General Council for Islamic
Banks And Financial Institutions

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CIBAFI

المجلس العام للبنوك
والمؤسسات المالية الإسلامية

مؤسسة منتمية لمنظمة التعاون الإسلامي
تأسست بمرسوم ملكي رقم ٢٣ لسنة ٢٠٠١م

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Emmanuel Faber
Chair
International Sustainability Standards Board (ISSB)
International Financial Reporting Standards (IFRS) Foundation
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London E14 4HD
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Dear Mr. Faber,

CIBAFI Comments on the ISSB Exposure Draft on "IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information"

The General Council for Islamic Banks and Financial Institutions (CIBAFI) presents its compliments to the International Sustainability Standards Board (ISSB) and takes this opportunity to express its appreciation of the work that the ISSB is undertaking to promote more integrated and streamlined global standards for sustainability reporting.

CIBAFI is the official umbrella for all Islamic financial institutions, whose services and products comply with the Shariah rules and principles. CIBAFI acts as the voice of the Islamic finance industry, and our members comprise more than 130 Islamic banks and non-bank financial institutions, both large and small, from more than 30 jurisdictions.

هاتف: ٣٠١ - ٣٠٠ ٣٥٧ ١٧ ٩٧٣+ فاكس: ٩٠٢ ٣٢٤ ١٧ / ٣٠٧ ٣٥٧ ١٧ ٩٧٣+ ص.ب: ٤٥٦ ٢٤ المنامة مملكة البحرين
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We welcome this opportunity to offer our comments and recommendations on the ISSB Exposure Draft (ED) on "IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information". The comments contained in this letter represent the views of the CIBAFI Secretariat and feedback received from our members.

First: The ED provides overall requirements for the disclosure of sustainability-related financial information. Many of CIBAFI's members are smaller financial institutions, often operating in jurisdictions with very limited experience of sustainability reporting. CIBAFI and its members believe that the requirements could be difficult to meet in full for smaller institutions that might possess limited resources for the identification, assessment, and reporting of sustainability-related financial information. One specific example given was the identification and reporting of sustainability-related risks and opportunities along the value chain as outlined in para 40; this could prove very difficult for smaller organisations. While recognising that this ED represents the first stage in a much fuller long-term programme of standards-making, it is recommended that additional guidance is provided to ease smaller institutions' application of this standard. Indeed, in the longer term, a simplified set of sustainability reporting standards, analogous to IFRS for SMEs, may be appropriate.

Second: The ED outlines in para 13 requirements for entities to disclose information on their governance of sustainability-related risks and opportunities. While the ED outlines several requirements to disclose the governance processes, controls, and procedures used by entities to monitor and manage sustainability-related risks and opportunities, some disclosure elements could be missing for a complete picture of the governance process of an entity. In particular, CIBAFI believes there is scope for greater disclosure about the structure of reporting by management to the body responsible for the oversight and, where that body is not itself the board, how both the management and the body itself communicate with the board on sustainability issues.

On a more technical point, in para 13, items (d), (e), and (f), the ED uses the term "the body and its committees", referring to the "body" as the body or individual responsible for oversight of sustainability-related risks and opportunities as identified under the requirement outlined in para 13 (a). From a language perspective, the use of the term "body and its committees" would be appropriate if the governance body that is responsible for oversight is the board; however, if a committee or equivalent body is assigned for oversight of these risks and opportunities, the use of the term "its committees" could cause some confusion.

Third: The ED includes requirements on the reporting entity of sustainability-related financial information. It proposes in para 37 that the reporting entity should be the same as for the main financial statements, which for a group will normally imply consolidated reporting covering the parent company and all its subsidiaries. While consolidation will be a familiar process for financial statements, CIBAFI and its members see some possibility that it may be less straightforward for sustainability-related disclosures, given that many of the risks and opportunities may have been considered and managed on a local basis. Particularly, some difficulties that are envisaged in consolidated sustainability reporting include timely collection of data, traceability of collected data, and a disparity in the expertise and knowledge across units/subsidiaries that can undermine the quality and accuracy of reporting.

Fourth: The ED also outlines requirements on the frequency of reporting of sustainability-related financial disclosures. It proposes in para 66 that an entity be required to report its sustainability-related financial disclosures at the same time as its related financial statements and for the same reporting period as the financial statements. CIBAFI members point out that meeting some requirements of the standard could be time- consuming and resource-intensive which could potentially delay the publication of the financial statements if required to be published simultaneously with the sustainability-related financial disclosures. It is thus suggested that the standard attributes more consideration to balancing

هاتف: ٣٠١ – ٣٠٠ ٣٥٧ ١٧ ٩٧٣+ فاكس : ٣٠٧ ٣٥٧ ١٧ ٩٧٣+ / ٩٠٢ ٣٢٤ ١٧ ص.ب: ٢٤ ٤٥٦ المنامة مملكة البحرين
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between the need of timely reporting and the information required. In particular, it may be appropriate to publish the sustainability-related information as part of the annual report (where this is permitted to be published later than the financial statements).

Fifth: It is noticed that in some instances in the ED, there exists redundancy of requirements or similar information being placed in separate paragraphs instead of being merged, inhibiting the clarity of requirements. These instances include the following:

- Para 26 items (a), (b), and (c) cover requirements for the identification of sustainability-related risks and opportunities. It would be clearer if a para was dedicated to sustainability-related risks and their requirements and another para to sustainability-related opportunities and their requirements. Alternatively, if (b) and (c) are intended to add further detail to (a), then the paragraph should be restructured to make this clear.

- Para 33 (b) asks an entity to disclose revisions to its targets and the explanation for the revisions while para 34 asks an entity to explain any changes to metrics or targets if redefined or replaced. The language here might be confusing. It is understood that 33 (b) might be aimed at changes in the numbers in a target, while 34 might be concerned with changes in the way a target is measured, but the point is far from clear, and the paragraphs should be redrafted. It might be clearer if, as part of this, the order was reversed.

Sixth: CIBAFI members provided somewhat contradictory answers about effective dates. One suggested that a period of two years would be sufficient; in the light of members' experience with major accounting standard changes, we consider that may be optimistic. Another emphasised the difficulties of implementation and suggested that this might occur in two or more phases, with the simpler information required to be reported first. It may well be that a multi-phase implementation will in fact involve more difficulty and resource than a single phase, but this comment does suggest that some delay will be necessary.

We remain at your disposal should you need any further clarifications on the above.

The General Council for Islamic Banks and Financial Institutions takes this opportunity to renew to the International Sustainability Standards Board (ISSB) the assurances of its highest respect and consideration.

Yours sincerely,

Dr. Abdelilah Belatik
Secretary General

هاتف: ٣٠١ - ٣٠٠ ٣٥٧ ١٧ ٩٧٣+ فاكس : ٩٠٢ ٣٢٤ ١٧ / ٣٠٧ ٣٥٧ ١٧ ٩٧٣+ ص.ب: ٢٤ ٤٥٦ المنامة مملكة البحرين
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