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Dear Mr Faber,

EFAA Response to the IFRS S1 and IFRS S2 Exposure Drafts

EFAA appreciates the opportunity to provide our comments on the International Sustainability Standards Board (ISSB)'s exposure drafts setting out [general sustainability-related disclosure requirements](#) and [climate-related disclosure requirements](#). Our response has been prepared with input from our Accounting and Assurance Expert Groups.

The European Federation of Accountants and Auditors for SMEs (EFAA for SMEs) represents accountants and auditors providing professional services primarily to SMEs both within the European Union and Europe as a whole. Constituents are mainly small practitioners (SMPs), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g., audit, accounting, bookkeeping, tax, and business advice) to SMEs. EFAA represents 15 national accounting, auditing, and tax advisor organisations with more than 380,000 individual members.

Global Baseline

EFAA for SMEs supports IFAC's position as set out in its draft responses to the [sustainability-related disclosures consultation](#) and the [climate-related disclosures consultation](#).

We believe there is a need for a global baseline of principle-based internationally recognised sustainability reporting standards. This need is predicated on the increasingly global and interconnected economy where business activity, including that of SMEs, is often cross border so making the needs for clear and comparable standards ever more necessary. This will create greater transparency and ensure that all stakeholders get information on the sustainability performance of entities that is comparable across the globe and that helps determine the contribution these entities are making to the Sustainable Development Goals (SDGs). Global standards will also help reduce the fragmentation of practice and diverging approaches that have been increasing in recent years.

We believe that with its robust governance and due process, the ISSB is perfectly positioned to create a principle-based architecture of corporate sustainability reporting standards that will garner broad support and legitimacy from global regulators and the publics they serve.

Interoperability with Regional Initiatives

While we support global harmonization, as we believe it to be desirable, we must not forget that individual and regional jurisdictions will often have different priorities, timelines, and capacities. As such there will be need for the global baseline to accommodate regional variations, provided they align in all fundamental respects. This is especially the case with the European Union with the recent finalization of the [Corporate Sustainability Reporting Directive \(CSRD\)](#) and the development, by the European Financial Reporting Advisory Group (EFRAG), the European Commission's newly appointed technical advisor on sustainability reporting, of European sustainability reporting standards (ESRS). EFAA, an EFRAG member, is fully supportive of the CSRD and the work of EFRAG. Accordingly, we have representation on EFRAG's [Sustainability Reporting Board \(SRB\)](#), lobby hard for greater SME and SMP representation on EFRAG's governance and standard setting structure, and plan to respond to all consultations related to ESRS including the [draft ESRS](#). In this last response we will reiterate the need, as stated in the CSRD, for the IFRS Sustainability Disclosure Standards and ESRS to be aligned as far as possible and for both standard setters to assist in this process. We have, however, stressed that this alignment or merger should be a two-way process, not just IFRS Sustainability Disclosure Standards converging on ESRS, and that this alignment also extends to GRI standards. The same goes for any standards that might be developed for SMEs (see below).

Connectivity with Financial Reporting

We welcome the ISSB working alongside the IASB to ensure that sustainability and financial reporting standards are compatible and to enhance the connectivity between sustainability and financial reporting.

Climate First

While EFAA supports the development of global sustainability reporting standards that cover the whole spectrum ESG topics, given the time critical nature of climate change we support the ISSB prioritizing the development of standards on climate issues before developing standards on other environmental, social and governance issues. We plan to say the same in our response to EFRAG consultation on draft ESRS.

Materiality

We have some reservations around the ISSB's approach to materiality. We support the CSRD and EFRAG's belief that ESRS need to be based on double materiality for them to capture the impact an entity has on a range of stakeholders. We hope that the ISSB and EFRAG can converge their approaches. Furthermore, as a

way of helping SMEs adopt sustainability reporting, we encourage the ISSB and EFRAG to clarify what proportionality and materiality mean, possibly by way of guidance.

Assurability

EFAA believes that assurance is critical to confidence in corporate reporting and providing relevant, reliable, and comparable information. The ultimate objective should be to disclose information that is subject to assurance by independent experts. We trust, therefore, that the ISSB will carefully consider the International Auditing and Assurance Standards Board (IAASB)'s supportive [response](#) which focuses on the ability of practitioners to obtain assurance on an entity's sustainability reporting prepared in accordance with the draft IFRS Sustainability Disclosure Standards.

SMEs and SMPs Representation

SMEs collectively account for a majority of private sector ESG impact. Hence, SMEs are crucial to the achievement of the Sustainable Development Goals (SDGs) such as the goal of net zero carbon footprint. Accordingly, it is vital that SMEs report on and are made accountable for their ESG impact. EFAA, therefore, urges the ISSB to ensure the inclusion of SMEs within the global sustainability reporting eco-system. We have yet to see whether, and if so how, the ISSB plans to accommodate SMEs. We hope to hear positive news soon.

If SMEs are to be scoped into the ecosystem, then one needs to ensure that SMEs, and the SMPs that typically prepare their financial and non-financial (sustainability) reports, are well represented on the structures established to develop and maintain sustainability reporting standards. Even if the ISSB determined that it had no plans for SMEs, we believe value chain reporting - larger companies in scope requesting, or requiring, that SMEs in their value chain provide sustainability information for them to meet their own reporting obligations – justifies greater representation of SMEs and SMPs on the ISSB.

If the ISSB determines that its core standards are to be applicable to SMEs, or that it will develop standard(s) specifically for SMEs in a similar way to the IASB and IFRS for SMEs, then the ISSB may need to be supplemented with a new arrangement to systematically represent the SME sector. For example, a sub-committee of the ISSB may need to be formed with its chair a member of the ISSB.


IFRS Sustainability Disclosure Standards for SMEs

We believe the ISSB can incorporate SMEs in one of two ways, either by ensuring the core standards suit all size of entity or by developing IFRS Sustainability Disclosure Standard(s) for SMEs. EFRAG, in accordance with the CSRD, is taking the latter route. It is not clear to us which route, if any, the ISSB plans to take. Clarity is needed as soon as possible. We must avoid a rerun of the IAS / IFRS experience whereby SMEs were not initially factored into the objectives and activities of the IASC / IASB and only belatedly 'onboarded' with IFRS for SMEs. Whichever route is taken it is critical we avoid overburdening SMEs. SMEs are severely constrained by access to

technical resources and disproportionately impacted by the burden of regulation. Hence, we urge the ISSB to develop its standards from the bottom up, using the 'think small first' principle, such that they are simple and straightforward as well as scalable to suit entities that are larger, more complex and with public accountability. We are not convinced the present EDs pass this 'test'. And finally, it is important that the ISSB recognize that voluntary reporting by SMEs will be facilitated and encouraged by providing SMEs with access to relevant and proportionate sustainability reporting standards.

We greatly appreciate this opportunity to share our points of view and look forward to supporting you.

Yours sincerely,



Salvador Marín
EFAA President



Paul Thompson
EFAA Director