

July 28, 2022

International Sustainability Standards Board (ISSB)
Emmanuel Faber, ISSB Chair
Sue Lloyd, ISSB Vice-Chair

commentletters@ifrs.org

Re. Request for Comment on Exposure Drafts for IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures

Dear Chair Faber and Vice-Chair Lloyd:

Thank you for the opportunity to comment on Exposure Drafts for IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.

Launched by the Government of Canada in 2021, the Sustainable Finance Action Council (SFAC) comprises 25 organizations from Canada's deposit-taking institutions, insurance companies, and pension funds, which, combined, have more than \$10 trillion in assets. The SFAC brings together public and private sector financial expertise to support the growth of a strong, well-functioning, sustainable finance market and strengthen the mobilization of private capital in support of Canada's climate goals. The SFAC also engages with external experts and civil society from the sustainable finance eco-system to further its work objectives.

The SFAC welcomes the establishment of the International Sustainability Standards Board (ISSB) and is encouraged by the ISSB's efforts to establish a Canada office within its governance structure. Canada has significant and critically important knowledge and expertise developed over many decades that will offer unique perspectives to the ISSB. The SFAC also commends the ISSB for its commitment to drive global alignment on disclosure standards, given the need for all market participants to substantially increase financing and strengthen engagement that aligns with the imperatives of a net-zero global transition.

The SFAC organizations plan to provide individual/sector/trade association perspectives separately on the exposure drafts through the ISSB consultation process. This letter is intended to signal our ongoing support of the ISSB and highlight a few areas of critical importance. The SFAC has prioritized climate-related financial disclosures in its initial work plan, and accordingly the comments below generally relate to IFRS S2 Climate-related Disclosures.

Harmonization of global standards

Investors, insurers, lenders, and other stakeholders operate in global markets, and require consistent climate-related disclosures. This enables users of climate disclosures (Users) to assess a reporting entity's (Preparers) exposure to and management of climate-related risks and opportunities, across markets, regardless of jurisdiction, to facilitate capital allocation and stewardship decisions. Regulatory divergence adds cost and administrative burden, for both Users and Preparers, and increases the risk of fragmenting international financial and capital markets, impairing market efficiency and capital flows.

The SFAC would like to underline the importance of coordination between the ISSB and domestic regulators (e.g., Canadian Securities Administrators, Office of the Superintendent of Financial Institutions, U.S. Securities and Exchange Commission, etc.) to ensure implementation of a global baseline standard, based on the Task Force on Climate-related Financial Disclosures recommendations,

that will support the provision of high-quality, consistent and comparable disclosures to global markets, on a cost-effective basis.

Proportionality and phasing

SFAC organizations have contributed to, or actively tracked, consultations launched by regulators in various jurisdictions on climate-related disclosures. The SFAC appreciates that there are diverse viewpoints on the substance of the requirements, but we are encouraged by the general support for making climate disclosures part of regular reporting practices, and the level of dialogue and engagement by market participants on this issue.

The SFAC acknowledges that there is a tension between the type of information that Users are seeking to make capital allocation decisions, including the type of Preparers who should be required to disclose and the timing of such disclosure, and the capability and risk appetite of Preparers to make such disclosures.

The SFAC views the use of proportionality and phasing as appropriate in some cases to create needed flexibility for Preparers, but, at the same time, is mindful that a proper balance needs to be found to ensure that the use of these tools does not dilute the ambition of the standards to the detriment of Users. In this regard, the SFAC encourages the ISSB to consider establishing a stakeholder forum, comprised of both Users and Preparers, who could, through dialogue, help to prioritize areas of divergence, and seek opportunities of convergence through use of proportionality and phasing. The SFAC would be pleased to participate in this forum.

Promoting comprehensive, comparable and reliable disclosure

Climate-related risks and opportunities are expected to occur over a longer timeframe making them more difficult to predict. Some of the data and methodologies for reporting on these risks and opportunities are underdeveloped, do not yet exist or are currently of low quality, involve inherent uncertainties that requires management's estimates or rely on third party information etc. (e.g., scope 3 emissions).

The risk of undue legal liability could create a disincentive for Preparers to be proactive in their disclosures. The SFAC encourages the ISSB to coordinate with domestic regulators to ensure that "safe harbours" included in domestic regulatory frameworks create appropriate protections that will encourage Preparers to be as comprehensive as possible in their disclosures despite data uncertainties.

The ISSB may also wish to consider building into its standards a "reliability" metric which can signal accuracy limitations to Users on the data and methodologies underlying the disclosure and, much like the PCAF (Partnership for Carbon Accounting Financials) data quality score, could serve to spur the development of more reliable data and methodologies.

Understanding disclosure barriers and championing tools to improve the quantity and quality of climate-related financial disclosures

There is an urgent need for Users to receive high-quality, comprehensive and comparable disclosure of Preparers' climate-related risks and opportunities in order to make sound investment decisions. However, in many cases, in particular for small- and medium-sized enterprises, the nature of this disclosure will be beyond the scope of a Preparer's existing reporting capabilities, and would require significant investments in reporting infrastructure and expertise.

For this reason, the SFAC encourages the ISSB and domestic regulators to put specific focus on creating learning and development opportunities and other supports to assist Preparers in building the requisite

capacity quickly to produce high-quality and comparable disclosures for Users, starting with emissions reporting, scenario analysis and transition plans. The SFAC is interested in working with the ISSB to help identify and/or develop market tools that will enable comprehensive and effective disclosure, on a cost-effective basis.

Conclusion

Acknowledging that standard-setting is iterative, the SFAC encourages the ISSB to continue close dialogue and collaboration with standard setters and jurisdictional authorities. Consensus support is not necessarily a realistic goal. Ongoing engagement with stakeholders on points of contention and emerging best practices, however, should be a central tactic to continually strive for higher quality, transparent, reliable and comparable reporting.

As SFAC Chair, I have appreciated the opportunities to engage with the ISSB and look forward to continuing this dialogue.

Thank you for your efforts on this critically important global initiative.

Sincerely,

Kathy Bardswick

Kathy Bardswick

Chair, Sustainable Finance Action Council