

22 September 2023

M. Emmanuel Faber
Chair of the International Sustainability Standards Board
IFRS Foundation
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Submitted to: www.ifrs.org

Dear Mon. Faber,

Submission on the Proposed IFRS Sustainability Disclosure Taxonomy for IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures

The New Zealand External Reporting Board (**XRB**) is supportive of the International Sustainability Standards Board's (**ISSB**) work and its effort to ensure sustainability reporting standards are thoughtful and cognisant of emerging issues. We appreciate the opportunity to provide comment on the proposed IFRS Sustainability Disclosure Taxonomy to assist users of reports using the ISSB standards.

Preventing overlap and inconsistencies

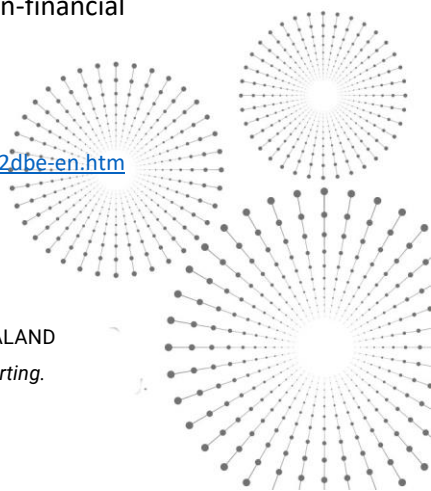
To enhance interoperability, we encourage the ISSB to continue its active collaboration with other standard-setting bodies, both with regards to the standards themselves and any underlying taxonomies. While we acknowledge the challenges of full alignment of taxonomies, as there are, by necessity, many jurisdictionally specific aspects¹, we urge the ISSB to focus on reducing potential overlap. This may take the form of comparison and alignment documents but may involve determining whether existing taxonomies may be suitable. Unnecessary duplication of taxonomies without good reason may cause unnecessary complications.²

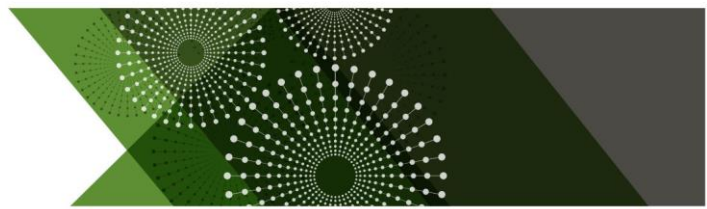
Digital reporting and technology-neutral taxonomies

The XRB agrees that traditional paper-based reporting no longer aligns with the evolving needs and expectations of users. The digital medium not only enhances accessibility but also allows for more dynamic and interactive reporting, which is paramount in today's data-driven world. Therefore, the XRB supports the global shift towards digital reporting in both financial and non-financial disclosures. While digital reporting is not mandatory in New Zealand for either financial or non-financial

¹ See <https://www.oecd.org/env/developing-sustainable-finance-definitions-and-taxonomies-134a2d8e-en.htm>

² These include confusion and complexity in practice, incompatibility of data, an increased burden on preparers, reduced trust from users, inefficiency of organisations systems, and complexity for standard setters making jurisdictional decisions.





reporting, the XRB is supporting efforts by other New Zealand agencies to investigate how digital reporting could be implemented in our jurisdiction to improve productivity.³

We strongly recommend that the ISSB consider a wide range of possibilities in developing the IFRS Sustainability Disclosure Taxonomy, including ensuring that it is technology neutral to help with future proofing. We note that when taxonomies are tied to specific technologies, even if the underlying technology is open source as is the case with XRBL, organisations may become locked into using a particular vendor's product or service. Maintaining a technology-neutral reporting language in the taxonomy should also assist in the ISSB's overarching goal of ensuring interoperability with other jurisdictional standards and the taxonomies developed alongside them.

Artificial intelligence (AI) implications

The shift to digital reporting coincides with the mainstream adoption of AI technology. Globally, companies are adopting machine-learning technologies in their business models and reporting practices. However, there was no mention of, or reference to, AI within the taxonomy consultation document. We consider that it is crucial for the ISSB, and the IFRS Foundation as a whole, to consider the profound implications of AI on reporting, including on reporting taxonomies. The rapid advancements in generative AI technologies are likely to redefine the very way financial and non-financial data is created, structured and categorised.⁴ This raises significant questions about the relevance and longevity of traditional taxonomies in a generative AI-driven reporting environment.

Taxonomies may be required into the future (for reporting as well as for other sustainable investment objectives) despite the advent of machine learning technology. However, we consider that it is critical for the ISSB to stay at the forefront in understanding the implications of this type of technological change on the relevance and execution of reporting standards. By playing this role, the ISSB can usefully inform the work of national standard setters and help us to respond to jurisdiction-level implementation challenges. We know that preparers and users of reporting are already using AI and that standard setters may have a core role to play in helping to regulate its use.⁵

Recommendations

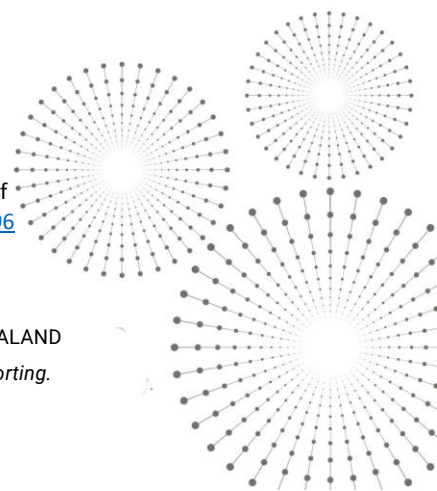
In conclusion, we value the ISSB's commitment to advancing sustainability disclosure standards. As the landscape of financial reporting continues to evolve, it is imperative that standards and accompanying taxonomies adapt to accommodate emerging technologies and remain aligned with the needs of users. We recommend that the ISSB:

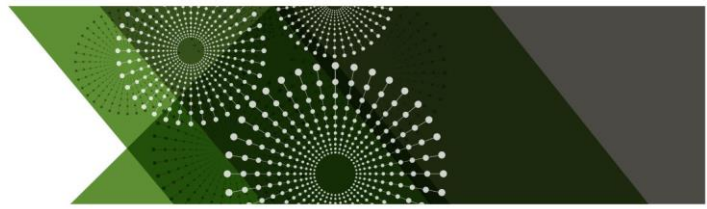
1. works to enhance interoperability between sustainability reporting standards and associated taxonomies by considering the potential relevance of existing taxonomies;
2. continues the advancement of the digitalisation of reporting in a technology-neutral manner; and,
3. makes efforts to stay at the forefront of the understanding of the implications of technological change, including AI, on the relevance and execution of reporting standards.

³ See <https://doi.org/10.1787/05cc1b5c-en>

⁴ See for example a recent study exploring the use of ChatGPT to extract managers' expectations of corporate policies from disclosures, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4521096

⁵ See <https://ash.harvard.edu/disclosure-dilemmas-ai-transparency-no-quick-fix>





We look forward to further engagement and collaboration in shaping the future of sustainability disclosure standards. If you have any queries or require clarification of any matters in this letter, please contact us (sustainability@xrb.govt.nz).

Yours sincerely,

April Mackenzie
Chief Executive, External Reporting Board

