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The Chair
Australian Accounting Standards Board
Level 20, 500 Collins Street
Melbourne VIC 3000

Dear Dr Kendall

Invitation to Comment Exposure Draft 321: Request for Comment on ISSB [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures.

Deloitte Touche Tohmatsu is pleased to respond to the Australian Accounting Standards Board's (AASB) Invitation to Comment - ED 321: Request for Comment on ISSB [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures.

Deloitte commends the AASB for its work to improve adoptability, consistency, and comparability of disclosed sustainability-related financial information. We especially commend the AASB for recognising the urgency of addressing climate change and other sustainability matters and taking preliminary steps to develop an internationally aligned sustainability standard for Australia.

Deloitte welcomes the creation of an International Sustainability Standards Board (ISSB) by the International Financial Reporting Standards (IFRS) Trustees, and its proposals for the creation of global standards for sustainability reporting. The issuance of IFRS Sustainability Disclosure Standards by the ISSB will be integral to driving system change necessary to create a global baseline of sustainability information that addresses the needs of global capital markets. To be effective, the standards need to be accepted as the global baseline, and therefore brought into use by jurisdictions around the world.

The most effective disclosures are those that are clear, concise, and focused on matters that are both material to investors and stakeholders and are specific to the entity. To this end, we welcome the ISSB's inclusion of industry-specific requirements, based on the work of the Sustainability Accounting Standards Board (SASB), into the exposure drafts, alongside the cross-sector standards. We recognise that globally, SASB Standards metrics have been found to be of value to investors.

While we consider that the SASB Standards provide a good starting point for industry-based content within the architecture of ISSB standards, in Australia they are less widely adopted. We recommend that further work is undertaken to ensure that the SASB Standards are appropriately internationalised and suggest testing outside of the U.S. environment. We also highlight that the industry specific metrics set out in the SASB standards may not be complete, as the relevance of those metrics to a particular industry will change over time.

Whilst a number of Australian entities already prepare some form of sustainability reporting that includes some of the information required under the proposed industry-based requirements, for many entities, and particularly those not in the ASX 200, the impact of adopting these proposals is likely to be significant. Education, tools and guidance will be required to upskill Australian report preparers on the use of SASB guidelines and further guidance for industries not currently reflected in the guidelines.

We further support the use of the four pillars of governance; strategy; risk management; metrics and targets, used in the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) as the basis for the core content of IFRS Sustainability Disclosure Standards. Australian entities are already a strong adopter, on a voluntary basis, of the TCFD recommendations (and other voluntary sustainability reporting).

According to the TCFD 2021 Status Report Australian entities are leading supporters of TCFD, ranking number four in the top five countries per Figure A1 of that report. Therefore, many Australian entities are already developing resources and skills, and experience in advance of the Standards being finalised.

We note that AASB is seeking comments on:

a) Any of the proposals in the attached ISSB Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2, including the specific questions on the proposals as listed in the Invitation to Comment sections of the attached ISSB Exposure Drafts; and

b) The 'AASB Specific Matters for Comment'

For part (a) Deloitte's response is provided to the ISSB on behalf of our global network of member firms. This is enclosed in Appendix A.

Our responses to part (b) the 'AASB Specific Matters for Comment' can be found in Appendix B.

A summary of Deloitte's key feedback to the AASB is provided below:

Application of the ISSB Standard and materiality

We support the overall aim of the two standards in setting out principles for disclosure of relevant sustainability-related information. Given the focus of the ISSB Standards on the capital markets, we encourage the AASB to adopt a phase-in period, starting with publicly accountable entities as the information from these disclosures is relevant to a wide range of investors and other stakeholders.

The standards should initially be applied by entities that satisfy the definition in AASB 1053 of public accountability. We believe large private entities could voluntarily adopt, either all or part (noting if the latter they would not be able to state compliance). This would exclude not-for-profit and government entities. A voluntary phase-in period will also give entities time to prepare, upskill and adequately resource their teams, where necessary. Over time, disclosure by publicly accountable entities should become mandatory and require external assurance, initially limited assurance and subsequently reasonable assurance.

We agree with the general principle behind use of 'significant' and 'material' in the exposure draft. However, distinction between 'significant sustainability risks and opportunities' and 'disclosure of material information' would benefit from further explanation to ensure the most important information is disclosed. We understand that the ISSB will be developing a suite of standards to accompany IFRS S1 and IFRS S2, for example potentially addressing matters such as biodiversity and social capital topics. We therefore consider it important that the materiality principles are well understood by preparers, regulators and auditors to avoid a proliferation of reported information such that the needs of capital markets are no longer met.

Connected information

We believe the concept of connected information is important and welcome the emphasis in the Standards for entities to report in an integrated way. It is essential to avoid 'reporting silos', which could reduce understandability and lead to lengthy, duplicative disclosures. More fundamentally, integrating sustainability information into the overall content of corporate reporting encourages entities to explain how it relates to their strategy and business model.

We also support the requirement to link sustainability information to the financial statements, which we view as essential in meeting investor demand.

Timing and location of information

We agree with the proposal that sustainability information should be provided at the same time and as part of the same reporting package as the financial statements. We acknowledge that this may be challenging for some Australian entities, as they will need to ensure they have the necessary systems, processes, and resources in place to achieve this and may also currently rely on National Greenhouse and Energy Reporting (NGER) data, for example, that may not be aligned with annual reporting. However, we consider that aligning financial and sustainability reporting, as set out in the proposals, is an important ambition that responds to the expectations of investors to understand the connections between sustainability and financial information. It will also further support the full integration of sustainability matters into the entity's governance, strategy, and operations.

We believe it is important that the standards specify that sustainability information should be presented within general purpose financial reporting but provide flexibility in the location.

Reporting of greenhouse gas (GHG) emissions

Most businesses have global value chains, face global risks and access capital from global investors. Therefore, to assist Australian entities in transitioning and remaining competitive in a low carbon economy, we believe that Australian publicly accountable entities, and large private entities should be required to disclose Scope 3 GHG emissions, taking into consideration appropriate transition provisions.

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Requiring entities to report on Scope 3 GHG emissions (and potentially other relevant sustainability matters, in the future) will lead to more information being requested from suppliers and other stakeholders in reporting entities value chains. One entity's Scope 3 is another entity's Scope 1 emissions. Therefore, collaboration will be needed across the value chain.

In calculating Scope 3 emissions, there can be significant challenges in sourcing reliable data, a high degree of estimation and lack of controls, and gaps in methodologies. We suggest additional guidance, resources, and tools to assist Australian entities in preparing, calculating, and disclosing their Scope 3 emissions be considered. Case studies and examples of how entities have then presented this information in their financial statements would also be beneficial.

We also note that there are a number of inconsistencies between what the ISSB is proposing, and what is currently required under the National Greenhouse Emissions Reporting (NGER) Act. For example, the NGER Act applies the Greenhouse Gas Protocol, and businesses must only report their Scope 1 and 2 emissions for corporations in their direct operational control (or financial control if a Voluntary Reporting Transfer Certificate has been approved). We would encourage the Clean Energy Regulator (CER), who determine the NGER Act reporting obligations, to consider increasing alignment with the ISSB proposed terminology, industry classifications, emission reporting requirements and reporting boundaries. As a first step, the CER could consider providing guidance on the differences, with a view to harmonising requirements over time. We recommend that the AASB work collaboratively with the CER and the ISSB to further develop best practice reporting requirements for Scope 1, 2 and 3 emissions reporting, reflecting Australia's strength in such reporting.

Attestation

We agree that the requirements proposed in the Exposure Drafts should provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals but encourage the ISSB to continue consulting further with these groups. To be able to audit and provide assurance of the proposals in the Exposure Drafts additional guidance and examples are required.

We believe that assurance over sustainability-related disclosures should become mandatory in time, starting with limited assurance and then moving to reasonable assurance. Such an approach would be consistent with proposals in the US and the European Union (EU) and helps build further trust in and credibility of the disclosure.

Some sustainability-related disclosures may be more easily assured than others. For instance, metrics and targets are typically subject to clearer measurement protocols which provide suitable criteria for assurance, whilst qualitative disclosures may be more subjective, particularly those of a forward-looking nature. Reporting systems, processes and internal controls over sustainability-related data are also often less mature than those for financial data. We understand that the AASB is working closely with the Australian Auditing and Assurance Standards Board in respect of developing further guidance on assurance of sustainability reporting and we strongly encourage this continued collaboration and with the global International Auditing and Assurance Standards Board.

Further we do not support the incorporation of sustainability-related reporting requirements into Australian Accounting Standards. We support the establishment of a separate Australian Sustainability Standards Board under the oversight of the Financial Reporting Council, consistent with the arrangements currently in place for the Australian Accounting Standards Board and the Australian Auditing and Assurance Standards Board.

Economic Competitiveness

Deloitte believes that ISSB Standards are in the best interest of Australia and participants in our economy and that having a global baseline of sustainability disclosures will aid Australian entities' economic competitiveness, particularly given moves by many other jurisdictions including the United States, the EU, New Zealand, Singapore and the United Kingdom who are in the process of introducing mandatory sustainability related reporting. Timelines for making the proposals effective should align with major markets and allow voluntary early adoption, to ensure that Australia keeps in-step and at pace, with global developments particularly given the urgent need for global action on climate change and other sustainability-related issues.

In summary, we applaud the AASB for your involvement to date in the IFRS Sustainability Disclosure Standards process. Deloitte encourages the avoidance of any additional reporting requirements for Australian entities to reduce the burden of reporting and to help facilitate the creation of a global baseline of sustainability information so that capital markets have consistent, comparable sustainability information on a timely basis.

Should you wish to discuss our responses in this cover letter or appendices 'A' or 'B', please reach out to me on jogorton@deloitte.com.au or email sjansz@deloitte.com.au.

Yours sincerely,

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APPENDIX A

DETAILED RESPONSES TO THE AASB SPECIFIC MATTERS FOR COMMENT IN ED 321

Part A: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S1

A1. Exposure Draft on [Draft] IFRS S1 is proposing that entities be required to disclose information that is material and gives insight into an entity's sustainability-related risks and opportunities that affect enterprise value. Is focusing on an entity's enterprise value the most appropriate approach when considering sustainability-related financial reporting? If not, what approach do you suggest and why?

We agree with an entity's enterprise value being the most appropriate approach when considering sustainability-related financial reporting for publicly accountable entities and for profit entities. We do not believe that the underlying focus on enterprise value would necessarily be fully appropriate to not-for-profit entities, whether public sector/ government agencies or those in the private sector (charities) and we believe that further research be performed for such entities in this respect. We do not believe it is practical to develop sustainability reporting standards in the Australian context that address the needs of the users for both for-profit and not-for-profit entities, and certainly not in the short term. The reference to enterprise value is helpful for setting the boundary of sustainability information for the purpose of these standards assuming that they are to be applied by for profit entities, and provision of information to capital markets, covering matters across the value chain.

We recommend that the proposal further clarify the interaction between a company's impacts on people, the planet and the economy and on enterprise value. We consider this was more explicit in the prototype developed by the TRWG. Allied to this, we recommend that the Illustrative Guidance is expanded to be clearer on how a company might go about identifying material information about significant sustainability-related matters. For example, a company may start by considering the relevant sustainability matters and its related impacts in relation to people, planet and the economy. It might then identify those matters that are relevant to enterprise value and the related material information. The prototype included content on 'nested and dynamic' materiality, following the work of the 'Group of 5', and this could be re-instated and elaborated in these proposals.

Part B: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S2

B1. To comply with the proposals in Exposure Draft on [Draft] IFRS S2 an entity would be required to disclose its Scope 3 greenhouse gas (GHG) emissions in addition to its Scope 1 and 2 GHG emissions. Do you agree that Australian entities should be required to disclose their Scope 3 GHG emissions in addition to their Scope 1 and Scope 2 GHG emissions? If not, what changes do you suggest and why?

Businesses have global value chains, face global risks and access capital from global investors. Therefore, to assist Australian entities in transitioning and remaining competitive in a low carbon economy, we agree than Australian entities should be required to disclose Scope 3 GHG emissions, subject to an appropriate transition period, guidance and safeguards.

Deloitte believes that Australian publicly accountable entities, and large privately held entities should, with appropriate transition provisions, be required to disclose Scope 3 GHG emissions, with relevant considerations such as materiality and published emissions targets. This will lead to the need for more information from suppliers and other stakeholders in the reporting entities value chain/s. Over time,

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the ISSB should consider preparing a reduced disclosure standard for small and medium enterprises (SMEs), like the IFRS for SMEs. We believe that this would increase the capacity for smaller entities to meet the requirements.

These proposed requirements in respect of disclosure of Scope 3 emissions reflect moves internationally by other regulators including the US Securities Exchange Commission (SEC) to require a registrant to disclose information about its direct greenhouse gas (GHG) emissions (Scope 1), indirect emissions from purchased electricity or other forms of energy (Scope 2), and disclose GHG emissions from upstream and downstream activities in its value chain (Scope 3) if material or if the registrant has set a GHG emissions target or goal that includes Scope 3 emissions[1].

However, there can be significant challenges in sourcing reliable data, a high degree of estimation and lack of controls, and gaps in methodologies for calculating Scope 3 emissions. Currently the usefulness to investors could be impacted by implementation challenges faced by entities, especially given the level of detail and timeframe contemplated in the proposal. In the proposed SEC rules, safe harbour for liability from Scope 3 emissions disclosure requirement for smaller reporting entities is given.[2] Australia should consider adopting similar provisions.

Additional guidance, resources, and tools would be needed to assist Australian companies in preparing, calculating, and disclosing their Scope 3 emissions. Case studies and examples of how companies have then presented this information in their financial statements would also be beneficial.

B2. To comply with the proposals related to GHG emissions disclosures in Exposure Draft on [Draft] IFRS S2 an entity would be required to apply the Greenhouse Gas Corporate (GHGC) Standard. Do you agree that Australian entities should be required to apply the GHGC Standard given existing GHG emissions legislation and guidance in place for Australian entities (for example, the NGER Act, NGER (Measurement) Determination 2008 and related guidance)?

Investors, corporations, and other stakeholders benefit from a common language in ESG standards and methodologies, making comparisons easier. Therefore, there is a need for GHG emissions disclosures to be comparable and standardised. We agree that Australian entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions as it is a well-established and internationally recognised framework. However, we recommend that the ISSB review work with the organisation developing the GHG Protocol to resolve the known conflicts with some financial reporting standards and encourage them to consider other examples of global best practice guidance (e.g. Australia) as part of future updates.

We agree that entities should be required to disclose Scope 1 and Scope 2 GHG emissions separately for the consolidated entity; and for any associates, joint ventures, unconsolidated subsidiaries and affiliates. However, we note that there are a couple of areas of paragraph 21(a)(iii)(2) that would benefit from further clarity, for example: the meaning of unconsolidated subsidiaries or affiliates and whether this should instead be a reference to investments (noting that 'affiliates' is not a commonly used term in IFRS literature); and whether equity investments should be included.

[1] SEC.gov | SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors

[2] SEC.gov | SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors

As we noted in our response to question 5 of the General Requirements Exposure Draft, the approach set out in this requirement is inconsistent with the way reporting entity is defined in [draft] IFRS S1. However, we think that a flexible approach is helpful to preparers at this stage, when their current practice is to use the definitions of reporting boundary as set out in the GHG Protocol. The requirements at paragraph 21(a)(iii)-(iv) go some way to enhance transparency and consistency. However, they do not offer a solution for the long term. We therefore encourage the ISSB to work with the GHG Protocol organisation to better align GHG Protocol concepts with the requirements in IFRS, such as establishing the reporting boundary for associates, joint ventures and investments.

As the NGER Act and the NGER (Measurement) Determination 2008 is regularly updated there is an opportunity for the Clean Energy Regulator (CER) to further align Australia's GHG disclosure requirements with the proposed ISSB Standards, and reassess reporting requirements, industry classifications and boundaries. This would also allow for minimal duplication in effort and reporting and facilitate increased comparability. We would encourage the Clean Energy Regulator (CER), who determine the NGER Act reporting obligations, to consider increasing alignment with the ISSB proposed terminology, industry classifications, emission reporting requirements and reporting boundaries. As a first step, the CER could consider providing guidance on the differences, with a view to harmonising requirements over time. We also recommend that the AASB work collaboratively with the CER and the ISSB to further develop best practice reporting requirements for Scope 1, 2 and 3 emissions reporting reflecting Australia's strength in such reporting.

B3. Are the proposed industry-based disclosure requirements in Appendix B to Exposure Draft on [Draft] IFRS S2 relevant for Australian industries and sectors? If not, what changes do you suggest and why?

We welcome the ISSB's inclusion of industry-specific disclosure requirements (as detailed in Appendix B) using the Sustainability Accounting Standards Board (SASB) Standards as a starting point. Use of the SASB Standards will allow for increased consistency and alignment globally.

We agree with the sources of guidance, set out in paragraph 51 of IFRS S1, to identify sustainability related risks and opportunities and related disclosures. We consider these to be a useful point of reference in the absence of a specific IFRS Sustainability Disclosure Standard and whilst a suite of thematic standards are developed by the ISSB.

The most effective disclosures are those that are clear, concise, and focused on matters that are both material to investors and stakeholders and are specific to the entity. To this end, we welcome the ISSB's inclusion of industry-specific requirements, based on the work of the Sustainability Accounting Standards Board (SASB), into the exposure drafts, alongside the cross-sector standards. We recognise that globally, SASB Standards metrics have been found to be of value to investors.

While we consider that the SASB Standards provide a good starting point for industry-based content within the architecture of ISSB standards, in Australia they are less widely adopted. We recommend that further work is undertaken to ensure that the SASB Standards are appropriately internationalised and suggest testing outside of the U.S. environment. We also highlight that the industry specific metrics set out in the SASB standards may not be complete, as the relevance of those metrics to a particular industry will change over time.

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B4. Are there any Australian-specific climate-related matters that the AASB should consider incorporating into the requirements proposed in Exposure Draft on [Draft] IFRS S2? For example, given the Exposure Draft on [Draft] IFRS S2 is the starting point for the AASB's work on climate-related financial disclosure, should there be additional reporting requirements for Australian entities? If so, what additional reporting requirements should be required and why?

We have not currently identified any Australian-specific climate-related matters that require addressing. We recommend that the ISSB standards are implemented without supplementation to allow for creation of a global baseline of sustainability information so that capital markets have consistent and comparable sustainability information on a timely basis.

We believe that any supplementation of the ISSB standards for Australian specific matters should only be performed after the completion of a post-implementation review of the implementation of the baseline standards, to consider all real and genuine issues that emerge.

<u>Part C: Matters for comment relating to both Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2</u>

C1. Which Australian entities should be expected to apply the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 and why? Specifically:

(a) should the proposals be intended for all for-profit entities in Australia or only to a subset of for-profit entities? and

Given the focus of the ISSB standards to the capital markets and investors, we encourage the AASB to adopt a phase-in period, starting with publicly accountable entities, as the information from these disclosures is relevant to a wide range of investors and stakeholders. The standards should be applied by entities that satisfy the definition of AASB 1053 of public accountability. We believe large private companies could voluntarily adopt, either all or part (noting they would not be able to state compliance). This would exclude non-for-profit and government entities.

A voluntary phase-in approach, will give entities time to prepare, upskill and adequately resource their teams, where necessary. Over time, disclosure by publicly accountable entities and large private entities should become mandatory and require external assurance.

We note that under the proposals, entities would be required to report on Scope 3 GHG emissions, and in the future, other relevant matters across their value chains. This will lead to the need for more information from suppliers and other stakeholders in the reporting entities value chain/s. Over time, the ISSB should consider preparing a reduced disclosure Standard or 'light' Standard for Small and Medium enterprises (SMEs), like the IFRS for SMEs, as this would increase the capacity of smaller entities to meet the requirements.

It would also be beneficial for ASSB to clarify the standards relevance to not-for-profits in Australia.

(b) should relief from specific aspects of the proposals be permitted for some entities for which the proposals are deemed burdensome (for example, Scope 3 GHG emissions and scientific and scenario analyses)? If so, which entities and why?

We support the intent of the ISSB to create a global baseline of sustainability information so that capital markets have consistent, comparable sustainability information on a timely basis. We note that under the proposals, entities would be required to report on relevant matters across their value chains, starting with climate but that additional supplementary standards will follow.

Specifically on Scope 3 emissions - Businesses have global value chains, face global risks and access capital from global investors. One entity's Scope 3 is another entity's Scope 1 emissions. Therefore, collaboration across value chains is needed.

However, there can be significant challenges in sourcing reliable data, a high degree of estimation and lack of controls, and gaps in methodologies for calculating Scope 3 emissions. Therefore, we suggest a phase-in period for Australian publicly accountable entities, followed by large private entities having to report on Scope 3 emissions and in time, smaller. Please also refer to our response in B1 of this document, in terms of Australian adopting similar provisions to SEC in terms of Scope 3 materiality or whether an entity has adopted a target or goal that includes Scope 3.

Australian entities who are mature in their reporting approach and / or Climate Action 100+ focus companies and / or have an approved Science Based Targets commitment are likely reporting some aspects of their Scope 3 emissions. Over time, the ISSB may consider the need for a reduced disclosure standard or 'light' standard for SMEs, similar to the IFRS for SMEs, as this would increase the capacity of smaller entities to meet the requirements and in turn, help large entities with greater visibility of their Scope 3 emissions. No entity can reduce their scope 3 emissions alone, it will require partnership across supply chains. For example, entities will need to access primary data from value chain partners to calculate scope 3 emissions rather than using proxies. For this to be done in a streamlined manner will require trust and sharing data and tools through a community of practice.

C2. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

As previously stated, we strongly welcome the ISSB's proposals for global standards for sustainability reporting. We do not believe there are any significant regulatory issues that would prevent Australian entities from adopting the ISSB Standards.

We recommend that the AASB should work with the Clean Energy Regulator in aligning the National Greenhouse and Energy Reporting (NGER) Act in terms of reporting periods, methodology used and definitions (for example on operational control and boundaries).

C3. Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 align with existing or anticipated requirements, guidance, or practice in Australia? If not:

(a) please explain the key differences that may arise from applying the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 and the impact of any such differences.

Refer to comments made in B2 and B3.

(b) do you suggest any changes to the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

As stated in our C1 (a) response, we recommend that the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 are phased-in starting with publicly accountable entities and large private entities and that the building block approach of ISSB, starting with IFRS S1 and S2, is clearly articulated.

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C4. Would the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 result in useful information for primary users of general-purpose financial reports?

The proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 would result in useful information for primary users of general-purpose financial reports. The information will provide insight on changes to the entity's business model over time and could reasonably be expected to influence decisions and assist users in assessing enterprise value.

The manner the information is presented is an important aspect of how useful the information will be. We believe the concept of connected information is important and welcome the emphasis in the exposure draft on the need for entities to report in an integrated way. We support the requirement to link sustainability information to the financial statements, as it is useful for the primary user. We recommend that the ISSB emphasise the linkage of information to management commentary or an equivalent framework including the Corporations Act, Operating and Financial Review (OFR) requirements and the ASX principles, which provides essential context, for example, greater connections between sustainability information and its impact on an entity's business model.

C5. Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 create any auditing or assurance challenges?

We agree that the requirements proposed in the ED should provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals but encourage the ISSB to consult further with these groups. To be able to audit and provide high quality assurance of the proposals in the Exposure Drafts additional guidance and examples are required. We understand that the AASB is already collaborating with the Australian Auditing and Assurance Standards Board and encourage the ISSB to work with the International Auditing and Assurance Standards Board in the latter's efforts to consider and develop appropriate standards and guidance for assuring sustainability reporting. Such collaboration is necessary to ensure that the standards issued are capable of being subject to assurance.

In addition to consistent reporting standards there should be a clear expectation for consistent application of an assurance standard. Today, the most commonly used assurance standard is ASAE 3000, however we believe that certain elements of ASAE 3000 will need to be periodically updated in line with leading practices and the development of new sustainability reporting standards. This could include enhancing requirements in ASAE 3000 on risk of fraud, controls and management estimates.

We believe that assurance over sustainability-related disclosures should become mandatory in time, starting with limited assurance and then moving to reasonable assurance. Such an approach would be consistent with proposals in the US and the EU, and helps build further trust and credibility in the disclosure.

Some sustainability-related disclosures may be more easily assured than others. For instance, metrics and targets are typically subject to clearer measurement protocols which provide suitable criteria for assurance, however assurance over forward-looking and narrative information which by its nature is more subjective would not necessarily be straightforward, being associated with high degrees of uncertainty, assumptions and judgement. Reporting systems, processes and internal controls over sustainability-related data are also often less mature than those for financial data.

Appropriate expertise may be required for assurance in the form of subject matter experts, to cover the topic specific disclosures, especially when more thematic standards are issued, for example nature and biodiversity and standards in respect of social matters such as workforce and communities. There is a need to educate and upskill assurance professionals in the Australian market on some of the sustainability related topics to provide high quality assurance. We encourage the Australian Auditing and Assurance Standards Board (AUASB), professional bodies and universities to develop education material and conduct training to bridge the gap in addition to considering macro-economic measures. We also encourage the AASB to consult with the Clean Energy Regulator who has developed a greenhouse gas assurance standard (NGER Audit Determination) and register of Greenhouse and Energy Auditors as part of the NGERs schemes and look to leverage and integrate this into any proposals.

C6. When should the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be made effective in Australia and why?

The timelines for making the proposals effective should align with other major markets and allow voluntary early adoption, to ensure that Australia keeps in-step with global developments. This is important for Australia's competitiveness acknowledging that entities have global value chains, face global risks and access capital from global investors.

C7. Should the effective date of the proposals in Exposure Draft on [Draft] IFRS S1 be consistent with, or set for a date after, the effective date of the proposals in Exposure Draft on [Draft] IFRS S2? If so, why?

Refer to comments made in C6.

C8. Would any wording or terminology introduced in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be difficult to understand? If yes, what changes do you suggest and why?

Overall, we commend the ISSB for the concise drafting in the ED. However, we encourage the ISSB to use plain language when finalising the standards recognising that the preparers of the front-end of annual reports are not necessarily those in the finance team.

Materiality

We agree with the general principle behind the use of the terms 'significant' and 'material'. We understand this as being a two-step process whereby the entity identifies <u>significant</u> sustainability-related risks and opportunities (for example, those matters that the entity's board has assessed as significant) and then considers the aspects of those matters that are material to enterprise value for the purposes of disclosure. However, we consider that further explanation of the distinction between 'significant sustainability-related risks and opportunities' and 'disclosure of material information' would be helpful to ensure the most important information is disclosed.

We also consider that it would be helpful to clarify how preparers might comply with the standard when they have yet to address a matter through any aspect of their governance, strategy, risk management, or metrics or targets. For example, emphasising that material information about a significant sustainability-related matter could include a statement that a policy or measure on a matter assessed as significant by the entity is not yet developed, along with a timeframe in which the entity will prepare and report on it.

C9. Unless already provided in response to specific matters for comment A1 to C8 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

We consider that the benefits, which may be difficult to quantify, will substantially outweigh the costs of the proposals. There is an urgent need to address climate change (and other sustainability matters) and the creation of a global baseline for sustainability information may help direct capital to organisations who are investing in transitioning their entities for a low-carbon and sustainable future.

There is also an urgent demand from investors for consistent, comparable sustainability related financial information and a need for entities to have clarity over which standards they should apply for reporting this information. This clarity should enable entities to invest with certainty in implementing or updating appropriate systems and controls, as they do today in respect of financial reporting.

When considering the costs of implementing the proposals, it is important for the AASB to consider that there will be a different journey for different entities. In Australia, many listed and private companies are already using a framework for sustainability reporting such as Global Reporting Initiative (GRI), the Task Force on Climate-related Financial Disclosure (TCFD) recommendations (with Australia ranking in the top four countries globally for adoption) and the International Integrated Reporting Framework. For these preparers, who are relatively advanced in adopting the existing approaches, the ISSB's proposals should be incremental.

We acknowledge that there will be additional costs for entities who are yet to progress or are at an early stage in their ESG reporting maturity. As with the introduction of any new standard, we would expect costs to be higher in the first couple of years, as entities put in place the necessary systems and familiarise themselves with the standards.

Part D: Matters for comment relating to the AASB's proposed approach

D1. Do you agree with the AASB's proposed approach to developing sustainability-related financial reporting requirements as a separate suite of standards? As an alternative model, the AASB would value comments as to whether sustainability-related financial reporting requirements should be developed as part of existing Australian Accounting Standards. The alternative model would result in sustainability-related financial disclosures forming part of an entity's general purpose financial statements.

We agree with the exposure drafts' proposal that sustainability information should be provided at the same time and as part of the same reporting package as the financial statements. We acknowledge that this may be challenging for entities, as they will need to ensure they have the necessary systems, processes, and resources in place to achieve this and may currently disclose sustainability information in a separate sustainability report, published later. However, we consider that aligning financial and sustainability reporting, as set out in the proposals, is an important ambition that responds to the expectations of investors to understand the connections between sustainability and financial information and will further support the full integration of sustainability matters into the entity's governance, strategy, and operations.

We believe it is important that the exposure draft specifies that sustainability information should be included within general purpose financial reporting, but provides flexibility in the location, as it helps to minimise duplication and accommodates different jurisdictional requirements.

We do not support the incorporation of sustainability-related reporting requirements into Australian Accounting Standards. We support the establishment of a separate Australian Sustainability Standards Board under the oversight of the Financial Reporting Council, consistent with the arrangements

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currently in place for the Australian Accounting Standards Board and the Australian Auditing and Assurance Standards Board. We note the IFRS Foundation Trustees' deliberations on the establishment of a separate International Sustainability Standards Board within the IFRS Foundation and believe that much of their reasoning and conclusions for forming separate standard setting boards also holds true in the Australian context. We acknowledge that this would require changes in legislation, however, we believe that it is in the best interest of the Australian economy. Notwithstanding that the sustainability reporting standards are part of general purpose financial reporting we do not believe that the proposed ISSB sustainability standards are in the nature of 'accounting standards', and to incorporate them into Australian Accounting Standards as it would likely create confusion and have significant unintended consequences.

Further, the Australian Accounting Standards are currently underpinned by a concept of transaction neutrality[3]. The AASB For-Profit Entity Standard-Setting Framework explains transaction neutrality as meaning "that like transactions and events are accounted for in a like manner by all types of entities, reflecting their economic substance, unless there is a justifiable reason not to do so. The AASB Not-for-Profit Entity Standard-Setting Framework sets out circumstances where it may be appropriate to use a different approach for not-for-profit entities versus for-profit entities." The ISSB standards are expected to identify investors as the primary users of the proposed sustainability disclosures. We believe it is implicit in the development of such standards that they are being developed for implementation by for-profit entities. To incorporate essentially what are for-profit standards into Australian Accounting Standards which currently apply to a very wide range of entities, including for-profits and not-for-profits (including government bodies, charities and associations etc) is likely to require a significant process of review, outreach, constituent consultation, modification and amendment and would inevitably result in significant delay in the Australian standard setting process. There is an urgent need for standard-setting for sustainability related disclosures and the establishment of a separate standard-setting board is, in our view, a more practical and pragmatic response.

D2 Are the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 in the best interests of the Australian economy

Deloitte believes that ISSB standards are in the best interest of the Australia and the participants in its economy and will aid Australian entities' economic competitiveness. Australian businesses have global value chains, face global risks and access capital from global investors.

As outlined in C6, the timelines for making the proposals effective should align with major markets and allow voluntary early adoption, to ensure that Australia keeps in-step and at pace, with global developments particularly given the urgent need for global action on climate change and other sustainability-related issues as highlighted by the United Nations Sustainable Development Goals.

[3] https://www.aasb.gov.au/about-the-aasb/standard-setting-policies-processes/

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APPENDIX B

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20 July 2022

Emmanuel Faber
Chair
International Sustainability Standards Board
Columbus Building
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E14 4HD

Dear Mr Faber

ED/2022/S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Sustainability Standards Board's ('the ISSB') Exposure Draft (ED) *General Requirements for Disclosure of Sustainability-related Financial Information ('General Requirements')*.

We strongly welcome the ISSB's proposals for global standards for sustainability reporting. This should facilitate consistent, comparable and timely sustainability information for the capital markets. Given the urgency of addressing climate change and other sustainability matters, we encourage the ISSB to finalise and issue its first standards at the earliest opportunity.

We support the creation of a comprehensive global system for corporate reporting with the ISSB standards establishing a global baseline of requirements for reporting on sustainability matters relevant to enterprise value and allowing for interoperability with jurisdictional sustainability disclosure requirements. We welcome the establishment of the Jurisdictional Working Group and encourage the ISSB to intensify its collaboration with jurisdictions, most notably the European Commission, the European Financial Reporting Advisory Group (EFRAG) and the U.S. Securities and Exchange Commission (SEC). As the ISSB, EFRAG and SEC proposals have yet to be finalised, we consider that there is a window of opportunity to achieve a global baseline of sustainability reporting standards. Ongoing collaboration with the jurisdictions will also support the objective of maintaining high quality standards by acting as an additional mechanism for the provision of timely feedback to the ISSB on any challenges in practical application of the standards and contributing to timely post-implementation reviews.

We welcome the ISSB's overall approach to standard-setting, which, in line with the direction set by the IFRS Foundation Trustees and consistent with the recommendations of the Technical Readiness Working Group (TRWG), builds on existing standards and frameworks and should allow for progress to be made at pace. Furthermore, this approach recognises that many companies have adopted or based their current disclosures on the existing frameworks and standards, including the TCFD recommendations which are already mandatory, or about to become mandatory, in some jurisdictions. In that regard, the explicit provision in the proposals that preparers may use other recognised standards as the basis for disclosures when there is not currently an IFRS Sustainability Disclosure Standard (SDS) is helpful and will facilitate adoption. We also believe that building on frameworks and standards which are already familiar to users will enable them more readily to understand the ISSB disclosures and incorporate them into their existing systems for analysis.

We support the ISSB's inclusion of industry-specific requirements, based on the Sustainability Accounting Standards Board (SASB) Standards, into the proposals alongside the cross-sector standards. The SASB Standards have been found to be of particular value to investors. We therefore consider that they provide a good starting point for industry-based content within the architecture of the ISSB standards. However, we recognise that not all jurisdictions or entities are familiar with the SASB Standards and believe that there is a need for further education on the use and application of the requirements. We also recommend that further work is undertaken to ensure that the SASB metrics are appropriately internationalised through further testing outside of the U.S. environment.

We also highlight that the industry-specific metrics set out in the SASB Standards may not be complete in their coverage as the relevance of those metrics to a particular industry will change over time. We therefore encourage the ISSB to build on the established SASB Standards practice of including sufficient industry expertise in the standard-setting process.

We support the use of the four pillars set out in the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) as the basis for the core content of IFRS SDS. The pillars, governance, strategy, risk management, and metrics and targets, were selected by the TCFD for climate-related disclosures on the basis that they reflect how a business is run. We consider that this approach facilitates integration of consideration of sustainability matters into core business practices and will foster market acceptance.

Our further overarching comments are provided below with detailed responses to the consultation questions set out in the Appendix to this letter.

Approach to General Requirements Standard

We support the overall aim of the ED, setting out principles for disclosure of all relevant sustainability-related financial information. In our view, drawing on the relevant principles of the IASB's *Conceptual Framework,* IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides an appropriate foundation for identifying and reporting on sustainability matters. Further, it supports connectivity with financial information, which is a priority for investors.

Hierarchy

We support the proposed 'hierarchy' in paragraph 51 of the ED, which guides preparers to use other frameworks and standards in the absence of a specific IFRS SDS and whilst the ISSB develops other standards. However, we consider that this should be positioned as directional guidance rather than being a mandatory consideration, as currently proposed.

Materiality

We support the ISSB's focus on enterprise value and the objective of the proposals to provide information relevant to the needs of the capital markets and welcome the alignment with the definition in the IASB's Conceptual Framework for General Purpose Financial Reporting and IAS 1, which should help to facilitate connectivity between sustainability and financial information.

We note the use of the terms 'significant' and 'material' and understand this as being a two-step process whereby the entity identifies significant sustainability-related risks and opportunities (for example, those matters that the entity's board has assessed as significant) and then considers the information relating to those matters that is material to enterprise value. However, we consider that further explanation of the distinction between 'significant sustainability-related risks and opportunities' and 'disclosure of material information' is necessary to facilitate consistent understanding and application of these terms in practice. More generally, additional guidance on the application of materiality in the context of sustainability information would be helpful.

We also consider that it would be helpful to clarify within the standard how preparers can comply with the standard when they do not have all elements of their governance, strategy, risk management, or metrics or targets in place for a particular matter and recommend that the wording in BC85 in the Basis for Conclusions is included. For example, the proposals could emphasise that an entity could make a statement that a policy or measure on a matter assessed as significant by the entity is not yet developed, along with a timeframe in which the entity will prepare and report on it.

We recommend that the proposals further clarify the interaction between an entity's impacts on people, the planet and the economy and enterprise value. We consider this was more explicit in the prototype developed by the TRWG and recommend that the Illustrative Guidance is expanded to be clearer on how an entity might go about identifying material information about significant sustainability-related matters, starting with considering the relevant sustainability matters and related impacts on people, planet and the economy, and then identifying a subset of matters that are relevant to enterprise value. The TRWG prototype included content on 'nested and dynamic' materiality, following the work of the 'Group of 5', and this could be re-instated and elaborated in these proposals.

Boundaries of information to be reported

We believe that the ISSB should provide more clarity on the boundaries of information to be reported when applying these standards. This manifests itself in a number of areas of the ED as set out below:

- Definition of sustainability-related financial information – we believe it would be helpful for the ISSB to explain the types of information that may be covered;
- Materiality – we consider that there is a need for clarification on the use of the word 'all' in reference to 'significant' sustainability risks and opportunities. Our understanding is that this is constrained by the word 'significant' and therefore does not require entities to make an assessment of the entire universe of potential sustainability risks and opportunities that may affect the entity; and
- Value chain – we note that the proposals require entities to report on relevant matters across their value chains. The value chain is a very broad concept, going beyond the reporting entity, and therefore we believe that there should be more guidance to help entities to understand how far up and down the value chain they need to look to identify relevant information, for example, how many tiers of suppliers an entity should consider in order to meet the requirement. This should include consideration of the level and availability of information needed from suppliers, customers and others which could be challenging to obtain, especially within the proposed reporting timeline.

Disclosure of financial effects

We support the principle of quantifying the financial effects of sustainability matters but recommend that the ISSB should clarify what this means in practice and further set out its reporting expectations. We highlight that quantification can be difficult to achieve as there are currently no commonly used methodologies for measurement in this area, and, in our experience, it can be a matter of significant judgement to determine what proportion of a risk or opportunity could be attributed to any one sustainability-related matter (for example, what proportion of a flooding risk could be attributed to climate change). We therefore welcome that the ED allows for entities to provide estimates and ranges in their disclosures, and for the provision of qualitative information when entities are unable to provide quantitative information. We believe further evolution of measurement methodologies will be needed before further standard-setting activity could be undertaken in this regard.

Connected information

We believe the concept of connected information is highly important and welcome the emphasis in the ED on the need for entities to report in an integrated way. It is essential to avoid 'reporting silos', which could reduce understandability and lead to lengthy, duplicative disclosures. More fundamentally, integrating sustainability information into the overall content of corporate reporting encourages entities to explain how it relates to their strategy and business model. This has been the aim of the many entities who have adopted integrated reporting and who are using this approach to enhance integrated thinking.

We support the requirement to link sustainability disclosure to the information included in the financial statements, which we view as essential. However, we also recommend that the ISSB emphasise the linkage of information to management commentary or an equivalent framework which provides essential context, for example, greater connections between sustainability information and their impact on an entity's business model.

Reporting timing and location

We agree that aligning financial and sustainability reporting is an important ambition that responds to the expectations of investors to understand the connections between sustainability and financial information, and will further support the full integration of sustainability matters into the entity's governance, strategy and operations. Therefore, we agree that sustainability information should be provided at the same time and as part of the same reporting package as the financial statements. However, we note that this will be challenging for many entities that currently disclose sustainability information in a separate sustainability report, published at a later date, as they will need to ensure they have the necessary systems, processes and resources in place to achieve this objective and meet the proposed requirement. These practical challenges should be considered in the transition provisions and in setting the effective date for the standard.

We believe it is important that the ED specifies that sustainability information should be included within general purpose financial reporting, but provides flexibility in the location, as it helps to minimise duplication and accommodates different jurisdictional requirements.

Understandability of standards

We commend the ISSB for the concise drafting in the ED. However, we encourage the ISSB to use plain language when finalising the standard, recognising that the preparers of the front-end of annual reports are not necessarily those in the finance team. We also encourage the ISSB to provide educational material over time for those that may not be familiar with IFRS terms; and ensure that terms used in the glossary, where relevant, are and continue to be consistent with IFRS Accounting Standards.

Sustainability themes beyond climate

We note that the ISSB has committed to issuing an agenda consultation to inform its future priorities and we encourage the ISSB to move towards publication of this quickly. We therefore welcome the ISSB considering possible topics for its agenda consultation at its inaugural meeting. Whilst climate should be the priority, we consider that there are other sustainability matters that also need to be addressed, for example, social, water and biodiversity. A starting point for identifying some of those themes could be the sustainability disclosure topics within the SASB Standards, GRI, or the themes identified by the WEF International Business Council's Stakeholder Capitalism Metrics.

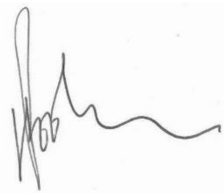
Proportionality

Over time, the ISSB may consider the need for a reduced disclosure standard similar to the IFRS for SMEs, as this would increase the capacity of smaller entities to meet the requirements and help jurisdictions with scoping discussions relating to the adoption of IFRS SDS.

Finally, we congratulate the ISSB for its ambition and swift progress in developing these standards. We encourage the ISSB to continue to maintain good pace and issue this and other standards without delay, given the urgency of responding to climate and other sustainability issues. Furthermore, early publication of the standards will provide clarity on the disclosure requirements that comprise the global baseline, and on which jurisdictions can add further requirements as needed, to promote the closest possible global alignment.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS and Corporate Reporting Leader
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Appendix— ED/2022/S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

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. (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? (b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not? (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? (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?

(a) We believe that the ED clearly states that an entity would be required to identify and disclose material information about all the significant sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS SDS. However, we recommend further clarity and guidance is provided in relation to 'significant' sustainability-related matters. The proposals do not give sufficient information to help preparers understand exactly what 'significant' means in this context, how they would go about identifying all significant matters, and what level of due diligence to apply in that process. Given that there is some confusion between the terms 'significant' and 'material', we recommend that the ISSB considers an alternative term such as 'principal' in relation to the identification of risks and opportunities.

In addition, we consider that there is a need for clarification of the use of the word 'all' in reference to 'significant' sustainability risks and opportunities. Our understanding is that this is constrained by the word 'significant' and therefore does not require entities to make an assessment of the entire universe of potential sustainability risks and opportunities that may affect the entity. We understand that the intent of the proposals is to encompass sustainability-related matters such as those that would be on the agenda of the board and its committees, including consideration of matters across the value chain and impacts that could affect enterprise value over time, including in the long term.

(b) We agree that the proposed requirements set out in the ED meet its proposed objective.

(c) In our view, while it is relatively clear how the proposed requirements in the ED would be applied together with the proposed IFRS S2, the interaction between this ED and other IFRS SDS could be made more explicit. For example, clarifying sentences could be added to paragraph 51, which currently directs preparers to reference other IFRS SDS. This could provide more guidance to preparers as to what consideration they should give to those other standards when determining relevant information, including clarifying the interaction between cross-industry and industry-specific requirements.

(d) We agree that the requirements proposed in the ED should provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals but encourage the ISSB to collaborate further with the International Auditing and Assurance Standards Board (IAASB) noting its project on Sustainability Assurance. This will enable both organisations to identify processes, procedures and controls that should underlie the preparation and disclosure of sustainability information.

We consider that there are areas of the EDs which could be challenging for assurance. These include:

- Forward-looking information, including the proposal to report on anticipated effects on financial performance, position and cash flows which is akin to forecasts;
- Identifying criteria used by management to measure and prepare sustainability-related financial information; and
- Scope of value chain.

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.

(a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?

(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?

(a) Overall, we believe that the objective as set out in paragraph 1 of the ED is clear and helpful as it is structured in the same way as the IASB's Conceptual Framework. The focus on the primary users of general purpose financial reporting along with the clarity on the objective to provide information that would enable users to assess enterprise value provide a clear boundary for the information to be reported.

We have some specific drafting comments:

- Paragraph 5 – the last sentence states "information that is essential for assessing the enterprise value of an entity includes information that is provided by the entity in its financial statements and sustainability-related financial information". We recommend that this also refers to information provided in management commentary or an equivalent framework.
- Paragraph 6(d) refers to "knowledge-based assets" We consider this would be better positioned as an example or expanded to include other types of intangible assets.

(b) In our view, there is benefit in providing additional guidance on "sustainability-related financial information". The reference to enterprise value is helpful for setting the boundary of sustainability information for the purpose of these standards. However, it would be helpful if the ISSB could provide examples of the types of information that could be material from an enterprise value perspective on a cross-industry basis. For example, impacts on people could be one such category. The SASB Standards sustainability disclosure topics provide some guidance, however, we consider that it would be helpful for the ISSB to set some parameters on what should be included within the definition.

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?

We agree that IFRS SDS should be permitted for use alongside local GAAP financial statements provided this is compatible with local regulations. We consider that the proposal in the ED would be beneficial as jurisdictions may not have local sustainability reporting standards or may wish to make use of the ISSB standards for private entities that apply local GAAP.

While we consider that it is important for IFRS SDS to be available for use with local GAAP financial statements, we note that ISSB standards are designed for use with IFRS Accounting Standards and, as the ED highlights, connectivity between sustainability-related financial information and the financial statements is important. In instances where IFRS SDS are being used with local GAAP, this may diminish consistency and comparability between sustainability-related financial information and information in the financial statements where local GAAP is not based on IFRS Accounting Standards. However, we believe this can be mitigated by transparency on the basis of preparation of the financial statements and disclosure where the accounting basis is substantially different from IFRS.

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.

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

(a) We consider that the disclosure objectives for governance, strategy, risk management, and metrics and targets are clear and appropriately defined. As noted in our cover letter, we support the use of the four pillars set out in the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) as the basis for the core content of IFRS SDS. The pillars, governance, strategy, risk management, and metrics and targets, were selected by the TCFD for climate-related disclosures on the basis that they reflect how a business is run. We consider that this approach facilitates integration of consideration of sustainability matters into the core business practices and will foster market acceptance.

We also highlight that a number of entities and investors are familiar with the pillars and the resulting information from TCFD, which would facilitate transition to the ISSB standards.

However, we note that [draft] IFRS S1 and S2 have overlapping content in the governance, strategy and risk management requirements. Consideration should be given to streamlining that content so that general requirements reside only in IFRS S1.

(b) We broadly agree that the disclosure requirements for governance, strategy, risk management, and metrics and targets are appropriate to their stated disclosure objective and are well explained.

Governance

The drafting in paragraph 13 could be improved. Paragraph 13(a) refers to both governance bodies or individuals responsible for the oversight of climate-related risks and opportunities. However, 13(b)-(g) only refer to bodies. Smaller entities may not have complex governance structures, and these matters may therefore be subject to the oversight of particular individuals. Therefore, we recommend referring both to bodies and individuals throughout the requirements.

Time-horizons

We welcome that the ISSB is providing flexibility to entities in determining the short-, medium-, and long-term time horizons. However, we recommend that the ISSB expands on the guidance in this area, potentially through the use of examples.

Financial position, financial performance and cash flows

We support the principle of quantifying the financial effects of sustainability matters but recommend that the ISSB should clarify what this means in practice and further sets out its reporting expectations. We highlight that quantification can be difficult to achieve as there are currently no commonly used methodologies for measurement in this area, and, in our experience, it can be a matter of significant judgement to determine what proportion of a risk or opportunity could be attributed to any one sustainability-related matter (for example, what proportion of a flooding risk could be attributed to climate change). We therefore welcome that the ED allows for entities to provide estimates and ranges in their disclosures, and for the provision of qualitative information when entities are unable to provide quantitative information. We believe further evolution of measurement methodologies will be needed before further standard-setting activity could be undertaken in this regard.

We consider that paragraph 22 would benefit from further application guidance and/or examples to help preparers understand what disclosures are intended. Parts (c) and (d) of paragraph 22 use the phrase "how it expects its financial position [financial performance] to change over time". We recommend that an entity be required to disclose what timeframe it has applied in making this disclosure, linking it to the short-, medium- and long-term horizons. We also recommend that the ISSB clarify the circumstances under which an entity might appropriately state that it is unable to make quantitative disclosures (for example, there is insufficient capacity in the entity to perform the exercise) and consideration given to a requirement to provide a timeframe in which those disclosures could be made.

Metrics and targets

Paragraph 31 relates to metrics. There is a drafting error in paragraph 31(c) which should use the word 'metrics' instead of "targets".

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.

(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?

(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?

(c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

(a) We agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements. This is essential to enhance comparability and connectivity. However, we note that the ED on Climate-related Disclosures ('Climate') refers to the GHG Protocol, which includes approaches for reporting boundaries that could differ from the reporting entity concept for the financial statements. This could lead to inconsistent disclosures in respect of the reporting entity on GHG emissions (see our response to [draft] IFRS S2, question 9(e)).

(b) The value chain is a very broad concept, going beyond the reporting entity, and therefore we believe that there should be more guidance to help entities to understand how far up and down the value chain they need to look to identify relevant information, for example, how many tiers of suppliers an entity should consider in order to meet the requirement. This should include consideration of the level and availability of information needed from suppliers, customers and others which could be challenging to obtain, especially within the proposed reporting timeline.

In addition, we recommend amendments are made to paragraph 40(c) in respect of associates and joint ventures as follows:

- As currently drafted, the use of the word 'control' for associates and joint ventures seems to go further than IFRS Accounting Standards where associates and joint ventures are not consolidated;
- Further clarity or guidance is needed around the information expected in respect of associates and joint ventures; and
- For joint ventures and other financed investments, it should be clarified whether the approach should be consistent with the preparation of the financial statements and if this is practicable. We note that there could also be challenges with accessing data from joint ventures and associates and it may be helpful for the ISSB to provide guidance on the approach in these circumstances.

(c) We agree with the proposed requirement for identifying the related financial statements.

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.

(a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?

(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?

We believe the concept of connected information is highly important and welcome the emphasis in the ED on the need for entities to report in an integrated way. It is essential to avoid 'reporting silos', which could reduce understandability and lead to lengthy, duplicative disclosures. More fundamentally, integrating sustainability information into the overall content of corporate reporting encourages entities to explain how it relates to their strategy and business model. This has been the aim of the many entities who have adopted integrated reporting and who are using this approach to enhance integrated thinking.

(a) Whilst we agree that the requirement is clear on the need for connectivity between various sustainability-related risks and opportunities, we believe that information on sustainability-related risks and opportunities should also be connected to information in management commentary or an equivalent framework (for example, the Management Report, Strategic Report or Integrated Report). For example, sustainability-related risks and opportunities should be linked to and considered in the context of an entity's business model and other areas of strategy covered in management commentary. Similarly, risks and opportunities could also be connected to broader corporate targets, actions and plans. We therefore recommend that this linkage is emphasised in paragraph 43 and that consideration is given to a further example highlighting this aspect of connected information in paragraph 44. We also consider that there is scope to provide further examples here to enhance users' understanding and recommend that the examples in BC57 of the Basis for Conclusions are brought forward.

    This observation is also relevant in the context of the agenda of both the ISSB and the IASB. Consideration should be given as to how these proposals relate to the future direction of the International Integrated Reporting Framework under the IFRS Foundation, the IASB's project on Management Commentary and the IASB's newly-added project on climate-related risks.

    We also consider that the ISSB should be cognisant of jurisdictional requirements in respect of management commentary or similar. Guidance on connectivity should cater for jurisdictional reporting structures which are not fully based on IFRS. For example, a jurisdiction may require an entity to prepare its financial statements under IFRS Accounting Standards and apply ISSB SDS, but may have a pre-existing local framework for reporting on management commentary.

(b) We 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.

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

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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.

(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?

(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

(a) We believe that the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed is clear. In particular, we consider the inclusion of the principle in paragraph 47(b) which is the same as the concept to present fairly in IAS 1 to be helpful.

(b) We agree with the sources of guidance, set out in paragraph 51, to identify sustainability-related risks and opportunities and related disclosures. We consider these to be a useful point of reference in the absence of a specific IFRS SDS and whilst a suite of standards are developed by the ISSB.

We support the proposed 'hierarchy' in paragraph 51 which includes important provisions on the use of other standards and frameworks such as the SASB Standards, which we welcome. However, we believe that this provision should be positioned as directional guidance rather than being a mandatory consideration. We recommend that instead of saying an entity "**shall** consider" the disclosure topics in the listed standards, the wording should be amended to "**could** consider".

This approach recognises that many companies have adopted or based their current disclosures on the existing frameworks and standards, including the TCFD recommendations which are already mandatory, or about to become mandatory, in some jurisdictions. In that regard, the explicit provision in the proposals that preparers may use other recognised standards as the basis for disclosures when there is not currently an IFRS SDS is helpful and will facilitate adoption. We also believe that building on frameworks and standards which are already familiar to users will enable them more readily to understand the ISSB disclosures and incorporate them into their existing systems for analysis.

We note that the ISSB is in the process of consolidating some of the leading voluntary frameworks and therefore recommend that the integration of other sources of guidance is kept under review as standard-setting convergence takes place. Following transition of the SASB Standards into the IFRS Foundation, it may also be appropriate to change the wording to reflect how the SASB Standards content and materials will be part of the IFRS Foundation literature.

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?

(a) We support the ISSB's focus on enterprise value and the objective of the proposals to provide information relevant to the needs of capital markets and welcome the alignment with the definition in IASB's Conceptual Framework for General Purpose Financial Reporting and IAS 1 which should help to facilitate connectivity between sustainability and financial information.

We note the use of the terms 'significant' and 'material' and understand this as being a two-step process whereby the entity identifies <u>significant</u> sustainability-related risks and opportunities (for example, those matters that the entity's board has assessed as significant) and then considers the information relating to those matters that is material to enterprise value. However, we consider that further explanation of the distinction between 'significant sustainability-related risks and opportunities' and 'disclosure of material information' is necessary to facilitate consistent understanding and application of these terms in practice. More generally, additional guidance on the application of materiality in the context of sustainability information would be helpful.

We also welcome the inclusion of some of the key principles in IAS 1 such as paragraph 60 which highlights that disclosures are only required when material; and, at times, disclosure of additional information may be needed in the absence of a specific disclosure requirement, as stated in paragraph 61 which can be linked to the fair presentation concept.

However, we consider that it would be helpful to clarify within the standard how preparers can comply with the standard when they do not have all elements of their governance, strategy, risk management, or metrics or targets in place for a particular matter and recommend that the wording in BC85 of the Basis for Conclusions is included. For example, the proposals could emphasise that an entity could make a statement that a policy or measure on a matter assessed as significant by the entity is not yet developed, along with a timeframe in which the entity will prepare and report on it.

(b) We believe the proposed definition should capture the breadth of sustainability risks and opportunities relevant to enterprise value.

(c) We recommend that the proposals further clarify the interaction between an entity's impacts on people, the planet and the economy and enterprise value. We consider this was more explicit in the prototype developed by the TRWG. In particular, we believe it would be worth clarifying that material sustainability-related financial disclosure for users may include information about the entity's impacts on people, planet and economy when those impacts affect its cash flow over the short, medium and long term or the value attributed by users to those cash flows.

We further suggest that the Illustrative Guidance is expanded to be clearer on how an entity might approach identifying material information about significant sustainability-related matters. For example, an entity may start by considering the relevant sustainability matters and its related impacts on people, the planet and the economy. It might then identify the information on those matters that is material to enterprise value. The prototype included content on 'nested and dynamic' materiality in Appendix C: Guidance on Implementing Materiality, following the work of the 'Group of 5', and this could be re-instated and elaborated in these proposals. In time, the ISSB could consider whether a Practice Statement on Materiality for sustainability-related financial information, similar to that published by the IASB, would be helpful. In addition, we recommend that the ISSB could consider whether disclosure of an entity's assessment of materiality could be useful.

(d) We agree with the proposal to relieve an entity from disclosing information otherwise required by the ED if local laws or regulations prohibit the entity from disclosing that information as it will avoid jurisdictions needing to make amendments to ISSB standards to comply with legal requirements.

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?

We agree that aligning financial and sustainability reporting is an important ambition that responds to the expectations of investors to understand the connections between sustainability and financial information, and will further support the full integration of sustainability matters into the entity's governance, strategy and operations. Therefore, we agree that sustainability information should be provided at the same time and as part of the same reporting package as the financial statements. However, we note that this will be challenging for many entities that currently disclose sustainability information in a separate sustainability report, published at a later date, as they will need to ensure they have the necessary systems, processes and resources in place to achieve this objective and meet the proposed requirement. These practical challenges should be considered in the transition provisions and in setting the effective date for the standard.

Paragraph 71 requires disclosure of material information after the end of the reporting period. We recommend that the ISSB amends the drafting in this paragraph to link it to IAS 10 *Events after the reporting period* and clarify whether disclosure is required for adjusting and/or non-adjusting events.

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—ie 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?

(a) We believe it is important that the ED specifies that sustainability information should be included within general purpose financial reporting, but provides flexibility in the location, as it helps to minimise duplication and accommodates different jurisdictional requirements.

(b) We are not aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the ED.

(c) We support the proposals on the use of cross-referencing. We consider that paragraph 77 is helpful for enforcement purposes. However, we believe that further clarity should be provided as to whether cross-referencing is permitted outside the reporting package (for example, to a sustainability report). If this is permitted, we consider that it is necessary for the information to be easily accessible and clearly identifiable and suggest that the ISSB should work closely with the IAASB to understand the implications of this approach for assurance.

(d) We agree that paragraph 78 is clear that entities are encouraged to integrate information and avoid duplication.

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

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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?

(a) In our view, the concepts in IAS 1 and IAS 8 have been appropriately adapted in the proposals.

We believe that the guidance on estimation and outcome uncertainty is particularly helpful given the subjective nature of sustainability information and the degree of uncertainty such as in respect of the measurement of Scope 3 GHG emissions.

We have a concern that the wording in paragraph 63 - "the entity shall also disclose comparative information for narrative and descriptive sustainability-related financial disclosures" - could result in clutter and confuse current year narrative. As an alternative, the entity could be required to provide analysis, similar to the business review, of changes in sustainability risks and opportunities.

We also recommend that paragraph 88 of the ED should be better aligned with IAS 8 with an error being restated from the beginning of the reporting period rather than 'from the earliest date practicable'.

(b) We disagree with this approach as we are concerned that the requirement to restate prior period metrics if estimates change may lead to too frequent restatements. We would prefer an approach similar to IAS 8. We also suggest that the ISSB provides clarification on whether an update to the methodologies underpinning Scope 3 GHG emissions metrics would trigger a restatement or whether this would be treated as a change in estimates as for IFRS Accounting Standards.

It would be helpful for the drafting to be made more explicit in respect of estimate changes from the prior year.

(c) We agree with the proposal that financial data and assumptions within sustainability-related financial disclosures should be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible.

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

The 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?

We agree with the proposal as it is consistent with the approach taken for IFRS Accounting Standards.

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

(a) We consider that the standards should be made available as soon as possible with early adoption permitted. With regard to the effective date, we encourage the ISSB to consider the practical implications of these proposals and the different degrees of readiness across jurisdictions, and allow for regulators to decide appropriate timescales for mandating standards through local regulations.

(b) We agree with this proposal, which is consistent with the approach taken for IFRS Accounting Standards.

Question 14—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 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?

We support the creation of a comprehensive global system for corporate reporting with the ISSB standards establishing a global baseline of requirements for reporting on sustainability matters relevant to enterprise value and allowing for interoperability with jurisdictional sustainability disclosure requirements.

We do not consider there any particular aspects of the ED that would limit the ability of IFRS SDS to be used as a global baseline for sustainability reporting on matters relevant to enterprise value to capital markets. We welcome the principles-based and neutral approach to standard-setting that is being taken by the ISSB. We expect this will support the ability of jurisdictions to strive for global consistency and add requirements or further specificity where needed. In that regard, we welcome the establishment of the Jurisdictional Working Group and encourage the ISSB to intensify its collaboration with jurisdictions, most notably the European Commission, the European Financial Reporting Advisory Group (EFRAG) and the U.S. Securities and Exchange Commission (SEC). In particular, we encourage further collaboration in areas such as the structure of the standards, concepts, including materiality, and definitions. As the ISSB, EFRAG and

SEC proposals have yet to be finalised, we consider that there is a window of opportunity to achieve a global baseline of sustainability reporting standards.

Ongoing collaboration with the jurisdictions will also support the objective of maintaining high quality standards by acting as an additional mechanism for the provision of timely feedback to the ISSB on any challenges in practical application of the standards and contributing to timely post-implementation reviews.

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 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 S2 *Climate-related Disclosures 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)?

We welcome that the ISSB is considering digital consumption alongside the development of its standards. We note that the ISSB has recently published a Staff Request for Feedback on the Staff Draft of the IFRS Sustainability Disclosure Taxonomy.

Question 16—Costs, benefits and likely effects

The ISSB is committed to ensuring 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?

(a) We consider that the benefits, which may be difficult to quantify, should significantly outweigh the costs of the proposals. There is an urgent demand from investors for consistent, comparable and timely sustainability-related financial information and a need for entities to have clarity over which standards they should apply for reporting this information. This clarity should enable entities to invest with certainty in appropriate systems and controls, as they do today in respect of financial reporting.

When considering the costs of implementing the proposals, it is important for the ISSB to consider that there will be a different journey for different jurisdictions and entities. Some jurisdictions are already using frameworks for sustainability reporting.

The approach adopted by the ISSB recognises that many companies have adopted or based their current disclosures on the existing frameworks and standards, including the TCFD recommendations which are already mandatory, or about to become mandatory, in some jurisdictions. For entities that are already applying standards and frameworks such as TCFD, GRI, CDSB, the SASB Standards and integrated reporting, the costs of transition should be lower.

As with the introduction of any new standard, we would expect costs to be higher in the first year as entities put in place the necessary systems and familiarise themselves with the standards.

We also consider that there are considerable benefits for all stakeholders in increased transparency and greater insight into the risk and value drivers of an entity.

(b) There will be costs relating to resourcing including maintaining the information as well as ensuring that sustainability-related risks and opportunities are embedded in the management process and appropriately measured.

Question 17— Other comments
Do you have any other comments on the proposals set out in the Exposure Draft?

Sustainability themes beyond climate

We note that the ISSB has committed to issuing an agenda consultation to inform its future priorities and we encourage the ISSB to move towards publication of this quickly. We therefore welcome the ISSB considering possible topics for its agenda consultation at its inaugural meeting. Whilst climate should be the priority, we consider that there are other sustainability matters that also need to be addressed, for example, social, water and biodiversity. A starting point for identifying some of those themes could be the sustainability disclosure topics within the SASB Standards, GRI or the themes identified by the WEF International Business Council's Stakeholder Capitalism Metrics.

Proportionality

Over time, the ISSB may consider the need for a reduced disclosure standard similar to the IFRS for SMEs, as this would increase the capacity of smaller entities to meet the requirements and help jurisdictions with scoping discussions relating to the adoption of IFRS SDS.

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20 July 2022

Emmanuel Faber
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Dear Mr Faber

ED/2022/S2 *Climate-related Disclosures*

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Sustainability Standards Board's ('the ISSB') Exposure Draft (ED) Climate-related Disclosures ('Climate').

We strongly support the proposals in the ED. In particular, we welcome that they build on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. This builds on the success of the TCFD, leverages the SASB Standards to incorporate industry-specific disclosure requirements and responds to the investors' call for standards that facilitate consistent and comparable information on climate-related risks and opportunities.

We welcome the ISSB prioritising a climate standard given the urgency of this issue and recommend that the ISSB moves towards finalising the standard as soon as possible, whilst respecting its due process.

Our overarching comments are provided below with detailed responses to the consultation questions set out in the Appendix to this letter. This response should also be read in conjunction with our response to ED/2022/S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ('General Requirements').

Approach to the Climate standard

We agree with the approach taken to the development of the standard which builds on the TCFD recommendations, including the organising approach to core content of governance, strategy, risk management, and metrics and targets. This approach is well understood by entities and users globally: the TCFD recommendations have been adopted by many organisations voluntarily and it is mandated in some jurisdictions.

We also welcome the ED's proposals to promote consistent and comparable reporting on climate-related matters, while making accommodations that respond to the degree of uncertainty inherent in measuring and reporting on them. In particular, we welcome the proposals for providing quantitative information while allowing for qualitative information to be provided when quantitative is not practicable.

We support the ED's ambition for scenario analysis to become mainstream since users have emphasised the importance of understanding the resilience of the entity under different scenarios. As an interim step, we agree with the proposal that alternative techniques may be used when an entity is unable to use climate-related scenario analysis. This provides preparers, including those in smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, necessitate an iterative learning process, and may take multiple planning cycles to achieve. However, we disagree with the level of detail that is proposed for the disclosure of alternative techniques. In particular, disclosing 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 will require significant resources that smaller entities (which would likely apply an alternative approach) may not have. This also goes beyond the disclosures that would be required for financial reporting.

Metrics

We support the proposed cross-sector metric categories. We note that these categories have already been found to be relevant by many users of climate-related reporting, as evidenced by responses to the TCFD's 2021 consultation[1].

We support the disclosure of Scope 3 greenhouse gas (GHG) emissions, recognising that they often form the largest part of an entity's carbon footprint. We also note that a number of jurisdictions have proposed or already require partial or full disclosure of Scope 3 GHG emissions. We acknowledge the many challenges of measuring Scope 3 GHG emissions, including the difficulties in obtaining the data, the methodology for calculating these emissions being based on estimates which are inherently uncertain and applying materiality. We welcome the helpful provisions in the proposals that support preparers, for example, guidance on estimation uncertainty. However, we encourage the ISSB to take account of the readiness of entities to provide this information, including availability and quality of data, the complexities of accounting, and available resources and processes, including technology solutions, and consider the need for further support for companies, such as transition arrangements. We also encourage the ISSB to work with the GHG Protocol to better align GHG Protocol concepts with the requirements in IFRS such as establishing the reporting boundary for associates, joint ventures and investments.

We also support the approach taken by the ISSB to include industry-specific metrics as a core part of the standard. Industry-specific metrics have been found to be important to users of sustainability information. However, we believe that the guidance currently included in the proposals on how cross-sector standards are intended to work together with industry-specific metrics is not sufficient and a better explanation should be provided on the relationship between cross-sector and industry-specific metrics, including in relation to presentation of the metrics.

In our view, more guidance is needed to assist entities to help them navigate the industry-specific topics in Appendix B, including how entities with activities that span more than one industry could readily identify the industries or disclosures that are relevant to their business. In addition, the industry-specific requirements should be supplemented with educational material that would be particularly useful for those entities and jurisdictions that may not be familiar with the SASB Standards. Furthermore, we recommend a detailed review of Appendix B before the ISSB finalises its standard to ensure that the metrics included therein are relevant.

[1] TCFD: Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans: Summary of Responses (October 2021) TCFD: Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans: Summary of Responses (October 2021)

Current and anticipated financial effects

We recommend that the ISSB clarify what it means by the terms 'current and anticipated' financial effects. We note that disclosing current and anticipated effects may be difficult to achieve in practice. There is no commonly used methodology for measurement in this area, and, in our experience, it can be a matter of significant judgement to determine what proportion of a risk or opportunity could be attributed to any one sustainability-related matter (for example, what proportion of a flooding risk could be attributed to climate change, and therefore to assess the precise financial effects). We therefore welcome that the ED allows for entities to provide estimates and ranges in their disclosures, and for the provision of qualitative information when entities are unable to provide quantitative information.

Global alignment

We welcome the establishment of the Jurisdictional Working Group and encourage the ISSB to intensify its collaboration with jurisdictions, most notably the European Commission, the European Financial Reporting Advisory Group (EFRAG) and the U.S. Securities and Exchange Commission (SEC). We believe that the interoperability of the climate standards is essential and recommend that the ISSB together with the Jurisdictional Working Group consider how compatibility between the different climate standards can be enhanced. As the ISSB, EFRAG and SEC proposals have yet to be finalised, we consider that there is a window of opportunity to achieve a global baseline of sustainability reporting standards, including on climate-related matters.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS and Corporate Reporting Leader

Appendix 1—ED/2022/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?

(a) We agree with the objective that is set out in paragraph 1 of the ED with one exception. The objective uses the words "significant climate related risks and opportunities". [Draft] IFRS S1 requires the specification of significant sustainability-related risks and opportunities. [Draft] IFRS S2 then requires the specification of significant climate-related risks and opportunities. This implies that those specific risks identified by thematic standards are by default significant risks.

We recommend that the ISSB deletes the word 'significant' in the Climate ED. In our view, if an entity determines that climate is a significant risk or opportunity then it should assess what information about climate is material.

(b) We agree that the objective focuses 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) We agree that the disclosure requirements set out in the ED meet the objectives described in paragraph 1.

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.

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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?

We broadly agree with the proposed requirements related to governance as we believe that these would provide users of general purpose financial reporting with an understanding of the entity's internal structures and processes for the identification, assessment and oversight of climate-related risks and opportunities.

The drafting in paragraph 5 could be improved. Paragraph 5(a) refers to both governance bodies or individuals responsible for the oversight of climate-related risks and opportunities. However, 5(b)-(g) only refer to bodies. Smaller entities may not have complex governance structures, and these matters may therefore be subject to the oversight of particular individuals. Therefore, we recommend referring to both bodies and individuals throughout the requirements.

We welcome the flexibility that is provided in paragraph 6 of the ED for governance disclosures to be provided on an integrated basis when an entity's oversight of sustainability-related risks and opportunities is managed in this way. In practice, a board is likely to manage its principal risks and uncertainties in the round taking into consideration both financial and sustainability matters. In this regard, we also support the flexibility provided in the General Requirements ED of being able to provide disclosures as part of general purpose financial reporting without specifying the exact location. In the context of governance disclosure, a number of jurisdictions have corporate governance codes which contain provisions for governance reporting so the approach that is proposed would avoid duplication.

As an overall comment, we note that paragraphs 4 and 5 of the Climate ED replicate the requirements in paragraphs 12-13 of [draft] IFRS S1. We suggest that [draft] IFRS S2 could be simplified by including a reference to the relevant paragraphs in [draft] IFRS S1. In addition, we believe that paragraph 5 in [draft} IFRS S2 should be re-written to state that an entity must disclose the information required by paragraphs 25 and 26 in [draft] IFRS S1 as it relates to the governance of climate-related risks and opportunities. We also recommend moving paragraph 6 in [draft] IFRS S2 after paragraph 13 in [draft] IFRS S1 and moving paragraph 6 in [draft] IFRS S2 to after paragraph 26 in [draft] IFRS S1 in the section on risk management.

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?

(a) Whilst we believe that the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities are sufficiently clear, we recommend that the word 'significant' is removed from paragraph 9 as noted in our response to question 1(a) above.

We welcome the inclusion of time horizons as determined by the entity; and the differentiation between transition and physical risks.

(b) We agree with the disclosure topics identified in the industry-based requirements as they are a useful starting point for an entity to consider the specific risks and opportunities it may need to address. We note that an entity could fall into more than one industry through its breadth of activities and some guidance on how an entity navigates this would be helpful.

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?

(a) Overall, we agree with the proposed disclosure requirements about the effects of climate-related risks and opportunities on an entity's business model and value chain. However, we consider that the value chain is a complex concept and further guidance may be needed to help entities determine what to include. See our response to the General Requirements ED for further information.

(b) We agree that the starting point for disclosure about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative as this approach balances the measurement challenges with the information that users of general purpose financial reporting need. We also note that it is difficult for entities to determine the exact proportion of a risk that can be attributed to climate (for example, the proportion of flooding risk, and resulting financial impacts).

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?

(a) We agree with the proposed disclosure requirements: the disclosure of an entity's transition plan towards a lower-carbon economy is important to enable users of general purpose financial reporting to assess the entity's current and planned responses to the risks and opportunities related to decarbonisation that can reasonably be expected to affect its enterprise value. In our view, the disclosures address the concerns of users to understand specific plans and commitments.

However, we have some specific comments on areas where we consider Paragraph 13 could be strengthened.

- The focus of the information regarding climate-related targets for transition plans in paragraphs 13(b)(ii)-(iii) only discusses emissions. We recommend including other climate measures (e.g., use of energy, water, etc.) but only to the extent that these have a clear link to the entity's response to climate-related risks and opportunities. Examples from the industry-specific metrics could usefully be included here; and

- There is further scope for linking 'legacy assets' in Paragraph 13(a)(i)(1) with financial reporting disclosures including those on property, plant and equipment and decommissioning obligations. We also note that the proposed definition of legacy assets currently includes "or has lost nearly all of its initial value" and could be read as including all heavily depreciated long-lived assets near the end of their useful economic life which we do not believe was the intention.

(b) We do not consider that any additional disclosures related to transition plans are necessary.

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(c) In our view, the proposed carbon offset disclosures are sufficient to enable users of general purpose financial reporting to gain insight into an entity's approach to reducing emissions, including the role played by carbon offsets and the quality of those offsets. The proposals promote greater transparency. Offsets are a complex area and therefore it is important that disclosures are clear on the reliance placed on offsets and arrangements used. That said, we consider that there are few areas which could be strengthened.

- We think a further requirement could be added to specify that the disclosures should not mask gross emissions. To achieve this, we suggest there is a requirement to provide separate disclosures on carbon credits, carbon offsets or avoided emissions;
- To enhance connectivity, we recommend the ISSB work closely with the IASB on its project on carbon credits; and
- In paragraph 13 (b)(iii)(3), we encourage the ISSB to consider including some wording for carbon offsets that are not yet known.

(d) We consider that the proposed carbon offset requirements appropriately balance the cost for preparers with the need to disclose enough information to enable users of general purpose financial reporting to gain insight into the entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets. This is a good example of where jurisdictional requirements could be added to allow for more specific disclosures relating to carbon schemes and refer to other regulations that are in force.

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 effects 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?

(a) We agree with the principle 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. However, for clarity, we suggest that the phrase "unless it is unable to do so" is replaced with wording similar to paragraph 18 in IFRS 8 *Operating Segments* "unless the necessary information is not available and the cost to develop it would be excessive", in order to provide more clarity as to the circumstances when an entity may state it is unable to make the required quantitative disclosures.

We support the ISSB's ambition in moving towards more quantitative disclosure but recognise that modelling techniques for quantitative disclosures are still developing and data systems within entities need to evolve further. For example, quantitative information may be easier to provide over the short or medium term whereas qualitative information may be appropriate for the longer term. We consider that the ED is consistent with this position but believe it would be helpful to clarify this point further.

(b) We 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.

We recommend that the ISSB clarify what it means by the terms 'current and anticipated' financial effects. We note that disclosing current and anticipated effects may be difficult to achieve in practice. There is no commonly used methodology for measurement in this area, and, in our experience, it can be a matter of significant judgement to determine what proportion of a risk or opportunity could be attributed to any one sustainability-related matter (for example, what proportion of a flooding risk could be attributed to climate change, and therefore to assess the precise financial effects). We therefore welcome that the ED allows for entities to provide estimates and ranges in their disclosures, and for the provision of qualitative information when entities are unable to provide quantitative information.

(c) We welcome the reference to 'short, medium and long term' in respect of current and anticipated effects. These timeframes will be different depending on the type of entity and its industry. Therefore, we recommend that paragraph 14(c) and (d), which refer to how an entity's financial position and performance will 'change over time', are amended to require entities to disclose the timeframes that they are using. In our view, this will enhance comparability of the information.

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

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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 disclose 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 15(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?

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(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(c) 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?

(a) The likelihood, magnitude and timing of climate-related risks affecting an entity are often complex and uncertain and, therefore, users of general purpose financial reporting seek to understand the resilience of an entity's strategy (including its business model) to climate change, factoring in the associated uncertainties. We welcome the emphasis on resilience in the ED and agree that the items listed in paragraph 15(a) should help meet users' needs to understand the climate resilience of an entity's strategy. As this is a developing area, it may be helpful for the ISSB to provide further guidance by way of practical examples.

(b)

i. We support the proposal, which reflects an appropriate ambition for scenario analysis to become mainstream. As an interim step, we agree with the proposal that alternative techniques may be used when an entity is unable to use climate-related scenario analysis. This provides preparers, including those in 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.

   Paragraph 15 states that "the entity shall use climate-related scenario analysis to assess its climate resilience unless it is unable to do so". As outlined in our response to question 6(a), we recommend alternative wording for the phrase "unable to do so".

ii. We agree with the 'comply or explain' approach as we believe that entities should be encouraged to use scenario analysis.

iii. N/a, see our response to Question 7(b)(i).

(c) We agree with the proposed disclosures about an entity's climate-related scenario analysis.

(d) We disagree with the level of detail that is proposed for the disclosure of alternative techniques. In particular, disclosing 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 will require significant resources that smaller entities (which would likely apply an alternative approach) may not have. This also goes beyond the disclosures that would be required for financial reporting.

(e) We agree that the proposals appropriately balance the need for better information on climate resilience with the need to allow entities to select approaches appropriate to their facts and circumstances.

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?

We agree with the proposed disclosure requirements as their application should provide information that enables users to understand the process, or processes, that an entity uses to identify, assess and manage climate-related risks and opportunities. The inclusion of opportunities in this requirement acknowledges that both risks and opportunities can relate to or result from the same source of uncertainty. It also reflects an increasingly common practice to include opportunities in risk management techniques and processes.

As noted in our response to Question 2, we consider that there is an opportunity to simplify [draft] IFRS S2 where requirements replicate those in [draft] IFRS S1. In respect of the risk management disclosures, paragraph 17 of the climate ED replicates the requirement in paragraph 26 of [draft] IFRS S1.

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

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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 share 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 nonmandatory Illustrative Guidance for each cross-industry metric category to guide entities.

Paragraphs BC105–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?

(a) We agree with the seven proposed cross-industry metric categories and note that these categories were already found to be relevant by many users of climate-related reporting in the consultation by TCFD in 2021.

However, we believe that the interaction between cross-industry metrics and industry-specific metrics is not sufficiently clear in the proposals. Paragraph IG1 of the Illustrative Guidance could be incorporated into the main body of the standard to provide this clarity. We are concerned that entities may see Appendix B as a requirement to provide a significant number of metrics. We would welcome further guidance on how industry-specific metrics could satisfy cross-industry requirements.

We observe that metrics categories addressing financial impacts currently lack detailed methodologies to enable fully consistent and comparable disclosures, although we recognise that industry-specific requirements may help entities to measure these categories with more precision. We note the complexity of measuring financial impacts and that there are no commonly-used approaches that can be readily adopted within global sustainability standards today. We therefore believe that, whilst greater comparability may be desirable in respect of metrics addressing financial impacts, further evolution and field-testing of methodologies will be needed before further standard-setting can be possible.

(b) We do not propose any additional disclosures.

(c) We agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 GHG emissions as it is a well-established and internationally-recognised framework. However, we encourage the ISSB to work with the GHG Protocol to better align GHG Protocol concepts with the requirements in IFRS such as establishing the reporting boundary for associates, joint ventures and investments. We also recommend including a specific reference to the Greenhouse Gas Protocol Corporate Value Chain Accounting and Reporting Standard for guidance on measuring Scope 3 GHG emissions. As a general observation, we consider that there is an inherent risk associated with the ISSB's approach of referring to third-party documents in its standards as these could be changed and result in inconsistencies with the standard. This practice could also lead to complications in adoption by jurisdictions who may not be able, through legal considerations, to bring into laws or regulations third party content by reference.

(d) We 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.

(e) We agree that entities should be required to disclose Scope 1 and Scope 2 GHG emissions separately for the consolidated entity; and for any associates, joint ventures, unconsolidated subsidiaries and affiliates. However, we note that there are a couple of areas of paragraph 21(a)(iii)(2) that would benefit from further clarity, for example: the meaning of unconsolidated subsidiaries or affiliates and whether this should instead be a reference to investments (noting that 'affiliates' is not a commonly used term in IFRS literature); and whether equity investments should be included.

As we noted in our response to question 5 of the General Requirements ED, the approach set out in this requirement is inconsistent with the way reporting entity is defined in [draft] IFRS S1. However, we think that a flexible approach is helpful to preparers at this stage, when their current practice is to use the definitions of reporting boundary as set out in the GHG Protocol. The requirements at paragraph 21(a)(iii)-(iv) go some way to enhance transparency and consistency. However, they do not offer a solution for the long term. We therefore encourage the ISSB to work with the GHG Protocol organisation to better align GHG Protocol concepts with the requirements in IFRS, such as establishing the reporting boundary for associates, joint ventures and investments.

(f) We support the inclusion of Scope 3 GHG emissions. They are an important component of investment risk analysis because, for many entities, they represent by far the largest portion of their carbon footprint. Scope 3 emissions data can help users of general purpose financial reporting to evaluate the degree to which an entity is making a transition to lower-carbon business models and products and services. Thus, the measurement and disclosure of Scope 3 GHG emissions enables an entity and its investors to identify the most significant GHG reduction opportunities across the entire value chain, thereby informing strategic and operational decisions as well as an entity's risk assessment.

We also note that a number of jurisdictions already require disclosure on aspects of Scope 3 GHG emissions or are proposing full disclosure in this area. We acknowledge the challenges of measuring Scope 3, which include difficulties in obtaining the data, and the methodology for calculating these emissions being based on estimates which are inherently uncertain. These challenges, combined with the uncertainty around the nature and timing of climate-related impacts on a company's business, may make materiality assessments much more difficult than materiality assessments that have traditionally been made in the context of a company's financial disclosures.

We welcome the helpful provisions in the proposals that support preparers, for example, guidance on estimation uncertainty. However, we encourage the ISSB to take account of the readiness of entities to provide this information, including availability and quality of data, the complexities of accounting, and available resources and processes, including technology solutions, and consider the need for further support for companies, such as transition arrangements.

We propose some detailed drafting points on aspects of paragraph 21:

- Paragraph 21(a)(vi)(1) mandates downstream and upstream emissions which seems arbitrary. We suggest mandating material categories of Scope 3 instead as some entities at either end of a value chain do not have significant upstream or downstream emissions; and
- Paragraph 21(b): We encourage the ISSB to clarify what is meant by 'amount' – is this cash value or revenue? We also consider that this requirement may be challenging to quantify and therefore suggest adding the words 'where practicable' to alleviate this.

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?

(a) We agree with the proposed disclosure about climate-related targets. We agree that the ED should not define 'science-based' targets in a manner that locks in current approaches or initiatives that could be subject to change.

(b) The definition of the latest international agreement on climate change is clear (and that currently this references the Paris Agreement). We agree that an entity should be required to reference the targets set out in the latest such agreement (here, the Paris Agreement) when disclosing whether or to what extent its own targets compare to the targets in that agreement.

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?

(a) We agree with the approach but consider that there is scope for this to be further refined in time. Not all jurisdictions are familiar with the SASB Standards, therefore more educational material will be needed to support application.

As noted in our response to 9(a) above, the interaction between cross-industry metrics and industry-specific metrics would benefit from further clarification.

In addition, in paragraph 20(b), we recommend that there is a cross reference to paragraph B9 and the Illustrative Guidance to assist entities with the approach they should take if operating in multiple industries.

We also recommend a review of the metrics in Appendix B to remove any requirements that duplicate cross-sector metric category requirements (e.g., Scope 1) as well as cross-industry metrics that have been included within a sector; and for matters that are not relevant to climate but may be relevant to other IFRS Sustainability Disclosure Standards (SDS). In our view, there needs to be a review to verify that certain metrics are genuinely climate-related, for example, the percentage of eggs that originated from a cage-free environment, pork that was produced without the use of gestation crates and antibiotics in meat proteins. We are also concerned that for some industries there are apparently no requirements on climate-related metrics. It should be clarified that in the absence of a particular set of industry-specific requirements that address the activities of an entity, the cross-industry metrics still apply.

(b) We agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements as these are based on metrics that are already being used by some entities.

(c) We 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 as most of the industry-based requirements included in the ED are unchanged from those in the SASB Standards. Therefore, entities that are using the SASB Standards voluntarily can continue to provide information that would be consistent with prior periods.

(d) We agree with the proposed industry-based disclosure requirements for financed and facilitated emissions as this is consistent with the emphasis placed on these disclosures by TCFD and responds to investor calls for transparency on this area. However, we note that entities may need more guidance on facilitated emissions as there is no explicit reference to a framework in the ED. The Partnership for Carbon Accounting Financials has undertaken some work in this area which could be incorporated into the GHG Protocol and referenced in application guidance.

(e) We agree with the industries classified as 'carbon-related' in the proposals.

(f) We agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions. In our view, a 'total assets under management' approach to disclosure provides a useful indicator of the emissions and therefore the environmental impact associated with client portfolios. It may also serve as a broad indicator of potential risks to the asset manager.

(g) We agree with the proposals to require disclosure of the methodology used to calculate financed emissions.

(h) We agree that the measurement of financed emissions should build on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments).

(i) We agree that a 'total assets under management' approach to disclosure provides a useful indicator of the emissions and therefore the environmental impact associated with client portfolios. This may also serve as a broad indicator of potential risks to the asset manager and consequently, we support the requirement for entities participating in this industry to disclose the percentage of their assets under management for which financed emissions are calculated.

(j) We agree with the proposed industry-based requirements.

(k) We consider that the industry-based requirements, whilst comprehensive, will need to be reviewed as the ISSB standard is finalised, as what is relevant for a particular industry will change over time. For example, one omission we have identified is environmental matters for entities with activities in biotech and pharmaceuticals.

(l) We do not have any additional comments.

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?

(a) We consider that the benefits, which may be difficult to quantify, should significantly outweigh the costs of the proposals. There is an urgent demand from investors for consistent, comparable sustainability-related financial information and a need for entities to have clarity over which standards they should apply for reporting this information. This clarity should enable entities to invest with certainty in appropriate systems and controls, as they do today in respect of financial reporting.

When considering the costs of implementing the proposals, it is important for the ISSB to consider that there will be a different journey for different jurisdictions and entities. Some jurisdictions are already requiring TCFD reporting which are aligned to the Climate ED and some entities are also applying TCFD on a voluntary basis, and therefore, the costs of transition for those entities should be lower.

As with the introduction of any new standard, we would expect costs to be higher in the first year as entities put in place the necessary systems and familiarise themselves with the standards.

We also consider that there are considerable benefits for all stakeholders in increased transparency and greater insight into the risk and value drivers of an entity.

(b) There will be costs to maintain the information as well as ensuring that climate-related risks and opportunities are embedded in the management process and appropriately measured.

(c) None identified.

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.

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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.

Overall, we consider that the proposals provide a suitable basis for verification and enforcement. However, assurance of forward-looking and narrative information, which, by its nature, is more subjective than information in the financial statements, would not necessarily be straightforward. We encourage the ISSB to continue working with the International Auditing and Assurance Standards Board (IAASB) and the audit profession to ensure assurability of the standards. There may also be an opportunity to learn from those jurisdictions that already require reporting in line with TCFD which auditors and regulators are familiar with.

Specific areas that we have identified in this ED which would be challenging for auditors include the boundaries used for the GHG Protocol as these are different from those used for financial reporting; as well as providing assurance over anticipated effects of climate-related risks and opportunities which are akin to forecasts. As noted in our response to question 6(c), we request further clarity from the ISSB on the expectations for reporting on anticipated effects.

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 S1 *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 S1 *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?

(a) In our view, the effective date of this ED should be the same as [draft] IFRS S1 as tackling climate change is an urgent issue and there is a need for consistent, comparable climate-related information to be available on a timely basis.

(b) When determining the effective date, we encourage the ISSB to consider the practical implications of these proposals, the different degrees of readiness across jurisdictions and allow for regulators to decide appropriate timescales to mandate standards through local regulations. However, we believe that the standard should be made available without delay and early application should be permitted.

(c) Although we consider that some disclosure requirements could be applied earlier than others, we encourage the ISSB to balance considerations around phasing in against the need for ensuring that the information provided by companies is comparable - which could be compromised by patchy application of the standard with a phased approach. As the proposals in the ED are consistent with TCFD, this should facilitate effective adoption of the standard as a whole for those entities that are already applying TCFD. We consider that further outreach will be needed by the ISSB to build consensus on areas where phasing may be appropriate.

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 S1 *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)?

We welcome that the ISSB is considering digital consumption alongside the development of its standards. We note that the ISSB has recently published a Staff Request for Feedback on the Staff Draft of the IFRS Sustainability Disclosure Taxonomy and that an ED will follow.

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?

We do not consider there any particular aspects of the ED that would limit the ability of IFRSSDS to be used as a global baseline for sustainability reporting on matters relevant to enterprise value to capital markets. We welcome the principles-based and neutral approach to standard setting that is being taken by the ISSB. We expect this will support the ability of jurisdictions to strive for global consistency and add requirements or further specificity where needed.

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We welcome the various working groups and consultative bodies being established by the ISSB to promote dialogue between other sustainability standard-setters and encourage the ISSB to use those to achieve the closest possible global alignment on the baseline. In particular, we encourage the ISSB to intensify its collaboration with jurisdictions, most notably the European Commission, the European Financial Reporting Advisory Group and the U.S. Securities and Exchange Commission. We believe that the interoperability of the climate standards is essential and recommend that the ISSB together with the Jurisdictional Working Group consider how compatibility between the different climate standards can be enhanced.

Question 17—Other comments
Do you have any other comments on the proposals set out in the Exposure Draft?

We have no further comments.