

International Sustainability Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London, E14 4HD

Dear Mr Faber,

5 September 2022

Re: ISSB's staff request for feedback to inform future development of the IFRS Sustainability Disclosure Taxonomy for digital reporting

The Financial Reporting Council (FRC) welcomes the opportunity to engage with ISSB staff on the future development of the IFRS Sustainability Disclosure Taxonomy. We believe that ensuring that ISSB disclosures can be digitally reported and consumed is key to optimising the usability and usefulness of sustainability reporting.

The FRC regulates auditors, accountants and actuaries, issues accounting, audit, assurance, ethical and actuarial standards and guidance and sets the UK's Corporate Governance and Stewardship Codes.. We also enable digital reporting in the UK through the development, hosting and maintenance of digital reporting taxonomies on behalf of the UK business register, UK tax authorities, the securities regulator, the charities regulator and the Irish tax authorities.

The FRC has also engaged in digitisation and sustainability. For example, the FRC developed tags for UK companies to report upon Taskforce on Climate-related Financial Disclosures (TCFD), Streamlined Energy and Carbon Reporting (SECR), Gender Pay Gap and Diversity and Inclusion. Our reporting Lab has also been [closely monitoring](#) the implementation of structured reporting in the UK for listed companies and has researched [ESG data production](#) in practice. The combination of these activities gives us valuable insight into digital reporting by UK entities in areas covered by the staff draft of the IFRS Sustainability Disclosure Taxonomy.

This letter highlights some overarching comments for consideration during the development of the taxonomy. It is followed by Appendix A, which includes our detailed responses to the specific questions posed by the IFRS Foundation staff. We hope that by

providing these comments, we can help the ISSB further strengthen the effectiveness of the draft taxonomy and support high-quality, consistent and comparable reporting.

This letter should be read alongside our responses to the IFRS S1 and S2 Exposure Drafts available [here](#) and [here](#), respectively.

High-level comments


We would like to highlight some areas and aspects that the staff may wish to consider:

- **Education and quality** - The proposed taxonomy is relatively complex (especially considering the industry standards). Our experience with the implementation of structured digital reporting in the UK is that to achieve high-quality tagged data preparers need a significant amount of support, encouragement and education both at the operational level within the company and at the level of the Board who need to provide review and governance over the tagging. We recommend that the ISSB work with jurisdictions to create educational materials that are understandable for stakeholders with limited XBRL knowledge.
- **Field trials** - Reporting on sustainability and using any resultant data is a new area for many jurisdictions. As such, we believe it remains uncertain what disclosures will look like in practice and what data modelling would best meet users' needs. Therefore, we recommend that extensive field trials be undertaken covering tagging by preparers and consumption by analysts, asset owners and regulators. Given that the UK has many companies reporting TCFD, carbon and wider sustainability data (even if not using the available digital taxonomies), we would be happy to support the ISSB efforts in this area.
- **Consultation and development** – Many issues will likely be identified as people begin to experiment, engage with and implement these taxonomies. In the UK, we have adopted an open consultation model which allows people to comment on the taxonomy on an ongoing basis. We combine this approach with time-limited consultations to allow regular taxonomy updates. We use a taxonomy consultation platform to support this approach. As well as allowing more regular feedback, it provides a more intuitive and insightful way for people to review and explore the taxonomy than via pdf or spreadsheets. We recommend that the ISSB consider such tools and approaches.
- **An ecosystems approach** - We believe there are significant potential benefits to digital reporting. However, we are concerned that they will be difficult to deliver without further work. Our experience with digital financial reporting (such as the UK and EU structured digital reporting requirements for listed companies) has shown us that the system on a jurisdictional, regional and global basis is not yet optimised for use. Issues range from company law to enforcement activity, to availability of software tools, to companies' design choices and attitudes. Our

experience is that providing a digital taxonomy alone is insufficient to ensure the efficient and effective use of digital reporting. Rather, a wider consideration of the full digital ecosystem for reporting is required, from producers through standards to the market and regulators. Whilst we acknowledge that this is wider than the defined role of the ISSB, we think that the ISSB (in consort with others) has an important role to play in facilitating and convening discussions and actions across the digital reporting ecosystem.

- **Data usability** – Data and tagging have value when they can act as a basis for comparison between organisations, allowing better economic decisions. The industry standards (formerly SASB standards) require a significant amount of due process to be in place at the jurisdictional level, with potentially only a small number of entities within each industry category. This may limit the use of the data as, in many cases, there may be such a limited number of entities that there is little value in comparing data within a jurisdiction. Overall (as noted in our response to the standards), we consider that the industry standards should be guidance only. However, we consider it would be within the interests of the ISSB (and the public more widely) to support and encourage mechanisms to collect and compare such data on an international basis (e.g. a global repository of filings).

We welcome the opportunity to continue to work with the Board and staff in developing the taxonomy and would be happy to discuss the content of this letter in more detail. If you would like to discuss these comments, please contact Thomas Toomse-Smith (t.toomse-smith@frc.org.uk).

Yours sincerely,


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Appendix A: Specific areas where the IFRS Foundation staff are seeking feedback

Question 1 – Distinct taxonomy

Do you agree with the staff recommendation to create a distinct IFRS Sustainability Disclosure Taxonomy separate from the IFRS Accounting Taxonomy? (Paragraphs 1–10)

Why or why not? If not, what alternative approach would you suggest and why?

We agree with the staff recommendation to create a distinct IFRS Sustainability Disclosure Taxonomy, as we believe this will provide the greatest level of flexibility for adoption by jurisdictions.

However, we would go further than the suggested split. We also consider it appropriate to separate the industry-based requirements into a distinct taxonomy. As our IFRS S2 comment letter sets out, we consider that the proposed industry-based requirements in Appendix B should be redesignated as non-mandatory guidance. We believe industry standards will likely need rapid iteration as they are globalised. Therefore, we recommend that the tags relating to the industry-based requirements be placed in a separate taxonomy. Such an approach would allow jurisdictions (and the ISSB) maximum flexibility around the updating, adoption and tagging using the resultant industry taxonomy. At a minimum, we believe the industry taxonomy should be contained in a separate entry point.

It may also be beneficial for the ISSB to provide technical guidance to filing system owners on combining the IFRS Sustainability Disclosure Taxonomy with the IFRS Accounting Taxonomy or other taxonomies. In particular, it would be helpful for the ISSB to provide guidance on the optimal architecture for regulatory extension taxonomies. The ISSB could also provide guidance for jurisdictions on whether to require or recommend using multiple XBRL target documents (this is something we are currently exploring in the UK). We believe such guidance would be necessary to ensure global consistency in implementation and use and would be especially valuable for those jurisdictions with limited experience in digital reporting.

Question 2 – Taxonomy grouping

Do you agree with the staff recommendation to organise the general content of the IFRS Sustainability Disclosure Taxonomy by both:

- **IFRS Sustainability Disclosure Standard; and**
- **Aspects of core content?**

Do you agree with the staff recommendation to organise the content in the IFRS Sustainability Disclosure Taxonomy related to industry-based metrics separately and organised by the industry for which they are specified? (Paragraphs 11–30)

Why or why not? If not, what alternative approach would you suggest and why?

We have no issue with the staff's suggested approach. However, we would highlight that it is currently unclear how preparers and users will ultimately navigate and use the taxonomy and, therefore, what the optimal approach is. Therefore, we recommend conducting field trials with preparers and data users (as noted in our high-level comments). The trials should be conducted before the taxonomy's finalisation and focus on which approach drives preparers to create the best quality output.

Question 3 - Relationship between the General Requirements Exposure Draft and Climate Exposure Draft in the Taxonomy

Do you agree with the staff recommendation to reflect the proposed disclosure requirements related to each aspect of core content as a separate list of distinct elements (line items) for each of the [draft] IFRS Sustainability Disclosure Standards? (Paragraphs 31–53) Why or why not?

If not, what alternative approach would you suggest and why?

We have concerns about the staff recommendation as it would lead to the production of distinct tags for similar disclosure requirements in the different standards. As noted in our response to S1 and S2 Exposure Drafts, we believe such repeated disclosure requirements (and hence tags) should be avoided where possible:

"We also believe that IFRS S1 should only deal with holistic and common disclosure requirements, removing duplication and leaving topic-specific requirements to the specific disclosure topic standards. Although paragraph 78 highlights that in some cases, there will be common items of information which do not need to be duplicated for every sustainability-related matter, the ISSB should consider the broader architecture of the IFRS Sustainability Disclosure Standards and whether it is necessary to repeat disclosure requirements. For example, rather than repeating requirements for governance and risk management disclosures, which cut across all topics, future standards should only refer to the requirements in IFRS S1 and add topic-specific elements where appropriate. "

We consider that where separate disclosures are expected to be made for each sustainability-related matter, the dimensional approach that was considered and rejected may better highlight the relationships between those disclosures. Furthermore, we consider that designing a taxonomy through the dimensional route leads to a better organised, more efficient, and flexible taxonomy to meet future needs. Given that this remains a new area of reporting, we believe that extensive field trials and experimentation would be needed to conclude the overall best approach for preparers and users.

We are also concerned that the staff recommendation will lead to double-tagging. Based on our experience working with the various stakeholders involved in digital reporting, we do not advise using double tagging. Double tagging is cumbersome for regulators to analyse and validate the data they receive. Software houses do not favour it as it is technically challenging to incorporate into products and challenging to scale as requirements and standards expand. Relevant lessons may be learned from the implementation of nested text block tagging for the notes to the financial statements.

Question 4 - Granularity of narrative information

Do you agree with the staff recommendation that, as a principle, distinct taxonomy elements should be created for narrative information that is expected to be both separately understandable to primary users of sustainability-related financial information and easily identifiable for tagging? (Paragraphs 55–68)

Why or why not? If not, should taxonomy elements generally be provided to represent more detailed or less detailed narrative data sets? Why?

This principle, applied to the disclosure requirements proposed in the exposure drafts, has resulted in the staff recommending the creation of:

Narrow scope narrative elements typically corresponding to disclosures to be provided to meet proposed requirements listed in first-level subparagraphs of the exposure drafts (Paragraph 62). In which cases do you think the most detailed taxonomy elements that should be included in the Taxonomy correspond to a different level of the requirements proposed in the two exposure drafts?

Wider scope narrative elements corresponding to wider (paragraph level) proposed disclosure objectives and to entire aspects of proposed core content (see paragraph 64 and Appendix D)

In which, if any, cases would additional or alternative narrative elements covering wider disclosures be beneficial?

Overall principle

We broadly agree with the staff-recommended approach, as the tagged narrative disclosures must provide sufficient context to enable analysis. We also consider that it is important that tagged pieces of information should cover sufficient detail; so that it can also be considered fair and balanced. The principles that tagged information is fair, balanced and understandable would be useful guidance for those conducting the tagging to consider. The ISSB may wish to develop tagger principles and guidance to assist in consistent and useful tagging.

However, we consider that appropriateness of the proposed principle can only be properly assessed by testing the taxonomy on a set of company reports. As described further in the high-level comments and under question 10, we would be happy to assist in organising field trials involving UK entities.

We consider that the granularity principle suggested by the ISSB staff could also be usefully considered for the IFRS Accounting Taxonomy. Our experience is that the Accounting Taxonomy has very detailed narrative disclosure tags, which can be difficult for preparers to match to their disclosures and may result in pieces of information that are too granular for analysis or comparison.

To address this issue, in the UK, we have built a taxonomy based on the IFRS requirements and principles but orientated to UK common disclosure practice. Our taxonomy is also organised dimensionally, matching the order used in financial statements. We consider that our approach leads to a more intuitive, complete and user-friendly taxonomy, which is easy to build cost-effective products for, is easily searchable, and better represents what is in the financial statements.

We understand that the IFRS accounting taxonomy, at intervals, considers the necessity of adding common practice elements to better reflect real-world disclosures. Therefore, we suggest that the ISSB also regularly review practice and adopt common practice elements.

Narrower and Wider elements

We broadly agree with the proposal on the staff's recommendation regarding narrow and wider elements.

Whilst we believe that ultimately the greatest value in the tagged information will be at the narrower level, developing wider disclosure tags alongside the more detailed tags provides the most flexible model for jurisdictional tagging implementation.

In the UK, we initially introduced TCFD taxonomy tags at the level of the four pillars (Governance, Strategy, Risk and Metrics) before introducing more detailed tagging as practice and regulation developed.

Question 5 – Categorical elements

Do you agree with the staff recommendation to use categorical elements for narrative disclosures that can be represented as either true or false responses or choices from lists of responses? Why or why not? (Paragraphs 69–81)

Do you agree with the staff recommendation to create specific categorical elements and their properties? (See Appendix F) Why or why not? If not, do you think any additional categorical elements are needed and, if so, which ones?

Overall use of categorical elements

We agree with the staff's recommendation to use categorical elements for narrative disclosures. In the UK, we already extensively use boolean tags for narrative disclosure, and we find them fundamental to the efficient analysis of tagged data.

However, we note that it is important to ensure that categories are widely understood and agreed upon. Any categorical elements need detailed guidance and definitions and may be controversial (especially on social and gender categories). Therefore, the ISSB may wish to consider only categories that have been clearly defined in IFRS standards or that have been agreed upon by internationally relevant organisations (such as ISO, ITU, UN etc.).

Categorical elements will need to be tested in field trials. For example, within your paper, a categorical tag is proposed for whether carbon offsets will be nature-based or based on technological carbon removals (footnote 32). The paper assumes the provision of the disclosure in a certain way. However, in practice, companies may provide an aggregated disclosure stating they use x% nature-based offsets and y% based on technological carbon removals, in which case the proposed modelling would not work.

We advise that when there is more complexity in the information to be reported, other taxonomy design choices may be more appropriate. This is where good dimensional design supported with clear guidance in the underlying tags shows its merits.

Further points

In addition to the use cases identified by the ISSB staff, we highlight the possibility of using this mechanism to identify which disclosures are included within the overall report because they are material (or, conversely, are absent because they are immaterial). This would further support the use and analysis of the resulting data.

We note that the IFRS Accounting taxonomy may benefit from introducing categorical elements. For example, categorical elements could be introduced for accounting policy disclosures in cases where the entity chooses the accounting policy from one or more options permitted by IFRS Accounting Standards.

Question 6 – Modelling metrics

Do you agree with the staff recommendation to:

- **Create elements equivalent to those in the SASB Taxonomy for defined metrics common to IFRS Sustainability Disclosure Standards and SASB Standards in the IFRS Sustainability Disclosure Taxonomy. (Paragraphs 82–94)**
- **Model disclosures related to entity-specific metrics and targets using a dimensional approach? (Paragraphs 95–99) Why or why not? If not, what alternative approach would you suggest and why?**

SASB taxonomy

We disagree with the suggestion that the elements should be created to reflect the naming convention used within the SASB taxonomy.

We believe that although SASB disclosures were relatively well adopted, the existence and availability of data that used the SASB taxonomy are minimal. The SASB taxonomy could be used to inform the development of this taxonomy, but we believe there is minimal benefit in prioritising its replication in the ISSB taxonomy. We, therefore, suggest that the ISSB develop naming and tags that work within the conventions they are now establishing, looking at examples of common best practices. Finally, to address interoperability issues, the ISSB could consider providing a machine-readable mapping file documenting the relationship between ISSB tags and related SASB tags.

Dimensional approach

We agree with the dimensional approach for entity-specific metrics and targets. However, we consider that there is currently limited evidence on how users will consume the data. As noted under previous questions, we recommend conducting field trials.

Question 7 – Connection between disclosures

Should the IFRS Sustainability Disclosure Taxonomy include a specific mechanism to capture connections between related pieces of information—for example, connections between sustainability-related financial information and information in the financial statements or connections between pieces of sustainability-related financial information?

If you do, are you aware of a mechanism that can be used without imposing undue costs on preparers and users of digital reporting? If so, please explain that mechanism. (Paragraphs 101–110)

Alternatively, do you think that the narrative elements in the staff draft of the IFRS Sustainability Disclosure Taxonomy would adequately capture such connections for users of the information without imposing undue costs for preparers and users of digital reporting? (Paragraph 103)

We believe that it would be beneficial if the IFRS Sustainability Disclosure Taxonomy did include a specific mechanism to capture connections between related pieces of information digitally.

We believe that ensuring that information is easy to navigate within and between disclosures will be fundamental to using sustainability reporting for filers and for data users. If a digitally connected approach is not used, we believe that this will make the paper (PDF) document the default for use.

Whilst we are not aware of specific approaches currently in place that would suit the needs of cross-referencing, we would be keen to assist the ISSB and other regulators in investigating and experimenting with options.

Question 8 – Connection between reports

Do you agree with the staff recommendation that requirements related to cross-references in the IFRS Sustainability Disclosure Taxonomy should not be modelled explicitly? (Paragraphs 111–123) Why or why not? If not, what alternative approach would you suggest and why?

We do not agree that the requirements related to cross references between reports should not be included within the taxonomy design phase.

We appreciate the difficulty in reaching an appropriate solution for this issue, especially since any solution will ultimately depend on requirements set by securities and other regulators. However, we highlight an approach we have employed within the TCFD tagging taxonomy, which we introduced in line with requirements from the UK securities regulator (the Financial Conduct Authority). The general rules allow similar cross-referencing to other reports which contain the TCFD disclosure. Therefore, we added a Boolean tag to capture whether the TCFD disclosure is included in a separate document and a narrative tag for the URL location. Whilst this is not ideal, we think it provides some usability without creating significant costs and burdens.

The consultation suggests that cross-referencing to other documents would only be allowed if documents were furnished on a similarly tagged basis; whilst we consider this ideal, we note that interaction with jurisdictions' adoption and infrastructure choices may make this difficult in practice. We, therefore, suggest that the ISSB would need to work with other regulators to clarify a baseline of what characteristics are necessary for the cross-referenced documents.

Question 9 – Similar disclosures in the IFRS Accounting Standards and in the [draft] IFRS Sustainability Disclosure Standards

Do you agree with the staff recommendation to, in principle, model disclosure requirements of the [draft] IFRS Sustainability Disclosure Standards in the staff draft of the IFRS Sustainability Disclosure Taxonomy in the same way similar disclosure requirements of the IFRS Accounting Standards are modelled in the IFRS Accounting Taxonomy, except for categorical information? (Paragraphs 124–132) Do you agree with the modelling in the staff draft of the IFRS Sustainability Disclosure Taxonomy for disclosures that are similar to their counterparts in the IFRS Accounting Standards? (Appendix G) Are there any other disclosures that are sufficiently similar between those set out in the [draft] IFRS Sustainability Disclosure Standards and those in IFRS Accounting Standards, and for which consistent modelling should be considered?

Model consistency

We support consistent modelling between the IFRS Accounting and Sustainability taxonomy where possible (including for categorical elements). However, there are some aspects of modelling that could be improved across both taxonomies.

Whilst we acknowledge that the taxonomy should be developed based on the disclosure requirements of the standards, we recommend that element labels and names be used that are succinct, based on how companies report rather than as directly detailed in the standard. We believe this approach leads to more intuitive taxonomies for both users and preparers and, ultimately, better quality reporting.

For example, we think the label 'Entity provided explicit and unqualified statement of compliance of sustainability-related financial disclosures with all relevant requirements of IFRS Sustainability Disclosure Standards [true false]' could be simplified to 'Compliant with IFRS Sustainability Disclosure Standards [true false]', with the detail included in the documentation label. As noted in our answer to question 4, we believe that the ISSB should build a common practice review mechanism to develop tags that better match how reporting occurs in practice.

Appendix G

On the modelling within appendix G, we would highlight that the IFRS Accounting Standards are described simply as IFRS Standards, whilst the sustainability standards are labelled as IFRS Sustainability Disclosure Standards. We believe that this could lead to some confusion; for example, the tag around compliance with IFRS standards which is intended to relate purely to accounting could also be relevant to the sustainability standards; therefore, we suggest the IASB review and amend the reference to IFRS Standards within the existing accounting taxonomy to ensure proper differentiation.

Question 10 – Further feedback

Do you have any other comments or suggestions on the staff draft of the IFRS Sustainability Disclosure Taxonomy?

We included some suggestions within our high-level comments in our letter's main body. Additionally, we would highlight the bellow:

- **References** – many axes related to the industry-based metrics have not been assigned references to the underlying requirements. We suggest adding references to these axes as well as a definition. This would be particularly helpful to distinguish axes with very similar labels - for example, 'Product type' and 'Product category' and 'Mortgage type' and 'Mortgage loan type'.
- **Consistency of design** – we suggest that, following the design choices made for the ISSB taxonomy, the IFRS Accounting Taxonomy is redesigned in line with those same principles. As explained under question 4, we think the granularity of the text tags in the IFRS Accounting Taxonomy should be reviewed. As explained under question 5, we believe categorical elements should also be introduced in the IFRS Accounting Taxonomy.