M. EMMANUEL FABER

ISSB Chair | IFRS Foundation | 7 Westferry Circus | Canary Wharf, London E14 4HD UK

July 26, 2022

Dear Mr. Faber,

We write in response to the Exposure Drafts (ED): *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* and *IFRS S2 Climate-related Disclosures*.

About the International CFO Alliance Group: An alliance formed in December 2021 of CFO organizations from Europe, Africa, and Latin America to collaborate on areas of mutual interest, such as Digital Transformation, International Taxation and on ESG related matters. The associations represented by the International CFO Alliance include DFCG (France), ANDAF (Italy), ASSET (Spain), GEFIU now CFO Forum Deutschland e.V. (Germany), IMEF (Mexico), COGEREF(Tunisia), Club des Financiers du Nord Maroc (Morocco), AMCF (Morocco), SAIBA (South Africa), PAFE (Portugal), SEODI (Greece) and several groups from UEMOA West Africa.

Our main comments, incorporating outreach with our membership, on the ISSB proposals are set out below and detailed comments to the questions in the ED are set in Appendix A and B respectively.

<u>Main comments:</u>

We support the development of a single-set of principle-based global baseline standards for sustainability disclosures as outlined by the ISSB within the IFRS Foundation. We agree with the Board's fundamental objective to provide users with decision-useful information about sustainability related risks and opportunities on an entity.

We have the following general comments in relation to the proposals:

1. We broadly support the objectives established in the two EDs: "to require an entity to disclose information about its exposure to significant sustainability-related risks and

opportunities to its primary users”. This will enable users to assess how those risks and opportunities affect an entity’s enterprise value.

2. Both the IFRS accounting standards and the proposed *IFRS S1* and *IFRS S2* standards are only applicable to material items, which we support.
3. The implementation complexity and costs anticipated for affected entities to comply with the *IFRS S1* and *IFRS S2* standards will necessitate a sufficiently long implementation and adoption timeframe, we encourage the Board to carefully consider that.
4. Specific consideration should be given to SMEs and emerging economy entities to simplify the disclosure requirements, and further consider unintended consequences given their unique socio-economic conditions (*see the section under Other Comments for IFRS S1 and IFRS S2 relating to emerging economies and SMEs*).

We hope that you find these comments helpful in finalizing the standards. If you wish to discuss them in more detail, please contact the undersigned at siege@dfcg.fr. We would also be happy to meet with the ISSB staff to further discuss our comments should you require it.

Sincerely yours,

Chair of the ESG Working Group on behalf of the International CFO Alliance members

David Wray, ACA

Question 1—Overall approach

The Exposure Draft sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it.
Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general-purpose financial reporting to assess enterprise value.

1. (a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?
2. (b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?
3. (c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 *Climate-related Disclosures*? Why or why not? If not, what aspects of the proposals are unclear?
4. (d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

Response

We agree with the objective of developing a comprehensive set of Sustainability Standards under which an entity can report, to its primary users, decision-useful information for assessing enterprise value. We also agree with the strategy of having an overarching standard (*IFRS S1*) which clarifies a common approach and the reporting framework within which topical-specific standards will anchor, including *IFRS S2 Climate-related Disclosures*.

We encourage the ISSB to, as expeditiously as is reasonable, develop further standards which leverage and build upon existing standards and frameworks published by other standards setters. In this regard, we encourage the ISSB to leverage the agenda consultation process to identify future topics, and the priority of those topics.

We agree IFRS S1 clearly states that an entity would need to identify and disclose material information about all sustainability risks and opportunities to which it is exposed. However, we question the practicality of this requirement in the near term as only climate-related topics are covered – the wider topic is sufficiently broad in scope that additional definition or guidance is required in practice for entities to appropriately apply the guidance in *IFRS S1* as intended. For instance, entities define and develop their own internal guidance and metrics across a range of sustainability areas. This will make comparability challenging for users through the transition period until new IFRS Sx topics are developed.

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.

1. (a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?
2. (b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

Response

We agree with the primary user focus, at this stage, for sustainability related financial information. It is important to recognize that users seeking sustainability related information is much wider than investors and lenders, this needs reflection considering the ISSB's objective of being a harmonized global standard setter for sustainability standards. These groups may include current/future employees, NGOs, and suppliers amongst others.

The existing requirements laid out in IFRS Conceptual Framework for Financial Reporting and the Objective of Management Commentary both align in principle with the objective of developing expectations about "the amount, timing and uncertainty of future cash flows", as well as information that contextualizes levers which could "affect value creation and cash flows across all time horizons".

The ED does not elaborate a definition for the term sustainability, which is an integral part of the term "sustainability-related financial information". This will help entities understand the scope and range of considerations they should be including in their assessment of sustainability-related risks and opportunities.

We would encourage the ISSB to bring forth the content in BC27 and BC28 into the body of the IFRS S1 standard to increase its prominence and assist entities in assessing how and where to present information (either in a separate financial report and sustainability report, or in an integrated report).

Question 3—Scope (paragraphs 8–10)

Proposals in the Exposure Draft would apply to the preparation and disclosure of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Sustainability-related risks and opportunities that cannot reasonably be expected to affect users' assessments of the entity's enterprise value are outside the scope of sustainability-related financial disclosures.
The Exposure Draft proposals were developed to be applied by entities preparing their general purpose financial statements with any jurisdiction's GAAP (so with IFRS Accounting Standards or other GAAP).
Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

Response

In principle, we agree that a non-IFRS GAAP preparer should be able to apply the IFRS S1 standard.

Question 4—Core content (paragraphs 11–35)

The Exposure Draft includes proposals that entities disclose information that enables primary users to assess enterprise value. The information required would represent core aspects of the way in which an entity operates.
This approach reflects stakeholder feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting, and builds upon the well- established work of the TCFD.
Governance
The Exposure Draft proposes that the objective of sustainability-related financial disclosures on governance would be: to enable the primary users of general purpose financial reporting to understand

the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities.

Strategy

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on strategy would be: to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.

Risk management

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on risk management would be: to enable the users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall also enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.

Metrics and targets

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on metrics and targets would be: to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.

1. (a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?
2. (b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

Response

We agree that the objectives are clear and adequately defined. We recognize that properly applying materiality is key to providing both relevant and proportionate information to users to aid in their decision-making needs. The ISSB would benefit by considering work done on the IASB *Disclosure Initiative*. Defining sustainability-related information needs for the primary users, disclosure objectives, minimum disclosure standards and materiality – that is information that is material in meeting the disclosure objective.

Broadly we believe that disclosure requirements for governance, strategy, risk management and metrics are clear. We also believe that many entities will be able to leverage and extend existing disclosures in their annual financial reporting for governance structures and processes relating to sustainability-related risks and opportunities. However, as explained in the response question 17, additional reflection is needed for SMEs.

We support the consistency between financial reporting and sustainability reporting that par. 22 describes.

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.

0. (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?
1. (b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources

along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?
2. (c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

Response

We agree with the statement that sustainability information should be prepared for the same entity as financial information – this stipulates the explicit link between the two sources of information. However, we urge the ISSB to consider a simplified disclosure framework for SMEs. The proposed disclosures about the value chain could be onerous and costly to obtain – a disproportionate burden for SMEs, and for medium enterprises in emerging economies. The ISSB should clarify how far down the value chain such reporting is required – direct relationships are manageable through contractual clauses however this ability diminishes as the value chain moves beyond the first tier.

Question 6—Connected information (paragraphs 42–44)

The Exposure Draft proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between (a) various sustainability-related risks and opportunities; (b) the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets; and (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements.

1. (a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?
2. (b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

Response

We agree with the requirement, and helpful examples in par. 44, to connect financial information to sustainability risks and opportunities, this will aid with decision-usefulness for users. The connection, however, will experience time lags. For instance, a climate risk may take a prominent position in the sustainability related disclosures, however, may not yet meet the IFRS IAS37 definition of a provision for financial reporting purposes. This is because of the forward-looking nature of sustainability-related risks and opportunities; the mismatch may limit the usefulness of information which the ISSB should consider addressing.

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.

To identify significant sustainability-related risks and opportunities, an entity would apply IFRS Sustainability Disclosure Standards. In addition to IFRS Sustainability Disclosure Standards to identify sustainability-related risks and opportunities, the entity shall consider the disclosure topics in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

To identify disclosures, including metrics, that are likely to be helpful in assessing how sustainability-related risks and opportunities to which it is exposed could affect its enterprise value, an entity would apply the relevant IFRS Sustainability Disclosure Standards. In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk and opportunity, an entity shall use its judgement in identifying disclosures that (a) are relevant to the decision-making needs of users of general purpose financial reporting; (b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and (c) are neutral. In making that judgement, entities would consider the same sources identified in the preceding paragraph, to the extent that they do not conflict with an IFRS Sustainability Disclosure Standard.

1. (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?
2. (b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

Response

We agree that the requirement to present information about sustainability risks and opportunities is clear and is also consistent with existing requirements under financial reporting. In addition, aggregation of the information, where appropriate, will ensure information is more user-friendly.
Companies will need additional guidance to assist them in identifying material risks, amongst the extensive list of potential risks with varying degrees of likelihood and impact, to make it user relevant.

Further, it is important to consider condensing the range of sources into digestible and relevant content within the standard itself, otherwise this may create both a significant resource burden on entities themselves as well as users to understand and contextualize the disclosures.

The standard requires that the disclosures are reported at the reporting entity level, how was this considered for multijurisdictional entities where sustainability risks and opportunities are typically managed at a group level rather than an individual subsidiary level?

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) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?
d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

Response:

We agree that the ISSB should use the same definition of materiality as that used for financial reporting.

This will ensure connectivity between financial reporting and sustainability reporting.

That said, the objective of sustainability reporting is not well defined which could lead to insufficient distinction between what information is material for sustainability reporting which would not equate to being material for financial reporting (as covered in IAS1). This distinction is important, otherwise all material sustainability information would need to be included in the financial statements in accordance with paragraph 17(c) of IAS 1.

In this regard, it would be beneficial to clarify how primary users will use sustainability information for a different purpose from how they use financial information. If there is no distinction, then any information that is material for sustainability reporting would also by extension be material for financial reporting and would need to be included in the financial statements.

Yes, we support the relief where local laws or regulations prohibit an entity from disclosing specific sustainability information, because a failure to grant the relief would result in the entity being unable to declare compliance with the IFRS S1 (or IFRS S2) standard itself which could produce unintended consequences with access to sustainable capital, or capital markets in time more broadly. This could be particularly punitive to responsible entities in emerging markets.

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?

Response:

Yes, we broadly agree with the simultaneous disclosure requirement particularly given the explicit connectivity connection between financial and sustainability information. However, absent succinct disclosures, the requirement to produce both reports simultaneously may lead to some entities releasing their information later than is presently the case with their financial reporting. The audit/assurance providers would have larger scope audits within (in theory) the same time as they have now for financial reporting information alone, this needs specific consideration within the final standard.

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-i.e. 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) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?
c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can 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? Why or why not?
d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

Response:

We agree that being able to cross-reference disclosures to other publicly available documents is necessary to ensure comprehension, avoid inconsistencies, and potentially avoid duplicative work, however such a strategy would also increase complexity and effort for user discovery and understanding. The dual disclosure timing requirement for sustainability and financial reporting raises genuine prospects of moving towards integrate reporting. The IR objectives align well with the dual principal intent of the IASB and ISSB reporting standards to provide decision-useful information to users. The IR indicates:

"The International Integrated Reporting Framework is used to accelerate the adoption of integrated reporting across the world with an aim to:

- Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital
- Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time
- Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their independencies
- Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term."

The IFRS Sx standards may be an opportunity to leverage the work of the Value Reporting Foundation in this regard.

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) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?
c) Do you agree with the proposal 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? Are you aware of any circumstances for which this requirement will not be able to be applied?

Response

The general features and assumptions of financial data are, we believe, appropriately considered, and reflect the proposed standard. We strongly support that sustainability data, and its underlying assumptions must be consistent with its financial reporting.
However, the requirement to continually revise comparatives may be confusing to users absent adequate contextual narratives. Consistent with the Primary Financial Statements ED, we would also suggest that where one metric is substituted for another, management would need to explain why the new metric is a better one than that previously used.

Question 12 - Statement of compliance (paragraphs 91-92)

Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements.

The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

Response

We agree that compliance with the IFRS Sustainability Disclosure Standards should include a compliance statement which states that they have complied with all the IFRS Sx standards. This management compliance standard would align with similar requirements under Sarbanes-Oxley and equivalent regulatory requirements around the world.

We support the disclosure exemption in paragraph 92, if there is a prohibition under Local laws and regulations, as this will promote both an inclusive and supportive approach for preparers as the countries within which they operate develop national regulatory requirements on sustainability matters. Additionally, an explicit exemption may need to be included where it relates to commercial confidentiality such as employment policies or practices of suppliers (paragraph 40), which could fall into this category.

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) b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

Response

Before setting an implementation date, the ISSB should further consider the entity population readiness, which are individually at different stages in their sustainability reporting journey. Whilst many entities around the world have been providing TCFD information, many more have not done so, and will need time to 'catch up'. As a baseline, the ISSB should consider following the IASB's standard 3-year implementation period between the issuance of a new standard and the first reporting year under said standard.

Consideration should be given to the additional guidance entities will need to identify, assess, and report on non-climate related risks and opportunities. This will help entities develop and embed the required new processes to integrate these assessments effectively and efficiently into their business operation.

We believe that both standards (IFRS S1 and IFRS S2) should have an identical effective date because the requirements and guidance in S1 will assist with the disclosures given in respect of S2.

Further, we agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application.

Question 14 - Global baseline

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?

Response

We support the 'global baseline' approach adopted by the ISSB. This will aid in the efficient and effective adoption of minimal reporting around the world, because national or regional standard-setters and regulators are more likely to accept the ISSB's standards in respect of the scope of those standards. It provides these same stakeholders with the option to extend or build upon the ISSB baseline of standards.

The baseline approach will also aid in managing, and minimizing, the real costs of implementation for preparers and analysis costs for users. We believe that the proposed standards will be of considerable benefit to users and to preparers in terms of formalizing and systematizing their approach to sustainability reporting matters.

We further strongly encourage the ISSB to actively engage with and cooperate with other regulators and standard setters around the world to continue working towards harmonization of sustainability standards and/or developing interoperability between the various standards as a step towards driving down the cost of data management and reporting on sustainability matters.

Question 17 - Other comments

Do you have any other comments on the proposals set out in the Exposure Draft?

Response

Emerging Economies

We want to share some specific insight and perspective about emerging economies and their entities. The example from South Africa is typical of emerging economic considerations as it relates to developing nations, and therefore is a useful example to understand the unique challenges in your deliberations towards final international sustainability standards.

Developing countries have competing priorities in growing their economies sustainably. In South Africa, social consideration for securing meaningful jobs in the immediate to short term, may trump concerns about the environment (or other sustainability topics). Based on the expanded definition (incl. those that stopped looking for work), unemployment rates, for example, for Q4 2021 were 46.2%.

Companies in comparable economic environments will face similar social challenges in transitioning to green(er) energy sources within timelines that comply with 2030 targets largely because they are often driven by regulation, and dependent on a monopoly utility entity. In South Africa, the primary utility provider relies largely on coal-fired power stations. Energy regulators in each region or country determine how soon and which types of future energy sources will become available. Preparers will rarely, if ever, have control over the timeframe of these strategic transition sources of energy and their transition plans.

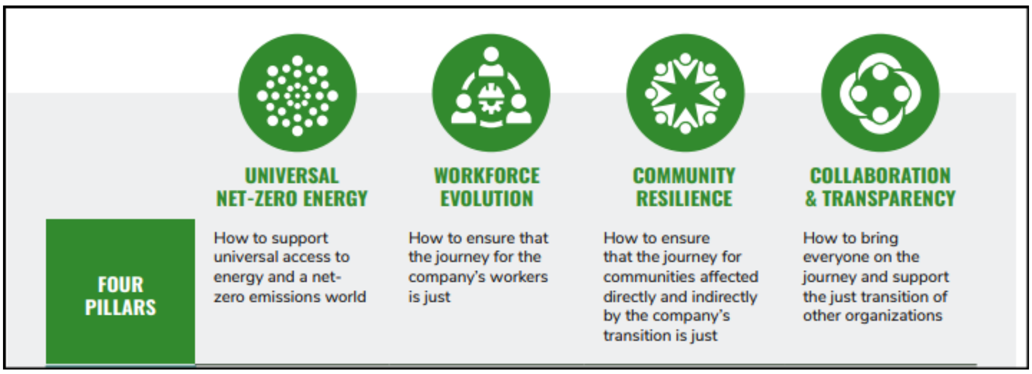
South Africa routinely experiences daily rotational blackouts as its old generation plants cannot supply enough electricity. By 11 July 2022, South Africa had total hours adding to 46 days (about 1 and a half months) on which blackouts were implemented throughout the country for 2, 4 to 6 hours per day. Companies depend on electricity security to function, and by extension grow the economy. Additionally, there is concern that green energy projects will be unable to provide for the current energy shortfall quickly enough. Additionally, historically, transition financing commitments made have not materialised to the extent committed at COP events. This means affected countries remain reliant on coal and gas for electricity. Research indicates that South Africa will require $250 billion in transition financing over the next 3 decades, whilst recently it only secured a fraction of its needs, $8.5 billion.

Specific comments

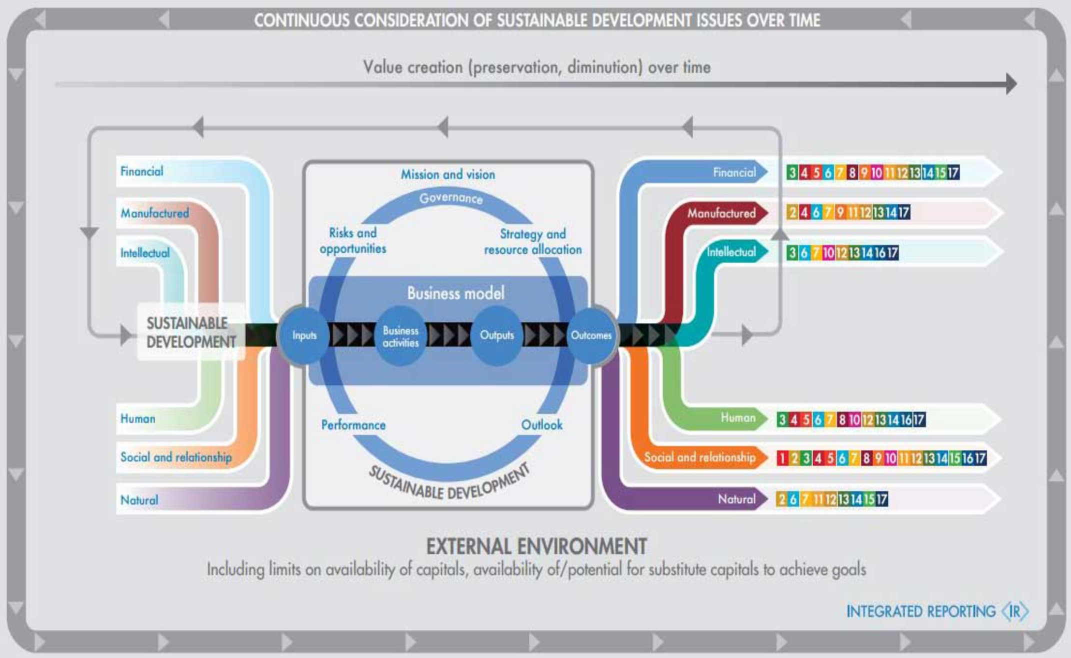
1. We advocate for convergence to the sustainability standards over time with the maximum transition time possible once standards are finalised.
2. We propose a simplified application for SMEs that do not have exchange-traded equity or debt (similar to IFRS for SMEs). One approach, which is already well established, is reporting on the SDGs. UNCTAD published a *Guidance on core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals*.
3. We also propose that the ISSB incorporate the Just Transition principles into IFRS S2 allowing emerging economy entities allowing them to contextualise their sustainability impacting decisions.

For instance, Just Transition disclosures could be used to indicate how jobs, energy security and economic growth was protected, re-skilling of redundant labour, treatment of stranded assets, etc.

Another useful framework could be that of the Council for Inclusive Capitalism.



Entities that are applying the Integrated Reporting Framework are already familiar with disclosing how certain activities affect different stakeholders/capitals. This could be expanded with the content principles in IFRS S1, and the SDGs to include Just Transition 'trade-offs. For example, Goal 7 *Affordable and clean energy* and Goal 13 *Climate Action* may be traded off against Goal 1 *No poverty* and Goal 8 *Decent work and Economic growth*. An example of how this could look is leveraged from [The Sustainable Development Goals, integrated thinking and the integrated]() report by Prof C Adams (2017:14)



The JSE's [Sustainability Recommended Disclosures and Metrics]() list the following for Just Transition disclosures (C=core; L=Leadership in disclosure):

Just transition	C	Existence and nature of a 'just transition plan' that commits to stakeholder engagement with workers and communities (see the JSE Climate Disclosure Guidance for further detail)	Description	TCFD consultation, WBA, GRI 11 (Oil and Gas sector supplement)
	L	Number of engagements undertaken with affected parties by group and geography	#	
	L	Number of workers in the past year retrained, retrenched, and/or compensated due to implementation of the decarbonisation plan	#	
	L	Nature of climate-related lobbying activities, and those of relevant associations and membership groups, and their alignment with the objectives of the Paris Agreement and Glasgow Climate Pact	Description	
	L	Nature of provision for delivery of the transition plan within executive remuneration	Description	
	L	Nature of provision for impacts on workers and communities within climate scenario plans	Description	
	L	Level of capital or expenditure deployed toward climate adaptation and climate mitigation projects	ZAR/US$ etc	

Small Medium Enterprises (SME)

SMEs require specific further reflection considering their very nature. The draft standards, though envisaging the possibility of specific standards for SMEs, leave open the question of comparable, verifiable, and accessible sustainability reporting disclosure. On the one hand this affects the accessibility of sustainability reporting imposing extensive disclosures, often already required for listed companies, by other reporting requirements (such as remuneration or corporate governance reports). On the other hand it impedes measurement by imposing a set of extensive technical indicators, in some cases very difficult to calculate (such as locked-in emissions), or omitting some indicators, which could be important to include in the sustainability reporting (such as fiscal transparency indicators).

It is essential to ensure clear standards, which could easily be applied by the SMEs, which will be required to provide sustainability information as part of supply chain reporting (to their customers or suppliers, if not directly required to disclose to a regulatory body). The risk of not ensuring such clarity is that, making use of interpretations made by the many trade associations and widespread by sector, an entity could structure a sustainability report that lacks comparability with other entities.

A starting point for the ISSB to consider a baseline set of SME metrics could start from the metrics ("core", that is more relevant, and "expanded", that is more advanced, and that companies can insert in their reports over time) as suggested by the White Paper published by the World Economic Forum (WEF) in September 2020 ("Measuring Stakeholder Capitalism - Towards Common Metrics and Consistent Reporting of Sustainable Value Creation").

Appendix B – IFRS S2 Climate-related Disclosures

Question 1 - Objective of the Exposure Draft

Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting:

- to assess the effects of climate-related risks and opportunities on the entity's enterprise value;
- to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and
- to evaluate the entity's ability to adapt its planning, business model and operations to climate-related risks and opportunities.

Paragraphs BC21-BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?
b) Does the objective focus on the information that would enable users of general-purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?
c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

Response

We support the objectives of the ED, in particular "to require an entity to disclose information about its exposure to significant climate-related risks and opportunities", to users, thereby enabling them to assess how specified risks and opportunities impact the entity's enterprise value.

It is essential that, consistent with IFRS Accounting Standards, the IFRS S2 standard only apply to material items, which should be tailored to reflect their significance to the entity. Otherwise, sustainability disclosures could become cluttered, costly and boilerplate which would yield limited value to the user (and counter the objective of the separate IFRS management reporting initiative).

Therefore, if an entity concludes that it does not have any material risks or opportunities addressed by an IFRS Sustainability Disclosure Standard, then it should simply have to explain why this is the case, assuming of course that this explanation of "non-applicability" is itself material information.

The reference to SASB industry classification is extensive and will require adequate time for entities to assess relative to their own, often complex, business models. In particular, entities will need to:

1) Understand which industry-based disclosures are applicable, especially in the case of entities which have a broad range of business activities and models;
2) Assess their climate related risks and opportunities;
3) Design their disclosures and approach; and
4) Implement processes and controls to capture the data required for the disclosures.

Additionally, it is important that the IFRS S2 standard itself be self-contained such that a reporting entity or user does not need to reference secondary material outside of the IFRS standard or appendices to obtain required information to either apply or understand the sustainability standard. Therefore, we strongly suggest the ISSB embed the necessary reference information (such as definitions of risks and opportunities, industry classifications, etc.) into the ISSB standards itself when it is finalized.

Question 2 - Governance

Paragraphs 4 and 5 of the Exposure Draft propose that an entity be required to disclose information that enables users of general-purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate related risks and opportunities. To achieve this objective, the Exposure Draft proposes that an entity be required to disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and a description of management's role regarding climate-related risks and opportunities.

The Exposure Draft's proposed governance disclosure requirements are based on the recommendations of the TCFD, but the Exposure Draft proposes more detailed disclosure on some aspects of climate-related governance and management in order to meet the information needs of users of general-purpose financial reporting. For example, the Exposure Draft proposes a requirement for preparers to disclose how the governance body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies. The related TCFD's recommendations are to: describe the board's oversight of climate related risks and opportunities and management's role in assessing and managing climate-related risks and opportunities.
Paragraphs BC57-BC63 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

Response

The proposed additional disclosures will give users more transparency around the governance and management of climate risks within the business model and its operation.

It would be helpful for the ISSB to clarify that paragraph 18 of the ED ("an entity shall avoid duplication") can be satisfied by information that is already present in many annual reports. In such cases, cross referencing requirements could be a useful approach to avoid duplicative disclosures. We believe that most entities will be able to adapt (i.e.: leverage and extend) their existing disclosures of governance structures and processes to incorporate the requirements for sustainability reporting. To this end, we recommend that the ISSB add a statement that, wherever possible, existing disclosures should be used as a basis for climate related and other sustainability related disclosures so that information is provided only once.

Question 3 - Identification of climate-related risks and opportunities

Paragraph 9 of the Exposure Draft proposes that an entity be required to identify and disclose a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity would be required to refer to the disclosure topics defined in the industry disclosure requirements (Appendix B).
Paragraphs BC64-BC65 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?
b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

Response

We agree that the proposed requirements are clear.

As noted in question 2, the requirement to disclose the impact of climate change on the entity's strategy and business model pre-supposes that the entity's business model information is disclosed, however, this is not an explicit requirement in IFRS S1 or IFRS S2.

We are concerned that the industry-related disclosures within the SASB standards that are referenced in the ISSB sustainability standards have not gone through the appropriate level of due-process as is required for mandatory financial or sustainability standards. As noted in question 1 of the IFRS S2, inclusion within the ISSB standard itself would address this concern.

IFRS S1 requires that disclosures are made for the reporting entity, however S2 requires the disclosure of industry-specific information. This could mean that disclosures are disaggregated for the different industries in which a conglomerate or multi-jurisdictional entity operates. Would a reporting entity be required to present consolidated totals in addition to entity specific disclosures? The disaggregation needed for the industry-specific disclosures could conceivably be different from the disaggregation used for operating segments reported in accordance with IFRS 8 Operating Segments, and which are based on management's view. Under IFRS S2, the entity must choose which of the pre-set industry classifications best describe its operations. This could lead to genuine complexity in data collection, analysis and reporting.

Question 4 - Concentrations of climate-related risks and opportunities in an entity's value chain

Paragraph 12 of the Exposure Draft proposes requiring disclosures that are designed to enable users of general-purpose financial reporting to understand the effects of significant climate-related risks and opportunities on an entity's business model, including in its value chain. The disclosure requirements seek to balance measurement challenges (for example, with respect to physical risks and the availability of reliable, geographically specific information) with the information necessary for users to understand the effects of significant climate-related risks and opportunities in an entity's value chain.

As a result, the Exposure Draft includes proposals for qualitative disclosure requirements about the current and anticipated effects of significant climate-related risks and opportunities on an entity's value chain. The proposals would also require an entity to disclose where in an entity's value chain significant climate-related risks and opportunities are concentrated.

Paragraphs BC66-BC68 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?
b) Do you agree that the disclosure required about an entity's concentration of climate- related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

Response

We agree that the proposed disclosure requirements provide entities the opportunity to disclose the effects of risks and opportunities on its business model and value chain(s).

In this regard, we expect that qualitative information may be more effective than quantitative information because several effects are very difficult to measure/quantify.

One aspect that would be helpful to clarify is the extent to which an entity needs to go up or down its value chain to meet the disclosure requirement. For instance, to the suppliers of its supplier(s), or the customers of its customer(s)? There are practical and, in some cases, legal limitations, on how much reliable information it may be able to obtain. This would naturally extend into cases where information could be obtained beyond its immediate suppliers and customers, however there are questions around the timing to obtain it and verifiability (and by extension audit assurance). This is particularly poignant where a reporting entity does not have a direct relationship with the second tier (or beyond) within a given supply chain.

Question 5 - Transition plans and carbon offsets

Disclosing an entity's transition plan towards a lower-carbon economy is important for enabling users of general-purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value.
Paragraph 13 of the Exposure Draft proposes a range of disclosures about an entity's transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general-purpose financial

reporting to understand the effects of climate related risks and opportunities on an entity's strategy and decision-making, including its transition plans. This includes information about how it plans to achieve any climate-related targets that it has set (this includes information about the use of carbon offsets); its plans and critical assumptions for legacy assets; and quantitative and qualitative information about the progress of plans previously disclosed by the entity.

An entity's reliance on carbon offsets, how the offsets it uses are generated, and the credibility and integrity of the scheme from which the entity obtains the offsets have implications for the entity's enterprise value over the short, medium and long term. The Exposure Draft therefore includes disclosure requirements about the use of carbon offsets in achieving an entity's emissions targets. This proposal reflects the need for users of general-purpose financial reporting to understand an entity's plan for reducing emissions, the role played by carbon offsets and the quality of those offsets.

The Exposure Draft proposes that entities disclose information about the basis of the offsets' carbon removal (nature- or technology-based) and the third-party verification or certification scheme for the offsets. Carbon offsets can be based on avoided emissions. Avoided emissions are the potential lower future emissions of a product, service or project when compared to a situation where the product, service or project did not exist, or when it is compared to a baseline. Avoided-emission approaches in an entity's climate-related strategy are complementary to, but fundamentally different from, the entity's emission-inventory accounting and emission-reduction transition targets. The Exposure Draft therefore proposes to include a requirement for entities to disclose whether the carbon offset amount achieved is through carbon removal or emission avoidance.

The Exposure Draft also proposes that an entity disclose any other significant factors necessary for users of general-purpose financial reporting to understand the credibility of the offsets used by the entity such as information about assumptions of the permanence of the offsets.

Paragraphs BC71-BC85 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?
b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.
c) Do you think the proposed carbon offset disclosures will enable users of general-purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why? (d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general-purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

Response

We generally agree with the disclosure requirements, in particular the requirement to disclose an entity's gross position in terms of carbon emissions along with the actions to offset these emissions in arriving at the entity's net position.

However, we question why paragraph 13 does not cover all mitigations rather than limiting the disclosures to carbon offsets. For instance, paragraph 13 first discusses all climate risks whereas 13(b) focuses specifically on carbon offsets. We believe it would be helpful if the Standard also require information about how much carbon offsets have been purchased by the entity vs how much have been generated by it. This would provide a clearer and more transparent perspective for both preparers and users.

We encourage the ISSB to clarify how an entity should rationalise its disclosures to ensure that the overall picture is not obscured by excessive detail. We would suggest the ISSB reference back to the guidance in paragraph B3 of IFRS 7 Financial Instruments as a guide in IFRS S2: Disclosures which states that '*An entity decides, in the light of its circumstances how much detail it provides to satisfy the requirements of this IFRS, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics. It is necessary to* *strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important detail'.*

Question 6 - Current and anticipated effects

The Exposure Draft proposes requirements for an entity to disclose information about the anticipated future effects of significant climate-related risks and opportunities. The Exposure Draft proposes that, if such information is provided quantitatively, it can be expressed as a single amount or as a range. Disclosing a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value may be more appropriate.

The TCFD's 2021 status report identified the disclosure of anticipated financial effects of climate-related risks and opportunities using the TCFD Recommendations as an area with little disclosure. Challenges include: difficulties of organisational alignment, data, risk evaluation and the attribution of effects in financial accounts; longer time horizons associated with climate-related risks and opportunities compared with business horizons; and securing approval to disclose the results publicly. Disclosing the financial effects of climate-related risks and opportunities is further complicated when an entity provides specific information about the effects of climate-related risks and opportunities on the entity. The financial effects could be due to a combination of other sustainability-related risks and opportunities and not separable for the purposes of climate-related disclosure (for example, if the value of an asset is considered to be at risk it may be difficult to separately identify the effect of climate on the value of the asset in isolation from other risks).

Similar concerns were raised by members of the TRWG in the development of the climate-related disclosure prototype following conversations with some preparers. The difficulty of providing single point estimates due to the level of uncertainty regarding both climate outcomes and the effect of those outcomes on a particular entity was also highlighted. As a result, the proposals in the Exposure Draft seek to balance these challenges with the provision of information for investors about how climate-related issues affect an entity's financial position and financial performance currently and over the short, medium and long term by allowing anticipated monetary effects to be disclosed as a range or a point estimate. The Exposure Draft proposes that an entity be required to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term-including how climate-related risks and opportunities are included in the entity's financial planning (paragraph 14). The requirements also seek to address potential measurement challenges by requiring disclosure of quantitative information unless an entity is unable to provide the information quantitatively, in which case it shall be provided qualitatively.

Paragraphs BC96-BC100 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?
b) Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?
c) Do you agree with the proposed disclosure requirements for the anticipated effect of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?

Response

We broadly agree with the disclosures, however the ISSB should consider some practical issues that may impede the disclosures:

a) It may be difficult to quantify the impact of climate on specific items, particularly when there are other factors at play. For example, an entity may not practically be able to differentiate the impact of one specific factor from another.
b) Unless the disclosure is narrative based, providing the information could be a complex process and a lack of data may impact the relevance and reliability of the disclosures.

Question 7 – Climate resilience

The likelihood, magnitude and timing of climate-related risks and opportunities affecting an entity are often complex and uncertain. As a result, users of general-purpose financial reporting need to understand the resilience of an entity's strategy (including its business model) to climate change, factoring in the associated uncertainties. Paragraph 15 of the Exposure Draft therefore includes requirements related to an entity's analysis of the resilience of its strategy to climate-related risks. These requirements focus on:

- what the results of the analysis, such as impacts on the entity's decisions and performance, should enable users to understand; and whether the analysis has been conducted using:
  - climate-related scenario analysis; or
  - an alternative technique.

Scenario analysis is becoming increasingly well established as a tool to help entities and investors understand the potential effects of climate change on business models, strategies, financial performance and financial position. The work of the TCFD showed that investors have sought to understand the assumptions used in scenario analysis, and how an entity's findings from the analysis inform its strategy and risk management decisions and plans. The TCFD also found that investors want to understand what the outcomes indicate about the resilience of the entity's strategy, business model and future cash flows to a range of future climate scenarios (including whether the entity has used a scenario aligned with the latest international agreement on climate change). Corporate board committees (notably audit and risk) are also increasingly requesting entity-specific climate-related risks to be included in risk mapping with scenarios reflecting different climate outcomes and the severity of their effects.

Although scenario analysis is a widely accepted process, its application to climate related matters in business, particularly at an individual entity level, and its application across sectors is still evolving. Some sectors, such as extractives and minerals processing, have used climate-related scenario analysis for many years; others, such as consumer goods or technology and communications, are just beginning to explore applying climate-related scenario analysis to their businesses.

Many entities use scenario analysis in risk management for other purposes. Where robust data and practices have developed, entities thus have the analytical capacity to undertake scenario analysis. However, at this time the application of climate-related scenario analysis for entities is still developing. Preparers raised other challenges and concerns associated with climate-related scenario analysis, including: the speculative nature of the information that scenario analysis generates, potential legal liability associated with disclosure (or miscommunication) of such information, data availability and disclosure of confidential information about an entity's strategy. Nonetheless, by prompting the consideration of a range of possible outcomes and explicitly incorporating multiple variables, scenario analysis provides valuable information and perspectives as inputs to an entity's strategic decision-making and risk-management processes. Accordingly, information about an entity's scenario analysis of significant climate-related risks is important for users in assessing enterprise value.

The Exposure Draft proposes that an entity be required to use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience.

Requiring disclosure of information about climate-related scenario analysis as the only tool to assess an entity's climate resilience may be considered a challenging request from the perspective of a number of preparers at this time-particularly in some sectors. Therefore, the proposed requirements are designed to accommodate alternative approaches to resilience assessment, such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests. This approach would provide preparers, including smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, represents an iterative learning process, and may take multiple planning cycles to achieve. The Exposure Draft proposes that when an entity uses an approach other than scenario analysis, it discloses similar information to that generated by scenario analysis to provide investors with the information they need to understand the approach used and the key underlying assumptions and parameters associated with the approach and associated implications for the entity's resilience over the short, medium and long term.

It is, however, recommended that scenario analysis for significant climate-related risks (and opportunities) should become the preferred option to meet the information needs of users to understand the resilience of an entity's strategy to significant climate related risks. As a result, the Exposure Draft proposes that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted.

Consideration was also given to whether climate-related scenario analysis should be required by all entities with a later effective date than other proposals in the Exposure Draft.
Paragraphs BC86-BC95 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) Do you agree that the items listed in paragraph IS(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?
b) The Exposure Draft proposes that if an entity is unable to perform climate related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.
    (i) Do you agree with this proposal? Why or why not?
    (ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?
    (iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14 and if so, why?
c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?
d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?
e) Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?

Response

The inputs and assumptions used to perform the required analysis are likely to vary considerably between entities, potentially limiting the usefulness of the information disclosed. Additionally, as noted previously, we believe entities need to be given adequate time to transition and develop the ability to perform the analysis even if they consider such risks to be relatively insignificant compared to others.

The exemptive position in paragraph 15 to use alternative methods if an entity is "unable" to prepare scenario analysis is helpful, however, it may be a high hurdle to satisfy and demonstrate appropriateness of its use to auditors and regulators. The ISSB comments in BC89 about the challenges and its acknowledgement that several industries lack the experience of applying scenario analysis, the Board may wish to reconsider the conditions attached to an entity being permitted to using an alternative approach.

Question 8 - Risk management

An objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities, to enable users of general-purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise value. Such disclosures include information for users to understand the process, or processes, that an entity uses to identify, assess and manage not only climate-related risks, but also climate-related opportunities.

Paragraphs 16 and 17 of the Exposure Draft would extend the remit of disclosures about risk management beyond the TCFD Recommendations, which currently only focus on climate-related risks. This proposal reflects both the view that risks and opportunities can relate to or result from the same source of uncertainty, as well as the evolution of common practice in risk management, which increasingly includes opportunities in processes for identification, assessment, prioritisation and response.

Paragraphs BC101-BC104 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

Response

The objective is clear. However, we note our previous response in question 2 regarding avoiding the duplication of information.

Question 9 - Cross-industry metric categories and greenhouse gas emissions

The Exposure Draft proposes incorporating the TCFD's concept of cross-industry metrics and metric categories with the aim of improving the comparability of disclosures across reporting entities regardless of industry. The proposals in the Exposure Draft would require an entity to disclose these metrics and metric categories irrespective of its particular industry or sector (subject to materiality). In proposing these requirements, the TCFD's criteria were considered. These criteria were designed to identify metrics and metric categories that are:

- indicative of basic aspects and drivers of climate-related risks and opportunities;
- useful for understanding how an entity is managing its climate-related risks and opportunities;
- widely requested by climate reporting frameworks, lenders, investors, insurance underwriters and regional and national disclosure requirements; and
- important for estimating the financial effects of climate change on entities.

The Exposure Draft thus proposes seven cross-industry metric categories that all entities would be required to disclose: greenhouse gas (GHG) emissions on an absolute basis and on an intensity basis; transition risks; physical risks; climate-related opportunities; capital deployment towards climate-related risks and opportunities; internal carbon prices; and the percentage of executive management remuneration that is linked to climate-related considerations. The Exposure Draft proposes that the GHG Protocol be applied to measure GHG emissions.

The GHG Protocol allows varied approaches to be taken to determine which emissions an entity includes in the calculation of Scope 1, 2 and 3-including for example, how the emissions of unconsolidated entities such as associates are included. This means that the way in which information is provided about an entity's investments in other entities in their financial statements may not align with how its GHG emissions are calculated. It also means that two entities with identical investments in other entities could report different GHG emissions in relation to those investments by virtue of choices made in applying the GHG Protocol. To facilitate comparability despite the varied approaches allowed in the GHG Protocol, the Exposure Draft proposes that an entity shall disclose:

- separately Scope 1 and Scope 2 emissions, for:
    - the consolidated accounting group (the parent and its subsidiaries);
    - the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and
- the approach it used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group (for example, the equity shares or operational control method in the GHG Protocol Corporate Standard).

The disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. However, despite these challenges, the disclosure of GHG emissions, including Scope 3 emissions, is becoming more common and the quality of the information provided across all sectors and jurisdictions is improving. This development reflects an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity's carbon footprint.

Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent

energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energy efficient products or seek to enable or incentivise upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to identify the most significant GHG reduction opportunities across an entity's entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs.
For Scope 3 emissions, the Exposure Draft proposes that:

- an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;
- an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general-purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;
- if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement: and
- if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure.

Aside from the GHG emissions category, the other cross-industry metric categories are defined broadly in the Exposure Draft. However, the Exposure Draft includes non-mandatory Illustrative Guidance for each cross-industry metric category to guide entities.
Paragraphs BC10S-BC118 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?
b) Are there any additional cross-industry metric categories related to climate related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general-purpose financial reporting.
c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?
d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3- expressed in CO2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))?
e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:
    (i) the consolidated entity; and
    (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates?

   Why or why not?
f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

Response

We agree with the principle of providing cross-industry disclosures around certain climate risks, which will be beneficial to users. However, to the extent that an entity is not already using these disclosures to manage its response to climate change, it will need sufficient time to develop the necessary processes in advance of the effective date of the Standard.

At this time, we cannot comment on which climate risks would be appropriate to mandatorily disclose. One observation is that a large amount of data is required to be obtained, processed and structured to fulfil the requirement and all but the largest entities may struggle to meet it.

We would add that paragraphs 21 (b) to (e) may be more appropriately disclosed when considered with paragraph 14, rather than cross-industry.

Question 10 - Targets

Paragraph 23 of the Exposure Draft proposes that an entity be required to disclose information about its emission-reduction targets, including the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives), as well as information about how the entity's targets compare with those prescribed in the latest international agreement on climate change.

The 'latest international agreement on climate change' is defined as the latest agreement between members of the United Nations Framework Convention on Climate Change (UNFCCC). The agreements made under the UNFCCC set norms and targets for a reduction in greenhouse gases. At the time of publication of the Exposure Draft, the latest such agreement is the Paris Agreement (April 2016); its signatories agreed to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit warming to 1.5 degrees Celsius above pre-industrial levels. Until the Paris Agreement is replaced, the effect of the proposals in the Exposure Draft is that an entity is required to reference the targets set out in the Paris Agreement when disclosing whether or to what degree its own targets compare to the targets in the Paris Agreement.

Paragraphs BC119-BC122 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?
b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?

Response

We agree with the proposed disclosure about climate-related targets.

Question 11 - Industry-based requirements

The Exposure Draft proposes industry-based disclosure requirements in Appendix B that address significant sustainability-related risks and opportunities related to climate change. Because the requirements are industry-based, only a subset will apply to a particular entity. The requirements have been derived from the SASB Standards. This is consistent with the responses to the Trustees' 2020 consultation on sustainability that recommended that the ISSB build upon existing sustainability standards and frameworks. This approach is also consistent with the TRWG's climate-related disclosure prototype.

The proposed industry-based disclosure requirements are largely unchanged from the equivalent requirements in the SASB Standards. However, the requirements included in the Exposure Draft include some targeted amendments relative to the existing SASB Standards. The proposed enhancements have been developed since the publication of the TRWG's climate-related disclosure prototype.
The first set of proposed changes address the international applicability of a subset of metrics that cited jurisdiction-specific regulations or standards. In this case, the Exposure Draft proposes amendments (relative to the SASB Standards) to include references to international standards and definitions or, where appropriate, jurisdictional equivalents.

Paragraphs BC130-BC148 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals to improve the international applicability of the industry-based requirements.

a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?
b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?
c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

The second set of proposed changes relative to existing SASB Standards address emerging consensus on the measurement and disclosure of financed or facilitated emissions in the financial sector. To address this, the Exposure Draft proposes adding disclosure topics and associated metrics in four industries: commercial banks, investment banks, insurance and asset management. The proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. The proposal builds on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments).

Paragraphs BC149-BC172 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals for financed or facilitated emissions.

d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?
e) Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?
f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?
g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?
h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?
i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

Overall, the proposed industry-based approach acknowledges that climate-related risks and opportunities tend to manifest differently in relation to an entity's business model, the underlying economic activities in which it is engaged and the natural resources upon which its business depends or which its activities affect. This affects the assessment of enterprise value. The Exposure Draft thus incorporates industry-based requirements derived from the SASB Standards.

The SASB Standards were developed by an independent standard-setting board through a rigorous and open due process over nearly 10 years with the aim of enabling entities to communicate sustainability information relevant to assessments of enterprise value to investors in a cost-effective manner. The outcomes of that process identify and define the sustainability-related risks and opportunities (disclosure topics) most likely to have a significant effect on the enterprise value of an entity in a given industry. Further, they set out standardised measures to help investors assess an entity's performance on the topic. Paragraphs BC123-BC129 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals related to the industry-based disclosure requirements.

While the industry-based requirements in Appendix B are an integral part of the Exposure Draft, forming part of its requirements, it is noted that the requirements can also inform the fulfilment of other requirements in the Exposure Draft, such as the identification of significant climate-related risks and opportunities (see paragraphs BC49-BC52).

j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?
k) Are there any additional industry-based requirements that address climate related risks and opportunities that are necessary to enable users of general-purpose financial reporting to assess enterprise value (or are some proposed that are not)?If so, please describe those disclosures and explain why they are or are not necessary.
l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?

Response

We believe that these disclosure requirements are too broad, lengthy, and prescriptive for an entity that operates across more than one industry. We also note the previous comments in question 3 regarding due process regarding industry related disclosures.

Question 12 - Costs, benefits and likely effects

Paragraphs BC46-BC48 of the Basis for Conclusions set out the commitment to ensure that implementing the Exposure Draft proposals appropriately balances costs and benefits.

a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?
b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?
c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information?Why or why not?

Response

We expect that the costs of meeting these disclosures will be high. We recommend that the ISSB clarifies that where risks and opportunities caused by a particular factor, such as climate change, are less significant or insignificant, entities should adapt and reduce the disclosures commensurately.
One way to do this would be to follow the IASB's Disclosure Initiative and:

1. Identify what information the users require by outreach with users.
2. Establish a disclosure objective based on that requirement.
3. Set out minimum disclosures that are helpful to meeting that objective.
4. Place a strong emphasis on materiality, namely, that information is only provided if it is material to meeting the disclosure objective and not otherwise.

Question 13 - Verifiability and enforceability

Paragraphs C21-24 of [draft] IFRS S1 General Requirements for Disclosure of Sustainability related Financial Information describes verifiability as one of the enhancing qualitative characteristics of sustainability-related financial information. Verifiability helps give investors and creditors confidence that information is complete, neutral and accurate. Verifiable information is more useful to investors and creditors than information that is not verifiable.

Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

Response

We anticipate challenges for the audit of this information. Many of the disclosures require extensive estimation and will be subject to detailed review which could easily become contested as they would be based on the entity's own data and expectations. In this regard, there would likely be a lack of consistent external, observable data.

Question 14 - Effective date

Because the Exposure Draft is building upon sustainability-related and integrated reporting frameworks used by some entities, some may be able to apply a retrospective approach to provide comparative information in the first year of application. However, it is acknowledged that entities will vary in their ability to use a retrospective approach.

Acknowledging this situation and to facilitate timely application of the proposals in the Exposure Draft, it is proposed that an entity is not required to disclose comparative information in the first period of application.

Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information requires entities to disclose all material information about sustainability related risks and opportunities. It is intended that [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information be applied in conjunction with the Exposure Draft. This could pose challenges for preparers, given that the Exposure Draft proposes disclosure requirements for climate-related risks and opportunities, which are a subset of those sustainability-related risks and opportunities. Therefore, the requirements included in [draft] IFRS SI General Requirements for Disclosure of Sustainability related Financial Information could take longer to implement.

Paragraphs BC190-BC194 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals?

a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS SI General Requirements for Disclosure of Sustainability-related Financial Information? Why?
b) 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 in the Exposure Draft.
c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier, and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

Response

The disclosures are extensive and prescriptive. While recognising that there is an urgent need from investors for this information, we recommend that adequate time is provided for field testing and for affected entities to:

1) Understand which industry-based disclosures are applicable, especially in the case of entities which have a broad range of business activities and models;
2) Assess their climate related risks and opportunities;
3) Design their disclosures and approach; and
4) Implement process and controls to capture the data required for the disclosures.

Not all entities currently prepare climate related disclosures, under any framework, meaning that they will have a significant amount of work to do to meet the proposed requirements.

Question 15 - Digital reporting

The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption of sustainability-related financial information, as compared to paper-based consumption, is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS SI General Requirements for Disclosure of Sustainability-related Financial Information Standards are the sources for the Taxonomy.

It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the

Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

Response

We will respond separately on the taxonomy exposure draft to assess how well it will reflect the design and intent of the IFRS S1 and S2 exposure drafts, how well aligned it will be in terms of interoperability (i.e. common vocabulary, metrics, etc.) with other sustainability standards such as those in exposure by the SEC, EFRAG and others – this needs closer review of the ISSB taxonomy which was published for public comment on 25 May.

The importance of interoperability is one of access, comparability, discoverability and cost.

Question 16 – 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 climate change. 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?

Response

Our comments on IFRS S1 question 14, also apply to IFRS S2. Those comments for ease of reference are:

We support the 'global baseline' approach adopted by the ISSB. This will aid in the efficient and effective adoption of minimal reporting around the world, because national or regional standard-setters and regulators are more likely to accept the ISSB's standards in respect of the scope of those standards. It provides these same stakeholders with the option to extend or build upon the ISSB baseline of standards.

The baseline approach will also aid in managing, and minimizing, the real costs of implementation for preparers and analysis costs for users. We believe that the proposed standards will be of considerable benefit to users and to preparers in terms of formalizing and systematizing their approach to sustainability reporting matters.

We further strongly encourage the ISSB to actively engage with and cooperate with other regulators and standard setters around the world to continue working towards harmonization of sustainability standards and/or developing interoperability between the various standards as a step towards driving down the cost of data management and reporting on sustainability matters.

Question 17 – Other comments

Do you have any other comments on the proposals set out in the Exposure Draft?

Response

As a continuation of the comments submitted in our response to IFRS S1 (particularly question 17), we propose the following additions for consideration of emerging economies and SMEs in the finalisation of IFRS S2 relating to climate reporting.

We propose that the ISSB incorporate the Just Transition principles into IFRS S2 as a balancing mechanism for emerging economies which routinely balance making social and climate related trade-off decisions.

> The concept of a just energy transition is integral to the Paris Agreement, which is legally binding on the 196 Parties that signed the accord in 2015 (UNFCCC, 2021). The agreement's preamble specifies as follows:
>
> **"*Taking into account the imperatives of a just transition of the workforce* and the creation of decent work and quality jobs in accordance with nationally defined development priorities,**

Disclosure criteria for Just Transition could be based on the recently updated disclosure standards of the Climate Action 100+ that added Just Transition to their disclosure framework. Another useful framework is that by the Council for Inclusive Capitalism.

One the largest mining groups in the world, mentions 'just transition' 23 times in their Climate Report for 2021. Additional examples include:

"Aligned with our purpose of re-imagining mining to improve people's lives, we recognise that the company's resilience to climate change is not enough. We have a role in supporting our host communities to thrive in the transition to a low carbon world. We are continuing to explore what mining can do to help work towards a Just Transition, which supports workers and communities impacted by the global transition to net zero-emissions."

"Through ABC's transition to a lower carbon business model we continue to explore the role of mining in a 'Just Transition', which considers the impacts of that transition on workers and communities. Together with our partners, we aim to be part of creating environmentally and socially sustainable jobs, sectors and economies needed to help address climate change."

We believe that additional consideration is necessary around the disclosure of transition plans with timelines into the medium and long-term that includes disclosing potential mitigating actions such as layoffs or relocation of plants might create social unrest or friction with organised labour if this is disclosed too soon and in too much detail where the probability of it occurring is still largely uncertain. The disclosure requirement raises questions around how far out a company go and to what level of detail?

For instance, a company assessed a 40% risk of closing a plant in six years which would result in the potential loss of 800 jobs. For some entities 40% will be deemed significant, for others it would be deemed less likely than more likely. Disclosures which do not have a high level of probability of occurring, and disclosed prematurely, may create negative impacts on current production, service levels or labour relations. Similarly, disclosure of long-term climate opportunities, such as new products/services, might inadvertently give away a competitive advantage based on proprietary information.

The ISSB may want to consider that many emerging economies lack harmonious labour relations, particularly when high unemployment is a concern, and any hint of job loss creates significant tensions and economic disruption. Entities may be hesitant to disclose information about potential job losses many years in advance. However, they would comply with local labour regulations surrounding negotiations with organised labour which may differ from the IFRS S2's requirement to disclose medium to long-term transition plans and report progress against these.

1. Implementation of scenario-planning might not be easily possible for SMEs, considerations should be given for a simplified set of metrics (and associated updated, similar to SOX like key controls and reporting) in lieu of extensive scenario-planning.
2. We are concerned with the burden posed on SMEs with the mandatory disclosure of Scope 3 GHG emissions. Preparers (intermediate manufacturers in particular) might not have access to their suppliers/customers information and cannot verify the accuracy thereof. Requirements to have scope 1, 2 and 3 assured will also increase the compliance costs for companies and hence its consumers. There are additional concerns within emerging economies for entities to replace a supplier in the near to mid-term which does not meet certain sustainability expectations, placing at risk potentially vital supply chains.

Appendix A – An illustration of the potential compliance impact on an SME

A small logistics and transportation company (SME) which has been funded through personal and family savings owns about 45 vehicles that run on fossil fuel (diesel and petrol). The company has been producing accounts annually, but the accounting is manually maintained (i.e.: not computerized). The company employs a staff of about 200 workers including drivers, accountants, administrators, casual labourers etc. Transitioning from fossil fuel to green energy is creating issues for the company's management team. The company is aware of the top two benefits from improved ESG performance:

(1) improved image with funders or investors (i.e., meet the information needs of investors in assessing the enterprise value)

(2) Improved organisational productivity

Nonetheless, this company is faced with challenges such as:

- Investing in technology and tools to track ESG performance. Tools that suffice to collect and track the required data. The tools should be "simple", flexible and user friendly and should allow practical actions and plans whilst building an audit trial.
- Funding the transition from fossil fuel operating vehicles to electric vehicles, which may appear out of reach as government support is unplanned for the replacement of fossil fuel vehicles with ones powered by renewable energy.
- The global baseline cannot be readily included in the jurisdictional requirements where an enterprise operates because the country is not yet prepared for the challenge. Meaning 100% of the existing vehicles in operation use fossil fuel.

When this company is required to produce sustainability–related financial reporting, they would have to develop the systems and processes required to provide the relevant transparent sustainability disclosure in an effective and efficient manner. This involves aligning the robustness of sustainability–related financial reporting with that used for traditional financial reporting. It would therefore take time for this company to implement the required systems and upskill management, finance, and operational teams to be able to respond in a timely manner.

Another challenging area for this company would relate to scope 3 emissions, which requires estimation and input from several internal and external sources.

The result is growing concern from SMEs in their practical ability to implement IFRS S2 within a time period less than at least three years.