

Question 8—Materiality (paragraphs 56–62)
The Exposure Draft defines material information in alignment with the definition in IASB's Conceptual Framework for General Purpose Financial Reporting and IAS 1. Information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'. However, the materiality judgements will vary because the nature of sustainability-related financial information is different to information included in financial statements. Whether information is material also needs to be assessed in relation to enterprise value. Material sustainability-related financial information disclosed by an entity may change from one reporting period to another as circumstances and assumptions change, and as expectations from the primary users of reporting change. Therefore, an entity would be required to use judgement to identify what is material, and materiality judgements are reassessed at each reporting date. The Exposure Draft proposes that even if a specific IFRS Sustainability Disclosure Standard contained specific disclosure requirements, an entity would need not to provide that disclosure if the resulting information was not material. Equally, when the specific requirements would be insufficient to meet users' information needs, an entity would be required to consider whether to disclose additional information. This approach is consistent with the requirements of IAS 1. The Exposure Draft also proposes that an entity need not disclose information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. In such a case, an entity shall identify the type of information not disclosed and explain the source of the restriction. (a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?

(b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?

(c) . . .

Overall, we agree with how IFRS S1 defines and addresses the issue of materiality, based on the basic principles established in the IASB's *Conceptual Framework for Financial Reporting*, in IAS 1, *Presentation of Financial Statements*, as well as in Practice Statement 2, *Making Materiality Judgements*. However, consistent with our answer to question 2, we suggest modifying the definition of "enterprise value" to associate it with future cash flows such that entities perform the materiality assessment on this basis, as it may be difficult to measure the impacts of some risks or opportunities on the entity's market value. In our view, this measure will reduce the complexity of determining materiality judgments and may capture most sustainability-related risks and opportunities.

Question 9—Frequency of reporting (paragraphs 66–71)

The Exposure Draft proposes that an entity be required to report its sustainability-related financial disclosures at the same time as its related financial statements, and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements.

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?

We agree with the proposal of IFRS S1 to require sustainability-related financial disclosures at the same time as its related financial statements and for the same reporting period. However, regarding sustainability disclosures at interim dates, we believe it is pertinent to suggest that paragraph 70 include a list of minimum disclosure requirements, like those established in IAS 34, *Interim Financial Reporting*, to serve as a guide for disclosing sufficient information to update users on relevant events of the period regarding sustainability, and not generate excessive information that is not useful and generates additional costs for the entity.

Question 10—Location of information (paragraphs 72–78)

The Exposure Draft proposes that an entity be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting—ie as part of the same package of reporting that is targeted at investors and other providers of financial capital.

However, the Exposure Draft deliberately avoids requiring the information to be provided in a particular location within the general purpose financial reporting so as not to limit an entity's ability to communicate information in an effective and coherent manner, and to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting.

The proposal permits an entity to disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. However, the entity would be required to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information.

Information required by an IFRS Sustainability Disclosure Standard could also 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. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements.

The Exposure Draft also proposes that when IFRS Sustainability Disclosure Standards require a disclosure of common items of information, an entity shall avoid unnecessary duplication.

(a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?

(b) …

During our outreach, we observed that at least 50% of the respondents disagree with the proposal and prefer that the ISSB establish the location of sustainability-related disclosures. Regarding allowing preparers to determine the location of sustainability-related disclosures, significant concerns were expressed by participants, as this could complicate access to information. Given the above, we suggest issuing an integrated report consisting of a set of primary financial statements and their notes, plus disclosures of sustainability-related financial information.

Question 11— Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)

The Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8. However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable — ie the comparatives would be restated to reflect the better estimate.

The Exposure Draft also includes a proposed requirement that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements, to the extent possible.

(a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?

(b) . . .

We believe that the elements of IAS 1 and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, have been adequately adapted so that there is broad acceptance of the requirements set out in the sections addressed in this question. However, we suggest including in Appendix A the definition of the concept of "impracticable" established in IAS 8.

Question 13—Effective date (Appendix B)

The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard.

(a) 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, those using the sustainability-related financial disclosures and others.

(b) . . .

As a result of our outreach, participants concluded that it would be reasonable for IFRS S1 to become effective two years after being issued by the ISSB.

That is because many companies must develop internal policies to establish a strategy to address sustainability-related risks and opportunities and carry out adequate management of them, which they estimate will take them approximately two years; also, this response considers that for those entities more advanced in this implementation, there would be the option of earlier application.

Question 14—Global baseline
IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of sustainability-related risks and opportunities. Those needs may be met by requirements set by others, including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards. Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

In our understanding, IFRS S1 is only applicable to public entities and does not apply to other entities, such as Small and Medium-sized Entities (SMEs)[1], regardless of their size, nor to public interest entities (e.g., entities that are part of the financial system: banks, insurance institutions, investment funds, among others).

Based on the above, we consider that IFRS S1 will allow information to be comparable among public entities by having a single basis for its determination, which is an important step forward. Undoubtedly, it would be particularly good if this standard could also be used by public interest entities and those entities that are not public but are receiving investments and financing from private funds who would be interested in knowing sustainability-related financial information. However, we believe that it would be complicated to apply IFRS S1 as it is proposed, given that the proposed objective and the measurement of the materiality of sustainability-related risks and opportunities are based on the market value of the entity, which is difficult to determine for nonpublic companies and, probably in this circumstance, it would not even make sense; therefore, we believe that this approach would limit the application of IFRS S1.

Question 17—Other comments
Do you have any other comments on the proposals set out in the Exposure Draft?

We recommend aligning the definition of "general purpose financial information" contained in Appendix A of the ED with the glossary of terms included in IFRS Accounting Standards.

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[1] Pursuant to the *IFRS for SMEs*, regardless of size, SMEs are entities that: (a) do not have public accountability; and (b) publish general purpose financial statements for external users.

Should you require additional information on our comments listed above, please contact Jessica Magaña at (52) 55 2699 6112 or me at (52) 55 5403 8309 or by e-mail at jmagana@cinif.org.mx or egarcia@cinif.org.mx, respectively.

Sincerely,

C.P.C. Elsa Beatriz García Bojorges
President of the Mexican Financial Reporting Standards Board
Consejo Mexicano de Normas de Información Financiera (CINIF)