VIA EMAIL SUBMISSION
AND WEB SUBMISSION

July 29, 2022

Emmanuel Faber, ISSB Chair
Sue Lloyd, ISSB Vice-Chair
International Sustainability Standards Board
The IFRS Foundation
Columbus Building, 7 Westferry Circus
Canary Wharf, London E14 4HD
United Kingdom

Re: GFMA and BPI response to Exposure Drafts of IFRS S1 and IFRS S2

Dear Chair Faber and Vice-Chair Lloyd,

The Global Financial Markets Association ("GFMA")[1] and Bank Policy Institute ("BPI")[2] welcome the opportunity to comment on the International Sustainability Standards Board's ("ISSB") Exposure Drafts of IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (the "Sustainability Proposal") and IFRS S2 Climate-related Disclosures (the "Climate Proposal").

We agree that there is a need for consistent global disclosure frameworks that require disclosure of corporate-specific financially material, decision-useful data relating to climate risks. Many of our members have for some time been voluntarily publishing sustainability-related disclosure, including climate-related information, often following leading international voluntary frameworks and standards, including the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), the Greenhouse Gas Protocol, the Sustainability Accounting Standards Board standards, the World Economic Forum Stakeholder

[1] GFMA represents the common interests of the world's leading financial and capital market participants to provide a collective voice on matters that support global capital markets. It also advocates on policies to address risks that have no borders, regional market developments that impact global capital markets, and policies that promote efficient cross-border capital flows to end users. GFMA efficiently connects savers and borrowers, thereby benefiting broader global economic growth. The Association for Financial Markets in Europe (AFME) located in London, Brussels, and Frankfurt; the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong; and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian, and North American members of GFMA.

This submission reflects the views of a majority of the GFMA board members rather than those of any one member. Individual GFMA members may have views that differ from those expressed in this document.

[2] BPI is a nonpartisan public policy, research and advocacy group, representing the United States' leading banks and their customers. Our members include universal banks, regional banks, and the major foreign banks doing business in the United States. Collectively, they employ almost 2 million Americans, make nearly half of the nation's small business loans, and are an engine for financial innovation and economic growth.

Capitalism Metrics, and the Global Reporting Initiative standards. For example, many of our members publish disclosures indicating how climate-related issues are integrated in their governance, risk management, business models, and opportunities. Many of our members also address other sustainability-related topics as part of their disclosures. In addition, many members have been working to implement new climate disclosure regulations now required – or under development – by their home country regulators and governmental authorities.

Globally consistent approaches to climate and other sustainability disclosures are pivotal to prevent the proliferation of competing regimes that are not aligned, increasing the cost and complexity of preparation, impairing reliability, and making comparisons more time consuming and confusing for users. Towards that end, we support the development of standards that are based on a global baseline of common cross-industry and industry-specific metrics, as well as common methodologies underpinning such metrics.

Standards should provide a clear roadmap to jurisdictions and companies, as they evolve in defining their own rules and approaches. Such roadmap should be consistent with the widely adopted Paris Accord, and Net Zero commitments taken at government and industry level. We support that, while the target should be to deal with all ESG issues, the priority is given to climate, which is the more mature area, and a clear urgency. Finally, we believe it is important that implementation of new disclosure standards finds the right balance between addressing the growing investor demand for disclosure and companies' capacity to provide such disclosures.

Consistent with the foregoing, in order to serve as an effective global baseline (i) the standards must be clear and avoid ambiguity or uncertainty as to their requirements; (ii) the standards must be consistent with and usable for companies reporting under a variety of different local disclosure and liability regimes, including differences between regions and between mature and emerging markets; (iii) the standards should build upon and be harmonized with other established and emerging disclosure regimes addressing similar topics; and (iv) the standards should only call for disclosure that companies can accurately produce on a consistent and comparable basis, once existing data gaps have been addressed. We believe certain aspects of the Sustainability Proposal and the Climate Proposal can be better tailored to achieve those objectives, as further discussed in this comment letter.

1. Executive Summary

We have summarized below selected points discussed in the sections that follow:

Certain aspects of the proposed standards are unclear or ambiguous.

- *Definition of "sustainability."* The term "sustainability" is undefined in the Sustainability Proposal. We believe that developing a definition of "sustainability" will require an iterative process – the topics to be addressed under the ISSB's standards will evolve over time, as the ISSB continues its standard-setting process and develops new proposed disclosure standards that will be governed by the general principles set forth in the Sustainability Proposal.

  Because the range of topics that fall under the rubric of "sustainability" is broad and disparate, different disclosure standards addressing different topics will be needed to elicit material information useful to users of financial statements without also mandating publication of substantial extraneous detail. Allowing the definition of "sustainability" to evolve over time as standards are adopted by the ISSB will allow the development of disclosure standards appropriate to each topic. Following from that, we propose that the Sustainability Proposal be substantially revised to change the "Core Content" proposed by the ISSB to a principles-based approach that identifies the types of disclosures that are broadly relevant to sustainability matters, with any particular requirements to instead be provided specifically for each topic – as they are with respect to climate change in the Climate Proposal.

- *Harmonization of the definition of* "*Materiality.*" We welcome efforts to maximize international alignment and interoperability of definitions of materiality but acknowledge that there are differences in existing approaches, for example in jurisdictions that do not apply IFRS accounting standards. We encourage the ISSB to reflect upon this further in the Jurisdictional Working Group with a focus on maximizing international alignment and addressing these challenges, as well as ensuring that disclosure standards are calibrated to elicit decision-useful information for users of financial statements.[3]

- *Interplay between Significance and Materiality*. Paragraph 60 of the Sustainability Proposal applies a materiality standard to all requirements of each of the Sustainability Proposal and the Climate Proposal. Several of the specific disclosure requirements in each of the proposals refer to requiring disclosure of "significant" information. The relationship between materiality and significance is unclear. For example, it is unclear what information would be "material" but would not be "significant." We recommend removing the concept of "significance" and focusing exclusively on materiality, specifically on information that is decision-useful to investors. Further, to avoid any confusion or ambiguity, we suggest that materiality qualifiers be added throughout the proposed standards to clarify that each disclosure item is predicated on the information being material to the disclosing company and its investors, rather than simply relying on the overarching statement in paragraph 60 of the Sustainability Standard.

  - Certain paragraphs of the Climate Proposal use language that indicates different standards may apply to different aspects of those requirements. Examples of paragraphs that should be revised to clarify the applicable standard are identified later in this comment letter.

- "*Unable to do so" construct*. Each of the proposals requires companies to provide certain information, unless they are "unable to do so."[4] The meaning of "unable to do so" can be subject to differing interpretations. For example, it is unclear what level of cost or burden companies would be required to bear before they are deemed "unable" to provide a specified disclosure. Instead, the proposed standards should require companies to provide certain information unless it is "impracticable," which

[3] *See ISSB Establishes Working Group to Enhance Compatibility Between Global Baseline and Jurisdictional Initiatives*, IFRS FOUND., https://www.ifrs.org/news-and-events/news/2022/04/issb-establishes-working-group-to-enhance-compatibility-between-global-baseline-and-jurisdictional-initiatives/ (Apr. 7, 2022).

[4] *See, e.g.*, Sustainability Proposal, ¶ 22; Climate Proposal, ¶ 14.

is defined in IAS 1 as “when the entity cannot apply it after making every reasonable effort to do so.”

To serve as an effective global baseline, the proposed standards must be consistent with, and usable for companies reporting under, a variety of different local disclosure and liability regimes and otherwise practical to implement.

- *Overly prescriptive requirements may not be appropriate or implementable for companies globally.* Each of the proposed standards includes certain highly prescriptive requirements that may not be decision-useful for users of financial statements. Certain other requirements, such as disclosure regarding how companies are changing resource allocation in connection with response to climate risks and opportunities, would mandate disclosure of competitively sensitive, proprietary information that would not otherwise be disclosed.

  Additionally, several aspects of the proposed requirements would require disclosure that may expose companies to significant liability and go beyond what is required by comparable standards considered by other bodies. We provide several additional examples and propose alternative approaches below.

- *Any requirements adopted by the ISSB should be tailored to only require disclosure, rather than to drive behavior*. The Sustainability and Climate Proposals are disclosure standards. When developing those standards, and any future standards that would be governed by the principles set out in the Sustainability Proposal, it is important that the ISSB ensure that any requirements it adopts are aimed only at eliciting disclosure, rather than driving how companies manage climate and other sustainability risks.

- *Carbon offsets.* The ISSB should expressly provide that disclosure of net greenhouse gas (“GHG”) emissions is permitted alongside disclosure of gross GHG emissions (with appropriate disclosure to make clear the distinction between the different ways to reduce carbon emissions used by a company), in order to provide transparency on the degree to which the company relies on carbon offsets, carbon removals and carbon avoided. We think that carbon offset disclosures will enable users to understand a company’s approach to reducing emissions.

- *Requirements for disclosure of transition plans and scenario analysis can be better tailored*. We believe that the requirements for disclosure of transition plans and scenario analysis can be better tailored to financial institutions, and in particular their exposure to any number of different industries. We include specific suggestions below.

Standards should take into account the time required to produce data and should only call for disclosure that companies can accurately produce on a consistent, comparable and reliable basis.

- *Disclosures should not be required at the same time as annual financial statements*. Paragraph 66 of the Sustainability Standard would require companies to disclose sustainability-related information (including the information required by the Climate

Proposal) at the same time and for the same period as their financial statements. That requirement is inconsistent with current practice and likely to be infeasible for many companies. We believe that the ISSB should remain silent on when climate and sustainability data need to be produced – leaving it to the discretion of the company and relevant regulators.

- *The "value chain" used to determine Scope 3 emissions of financial institutions should only include clients with which the financial institution has a contractual relationship*. Companies face operational challenges to gather information on the whole value chain. This is particularly important with respect to the value chain of financial institutions. If the value chain that financial institutions must consider extends to, for example, the suppliers of its clients, the resulting disclosure would be extremely challenging and burdensome to produce and will result in double counting, and therefore is unlikely to be accurate and effective. We propose to define the calculation of Scope 3 financed emissions by financial institutions as the sum of Scope 1 and Scope 2 of their customers, in order to avoid double counting. This approach will be consistent with Net-Zero Banking Alliance ("NZBA")- related disclosures. We request that the ISSB consider this further to ensure a workable approach, for example clarifying that the downstream value chain of financial institutions should be limited to corporate clients they have a contractual relationship with and only with regards to those clients' own operations.

- *Information regarding third parties*. The Sustainability Proposal would require companies to provide disclosure regarding climate and sustainability matters impacting on third parties. It is unclear how companies would obtain or ensure the accuracy of such information or how companies should approach those requirements if the required information is unavailable. We recommend eliminating those requirements.

2. Aspects of the proposed standards are unclear or ambiguous and require clarification.

- *The meaning of "sustainability" is unclear.*

Paragraph 2 of the Sustainability Proposal requires companies to "disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed." However, "sustainability" is undefined. Highlighting the potential breadth of that term, paragraph 6 states that "sustainability-related financial information is broader than information reported in the financial statements" and may include decisions that "could result in future inflows and outflows," and that "the entity's reputation, performance and prospects as a consequence of the actions it has undertaken, such as its relationships with people, the planet and the economy, and its impacts and dependencies on them."

Paragraph 53 of the Sustainability Proposal provides that, in the absence of a specific IFRS disclosure standard, "management shall use its judgment 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." Other than general statements in paragraphs 51 and 54 as to other sources of guidance that may be relevant, it is unclear how management should determine if a particular risk or opportunity is related to sustainability.

We believe that developing a definition of "sustainability" will require an iterative process – the topics to be addressed under the ISSB's standards will evolve over time, as the ISSB continues its standard-setting process and develops new proposed disclosure standards that will be governed by the general principles set forth in the Sustainability Proposal. Because the term "sustainability" would encompass a broad range of topics that will require different specific disclosure rules to elicit material information useful to users of financial statements without also mandating publication of substantial extraneous detail, we propose that the "Core Content" in the Sustainability Proposal be substantially revised to change the "Core Content" proposed by the ISSB to a principles-based approach. This proposed principles-based approach would identify the types of disclosures that are broadly relevant to sustainability matters, with particular requirements to be provided specifically for each future topic – as they are with respect to climate-related disclosure change in the Climate Proposal.

Furthermore, the "Core Content" provision (paragraph 11-35) in the Sustainability Proposal is based on the TCFD framework that was developed specifically for climate risk disclosure. This framework may not be well-suited for the breadth of topics that ISSB may cover in future standard-setting efforts. While issuers and investors have significant experience with implementing the TCFD framework in the context of climate risk disclosure, there has been no market experience to date with using this framework for other sustainability-related disclosures. For example, different metrics and types of information are more likely to be needed with respect to human capital matters than are needed with respect to environment matters, in order to give users of financial statements useful information as to those topics.

Codifying a prescriptive default approach for all future disclosure topics also may hamper the ability of the ISSB to develop well-tailored disclosures for future topics. While we recognize the ISSB's efforts to set forth a standardized approach for future disclosure standards, sustainability-related risks are not a monolithic category, and we believe the ISSB would be better served at this stage by maintaining greater flexibility to vary its design approach to future topics as needed. This would not prevent the ISSB from using the TCFD framework as a basis for future disclosure standards but would give the ISSB the flexibility to make more tailored design decisions in the context of the specific topic at hand rather than tying the ISSB to a one-size-fits-all design approach that may not be fit for purpose for all topics.

- *The relationship between "materiality" and "significance" and how the use or absence of those terms affects disclosure requirements in the Sustainability Proposal and Climate Proposal are unclear and therefore the concept of "significance" should be removed*.

Paragraph 60 of the Sustainability Proposal states that "An entity need not provide a specific disclosure that would otherwise be required by an IFRS Sustainability Disclosure Standard if the information resulting from that disclosure is not material. This is the case even if the IFRS Sustainability Disclosure Standard contains a list of specific requirements or describes them as minimum requirements." We agree with the application of a materiality standard to all aspects of the Sustainability Proposal and Climate Proposal.

Several paragraphs of each proposal, however, seem to apply different or additional standards. For example, paragraph 9 of the Climate Proposal requires companies to "disclose information that enables users of general purpose financial reporting to understand the *significant* climate-related risks and opportunities" (emphasis added). There are a number of similar examples throughout both proposed standards. In some cases, the inconsistency exists within a single paragraph. For example, paragraph 8(a) of the Climate Proposal states that entities need to disclose information about "significant climate-related risks and opportunities that it reasonably expects could affect its business model…" It is not clear if the use of "significant" to modify "climate-related risks and opportunities" but not "affect its business model" is meaningful. In other words, it is ambiguous if a company would need to disclose all effects that a significant climate-related risk or opportunity might have on a business model or only the effects on the business model that are "significant" (and, if the latter, what "significant" means). In either case, it is unclear how that interacts with the general materiality standard from paragraph 60 of the Sustainability Proposal.

Further, it is unclear if the use of the words "reasonably expects" in paragraph 8(a) of the Climate Proposal modifies the materiality standard. Paragraph 57 of the Sustainability Proposal indicates that a "probability/magnitude" test should be used to determine materiality. However, in at least one jurisdiction, the use of the phrase "reasonably likely" indicates that such a test is inappropriate.[5]

To eliminate any ambiguity caused by inconsistent terminology and to ensure that the standards elicit disclosure of information that is decision-useful to users of financial statements, we recommend the ISSB remove any references to "significance" and focus exclusively on what is considered material. To implement that approach, we recommend that the ISSB build materiality qualifiers into each disclosure requirement, rather than rely solely on the overarching statement in paragraph 60 of the Sustainability Proposal.

This clarity is particularly important with respect to Scope 3 disclosures. Some of our members believe the ISSB's proposal is based on the premise that a company's Scope 3 GHG emissions is directly reflective of transition risk. However, financed emissions (which are Scope 3, Category 15 emissions) – effectively, the emissions of the clients that a financial institution finances – are not necessarily directly reflective of transition risk and can be misleading if used as a proxy for transition risk exposure. For many financial institutions engaged in lending, financed emissions constitute the bulk of GHG emissions disclosed. However, the extent to which those emissions, or particular sectors within that Scope 3 category, represent transition risk to a particular financial institution will be highly dependent on its particular facts and circumstances.[6] The Climate Proposal's discussion of Scope 3 disclosures should be revised to make clear that companies need only disclose aspects of their Scope 3 emissions that are material to the company.

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[5] For example, the U.S. Securities and Exchange Commission has stated that "MD&A mandates disclosure of specified forward-looking information, and specifies its own standard for disclosure—e.g., reasonably likely to have a material effect. This specific standard governs the circumstances in which Item 303 requires disclosure. The probability/magnitude test for materiality approved by the Supreme Court in *Basic, Inc., v. Levinson*, 108 S.Ct. 978 (1988), is inapposite to Item 303 disclosure." Management's Discussion and Analysis of Financial Condition and Results of Operations; Certain Investment Company Disclosures, Exchange Act Release No. 33-6835 at n.27 (May 18, 1989), https://www.sec.gov/rules/interp/33-6835.htm.

[6] For example, larger companies that may increase the size of a bank's Scope 3 financed emissions are at times in a better position to deal with transition risk.

- *The definition of "materiality" used in the Sustainability Proposal (and applicable to the Climate Proposal and future sustainability disclosure standards) should be revised to allow companies to apply the materiality standard they already use for public reporting.*

We welcome efforts to maximize international alignment and interoperability of definitions of materiality, but acknowledge that there are differences in existing approaches, for example in jurisdictions that do not apply IFRS accounting standards. Challenges could arise for companies in such jurisdictions if they were to be required to use a different standard of materiality for sustainability and climate reporting than they use for financial reporting and other disclosures. It would be difficult for users of financial statements to evaluate disclosures that use one standard of materiality for financial and other information and a separate definition of materiality for sustainability and climate matters. It would also be challenging for companies to consistently apply two different standards to their reporting.

We encourage the ISSB to reflect upon this further in the Jurisdictional Working Group and IOSCO with a focus on maximizing international alignment (including alignment with standards used by securities regulators in different jurisdictions) and addressing these challenges. A potential approach would be for the proposed standards to require companies to use either the same definition of materiality for their sustainability and climate reporting that they use for their financial statements or, if the company is included in the consolidated financial statements of another company (a "Parent"), the standard of materiality used by the Parent in its consolidated financial statements. That would, for example, allow companies that currently use the well understood and developed definition of materiality as defined in IAS 1 to continue to apply this standard to their sustainability and climate-related reporting. IAS 1 defines materiality as: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

- *The "unable to do so" construct should be eliminated, and the proposed standards should instead use the IAS 1 definition of "impracticable*."

Each of the proposals requires companies to provide certain information unless they are "unable to do so." For example, paragraph 22 of the Sustainability Proposal and paragraph 14 of the Climate Proposal each require an entity to disclose quantitative information "unless it is unable to do so."

The phrase "unable to do so" is undefined, and there is no guidance in the proposed standards as to how it should be applied. For example, if a company is only able to produce quantitative information at unreasonable cost or expense, it is unclear if they would be deemed to be "unable to do so." Similarly, it is unclear if a company would be "unable" to produce disclosure if there is a significant risk of errors.

ISSB should further clarify the "unable to do so" construct. Instead, the proposed standards should require companies to provide information unless it is "impracticable" to do so, which is defined in IAS 1 as "applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so."

3. **To serve as an effective global baseline, the proposed standards must be consistent with, and usable for companies reporting under, a variety of different local disclosure and liability regimes and otherwise practical to implement.**

   - *Overly prescriptive requirements may not be appropriate or implementable for companies globally.*

Each of the proposed standards includes certain highly prescriptive requirements. For example, the Climate Proposal requires the use of specific techniques to evaluate and disclose climate risk, including detailed requirements regarding the use of scenario analysis, capital expenditures, carbon pricing and the use of the Greenhouse Gas Protocol methodology to measure and disclose GHG emissions.[7] Further, both standards include some requirements that call for disclosure of forward-looking information, including quantitative information about anticipated financial impacts (for example, paragraphs 14(c) and 14(d) of the Climate Proposal) and information that may be proprietary and competitively sensitive (for example, paragraphs 13(a)(i)(1),17(b)(ii) and (iii) of the Climate Proposal). Appendix B to the Climate Proposal also incorporates (with some modifications and additions) the detailed industry guides produced by the Sustainability Accounting Standards Board.[8]

The foregoing requirements and methodologies may be impractical for certain companies. For example, in the absence of robust safe harbors from liability (which would need to be adopted by authorities in relevant jurisdictions), liability considerations may effectively preclude companies from disclosing detailed forward-looking information, which would impair their ability to produce the quantitative information called for by the proposed standards and to disclose detailed scenario analysis. The result would be inconsistent adoption and application of the standards, impairing their ability to serve as a global baseline.

In other cases, companies may use tools such as internal carbon pricing but have designed and used those tools for internal risk management purposes, rather than for public disclosure.

Additionally, significant prescriptive disclosure requirements risk obfuscating information that companies feel is important by requiring the inclusion of substantial amounts of disclosure to satisfy "tick the box" requirements.

To address these concerns, we recommend that the ISSB take a principles-based approach to climate and sustainability disclosure – eliminating highly prescriptive disclosure requirements, such as requirements to use and disclose information regarding matters such as scenario analysis, internal carbon pricing, capital expenditures, and the use of climate or sustainability metrics in determining executive compensation. This approach would allow companies the flexibility to tailor their disclosures to their particular business, as well as promote

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[7] *See, e.g.*, Climate Proposal, ¶ 15.

[8] To the extent prescriptive requirements set out in industry guides are adopted, we believe that custody services should not be grouped together with asset management activities. Custody services and asset management activities represent very different businesses. Requirements adopted for asset management activities are unlikely to be appropriate for custody services, in particular in light of the very limited discretion persons providing custody services exercise over the assets they hold as custodian for investors.

the adoption of the standards by eliminating requirements that would otherwise mandate disclosure of confidential and competitively sensitive information.[9]

In order to encourage companies to provide decision-useful emissions estimates, estimated sustainability metrics and forward-looking information (e.g. science-based targets), we further recommend that the ISSB consider adding a statement to the proposed standards or issuing related guidance stating that jurisdictions should adopt safe harbors from liability for such information.

- *Any requirements adopted by the ISSB should be tailored to only require disclosure, rather than to drive behavior*.

The proposed standards are intended as disclosure rules, rather than substantive regulation. We believe that disclosure standards should be aimed at providing users of financial statements with necessary information – not inducing companies to change behavior or adopt specific methodologies to measure risk. As such, we think it is important that any standards adopted by the ISSB should be calibrated to require disclosure of material information, rather than to drive behavior.

- *Disclosure of both gross and net GHG emissions should be expressly permitted.*

The Climate Proposal should expressly permit disclosure of gross GHG emissions and GHG emissions net of carbon offsets, allowing companies to make clear how they use different means to reduce carbon emissions. This approach would provide transparency on the degree to which the company relies on carbon offsets, carbon removals and carbon avoided.

- *Requirements for disclosure of transition plans and scenario analysis can be better tailored*.

Financial institutions have exposures to all industry and product sectors. As such, the Climate Proposal should recognize that transition plans for financial institutions will need to be different from transition plans for corporates, and that additional flexibility will be needed with respect to disclosure of transition plans for financial institutions. For example, the NZBA only requires targets for certain high carbon emitting sectors and not the entire balance sheet. Similarly, certain financial institutions may initially exclude some sectors, such as retail and sovereigns from transition plans. We believe any standards adopted by the ISSB should expressly provide financial institutions with flexibility as to what information is disclosed regarding transition plans in order to ensure that institutions are able to appropriately iterate and develop those plans over time.

Further, while we welcome the ISSB's proposals that a company be required (i) when disclosing targets, to discuss how its targets compare with those created in the latest international

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[9] As discussed below, among the topics that we believe should be changed from a mandatory requirement to a recommendation is the disclosure of sustainability and climate-related opportunities. Some other emerging requirements would only mandate disclosure of climate-related risks and leave climate-related opportunities as optional. We believe that it is important for the proposed standards to remain consistent with other emerging requirements in order to promote global comparability and adoption of the ISSB's standards.

agreement on climate change[10] and (ii) when disclosing scenario analysis, to discuss whether the company has used among its scenarios a scenario aligned with the latest international agreement on climate change in its resilience assessment, we believe that the ISSB standards should also suggest companies reference disclosure of reference scenarios, including relevant national and sectoral pathways. However, in all cases it should be express that disclosure of comparisons to international agreements and reference scenarios is only required when such disclosure is material to the company.

- *Sustainability- and climate-related opportunities.*

Required disclosure of "opportunities" is highly unusual within the context of financial reporting. Sustainability- and climate-related opportunities are not areas of disclosure that have generated significant investor interest. Mandating that disclosure may result in companies being required to disclose competitively sensitive business plans and other information without providing any commensurate benefit to users of financial statements. With this in mind, we suggest that the ISSB keeps disclosure of opportunities voluntary to allow time for the ISSB to better assess whether this information is truly appropriate for required disclosure.

4. **Standards should take into account the time required to produce data and should only call for disclosure that companies can accurately produce on a consistent, reliable and comparable basis.**

- *Disclosure should not be required at the same time as annual financial statements.*

Paragraph 66 of the Sustainability Standard would require companies to disclose sustainability-related information, including the information required by the Climate Proposal, at the same time and for the same period as its financial statements. That requirement is inconsistent with current practice and likely to be infeasible for many companies.

As an example, GHG emissions disclosure is typically not available at the same time as annual financial statements. Based on the data collection, validation and assurance experiences of several GFMA members, we would expect this process to take between approximately five and seven months after fiscal year-end. For example, following the approach taken in connection with current voluntary reporting, companies in the financial services industry currently would be required to collect all of their electric utility and other energy bills covering any portion of the fiscal year (which for some of our larger members numbers in the tens of thousands), manually enter energy usage reported in those bills into a previously prepared spreadsheet model, validate the output of that model, and perform procedures to test their process for collecting and reporting energy usage to report Scope 2 emissions. Our members have indicated that the last electric utility and other energy bills for a fiscal year are typically not even received until six or more weeks following the end of a fiscal year.

Scope 3 data for financed emissions can often only be obtained for relevant borrowers or other members of the value chain substantially after the end of the period for which data are reported, because it relies on Scope 1 and Scope 2 emissions data from third parties, which must first report that information. For example, certain of our members have indicated that Scope 3 emissions for some industries rely on regulatory reporting to determine their emissions, which is

[10] We agree with the ISSB's statement in Question 10 to the Climate Proposal that the latest such agreement is the Paris Agreement (April 2016) and that 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.

only available three years after the end of the relevant period. After the data are made available, they then must be analyzed and consolidated.

Based on the experience of our members, we suggest that the ISSB remain silent on when climate and sustainability data need to be produced – leaving it to the discretion of the company and relevant regulators.

- *The "value chain" used to determine Scope 3 emissions of financial institutions should only include clients with which the financial institution has a contractual relationship.*

Companies face operational challenges to gather the information on the whole value chain. This is particularly important with respect to the value chain of financial institutions. Material sustainability impacts, risks and opportunities are predominantly indirect in financial institutions' downstream value chains, at the level of the companies they are financing.

The definition of the value chain for financial institutions needs to be carefully considered to ensure a proportionate and workable approach. If the value chain is applied not only to clients with which financial institutions have a contractual relationship, but also extends to persons in the value chain of those clients (such as suppliers), the resulting disclosure would be extremely challenging and burdensome to produce and will result in double counting and is therefore unlikely to be accurate and effective.

We propose defining the calculation of Scope 3 financed emissions by financial institutions as the sum of Scope 1 and Scope 2 of their customers, in order to avoid double counting. This approach is consistent with NZBA-related disclosures. We request that the ISSB consider this further to ensure a workable approach, for example clarifying that the downstream value chain of financial institutions should be limited to corporate clients that they have a contractual relationship with and only with regards to these clients' own operations.

- *Information regarding third parties.*

Several aspects of the Sustainability Proposal would require companies to provide disclosure regarding how climate and sustainability issues affect third parties. For example, paragraph 40(a) would require disclosure of "its employment practices *and those of its suppliers* ..." (emphasis added). Paragraph 17 would require disclosure of sustainability-related risks faced by "business partners." It is unclear how companies would obtain that information from third parties. It would be atypical for ordinary commercial contracts to require that type of reporting. Even if that information could be obtained, it is unclear how companies could verify its accuracy or what the costs would be of obtaining, verifying, synthesizing and then ultimately disclosing that information. We recommend eliminating those requirements. Specifically, we ask that the ISSB eliminate paragraph 40 under the Sustainability Proposal.

Additionally, methodologies and data collection practices for Scope 3 emissions are still evolving and have not been developed for all asset classes. This is especially true for financial institutions for whom a significant amount of Scope 3 emissions would be financed emissions. For example, there are significant concerns about the current state of Scope 3 data quality and availability, error margins, and double counting. The data public issuers produce is often incomplete and of varying levels of quality. Many companies have thousands of companies in their value chains, further complicating data collection. Typically, there also is no obligation by the value chain to provide data and, where an obligation exists, it is often difficult or impossible to enforce due to practical limitations on modifying value chain relationships. Value chain member entities also may produce data for different periods (similar to how public issuers may have different fiscal years).

For those reasons, we believe that companies should have the discretion to limit disclosure of Scope 3 emissions to asset classes for which there is existing industry guidance in place, for example through PCAF, and to, at least initially, have discretion to limit Scope 3 emissions disclosure to emissions included in material, publicly announced climate-related targets.

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GFMA and BPI support the ISSB's efforts to create a meaningful and useful framework for sustainability and climate-related disclosures and appreciate the opportunity to comment on the proposed standards. We and our members stand ready to engage on this topic further.

If you have any questions or would like to discuss these points further, please feel free to contact us or our counsel Michael Littenberg (Michael.Littenberg@ropesgray.com; 212 596 9160) and Marc Rotter (Marc.Rotter@ropesgray.com; 212 596 9138) at Ropes & Gray LLP.

Sincerely,

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