SIFMA AMG Response to the Exposure Drafts on General Requirements for Disclosure of Sustainability-related Financial Information and Climate-related Disclosures published by the ISSB

1 Introduction and general comments

*The Asset Management Group of the Securities Industry and Financial Markets Association ("**SIFMA AMG")** brings the asset management community together to provide views on U.S. and global policy and to create industry best practices. SIFMA AMG's members represent U.S. and global asset management firms whose combined assets under management exceed $45 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds. For more information, visit http://www.SIFMA AMG.org/amg.*

Our members are active participants in the journey towards climate-related (and other ESG-related) disclosures and we welcome the opportunity to provide feedback on the ISSB's draft Standard.

Generally, members agree that there is a need for consistent global disclosure frameworks that require disclosure of corporate-specific financially material, decision-relevant data relating to climate risks. Members note the existence of other leading international voluntary frameworks and standards, including the recommendations of the Task Force on Climate-related Financial Disclosures ("**TCFD Recommendations**"), the Greenhouse Gas Protocol, the Sustainability Accounting Standards Board standards ("**SASB Standards**"), the World Economic Forum Stakeholder Capitalism Metrics and the Global Reporting Initiative standards. In addition, many entities are subject to climate disclosure regulations now required – or under development – by their home country regulators and governmental authorities, such as the EU Sustainable Finance Disclosure Regulation / Taxonomy Regulation and the UK's mandatory TCFD reporting.

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, members support the development of standards that are based on a global minimum of common cross-industry and industry-specific metrics, as well as common principles around methodologies underpinning such metrics. To this end, members are supportive of the Exposure Drafts, which build on the TCFD Recommendations and the SASB Standards.

Members note that the ISSB Standards should also take into account the different levels of preparedness of different sectors and jurisdictions. Finally, members believe it is important that new disclosure standards do not front-run the adoption by companies and their capacity to provide such disclosures.

Consistent with the foregoing, in order to serve as an effective global baseline (i) the ISSB standards must be clear and avoid ambiguity or uncertainty as to their requirements including providing proper clarity in the multiple instances where flexibility is essential; (ii) the ISSB standards must be consistent with and usable for companies reporting under a variety of different local disclosure and liability regimes; (iii) the ISSB standards must be harmonized with other established and emerging disclosure regimes addressing similar topics; and (iv) the ISSB standards should only call for disclosure that companies can accurately produce on a consistent and comparable basis. Members believe certain aspects of the Sustainability Proposal and the Climate Proposal can be better tailored to achieve those objectives, as further discussed in our responses to the specific Exposure Drafts below.

2 Response to IFRS S1 Exposure Draft

Question 1: Overall Approach

(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?

Our members agree that this requirement is clearly stated under paragraph 2 of the Exposure Draft, and paragraph 53 makes clear that this requirement extends to risks and opportunities that are not addressed by a specific IFRS Sustainability Disclosure Standard.

However, as a general comment our members consider that sustainability-related opportunities would have a positive impact on an entity's financial indicators and are therefore less important to disclose than sustainability-related risks, which have a negative impact on indicators and are thus critical to disclose to investors. Further, anti-competitive concerns might arise from a requirement to disclose a particular business opportunity. Members therefore propose that disclosure of sustainability-related opportunities be optional.

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

Our members agree that the proposed requirements in the Exposure Draft meet the proposed objective (paragraph 1).

(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?

Our members agree that it is clear how the proposed requirements should apply together with other IFRS Sustainability Disclosure Standards, including for example as explained in the "Core Content" and "Identifying sustainability-related risks and opportunities and disclosures" sections of the Exposure Draft.

(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?

Our members 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. Our members generally believe that the proposed requirements are sufficiently standardised to enable auditors and regulators to assess entities' compliance, while still giving members the flexibility to apply their own judgment in relation to certain aspects of the disclosure.

Question 2: Objective

(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?

Our members broadly agree that both the proposed objective of disclosing sustainability-related financial information (as explained in paragraphs 1-7 of the Exposure Draft), and the definition of "sustainability-related financial information" (as set out in Appendix A of the Exposure Draft, and further described in paragraph 6) are sufficiently clear.

Question 3: Scope

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?

Question 4: Core Content

(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?

Our members agree that these disclosure objectives are clear and appropriately defined. As the objectives build on the four core elements of the TCFD recommendations, which are already well-established and practiced in the market, members agree that this will support a comprehensive and coherent approach to disclosing sustainability-related financial information. Our members also agree that the disclosure requirements for governance, strategy, risk management and metrics and targets are appropriate to their stated disclosure objective. However, our members note that entities must disclose certain quantitative information unless "*unable to do so*" (paragraph 22 of the Exposure Draft). This concept is not clarified in the Exposure Draft and could be interpreted in any number of ways, for example, it is unclear what level of cost or burden entities would be required to bear before they are deemed "unable" to provide a specified disclosure. Members suggest that the ISSB should clarify what this means.

Question 5: Reporting Entity

(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?

Our members agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements. This will assist entities in linking financial statements with sustainability-related financial information, and will enable users to effectively assess the enterprise value of the defined reporting entity.

(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?

Our members agree with the proposed requirement to disclose material information about all of the significant sustainability-related risks and opportunities to which an entity is exposed, along its value chain (although noting per our response to Question 1 that disclosure of opportunities should be optional). Our members agree that the scope of 'value chain' is sensibly defined and that entities should be able to apply the principles-based criteria around sustainability-related risks and opportunities to make these disclosures.

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

Our members agree with this proposed requirement, for the same reasons set out in response to Question 5(a) above.

Question 6:

(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?**

Our members agree that the requirement is clear on the need for connectivity between various sustainability-related risks and opportunities. Our members also agree with the proposed requirements to identify and explain the connections between different pieces of information, including between various sustainability-related risks and opportunities and information in the entity’s financial statements.

The overall purpose of these requirements is that entities consider and disclose material information about all significant sustainability-related risks and opportunities to which they are exposed. These requirements based on a “single materiality” objective – i.e. assessment of materiality should enable users of the information to assess the implications on the entity’s enterprise value. Therefore, our members agree that entities should make clear, in these disclosures, the inherent link between these sustainability-related risks and opportunities and financial information.

Question 7: Fair presentation

(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?**

Our members agree that the proposals around fair presentation, including the aggregation of information, are clear concepts with which entities in the market should be familiar.

(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.**

Our members generally agree with the sources of guidance listed. However, our members are not supportive of the idea that entities should have to consider the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies. While both reporting entities and users of the reports may find such comparisons useful in certain cases, our members believe that imposing any such requirement for self-comparison could lead to unnecessary or irrelevant disclosures and, ultimately, further regulatory scrutiny. It should be clear that entities can exercise judgment as to when it is relevant and useful to make comparisons with other entities in the same industries/geographies.

Additionally, our members are generally concerned that there is now a plethora of standards in the area of sustainability. Certain standards may conflict, become out-of-date and/or may not be materially relevant for certain entities' businesses. Therefore, again, these requirements should make clear that entities can exercise their own judgment in determining which standards / other sources they should use to identify significant sustainability-related risks and opportunities.

Question 8: Materiality

(a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?

Our members agree the definition is clear, since it draws on the existing concept in the accounting standards. However, with respect to the application, members note that while the Exposure Draft applies a materiality standard generally, several of the specific disclosure requirements refer to requiring disclosure of "significant" sustainability-related financial information instead. For instance, para. 15 (in relation to disclosures on strategy) repeatedly refers to significant sustainability-related risks and opportunities. The relationship between materiality and significance in unclear, e.g. what information would be material but not significant. Members recommend removing the concept of "significant" and focusing exclusively on materiality. Further, to increase clarity, members suggest that materiality qualifiers be added throughout the Exposure Draft to clarify that each disclosure item is predicated on the information being material to the disclosing entity, rather than simply relying on the overarching statement in para. 60 of the Exposure Draft.

(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?

Our members agree with this.

(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?

Our members agree with this.

(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?

Our members generally agree with this. However, members think it would improve transparency if reporting entities are required to clarify that they have not made certain disclosures for this reason rather than because it was not considered material.

Question 9:

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?

Our members agree that this is a sensible approach and allows for users of the sustainability-related financial disclosures and the financial statements to clearly link the two disclosures and assess the entity's enterprise value accordingly.

Question 10: Location of Information

(a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?

Our members agree that entities should disclose information required by the IFRS Sustainability Disclosure Standards as part of their general purpose reporting, as this will enable users of the information to clearly assess the sustainability-related information and financial reports together in order to make investment decisions in relation to entity. Our members also agree with the approach of not requiring a specific location within general purpose reporting, for the reasons set out in the Exposure Draft.

(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?

Members note that other frameworks have different timing requirements, e.g. certain mandatory TCFD disclosures in the UK must be disclosed by June each year in relation to the past calendar year. However, members do not think this is an issue the ISSB can address, and members think it will be for each jurisdiction adopting disclosures based on the Exposure Draft to be consistent with the proposed requirements (e.g. in terms of timing).

(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 crossreferenced? Why or why not?

Our members agree with this proposal.

(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?

Our members agree with this proposal.

Question 11: Comparative information, sources of estimation and outcome uncertainty, and errors

(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?

Our members broadly agree with the proposals around disclosing comparative information, and are particularly supportive of the proposals enabling entities to use reasonable estimates and disclose uncertainties where necessary.

Question 12: Statement of compliance

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

Our members suggest that this proposal clarify that a parent entity may sign the statement of compliance on a consolidated basis on behalf of the entities in its group. Our members assume this is permissible – as paragraph 37 of the Exposure Draft states that an entity's sustainability-related financial disclosures shall be for the same reporting entity as the related general purpose financial statements (e.g. if the reporting entity is a group, the consolidated financial statements will be for a parent and its subsidiaries). However, it would be best to clarify this point in the requirements, in order to avoid any ambiguity and individual entities potentially taking on unnecessary obligations.

Otherwise, our members are broadly supportive of this proposal. Our members generally agreed that the strict requirement for the statement of compliance to be "explicit and unqualified" is balanced out by the fact that the disclosures themselves are principles-based and allow for entities to disclose assumptions and sources of uncertainty.

Question 13: Effective date

(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.

Our members believe that the effective date should be set 2 reporting periods after the final Standards have been issued. This gives entities time to gather data for one reporting period, and then prepare the relevant disclosure.

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

Our members agree with this proposal. However, members suggest it may be helpful to encourage entities to provide comparisons if they are available, noting that over 1,900 entities globally have been reporting on the SASB Standards since 2020, often using comparative data. Entities that have this comparative data available should be encouraged to share this with investors, as it provides a valuable basis for analysis.

Question 14: Global baseline

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?

Members consider the proposals in the Exposure Draft to be a good global baseline, being based on the TCFD Recommendations and building on other standards (e.g. the SASB Standards). Members note that even if there are other standards that could conflict with the proposals in the Exposure Draft (e.g. the Corporate Sustainability Reporting Directive and double-materiality standard of the EU disclosure regime), this is beyond the control of the ISSB and should not impact the proposals in the Exposure Draft.

Question 15: Digital reporting

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)?

Question 16: Costs, benefits and likely effects

(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?**

Our members think there is potential to reduce the cost borne by reporting entities which are currently subject to a wide variety of disclosure requests from different stakeholders and required by market regulators. Further consolidation in the sustainability reporting space, including wide-spread adoption of the ISSB Standards by markets around the world, would help realise this cost-savings potential. We encourage the IFRS Foundation to work with other global regulators to align disclosure standards wherever possible so as to achieve this potential.

Question 17: Other comments

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

3 Response to IFRS S2 Exposure Draft

Question 1: Objective of the Exposure Draft

(a) **Do you agree with the objective that has been established for the Exposure Draft? Why or why not?**

Our members agree with the objective.

(b) **Does the objective focus on the information that would enable users of general purpose reporting to assess the effects of climate-related risks and opportunities on enterprise value?**

Our members agree with this.

(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?**

Our members agree that the proposed disclosure requirements meet the proposed objectives (paragraph 1), as entities must disclose information relating to governance, strategy, risk management and metrics and targets, to help users form a full understanding of the entity's climate-related risks and opportunities. As with the IFRS S1 Exposure Draft, these requirements build on the four core elements of the TCFD Recommendations, which are already well-established and practiced in the market.

Question 2: 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?

Our members agree with the proposed disclosure requirements, noting it is helpful that these are based off of the TCFD Recommendations, which will allow for comparability across the market and for reporting entities to leverage existing data and information.

Question 3: Identification of climate-related risks and opportunities

(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?**

Our members agree that the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities are sufficiently clear. The concepts of 'transition risk' and 'physical risk', which entities are required to close, are well-understood and widely used in the market. The requirements to link these climate-related risks and opportunities with the impact on the entity's business model, strategy and cash flows, access to finance, and cost of capital clearly support the aim for users of the general purpose reporting to able to review these disclosures in order to assess the enterprise value of the entity.

However, members note that the paragraph 60 of the IFRS S1 Exposure Draft applies a materiality standard to all requirements of an IFRS Sustainability Disclosure Standard, including the Exposure Draft, but the Exposure Draft repeatedly requires disclosure of "significant" information. The relationship between materiality and significance in unclear, e.g. what information would be material but not significant. Members recommend removing the concept of "significant" and focusing exclusively on materiality. Otherwise, if the concept of "significance" is retained, clarification or additional guidance as to the standard being applied is required.

(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 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?

Our members generally agree with this proposal as industry-based requirements serve as a useful starting point for entities in identifying and describing their climate-related risks and opportunities. However, our members emphasise that entities should have the flexibility in considering industry-based requirements and discounting ones that are not relevant, and/or also considering other industry-based requirements not listed in Appendix B that the entity does believe to be relevant.

Our members also suggest the ISSB consider including the following in the Exposure Draft.

- Encouraging entities to clearly and specifically define what constitutes short, medium, and long term in their disclosure when referencing the risks and opportunities that may impact the entities over those time horizons. As currently drafted, paragraph 9 of the Exposure Draft requires the entities to describe the significant risks and opportunities and the time horizon, and how the entities define short, medium and long term, but does not explicitly link the two.
- Entities should identify both material risks and opportunities across all three time-horizons (i.e. short, medium and long term).
- Encouraging entities to identify the type of opportunities. As currently drafted, paragraph 9(c) of the Exposure Draft only calls out categories of climate risk as defined in the TCFD Recommendations. Highlighting opportunities in a similar way might result in a more complete disclosure.

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

(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?

Our members agree that entities should only need to disclose such information where it enables users to assess the entity's enterprise value. As set out in our response to Q5(b) of the IFRS S1 Exposure Draft, we support the proposals around disclosing in relation to the value chain but believe it is important that entities have the flexibility to apply these disclosures pragmatically and serve the ultimate purpose of giving users the information they need to assess enterprise value. However, the comment above in response to Q3(a) of this response and Q8(a) of our response to the IFRS S1 Exposure Draft (relating to materiality and significance) applies here as well.

(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?

Our members generally agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative for now, as many entities are currently more comfortable with taking a qualitative rather than quantitative approach. However, members note that in certain sectors, quantitative information may aid a qualitative description (for example, an auto-company's exposure to ICE vehicles of certain fuel-efficiencies). Members suggest that the ISSB include the option for entities to disclose quantitative information, where relevant, in addition to the qualitative disclosure.

Question 5: Transition plans and carbon offsets

- **(a) Do you agree with the proposed disclosure requirements for transition plans?**
- **(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 and why?**

In response to Q5(a) and (b), members generally, agree that the proposed disclosure requirements for transition plans are sensible, especially given entities should already be familiar with preparing/consuming these under the TCFD Recommendations. The proposals here for transition plan disclosures are generally qualitative (except for the backwards-looking disclosures on plans) and therefore members expect these should not be unduly onerous for entities to prepare – i.e. an entity's plans to achieve its climate-related targets; plans and critical assumptions for legacy assets; quantitative/qualitative information on progress of plans. However, members suggest the ISSB could require greater clarity over which parts of the entity's value chain are covered by the transition plan, in order to aid user understanding of the scope of the transition plan.

In response to Q5(c) and (d), while members generally agree with the further proposed disclosure requirements regarding entities' intended use of carbon offsets (i.e. the extent to which the entity will rely on carbon offsets, whether these will be subject to a third-party verification/certification scheme and if so which one, the type of carbon offset, and any other significant, relevant factors), members are concerned that the use of carbon offsets may not be sufficiently robust. Accordingly, requiring the disclosure of the intended use of carbon offsets to achieve emissions targets may not be a meaningful data point for how the entity will achieve its emissions target.

Question 6: Current and anticipated efforts

- **(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?**

While members broadly agree that entities should have the flexibility to disclose this information qualitatively if they are unable to do so quantitatively, quantitative information should not be mandated for information that is forward-looking. The nature of financial statements is by nature backward-looking, and members note that Paragraphs 14(c) and (d) of the Exposure Draft require entities to report quantitatively on how they expect their financial position and performance to change over time, which are both forward-looking. Since there is uncertainty over what 'unable to do so' means (see response to Q4(a) of the IFRS S1 Exposure Draft), members think it is problematic to require entities to provide quantitative data on forward-looking points unless the entities are 'unable to do so'.

Members also agree with the ISSB that there may be various challenges around e.g. obtaining data, accurately measuring the financial effects of climate related risks/opportunities and also separating these out from sustainability-related risks. Members generally think the Exposure Draft gives good flexibility to entities here, as it does not limit the reasons an entity can give for providing qualitative disclosures instead of quantitative disclosures.

(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?

Members consider that climate-related opportunities would have a positive impact on an entity's financial indicators and are therefore less important to disclose than climate-related risks, which have a negative impact on indicators and are thus critical to disclose to investors. Further, anti-competitive concerns might arise from a requirement to disclose a particular business opportunity (as noted by the U.S. SEC on pp.66-67 of its climate-related disclosures proposal). Members therefore propose that disclosure of climate-related opportunities be optional. By defining "climate-related opportunities," the proposal would promote consistency when such opportunities are disclosed, even if such disclosure is not required. In this regard, additional guidance on what constitutes a climate-related opportunity would be beneficial.

(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?**

Members broadly agree with the proposals under Q6(b) and (c), which seem sensible and in support of the overall objective that users should be able to understand the effect of climate-related risks on an entity's enterprise value. However, members suggest it would be helpful for the ISSB to encourage more clarity on the link between climate-related risks and scenario analysis. For example, clarifying what risks are most salient under which scenarios, and how this would change over time. The ISSB could consider requiring entities to provide this information in the form of a table. Further, members would like to preserve the backward-looking, prior period focus of financial statements and encourage the ISSB to clarify for those that adopt IFRS S2 that forward-looking disclosures should not be expected to be included in financial statements, but rather within the broader body of general purpose financial reporting.

Question 7: Climate resilience

(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?

Members recognise that ideally, entities should be required to disclose the results of the scenario analysis. However, members note that scenario analysis modelling is still being developed, and so the results of the scenario analysis might not be reliable and therefore useful information. Members suggest that entities should be able to 'opt-out' of this requirement to provide the results of the scenario analysis due to being sensitive (e.g. they may relate to regulatory and prudential obligations) or if the entities consider that the results will not be helpful or even misleading. Members note that the TCFD rules for asset managers in the UK require asset managers to <u>not</u> make disclosures if (i) there are gaps in underlying data or methodological challenges, and (ii) these data gaps or methodological challenges cannot be addressed using proxy data or assumptions without the resulting disclosure, in the reasonable opinion of the asset managers, being misleading. Members think it would be helpful for the ISSB to include a similar flexibility in the Exposure Draft in respect of this requirement, and instead require entities to 'comply or explain'.

Members also suggest including information on the individuals / bodies signing off on the outputs of scenario analysis, which will aid clarity around the level and quality of management focus on climate scenario analysis. Other than these two points, members generally agree with the other items listed in paragraph 15(a)(i) to (iii).

(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?**

Members agree that entities should have the flexibility to adopt other approaches if a climate-related scenario analysis isn't feasible, e.g. due to a lack of data in the relevant sector. Accordingly, members do not think all entities should be required to undertake climate-related scenario analysis to assess climate resilience. However, as mentioned in the response to Q4 of the IFRS S1 Exposure Draft, the ISSB should clarify the concept of "*unable to do so*".

(c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?

Members generally agree with this, but suggest the ISSB consider mandating a minimum number of scenarios that should be referenced by the entities (members suggest at least two), and the type of scenario (e.g. 1.5 degree pathway, a 'hot house' or physical impacts, and/or current policies). However, members suggest that the requirement retain enough flexibility so that mandates can align across jurisdictions to avoid a situation in which an entity would be required to run a multiplicity of scenarios with only marginal differences between them.

(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?

Members agree with this, as this will aid understanding of the how the entity has used alternative techniques to assess the climate resilience of its strategy.

(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?

Members agree with this.

Question 8: Risk management

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?

Members suggest the Exposure Draft could explicitly include in paragraph 17(a) a requirement for the entities to explain whether and how the outputs of each scenario analysis (or alternative process) has informed its identification of climate-related risks and opportunities. Members also suggest that the discussion of process should include explanation of the governance of the scenario analysis process and how the outputs are used to identify risks, including an overview of what risks have input or oversight from the entity's chief risk officer (or equivalent function). Other than these suggestions, members agree with the proposed disclosure requirements.

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

(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?

While members generally agree with the seven proposed cross-industry metric categories, including their applicability across industries and business models, members do not agree that entities should be required to disclose Scope 3 GHG emissions. Please see the more detailed response to Q9(f) below.

As a general comment, members suggest it would be helpful to link the cross-industry metrics, as set out in paragraph 21 of the Exposure Draft, to the objective(s) that these metrics relate to. Members also suggest linking the description of metrics to other parts of the disclosure where appropriate, to help users develop a more holistic picture of the entity. For example, the physical and transition risk metrics (as set out in paragraphs 21(b) and (c) of the Exposure Draft) could be linked to scenario analysis (or alternative methods).

Members also suggest the ISSB should require entities to clarify that certain metrics (for instance, in Paragraphs 21(d) and (e) in relation to climate-related opportunities and capital deployment respectively) is for the reporting period.

Members also had comments on the following specific metrics:

- Paragraph 21(a)(vi)(3): the ISSB could add more clarify on what "*basis for measurement*" means, for instance be requiring entities to state the source of data, e.g. was this obtained directly from the entities in the value chain or derived by the reporting entity using proxy measures.
- Paragraphs 21(b) and (c): members are concerned that it is unclear what "vulnerable" to transition and physical risks entails, and therefore challenging to calculate the amount and percentage of assets or business activities that are 'vulnerable'. While members agree with basing the disclosures on the TCFD Recommendations, and it may not be possible to define what 'vulnerable' means (since it would depend on the type of asset / business, the geographic location etc.), members suggest the ISSB could require entities to explain how they determined vulnerability.

(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.

Members suggest the ISSB could consider adding a cross-industry metric category on the proportion of green revenue. This would offer insight on the percentage of an entity's business which is taking advantage of climate-related opportunities, and how well positioned the entity may be for the transition. This would also facilitate cross-industry comparisons and assessments of enterprise value. However, members recognize that the definition of 'green revenue' varies, and so suggest the ISSB have regard to the EU Taxonomy or an appropriate alternative taxonomy, and require the entity to include a description of how it defines 'green revenue'.

(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?

Members generally agree with this, other than in relation to mandating disclosure of Scope 3 emissions.

(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))?

Members do not agree with this and think entities should be required to provide a disaggregated view all seven GHGs for Scope 1 and 2 emissions (and Scope 3 if available), as it is occasionally most helpful to understand exposure to particular GHGs rather than an aggregation. For example, certain jurisdictions may have regulation limiting methane emissions, so it is helpful to understand an entity's relative exposure rather than just overall emissions in order to know how operations may be impacted.

(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?

Members acknowledge that requiring separate Scope 1 and 2 emissions disclosures would promote greater transparency about which part of an entity's value chain and corporate structure are covered by each element of disclosure. However, members disagree with requiring separate disclosures of Scope 1 and 2 emissions for (i) the consolidated entity, and (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates due to the practical challenges of requiring this. For instance, entities cannot compel a joint venture or unconsolidated subsidiaries to provide Scope 1 and 2 emissions disclosures. Instead, members suggest that the ISSB should only require a disclosure for the consolidated entity as a starting point, but include this as an option for entities that want to separately disclose the Scope 1 and 2 emissions for (i) the consolidated entity, and (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates.

(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?

Members do not agree with this. Members recognise and appreciate the importance of Scope 3 emissions data in assessing investments, and how complete and consistent disclosure of financially material Scope 3 emissions data is useful for users to fully understand the transition risks applicable to an entity. However, members express concern that it is premature to mandate Scope 3 disclosure, even after applying a financial materiality threshold, because methodologies for calculating emissions and collecting data are still at a relatively early stage of development so it would be challenging to obtain the data in the first place before even assessing financial materiality. Many industries have not yet settled on methodologies for calculating Scope 3 emissions. Additionally, there is no widely accepted and accurate mechanism to gather data for Scope 3 emissions for certain activities (e.g. financed emissions related to residential loans) other than through the use of broad averages created by data providers, which may lead to inaccurate reporting and make it difficult for users to conduct meaningful comparisons between entities. Members are also concerned that including financially material Scope 3 emissions information in the disclosure may lead users to believe these disclosures are more accurate, comparable and reliable than is warranted given the evolving nature of Scope 3 methodologies and heavy reliance on assumptions and modelling.

Instead of mandating disclosure of financially material Scope 3 emissions, members suggest that the ISSB could require entities to include financially material Scope 3 emissions data in the disclosure on a 'comply or explain' basis. Failing that, we think the standards should make express that entities need only disclose aspects of their Scope 3 emissions that are financially material to the entity (for example, if a subset of Category 15 emissions was relevant to a financial institution, the financial institution should only be required to disclose emissions from that subset of Category 15 emissions).

Question 10: Targets

(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?**

Members generally agree. However, in relation to paragraph 23(e) of the Exposure Draft, where third parties have validated an entity's targets, the ISSB could strengthen the disclosure by requiring the entity to disclose the identity of the third party (e.g. audit firm, the Science Based Targets Initiative). By providing this detail, users have more clarity on the intensity and manner of validation performed.

Secondly, when setting targets, entities should clearly define the base period and the baseline figures for required metrics during the base year. For example, if an entity sets a 2030 emissions reduction target based on 2019 figures, it should state this clearly and provide the entity's 2019 emissions figures to allow for comparison.

Question 11: 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?**

Members agree with this approach, noting that the existing SASB Standards could be improved on. For instance, SASB Standards for the insurance industry is heavily focused on property and casualty insurance, though there is a larger range of insurance (and reinsurance) products. The Exposure Draft therefore supports the evolution of the SASB Standards and contributes towards achieving a global baseline.

(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?**

Members agree with Q11(b) and (c), and refer to the general comment about the ISSB proposals contributing to the evolution of a global baseline.

(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?**

Members agree with the proposed requirement industry-based disclosure requirements for financed and facilitated emissions (the "**financed emissions**"). Financed emissions are more nuanced than the cross-industry requirement implies, since the relationship between the reporting entity and the underlying asset (which is producing the emissions) can vary significantly depending on the reporting entity (e.g. equity owner, debt provider, loan facilitator, underwriter etc.). To improve clarity, members suggest a separate disclosure standard to aid clarity in the relationship between the reporting entities and financed emissions.

(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?**

Members agree with the proposals to require disclosure of the methodology used to calculate financed emissions, but have one suggestion for how to augment the proposals. The current best practice is for the explicit formula used to calculate financed emissions to be disclosed, which would be covered by the existing standard. Beyond this, it would be helpful if entities were encouraged to provide narrative in their discussion and analysis on any obstacles tackled when calculating these figures, and how estimation models have been used to overcome such issues. This is because until data quality and calculation methodologies improve over the next three to five years, financed emission figures that are disclosed will be made based on a significant number of estimations and assumptions, and users would benefit from better understanding what these obstacles are.

(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?**

Members agree that 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. Demand for lower emissions financial products and services is increasing, and in some markets, regulators are looking more favorably at lower emissions products. Understanding the extent to which an entity has exposure to higher financed emissions can offer context on the extent to which the manager is positioned to take advantage of this opportunity.

However, given that most asset managers are highly diversified on an aggregate basis, it is unclear how insightful a total AUM figure would be without more specific requirements focusing on either particular asset classes or key strategies/funds. Most asset managers are already measuring and reporting the financed emissions of certain strategies to clients as part of routine client reporting, so members think the requirement to disaggregate the financed emissions should not be a disproportionate cost for the asset managers.

(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?

Question 12: Costs, benefits and likely effects

(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?

Members note that while the disclosure may, in some cases, require entities to incur new costs, members believe that on balance these costs are worth bearing in order to provide market participants with comprehensive information about the sustainability risks and opportunities facing businesses.

However, members also refer to the response to Q16 of the IFRS S1 Exposure Draft, which noted that further consolidation in the sustainability reporting space may lead to cost-savings for entities that are subject to a wide variety of disclosure requests from different stakeholders and required by regulators.

Question 13: Verifiability and enforceability

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.

Members note that the concept of "verifiability" is inherent in TCFD disclosures as well, and think it is helpful that the Exposure Draft provides further detail on how qualitative disclosures can meet this standard of 'verifiability'. Members also note that it is unclear how entities are expected to verify certain aspects of the disclosures: for example, paragraph 17 of the Exposure Draft requires entities to disclose sustainability-related risks faced by its "*business partners*", and it is unclear how entities would obtain and verify information from third parties. As mentioned above in response to Q6(a), members also consider that it is inherently problematic to verify forward-looking statements.

Question 14: Effective Date

(a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of the [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*? Why?

Members think the effective date should be the same as that of the IFRS S1 Exposure Draft, which relates to general requirements disclosure, as members expect much of the information between the two to be relevant to one another.

(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.

Our members believe that the effective date should be set 2 reporting periods after the final Standards have been issued. This gives entities time to gather date for one reporting period, and then prepare the relevant disclosure.

(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?

Members consider that there may be operational difficulties in splitting out the disclosure requirements. It is also worth noting that governance disclosures will inherently need to consider how other obligations (such as carrying out scenario analyses/other assessments for climate resilience) are managed and monitored.

That said, members agree that entities could apply some disclosure requirements earlier than others and some of these (e.g. climate resilience disclosures) are backwards-looking and so could be applied at a later stage.

Question 15: Digital reporting

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)?

Question 16: Global baseline

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?

Members consider the proposals in the Exposure Draft to be a good global baseline, being based on the TCFD Recommendations and building on other standards (e.g. the SASB Standards). Members note that even if there are other standards that could conflict with the proposals in the Exposure Draft (e.g. the CSDR and double-materiality standard of the EU disclosure regime), this is beyond the control of the ISSB and should not impact the proposals in the Exposure Draft.

Question 17: Other comments

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