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Mr Emmanuel Faber
International Sustainability Standards Board
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London
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Our ref LB/288

29 July 2022

Dear Mr Faber,

ED/2022/S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and ED/2022/S2 *Climate-related Disclosures*

We appreciate the opportunity to comment on the International Sustainability Standards Board's (ISSB) exposure drafts: ED/2022/S1 (general requirements proposal or proposed IFRS S1) and ED/2022/S2 (climate proposal or proposed IFRS S2). We have consulted with, and this letter represents the views of, the KPMG network.

Investors are seeking more in-depth and better quality information about sustainability-related risks and opportunities. We therefore recognise and support the urgent need for standard setting to help preparers achieve more consistent and comparable sustainability disclosures. We believe that the objective of the ISSB's standard setting should be to meet the needs of investors in a way that is practical and without undue burden for preparers; this view also underpins our responses.

Through this lens, we are responding to the proposals based on our wide-ranging global experience in the following fields: financial reporting and the audit of financial statements, including internal controls over financial reporting; climate strategy and decarbonisation; and wider corporate and sustainability reporting.

We have been providing assurance over sustainability information, including greenhouse gas (GHG) emissions, for over two decades. During this time, we have been actively engaged with organisations in the largely voluntary landscape of sustainability standard setting, including with the Climate Disclosure Standards Board and the Value Reporting Foundation (VRF) ahead of their consolidation into the IFRS® Foundation, as well as the Taskforce on Climate-related Financial Disclosures (TCFD). Our global network is organised and coordinated across all of our business, and provides us with a broad perspective on the opportunities and challenges associated with the preparation, reporting and assurance of sustainability information.

Our experience and perspective have informed our assessment of the proposals. This cover letter outlines our key observations and recommendations on both exposure drafts, supported by more detailed explanations in the appendices.

Support for the ISSB's core mission

We support the ISSB's mission to develop standards that will help preparers to report from the starting point of a globally consistent baseline of investor-focused sustainability information. This will allow national and regional jurisdictions to build on the global baseline and set supplemental standards that serve their specific jurisdictional needs – a 'building blocks approach'.

We are therefore encouraged by the collaborative message coming from the May 2022 meeting of the ISSB's Jurisdictional Working Group. At that meeting, representatives of the ISSB, the European Financial Reporting Advisory Group and the United States Securities and Exchange Commission acknowledged the compatibility between their respective proposals, and noted that a key focus is to understand differences between their proposals and the resulting impact on stakeholders.[1] We stress that achieving a global baseline that is practical, and does not unnecessarily burden preparers, requires an alignment of principles, structure and measurement bases that underpin the disclosures – not simply the disclosures themselves.

Further, to achieve the objective of a global baseline, we believe it is important for the ISSB's initial standards to be of high quality but issued as quickly as possible. Our recommendations for substantive changes to the proposals relate to issues that would help operationalise the final standards and which we believe could be addressed by the ISSB in a timely manner. We make further recommendations for future projects that should be included in the ISSB's forthcoming agenda consultation to help determine priorities, but which should not delay issuance of the first standards.

The future of sustainability reporting

Our vision for the future is a global reporting ecosystem for sustainability-related information that combines a focus on enterprise value to meet the needs of capital market participants with reporting on impacts that serves the needs of a broader group of stakeholders. We believe that these aims are complementary. Given the mandate of the IFRS Foundation, we agree with the ISSB's focus on enterprise value.

We acknowledge the commitments made by the ISSB and the Global Reporting Initiative to coordinate their work programmes and standard-setting activities, recognising the importance of connectivity and the need for a global, interconnected system for sustainability reporting designed to meet the needs of the capital markets and a broader group of stakeholders.

A coherent reporting package connecting financial and sustainability information

We support the focus of the proposals on connected information. From our work with preparers and investors, as well as our role as a provider of audit and assurance services, we know that connectivity between the financial statements and sustainability

[1] Public summary of the International Sustainability Standards Board Jurisdictional Working Group Meeting held on 16 May 2022. IFRS Foundation, 16 May 2022, https://www.ifrs.org/content/dam/ifrs/meetings/2022/may/jwg/jwg-meeting-summary-may-2022.pdf. Retrieved 27 July 2022.

information is key to bridging the information gap between the perceived needs of certain investors vs the reality of applying current accounting and auditing standards. Although the information provided in the front part of the annual report may be different in nature from the financial statements, we believe it should be consistent where appropriate.

We therefore encourage the ISSB and International Accounting Standards Board (IASB) (the Boards) to work closely together to ensure connectivity between their respective standards to achieve this coherent reporting package, and we welcome the announcement that the Boards will use the principles and concepts of the Integrated Reporting Framework as part of their future standard setting.[2]

As part of this connected work programme, we recommend that the Boards develop an aligned conceptual framework covering the reporting of all types of investor-focused information. The priority of this project should be determined as part of the ISSB's agenda consultation (see above). This would bring together the concepts used in financial and sustainability reporting wherever possible, but equally highlight differences where necessary to recognise their different natures. This recommendation is consistent with the intent of the Boards to build on the Integrated Reporting Framework.[3]

Reporting on all significant sustainability-related risks and opportunities

We agree that providing disclosures about all significant matters that would influence investors' assessment of enterprise value – or their understanding of management's stewardship of the business – is an important goal for the ISSB. Accordingly, we support the broader scope of proposed IFRS S1 so that reporting is not dominated by a single topic of concern.

To facilitate the practical application of this proposed approach to topics outside of climate, in particular in advance of the publication of a full suite of IFRS Sustainability Disclosure Standards, we have the following recommendations that we believe could be addressed in a timely manner, each of which is more fully explained in Appendix 1.

- *Constrain the sources of 'other' guidance:* In determining significant sustainability-related risks and opportunities and material disclosures for which there is no specific standard, at least at this early stage of global sustainability reporting, we believe the sources of additional guidance should be limited to the Sustainability Accounting Standards Board (SASB) Standards. In making this recommendation, we recognise that the future development and maintenance of the SASB Standards is still to be determined following consolidation of the VRF into the IFRS Foundation.
- *Define the scope of 'sustainability':* Scoping would assist entities in understanding the extent of non-financial reporting topics (e.g. intangible resources, relationships) that are encompassed by sustainability-related financial reporting.
- *Provide additional transition options:* We believe a phased introduction to different requirements – supported by an amended statement of compliance (e.g. to allow

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[2] News Release, Integrated Reporting – articulating a future path. IFRS Foundation, 25 May 2022, https://www.ifrs.org/news-and-events/news/2022/05/integrated-reporting-articulating-a-future-path/. Retrieved 27 July 2022.

[3] Ibid.

adoption of final IFRS S2 and aspects of final IFRS S1 in advance of full compliance) – would facilitate faster adoption of the final standards.

Definition of materiality

We support the ISSB's proposed alignment of the definition of materiality with IFRS Accounting Standards. This would provide clarity and consistency with the financial statements and result in an approach that is consistent with the IFRS Foundation's mission to provide transparency to global capital markets.

To achieve consistent global adoption, we believe it is vital that preparers and users understand this definition and how to apply it in practice. Therefore, we recommend the following adjustments before the standards are finalised (which are more fully explained in Appendix 1):

- emphasise the qualitative and longer-term nature of the materiality judgements required;
- clarify how the concept of 'significant' sustainability-related risks and opportunities interacts with the 'material' information that needs to be disclosed; and
- align the notion of 'enterprise value' with the objective and usefulness of general purpose financial reporting in the IASB's *Conceptual Framework*.

Once the standards have been finalised, we recommend that the ISSB undertake a project to develop further guidance – including content from the IASB's *Making Materiality Judgements Practice Statement* (Materiality Practice Statement) and *Management Commentary Practice Statement* exposure draft (Management Commentary exposure draft) – into a more detailed guide for preparers to follow when assessing materiality; the priority of this project should be determined as part of the ISSB's agenda consultation (see above). This recommendation again appears consistent with the intent of the Boards to build on the Integrated Reporting Framework.[4]

Other changes to the general requirements proposal to facilitate adoption

We recommend the following additional changes to proposed IFRS S1 to facilitate adoption globally (explained more fully in Appendix 1). We believe all of these changes could be made without delaying the release of the final standards.

Clarifying the reporting entity concept

In principle, we agree that the reporting entity for sustainability-related financial information should be the same as for the financial statements. However, we believe that further guidance – on the measurement and disclosure of information from associates, joint ventures and other non-consolidated investments – is needed to operationalise that principle.

We do not advocate a prescriptive approach at this stage because it could unnecessarily delay the issuance of the final standards and/or entities' ability to adopt them. Instead, we recommend requiring disclosure of the approach(es) taken to incorporate information relating to material investments.

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[4] Ibid.

We then recommend a separate project to provide further guidance on the practical implications of aligning the reporting entity for sustainability reporting with the financial statements. This should include working together with the GHG Protocol to update those requirements and drive consistency and comparability in the reporting of GHG emissions.[5]

Isolating and reporting financial implications and forward-looking analysis

We support the initiative of the ISSB to drive better connectivity between reporting on sustainability-related risks and opportunities and financial statement impacts, and greater transparency around those impacts. However, we are concerned that, as drafted, certain requirements may encourage entities to make inconsistent attributions of impacts as climate- or sustainability-related, and may lead to entities disclosing management's forecasts of future performance without sufficient explanation that these are hypothetical and inherently uncertain.

We believe that minor changes to the proposed requirements would help entities provide transparency without the need to present their forecasts, and improve the quality of information provided to investors. These changes would also remove barriers to adoption of the standards in jurisdictions where there are no safe harbour provisions.

We therefore request that the ISSB provide the following application guidance or clarifications.

- Without changing the proposed requirements, highlight the predictive value of historical information. This would include giving examples of trends, factors and relationships, as well as related leading indicators that would support investors' understanding of the financial implications of identified risks and opportunities on both historical and future financial position and performance.
- To avoid implying that entities must present their forecasts, amend the drafting to require entities to 'explain' how matters have affected or are expected to affect financial position and performance, rather than to 'disclose how'.
- To avoid significant inconsistencies in the classification of specific events or decisions as 'sustainability-related' and their impacts described as affecting the financial statements – in addition to countering the risk of greenwashing – clarify when such classification would be appropriate. For example, the ISSB could require that impacts are attributed and quantified only when the identified sustainability-related risk is a 'significant' contributing factor, and otherwise require contextual information to explain the impact.

Treatment of estimates

While we understand the ISSB's logic in requiring retrospective changes in estimates, we believe the proposals place an undue burden on preparers to potentially restate all comparative information each year. To resolve this issue without unnecessarily delaying finalisation of the standards, we recommend that the ISSB:

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5 In March 2022, the Greenhouse Gas Protocol announced that it is embarking on a project to assess and update its guidance. Press release, GHG Protocol to assess the need for additional guidance building on existing corporate standards. Greenhouse Gas Protocol, 31 March 2022, https://ghgprotocol.org/blog/ghg-protocol-assess-need-additional-guidance-building-existing-corporate-standards. Retrieved 27 July 2022.

- alter the approach by introducing a rebuttable presumption in final IFRS S1 that estimates should not be updated retrospectively;
- include an exception to this rebuttable presumption in final IFRS S2 to require an entity to follow the GHG Protocol in accounting for changes in estimates in GHG emissions;
- retain the guidance in draft IFRS S1 that material prior period errors would be corrected retrospectively, unless impracticable to do so; and
- incorporate additional guidance into final IFRS S1 covering the differences between changes in estimates and changes in policies and the use of hindsight; this guidance should be based on IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Once the standards have been issued, we recommend that the ISSB undertake a separate project to provide further guidance on when and how estimates should be updated, as well as guidance on how to differentiate between estimates and changes in policy. The priority of this project should be determined as part of the ISSB's agenda consultation (see above).

Changes to the climate proposal to facilitate adoption

Many of our suggestions relating to the general requirements proposal would also enhance entities' ability to adopt the climate proposal and we recommend conforming changes. In addition, we recommend the following changes to the climate proposal to facilitate adoption globally, which are explained more fully in Appendix 1. Again, we believe all of these changes could be made without delaying release of the final standards.

Requirement to use scenario analysis

We support the proposed scenario analysis disclosures, building on the TCFD framework, and the alternative disclosures when scenario analysis is not used. However, we recommend encouraging entities to use scenario analysis, but only requiring disclosure of information about scenario analysis when it is used by management (instead of when they are 'unable to do so').

We are suggesting this change to support the global adoption of the proposals in a timely manner, which may be before many entities are sufficiently advanced in their scenario analysis for this to be used in practice for managing the business or in providing useful information to investors. As such, our recommendation does not indicate a lack of support for the value of robust scenario analysis in helping management understand the implications of climate-related risk on the business, or the value that investors can gain from high-quality climate resilience disclosures that incorporate the results of robust scenario analysis. We also acknowledge the significant value that investors can receive from reasoned sensitivity analysis about entities' exposure to changes in key metrics.

We believe that as entities' proficiency in undertaking climate-related scenario analysis improves, and entities recognise the considerable value this exercise brings in understanding their climate-related impacts and exposures, there will be a trend towards the more extensive use of scenario analysis, and therefore its disclosure under the standards.

Strategy and transition plans

We support the proposal building on the TCFD framework to require disclosure about an entity's transition plan. However, we recommend that the ISSB separate the disclosure of the entity's transition plan from the wider climate-related impacts on the entity's strategy.

Separating the two requirements would recognise that there are likely to be climate-related impacts on an entity's strategy that are not connected to its transition plan. As currently drafted, we are concerned that these impacts may be overlooked. For example, the entity's strategic response to its exposure to physical risks may be separate from its transition plan covering its response primarily to transition risks.

In addition, to prevent the inclusion of misleading information, we recommend that the ISSB clarify that the activities and targets included in an entity's disclosure of transition plans should clearly differentiate between activities that are either underway or otherwise committed, and any other elements of the plan. Without this constraint, we believe there is a risk of greenwashing or exposure to litigation risk in certain jurisdictions.

Conclusion

Appendix 1 explains the recommendations in this cover letter more fully. Appendices 2 and 3 include other technical and drafting matters for consideration and reconcile our responses to the specific questions asked by the ISSB where we believe we have the relevant experience and perspective.

Please contact me or Mark Vaessen Vaessen.Mark@kpmg.nl if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix 1: Substantive recommendations

The purpose of this appendix is to explain the recommendations in our cover letter more fully. These are the limited substantive changes that we propose making ahead of issuing the final standards, plus recommendations for future projects whose priority should be determined as part of the ISSB's forthcoming agenda consultation.

Appendices 2 and 3 include other technical and drafting matters for consideration and reconcile our responses to the specific questions asked by the ISSB where we believe we have the relevant experience and perspective.

1. Reporting on all significant sustainability-related risks and opportunities

As explained in our cover letter, we support the broader scope of proposed IFRS S1 so that reporting is not dominated by a single topic of concern. The following recommendations are to facilitate the practical application of the proposed approach to topics outside of climate. The related issue of appropriate transition options is discussed in section 8.

1.1 Constrain the sources of 'other' guidance

Corresponding questions:

- proposed IFRS S1: 1a, 1d, 2a, 2b, 7b, 8b, 14; and
- proposed IFRS S2: 3a, 3b.

As drafted, the list of sources of guidance in proposed IFRS S1.50–54 to determine what to report is broad. This would make it challenging for preparers to apply the proposals consistently, and for assurance providers to identify a suitable basis to assess the completeness of disclosures. We also expect that first-time application of the standards with such a broad scope of potential disclosure topics would be a challenge for many entities. It might even form a barrier to rapid endorsement in some jurisdictions.

We recommend that the ISSB clarify and narrow the sources of guidance that must be considered, as follows.

- Narrow the list of external sources in proposed IFRS S1.51 and 54 to include the SASB Standards only. Although entities may choose to identify and report on more topics, this approach would limit any confusion around the requirement for peer benchmarking and provide a useful baseline of topics to consider.
- Clarify the drafting of proposed IFRS S1.51 to make clear that management uses its judgement to identify the entity's significant sustainability-related risks and opportunities in addition to the sources listed.
- Clarify how the concept of 'significant' sustainability-related risks and opportunities interacts with the 'material' information that needs to be disclosed, as well as the definition of enterprise value. This change, which we discuss in section 2, would support management in applying its judgement.

Although the SASB Standards have already been subject to the SASB's own due process, we recognise that their future development and maintenance is still to be determined following consolidation of the VRF into the IFRS Foundation. We encourage the ISSB to consider the best way to maintain the SASB Standards as part of its forthcoming agenda consultation.

1.2 Define the scope of 'sustainability'

Corresponding questions: proposed IFRS S1: 1a, 1d, 2a, 2b, 7a, 8b, 12, 14.

In the longer term, we recommend that the ISSB develop a clear definition of 'sustainability' within a future conceptual framework to ensure the scope of disclosures required can be interpreted consistently. However, we believe that it would be sufficient for the ISSB to provide some indication of the intended scope of sustainability disclosures ahead of the issuance of final IFRS S1 and final IFRS S2. This would drive greater consistency of interpretation of the scope of topics included under proposed IFRS S1, while allowing practice to develop.

The definitions of 'sustainability-related financial disclosures' and 'sustainability-related financial information' in proposed IFRS S1.A – as well as the explanations in proposed IFRS S1.6 – are broad and do not sufficiently delineate the intended scope or boundaries of disclosures because 'sustainability' itself is not defined. Challenges from the lack of definition are compounded by the fact that a full suite of IFRS Sustainability Disclosure Standards is not yet available, and entities are required to use the guidance in proposed IFRS S1.50–54 to identify both significant sustainability-related risks and opportunities and material information thereon; see our recommendation in section 2.

The scoping should make it clear whether entities would be required to consider non-financial reporting topics that are relevant to enterprise value creation but not connected to sustainability – e.g. intangible resources like brand, knowledge and know-how, patents and licences, as well as relationships like customer loyalty and employee engagement.

As an example, the scoping could be based on guidance from the SASB Conceptual Framework, where intangible resources are included in the five 'sustainability dimensions' (under business model and innovation). We also note that knowledge-based intangibles and intangibles associated with the organisation's brand and reputation are clear elements within the 'capitals' of the Integrated Reporting Framework.

2. Definition of materiality

Corresponding questions:

- proposed IFRS S1: 1a, 1b, 1d, 2a, 2b, 6a, 6b, 7a, 8a, 8b, 8c; and
- proposed IFRS S2: 1b.

As explained in our cover letter, we support the ISSB's proposed alignment of the definition of materiality with IFRS Accounting Standards. Here we explain our recommendations to help entities apply the definition in practice.

- Emphasise the qualitative and longer-term nature of the materiality judgements required, to dispel a common misunderstanding that the definition is focused on short-term impacts and considerations.
- Clarify how the concept of 'significant' sustainability-related risks and opportunities interacts with the 'material' information that needs to be disclosed. This would include the following.

  - Define risks and opportunities as 'significant' based on whether information about them could be expected to affect an investor's assessment of the amount, timing and uncertainty of the entity's future cash flows.
  - Include the definition of significant risks and opportunities as part of guidance on the application of materiality – i.e. not a competing definition.
  - Incorporate guidance from proposed IFRS S1.BC40 into the standard.
- Align the notion of 'enterprise value' with the objective and usefulness of general purpose financial reporting in the IASB's *Conceptual Framework*. A clear understanding of enterprise value is fundamental to the objective of both proposals and to understanding the definition of materiality. Currently, the definition of 'enterprise value' in proposed IFRS S1.A (which focuses on the sum of the equity plus debt) is not wholly consistent with the description in proposed IFRS S1.5, which includes greater focus on the intrinsic value of the reporting entity. We recommend removing this ambiguity by:
  - amending the text in proposed IFRS S1.1 to align with the IASB's *Conceptual Framework* – i.e. information that is 'useful to the primary users of general purpose financial reporting when they assess the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity and management's stewardship of the entity's economic resources';
  - amending proposed IFRS S1.5 to make it clear that an assessment of 'the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity' is commonly referred to as an assessment of 'enterprise value'; and
  - aligning the definition of enterprise value in proposed IFRS S1.A with the language in proposed IFRS S1.5.

As noted in our cover letter – and seemingly consistent with the intent of the ISSB and the IASB in building on the Integrated Reporting Framework[6] – once the standards have been finalised, we recommend that the ISSB undertakes a project to develop further guidance – including content from the Materiality Practice Statement and Management Commentary exposure draft – into a more detailed guide for preparers to follow when assessing materiality. We believe that the concept of materiality is paramount for the proposed standards to be applied in a consistent manner. Hence, we believe it is necessary that the priority of this project should be determined as part of the ISSB's agenda consultation.

In developing that guidance, we believe it will be important to distinguish between requirements specifying the basis for assessing materiality (mirroring the conceptual framework) and guidance on applying those requirements, as well as to clarify the role of stakeholder engagement in assessing materiality.

Further, as noted in our cover letter, we recommend that the Boards develop an aligned conceptual framework covering the reporting of all types of investor-focused information. The priority of this project should be determined as part of the ISSB's agenda consultation. This would bring together the concepts used in financial and sustainability reporting wherever possible, but equally highlight differences where

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[6] News Release, Integrated Reporting – articulating a future path. IFRS Foundation, 25 May 2022, https://www.ifrs.org/news-and-events/news/2022/05/integrated-reporting-articulating-a-future-path/. Retrieved 27 July 2022.

necessary to recognise their different natures. This recommendation is consistent with the intent of the Boards to build on the Integrated Reporting Framework.[7]

3. Clarifying the reporting entity concept

Corresponding questions:

- proposed IFRS S1: 1b, 1d, 4b, 5b; and
- proposed IFRS S2: 1c, 9c, 11b, 11d.

As noted in our cover letter, we agree in principle that the reporting entity for sustainability-related financial information should be the same as for the financial statements. This supports the objective of connected reporting and achieving a holistic understanding of the enterprise value of the business. We also agree that the sustainability-related risks and opportunities to which the reporting entity is exposed would relate to activities, interactions and relationships, and to the use of resources along its value chain. This means that information about such matters may be material.

However, we also acknowledge the challenges that management faces in deriving information from operations outside of its control. This includes challenges in accessing information in a timely manner, understanding the quality and reliability of data, aligning measurement techniques with other parties and, where necessary, identifying appropriate estimates and approximations when data is not available.

Ahead of the standards being finalised, we recommend that to support users in understanding how an entity has included information relating to associates, joint ventures and other non-controlled entities, proposed IFRS S1.41 should be updated to require entities to:

- disclose the methodology(ies) used to include information from material investments such as associates and joint ventures; and
- explain where and why different approaches are applied for different metrics or targets.

This would be consistent with existing guidance in the Integrated Reporting Framework and allow the ISSB to include guidance within future topic-specific standards, but provide greater transparency for investors than the current drafting.

We then recommend a separate project to provide further guidance on the practical implications of aligning the reporting entity for sustainability reporting with the financial statements. The priority of this project should be determined as part of the ISSB's agenda consultation.

The ISSB should work together with the GHG Protocol to update those requirements and drive consistency and comparability in the reporting of GHG emissions.[8] It should also work with local jurisdictions that currently use other frameworks for reporting GHG emissions to facilitate aligning measurement techniques globally. We hope this would

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7 Ibid.

8 In March 2022, the Greenhouse Gas Protocol announced that it is embarking on a project to assess and update its guidance. Press release, GHG Protocol to assess the need for additional guidance building on existing corporate standards. Greenhouse Gas Protocol, 31 March 2022, https://ghgprotocol.org/blog/ghg-protocol-assess-need-additional-guidance-building-existing-corporate-standards. Retrieved 27 July 2022.

achieve alignment in the selection of organisational and operational boundaries, as well as the methods of calculation and accounting for changes. In the meantime, we support the ISSB's inclusion of references to the GHG Protocol as guidance in proposed IFRS S2 for the reporting of GHG emissions, while also suggest transition options for jurisdictions required to use a framework other than the GHG Protocol.

4. Isolating and reporting financial information and forward-looking analysis

Corresponding questions:

- proposed IFRS S1: 1b, 1d, 4b; and
- proposed IFRS S2: 1c, 6a, 6b, 6c.

We support the ISSB's initiative to drive better connectivity between reporting on sustainability-related risks and opportunities and financial statement impacts, and greater transparency around those impacts. However, we are concerned that as drafted:

- requirements such as proposed IFRS S1.16(a), 20(a), 22(c) and 23 (and the equivalent paragraphs in proposed IFRS S2) may lead to entities disclosing management's forecasts of future performance without sufficient explanation that these are hypothetical and inherently uncertain; and
- proposed IFRS S1.22 (and its equivalent proposed IFRS S2.14) may encourage entities to make inconsistent attributions of impacts as sustainability- or climate-related.

We believe that minor changes to the proposed requirements would help entities provide transparency without the need to present their forecasts, and improve the quality of information provided to investors.

We recommend including guidance that highlights the predictive value of historical information such as trends, factors and relationships. This would build on the guidance incorporated from the IASB's *Conceptual Framework* into proposed IFRS S1 Appendix C, which explains that sustainability-related financial information has predictive value if "it can be used as an input to processes employed by primary users to predict future outcomes. Sustainability-related financial information need not be a prediction or forecast to have predictive value. Sustainability-related financial information with predictive value is employed by primary users in making their own predictions".

To achieve this, the proposals could make more reference to examples of types of historical information that would have predictive value, such as data on the entity's business model and external environment, or information on concentrations of risk, planning horizons and the nature and extent of exposure.

In relation to proposed IFRS S1.22 (and proposed IFRS S2.14) specifically, we recommend that the ISSB:

- amend the drafting to require entities to 'explain' how matters have affected or are expected to affect financial position and performance, rather than to 'disclose how'; and
- clarify when classification of specific events or decisions as 'sustainability-related' and their impacts described as affecting the financial statements would be

appropriate. For example, the ISSB could require that impacts are attributed and quantified only when the identified sustainability-related risk is a 'significant' contributing factor, and otherwise require contextual information to explain the impact.

We believe this clarification is needed because in many cases a climate- or other sustainability-related risk or opportunity will be only one of multiple drivers behind a physical event or condition, or a transition activity. Where a number of factors drive an activity (e.g. the purchase of new plant that is energy-efficient), it will be challenging for entities to isolate the impact of each factor. In some cases, this could lead to accusations of greenwashing that might occur through attributing (substantially) all events, conditions and activities to one or more sustainability-related risks.

5. Treatment of estimates

Corresponding question: proposed IFRS S1: 11a, 11b.

Although restating comparative information to reflect updated estimates as well as to correct errors would support the presentation of consistent trends across multiple periods, we are concerned that, as proposed, the requirement would place an undue burden on preparers to reconsider all estimates that could affect prior-year information. Inconsistencies may also arise where metrics incorporate both financial information (not updated) and sustainability information (updated).

To facilitate the finalisation of proposed IFRS S1, we suggest not requiring an entity to disclose comparative information that reflects updated estimates. Instead, we recommend introducing a rebuttable presumption in final IFRS S1 that estimates in metrics and targets should not be updated retrospectively. This approach would limit the requirement for entities to recalculate and reassess all comparative information. If the presumption is rebutted – e.g. where the estimate would give rise to a material change (positive or negative) in a prior-year metric or the base period for a target, or if the restatement of comparatives gave rise to more useful information – then we believe the entity should explain why the estimate has been updated.

As an exception to this rebuttable presumption, we believe that final IFRS S2 should require an entity to follow the GHG Protocol in accounting for changes in estimates in GHG emissions.[9] Under the GHG Protocol, these types of changes (if they are significant) are accounted for by updating the base year calculations and comparative periods, together with appropriate disclosures.

We would not suggest any change to the requirement to restate errors retrospectively. However, to provide further clarification, we encourage the ISSB to incorporate guidance into final IFRS S1 explaining the difference between errors, changes in estimates (including measurement techniques) and changes in policies. This guidance could be based on IAS 8.

In the longer term, we recommend a separate project to provide further guidance on when and how estimates should be updated, particularly if they relate to amounts in the financial statements – e.g. estimates around the financial impact of particular risks or normalised metrics such as emissions intensities. If estimates are updated

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[9] A Corporate Accounting and Reporting Standard, chp 5, chp 9. Greenhouse Gas Protocol, March 2004, https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf. Retrieved 27 July 2022.

prospectively in the financial statements but retrospectively in sustainability-related financial disclosures, then there could be a disconnect unless additional guidance is provided. Additional guidance may also be required on how to differentiate between changes in estimates and changes in policy, particularly with respect to changes in measurement techniques, as well as on the use of hindsight.

This project could result in a future amendment to final IFRS S1, or specific guidance within individual topic-specific standards, similar to that proposed for the climate standard in relation to GHG emissions data and targets. The priority of this project should be determined as part of the ISSB's agenda consultation.

As part of this project, we also recommend that the ISSB clarify when it is appropriate to restate the base year to facilitate comparison of progress against targets. This would include guidance on how to account for structural changes in the reporting entity, such as changes arising from a business combination or the disposal of an operation, or an outsourcing arrangement that reclassifies emissions from Scope 1 to Scope 3 when the entity's GHG emissions reduction targets exclude Scope 3.

6. Requirement to use scenario analysis

Corresponding question: proposed IFRS S2: 7b.

As noted in our cover letter, we support the proposed scenario analysis disclosures, building on the requirements of the TCFD framework, and the alternative disclosures when scenario analysis is not used.

However, although the drafting of proposed IFRS S2.15 allows entities not to use climate-related scenario analysis when they are 'unable to do so', it is not clear whether this refers to the first years of adoption before the entity is sufficiently sophisticated in its scenario analysis to present the findings, or situations where this would never be feasible.

To allow for a smooth transition to the standard and facilitate the provision of information that is most useful to investors, we recommend amending proposed IFRS S2.15 to encourage entities to use scenario analysis, but only require disclosures about scenario analysis 'when it is used by management' to assess resilience. If scenario analysis is not used, then entities would continue to follow the requirements of proposed IFRS S2.15(b)(ii). As noted in our cover letter, we are suggesting this change only for purposes of supporting the global adoption of the proposals in a timely manner, which may be before some entities are sufficiently advanced in their scenario analysis for this to be used in practice for managing the business.

To further embed this change, we propose a minor clarification of the requirements for disclosure of the results of the analysis of climate resilience in proposed IFRS S2.15(a). In addition to disclosing the implications of the findings on the strategy, we recommend requiring disclosure of how the results of any scenario analysis performed were incorporated into the entity's strategic planning or decision making. Without this, it may be unclear to users whether the analysis was created for the purpose of disclosure only.

Similarly, in addition to disclosing the significant areas of uncertainty considered in the analysis of climate resilience, we encourage the ISSB to require disclosure of the limitations of the analysis to ensure that the value of the analysis performed is not overstated.

7. Strategy and transition plans

Corresponding questions: proposed IFRS S2: 5a, 5b.

As noted in our cover letter, we support the proposal building on the TCFD framework to require additional disclosure about an entity's transition plan. We see this as an important part of an entity's strategy and, as such, information about such plans would be useful for investors.

However, we recommend amending proposed IFRS S2.13 to separate the disclosure of the entity's transition plan from wider climate-related impacts on the entity's strategy. This is to recognise that there are likely to be climate-related impacts on an entity's strategy that are not connected to its transition plan. For example, the entity's strategic response to its exposure to physical risks may be separate from its transition plan, which covers its response primarily to transition risks.

In relation to disclosures about transition plans, we recommend two changes to improve the quality of disclosure.

- Clarify that the activities and targets included in an entity's disclosure should clearly differentiate between activities that are either underway or for which the entity has an approved or committed plan and any other elements of the transition plan. Such guidance could be based around the concept of an obligating event that creates the constructive obligation for a restructuring provision in IAS 37 *Provisions, Contingent Assets and Contingent Liabilities*. Without this, we believe entities may be at risk of accusations of greenwashing or exposed to the risk of litigation in certain jurisdictions.
- Require contextual information about the entity's business model exposures and related levers that could be used to respond to climate-related risks. This context for the transition plan would help users understand the entity's resilience to respond to changing situations, providing lead indicators and information with predictive value, without the need for computation or disclosure of forecasts. This could be provided in addition to the disclosures in proposed IFRS S2.15.

8. Transition options

Corresponding questions:

- proposed IFRS S1: 9, 12, 13a, 13b, 14; and
- proposed IFRS S2: 9c, 11d, 14a, 14b, 14c, 16.

Even with our suggested changes and/or where entities already have a level of sustainability reporting in place, we expect that many entities will identify challenges in adopting the standards from a data-quality or timeliness perspective.

To recognise these challenges and support effective reporting on all significant matters in advance of publication of a full suite of IFRS Sustainability Disclosure Standards, we recommend additional transition measures. This would help to accommodate entities with different levels of preparedness without delaying the effective date.

For example, transition options in final IFRS S1 could include:

- adapting the statement of compliance to allow adoption of proposed IFRS S2 and aspects of proposed IFRS S1 in advance of requiring disclosure on all significant sustainability-related risks and opportunities;

- adapting the statement of compliance to allow entities subject to other local reporting requirements on a ‘comply or explain’ basis to state the extent to which they have adopted the standards in the first years of adoption (i.e. adopt on a ‘comply or explain’ basis);
- allowing a phased introduction to different aspects of the standards – e.g. introducing disclosures on governance, identifying significant sustainability-related risks and opportunities, and risk management in advance of the requirement to report all strategy and metrics and targets requirements; or
- permitting additional use of estimates on a transitional basis – e.g. permitting the use of methods such as ‘estimated last quarter’ to make it more feasible for entities to report at the same time as the financial statements.

Additional transition options in final IFRS S2 could include:

- allowing a phased introduction to the requirement for quantified analysis, including in proposed IFRS S2.13–15;
- allowing entities not to provide the disclosures relating to climate resilience in the first years of disclosure;
- allowing entities in jurisdictions with local requirements that mandate GHG measurement methodology that does not align with the GHG Protocol to grandfather their existing GHG measurement approaches; and/or
- providing transition options in relation to proposed IFRS S2.21(a)(vi)(4) acknowledging that an entity may be unable to obtain a faithful measure in the first years of adoption but should instead indicate its progress towards calculating a complete inventory of Scope 3 GHG emissions.

It would then be for local jurisdictions to determine whether to allow entities to take these transition options. For example, where climate resilience analysis is already included in local climate reporting requirements and entities are more prepared to provide it, the ability to take such a transition option could be excluded.

We are not suggesting an open-ended transition, and the ISSB could include a ‘sunset’ clause to limit the use of some or all transition options to periods before the full suite of IFRS Sustainability Disclosure Standards are effective.

Appendix 2: Proposed IFRS S1

This appendix includes other technical and drafting matters on proposed IFRS S1 as well as the specific answers to those questions where we believe we have the relevant experience and perspective (cross-referenced to our discussion in Appendix 1 without repeating the detail here).

The additional technical comments in this appendix are points for consideration by the ISSB staff. Although they are not critical for operation of the final standards, in many cases we believe that addressing them would improve the clarity of the requirements and also their basis for assurance.

Question 1 Overall approach

We respond as follows.

Q1(a) Yes, subject to our substantive comments raised below, we agree that proposed IFRS S1 does 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 it is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard.

Q1(b) Yes, subject to our substantive comments raised below, we agree that the requirements set out in proposed IFRS S1 meet its objective.

Q1(c) Yes, we agree that it is clear how the requirements in proposed IFRS S1 would be applied together with other IFRS Sustainability Disclosure Standards, including proposed IFRS S2.

Q1(d) Yes, subject to our substantive comments raised below, we agree that the requirements in proposed IFRS S1 would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals. In practice, parallel development of assurance standards will be required to ensure effective assurance over reporting under IFRS Sustainability Disclosure Standards. We encourage the ISSB to continue working with the International Auditing and Assurance Standards Board in this regard.

Substantive comments

To improve the clarity of the requirement to report on all significant sustainability-related risks and opportunities and to support the requirements to provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals, we believe the ISSB should:

- constrain the sources of ‘other’ guidance (see Appendix 1, section 1.1);
- define the scope of ‘sustainability’ (see Appendix 1, section 1.2); and
- clarify how the concept of ‘significant’ sustainability-related risks and opportunities interacts with the ‘material’ information that needs to be disclosed (discussed as part of Appendix 1, section 2).

To meet the objective more effectively and to provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals, we believe the ISSB should:

- provide guidance on the definition of materiality (see Appendix 1, section 2);
- clarify the reporting entity concept (see Appendix 1, section 3); and
- make certain amendments to support entities in isolating and reporting on financial implications (see Appendix 1, section 4).

Additional technical comments

We have the following additional technical recommendations for consideration.

- *Structure:* To improve the clarity of the requirements, topical standards (such as final IFRS S2) should set out only additional requirements specific to understanding the topic-specific risks and opportunities, rather than duplicating content from the final IFRS S1. This is particularly relevant for governance and risk management requirements.
- *Hierarchy of input data:* Consider for future exposure a hierarchy of sources of information, similar to that included in IFRS 13 *Fair Value Measurement*. Similar to IFRS 13, entities would use the highest level of data available. This would help to promote a common understanding of estimation uncertainty and the type of data used in calculating estimates. Similar to application of the fair value hierarchy, categorisation could be based on the significance of estimates to the overall measurement.

  For example, within the general requirements, a hierarchy could be based on the degree of third-party observable data included, the level of actual measurements, the level of estimates based on third-party scenarios and the level of estimates based on management judgements. More specific guidance could then be added to topical standards to provide clarity on how to apply such a hierarchy to different metrics.
- *Open-ended requirements:* Proposed IFRS S1.47(b) and 61, which would require additional information when compliance with specific IFRS Sustainability Disclosure Standards is insufficient, are open-ended. Therefore, it may be challenging for preparers to demonstrate compliance, particularly when the sources of guidance to consider are not constrained (see Appendix 1, section 1.1).

Question 2 Objective

We respond as follows.

Q2(a) Yes, subject to our substantive comments below, we agree that the proposed objective of disclosing sustainability-related financial information is clear.

Q2(b) Yes, subject to our substantive comments below, we agree that the definition of sustainability-related financial information is clear.

Substantive comments

To resolve the lack of clarity about the disclosures required, we believe the ISSB should:

- constrain the sources of 'other' guidance (see Appendix 1, section 1.1);
- define the scope of 'sustainability' (see Appendix 1, section 1.2); and
- provide guidance on the definition of materiality (see Appendix 1, section 2).

Additional technical comments

We recommend that the wording of proposed IFRS S1.1 is broadened to reflect stewardship considerations. This would align with the IASB's *Conceptual Framework*, but also with the drafting of the disclosure objectives for governance, strategy, risk management, and metrics and targets (in proposed IFRS S1.12, 14, 25 and 27).

Question 3 Scope

Yes, we agree that the proposals could be used by entities that prepare their financial statements in accordance with accounting frameworks other than IFRS Accounting Standards. The substantive comments that we raise in this letter are GAAP agnostic.

Question 4 Core content

We respond as follows.

Q4(a) Yes, we agree that the disclosure objectives for governance, strategy, risk management and metrics and targets are clear and appropriately defined.

Q4(b) Yes, subject to our substantive comments raised below, we agree that the disclosure requirements for governance, strategy, risk management and metrics and targets are appropriate to their stated disclosure objective.

Substantive comments

To meet the objective of the core content areas more effectively, we believe the ISSB should:

- *strategy:* make certain amendments to support entities in isolating and reporting on financial implications (see Appendix 1, section 4); and
- *metrics and targets:* clarify the reporting entity concept (see Appendix 1, section 3).

Additional technical comments

We have the following additional technical recommendations for consideration.

- *Governance:* Require disclosure of the governance over sustainability-related financial reporting. This would be valuable information in addition to disclosures about the governance of the entity and could include how those charged with governance engage with stakeholders, ensure that disclosures meet the characteristics of useful information, and review the basis of preparation and process to identify material information. This would enhance investor understanding of the reliance they can place on the entity's sustainability-related disclosures.
- *Business model vs strategy:* Clearly differentiate between the 'business model' and 'strategy' in the drafting (proposed IFRS S1.14–22) so that the terms are not used

interchangeably. There is a useful distinction in the Management Commentary exposure draft and Integrated Reporting Framework that could be incorporated.

- *Business model and value chain:* Clarify the drafting to differentiate between the 'business model' and 'value chain'. It is helpful that both are defined in proposed Appendix A, but proposed IFRS S1.20 seemingly uses the terms interchangeably. We recognise the importance of contextual information about the business model in our technical comments to Q6. In addition, we recommend clarifying the drafting of proposed IFRS S1.20 to request a description of the current and anticipated effects of significant sustainability-related risks and opportunities on its business model and value chain.
- *Long-term risks:* Clarify that some risks categorised as 'long-term' may in fact arise at any time.
- *Identifying risks and opportunities:* Move proposed IFRS S1.26(a) into the 'Governance' section, and amend the requirement to disclose management's process for identifying significant sustainability-related risks and opportunities and material information thereon. In addition, add clarification that entities should explain the role of stakeholder engagement in identifying sustainability-related risks. This would support disclosures proposed above in 'Governance'.
- *Opportunities:* Redraft proposed IFRS S1.26 to include disclosures relating to opportunities in a separate requirement. We would not expect the maturity of many entities' opportunity identification, assessment and management processes to be as sophisticated as for risks and instead to be part of their overall strategic framework. This would be acknowledged more explicitly if this change is made.
- *Metrics:* Require disclosure of the basis of preparation for all metrics, not solely those that are entity-specific. Such disclosure would be of equivalent prominence to disclosures of accounting policies in a complete set of IFRS Financial Statements. There is relevant guidance on the selection and presentation of information in the Management Commentary exposure draft.

Question 5 Reporting entity

We respond as follows.

Q5(a) Yes, we agree that the reporting entity for sustainability-related financial information should be the same as for the financial statements.

Q5(b) No, we do not agree that 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 is clear and capable of consistent application.

Q5(c) Yes, we agree with the requirement to identify the related financial statements.

Substantive comments

To clarify the reporting entity concept and facilitate consistent application, we believe the ISSB should require certain additional disclosures in final IFRS S1, and then take on a separate project to provide further guidance on the reporting entity for sustainability reporting purposes. See discussion in Appendix 1, section 3.

Question 6 Connected information

We respond as follows.

Q6(a) Yes, subject to our substantive comments raised below, we agree that the requirement for connectivity between various sustainability-related risks and opportunities is sufficiently clear.

Q6(b) Yes, subject to our substantive comments raised below, we agree with the requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements.

Substantive comments

We believe that in the longer term, the requirement for connectivity throughout general purpose financial reporting would be made clearer by the creation of an aligned conceptual framework. See discussion in Appendix 1, section 2.

Additional technical comments

We recommend including additional guidance in the section on 'connected information' that clarifies the importance of connectivity with relevant contextual information that supports an understanding of (1) the entity's business model exposures including the resources and relationships on which it depends, and (2) the entity's broader strategy and external environment. Reporting such contextual information would support entities in preparing an integrated report and achieve connectivity between the reporting required by the IASB and the ISSB.

Question 7 Fair presentation

Q7(a) No, without addressing our substantive comments, we do not agree that the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, is sufficiently clear.

Q7(b) No, without addressing our substantive comments, we do not agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures.

Substantive comments

To facilitate the objective of fair presentation, we believe the ISSB should:

- define the scope of 'sustainability' (see Appendix 1, section 1.2); and
- constrain the sources of 'other' guidance (see Appendix 1, section 1.1).

Notwithstanding these substantive changes, we agree with incorporating descriptions of the qualitative and enhancing characteristics of useful information from the IASB's

Conceptual Framework. Over time, we recommend an aligned conceptual framework to enhance this guidance further; see discussion in Appendix 1, section 2.

Question 8 Materiality

We respond as follows.

Q8(a) Yes, subject to our substantive comments, we agree that the proposed definition of materiality is clear, and subject to our substantive comments below, its application in the context of sustainability-related financial information is sufficiently clear.

Q8(b) Yes, subject to our substantive comments, we agree that the proposed definition and application of materiality will capture an appropriate breadth of sustainability-related risks and opportunities that is relevant to an entity's enterprise value.

Q8(c) Yes, subject to our substantive comments raised below, we agree that proposed IFRS S1 and related illustrative guidance are useful for identifying material sustainability-related financial information.

Q8(d) Yes, we agree with the proposal to relieve an entity from disclosing information otherwise required by proposed IFRS S1 if local laws or regulations prohibit the entity from collecting or disclosing that information. We believe this relief would facilitate use of the standard as part of a global baseline (see Q14).

Substantive comments

Section 2 in Appendix 1 discusses a number of recommendations related to the practical application of materiality. These include a number of drafting changes that we believe should be made before the standard is finalised, plus support for the following later projects:

- develop further guidance – including from the Materiality Practice Statement and Management Commentary exposure draft – into a more detailed guide for preparers to follow when assessing materiality; and
- develop an aligned conceptual framework covering the reporting of all types of investor-focused information.

In addition, we believe our recommended changes to the sources of 'other' guidance and scope of 'sustainability' (see Q1 and Appendix 1, section 1) are needed to provide clarity over the breadth of sustainability-related risks and opportunities to be disclosed.

Question 9 Frequency of reporting

Yes, subject to the substantive comment raised below, we agree that sustainability-related financial disclosures should be provided at the same time as the financial statements to which they relate.

Substantive comments

We believe the ISSB should introduce additional transition options (see Appendix 1, section 8). Otherwise, this requirement may delay adoption of the standards or might even limit their adoption globally.

Question 10 Location of information

We respond as follows.

Q10(a) Yes, we agree with the proposals about the location of sustainability-related financial disclosures.

Q10(c) Yes, we agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced.

Q10(d) Yes, we agree that it is 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.

Additional technical comments

We understand the need for information required by IFRS Sustainability Disclosure Standards to be included by cross-reference as this facilitates global adoption. However, we recommend clarifying that cross-referencing should be used only when necessary to satisfy local requirements. Extensive use of cross-referencing risks blurring important messages and increases the risk of an expectation gap around the type of information that is subject to audit or assurance, particularly where information is included within or alongside information that is not subject to audit or assurance.

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

We respond as follows.

Q11(a) No, we do not agree that the general features relating to comparative information, sources of estimation and outcome uncertainty, and errors have been adapted appropriately into the proposals. Our 'no' answer is weighted by our substantive comments on estimates within comparative information.

Q11(b) No, we do not agree that if an entity has a better measure of a metric that was reported in the prior year that it should always disclose the revised metric in its comparatives. This would depend on the nature of the change.

Q11(c) Yes, we agree that financial data and assumptions within sustainability-related financial disclosures should be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible. We highlight some examples below where this may not be achievable.

Substantive comments

To improve the practical application of the proposals in relation to estimates within comparative information, we believe the ISSB should make a number of practical changes ahead of the standards being finalised, and then take on a separate project to provide holistic guidance on the treatment of estimates. See discussion in Appendix 1, section 5.

The phrase 'better measure' is not included within the proposals or basis for conclusions. In practice, we expect that a measure could be 'better' due to a change in policy or a change in measurement technique (i.e. change in estimate). In Appendix 1, section 5 we discuss both types of change.

Additional technical comments

We have the following additional technical recommendations for consideration.

- *Data unavailable:* Amend the drafting of proposed IFRS S1.79–83 to recognise that estimation is commonly required if data is unavailable or in relation to uncertain future outcomes. Include additional guidance based on the principles in proposed IFRS S2.21(a)(vi)(3) that would require disclosure of the basis of measurement of information about the value chain.
- *Sources of estimation uncertainty:* Provide application guidance to help entities understand how to apply the requirements in relation to sources of estimation and outcome uncertainty in practice. For example:
  - clarify whether using an estimate for the final quarter of the financial year would be an acceptable use of estimates; and
  - provide examples of the types of estimates that would represent suitable measurement bases.
- *No faithful measure:* Consistent with proposed IFRS S2.21(a)(vi)(4), include an explicit exception that if an entity is unable to obtain a faithful measure, then information from the value chain can be omitted, provided that the reason for omitting it is explained.
- *Illustrative examples:* Provide additional illustrative examples or clarification of situations in which assumptions may differ due to the recognition and measurement requirements of the applicable financial reporting framework. For example, this could include disclosures about commitments that may be discussed as part of sustainability-related financial disclosures but would only be recognised in the financial statements when the IAS 37 recognition requirements are met.
- *Adjusted financial performance measures:* Provide application guidance around the use of adjusted financial performance measures – both the use of adjusted sustainability performance measures, and the use of adjusted financial performance measures as part of metrics presented within sustainability-related financial disclosures. Such guidance could be consistent with IFRS Accounting Standards.
- *Currency:* Clarify the use of functional or presentation currency for financial statement figures included. Entities are directed to 'use the presentation currency of the financial statements', but no guidance is given about the use of functional currencies in the calculation of metrics.

Question 12 Statement of compliance

Yes, subject to the substantive comment raised below, we agree with the proposed statement of compliance.

Substantive comments

To ensure that entities are able to make the proposed statement of compliance in practice, we believe the ISSB should:

- define the scope of 'sustainability' (see Appendix 1, section 1.2); and
- provide additional transition options (see Appendix 1, section 8).

Question 13 Effective date

We respond as follows.

Q13(a) We encourage the ISSB to carefully consider the responses from preparers regarding the time they need to prepare for implementation of the proposals.

Q13(b) Yes, we agree with the relief from disclosing comparatives in the first year of application. We also recommend additional transition options (see Appendix 1, section 8).

It will be local jurisdictions who ultimately set the date from which entities would be required to adopt the standards – considering when local entities could be sufficiently ready for reporting. With this in mind, we believe it is important for the ISSB's initial standards to be issued as quickly as possible – to facilitate global adoption as soon as possible. As noted in our cover letter, our recommendations for substantive changes to the proposals relate to issues that would help operationalise the final standards, and which we believe could be addressed in a timely manner. We make further recommendations for future projects that we think should be included in the ISSB's forthcoming agenda consultation to help determine respective priorities, but which should not delay issuance of the first standards.

We encourage the ISSB to set an effective date that is earlier (or not later) than leading countries could feasibly endorse. Countries that cannot endorse that quickly can delay adoption locally. In the meantime, we agree that the standards should be available for early adoption.

Question 14 Global baseline

We strongly support use of the proposals as a global baseline. To facilitate such use as easily as possible, we believe the ISSB should:

- provide additional transition options (see Appendix 1, section 8);
- constrain the sources of 'other' guidance (see Appendix 1, section 1.1); and
- define the scope of 'sustainability' (see Appendix 1, section 1.2).

These changes would support jurisdictions in endorsing proposed IFRS S1 as well as proposed IFRS S2 in advance of a full suite of IFRS Sustainability Disclosure Standards, thereby facilitating a global baseline on topics in addition to climate.

Appendix 3: Proposed IFRS S2

This appendix includes other technical and drafting matters on proposed IFRS S2 as well as the specific answers to those questions where we believe we have the relevant experience and perspective (cross-referenced to our discussion in Appendix 1 without repeating the detail here).

The additional technical comments in this appendix are points for consideration by the ISSB staff. Although they are not critical for operation of the final standards, in many cases we believe that addressing them would improve the clarity of the requirements and also their basis for assurance.

For comments that are consistent with our comments on proposed IFRS S1, we cross-reference to the relevant section of Appendix 2 without repeating the detail here.

Question 1 Objective of the Exposure Draft

We respond as follows.

Q1(a) Yes, we agree with the objective that has been established.

Q1(b) Yes, subject to our substantive comments raised below, we agree that the objective focuses on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value.

Q1(c) Yes, subject to our substantive comments raised below, we agree that the requirements set out in proposed IFRS S2 meet its objective.

Substantive comments

We have recommended the following changes to proposed IFRS S1, which are also relevant for proposed IFRS S2 to ensure that it meets its objective.

- Support entities to understand the definition of materiality (see Appendix 1, section 2).
- Clarify the reporting entity concept (see Appendix 1, section 3).
- Support entities to isolate and report financial information and forward-looking analysis (see Appendix 1, section 4).

Question 2 Governance

Yes, we agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities.

Additional technical comments

See additional technical comments on ‘Governance’ in Appendix 2, Q4.

Question 3 Identification of climate-related risks and opportunities

We respond as follows.

Q3(a) No, we do not agree that the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities are sufficiently clear.

Q3(b) Yes, subject to our substantive comments below, we agree with the requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities.

Substantive comments

To make the requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear, guidance is needed within proposed IFRS S1 about the interaction between 'significant' and 'material (see Appendix 1, section 2).

We raise substantive comments about the sources of guidance within proposed IFRS S1 (see Appendix 1, section 1.1). This has implications for proposed IFRS S2 because proposed IFRS S2.10 and Appendix B refer only to the 'disclosure topics' as a source of identifying significant climate-related risks and opportunities. We believe that IFRS S2.10 and proposed IFRS S2.B13–14 should instead refer to final IFRS S1.

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

We respond as follows.

Q4(a) Yes, we 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.

Q4(b) Yes, we agree that disclosure about an entity's concentration of climate-related risks and opportunities should be qualitative as a minimum. However, we think the ISSB should encourage an entity to provide quantitative information that supports this qualitative information, where disclosures are factual or calculated using supportable estimates.

Additional technical comments

In Appendix 2, Q4 we set out technical comments about 'Business model and strategy' and 'Business model and value chain'. We recommend making corresponding changes to proposed IFRS S2.

Question 5 Transition plans and carbon offsets

We respond as follows.

Q5(a) Yes, subject to our substantive comments below, we agree with the proposed disclosure requirements for transition plans.

Q5(b) No, we have not identified any other additional disclosures related to transition plans that are necessary or any proposed that are not.

Q5(c) Yes, we agree that the proposed carbon offsets disclosures will enable users to understand the entity's approach to use of offsets.

Substantive comments

In Appendix 1, section 7, we recommend:

- separating the disclosure of the entity's transition plan from wider climate-related impacts on the entity's strategy;
- differentiating within transition plan disclosures between activities that are underway or for which the entity has an approved or committed plan, and other elements of the plan; and
- requiring contextual information about the levers in the entity's business model that could be used to respond to climate-related risks.

Additional technical comments

Definition of offsets: We support the approach used in the GHG Protocol to exclude offsets from reported emissions. We recommend aligning the definition of carbon offset in proposed IFRS S2.A with the definition in the GHG Protocol. As drafted, the definition is narrow, which may have the unintended consequence of including offsets inappropriately because the underlying offset was not 'calculated and traced for the purpose of' offset. We would define a carbon offset as simply, 'GHG reductions used to compensate for GHG emissions elsewhere'.

Question 6 Current and anticipated effects

We respond as follows.

Q6(a) Yes, subject to our substantive comments below, we agree with the proposal that entities should disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities, unless they are unable to do so.

Q6(b) Yes, subject to our substantive comments below, we agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period.

Q6(c) Yes, subject to our substantive comments below, we agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period.

Substantive comments

We made substantive comments on isolating and reporting financial information and forward-looking analysis in relation to proposed IFRS S1 (see Appendix 1, section 4). The same comments apply to proposed IFRS S2.

Question 7 Climate resilience

We respond as follows.

Q7(a) Yes, we agree that the items listed in proposed IFRS S2.15(a) reflect what users need to understand about the climate resilience of an entity's strategy.

Q7(b) Yes, subject to the substantive comments below, we agree that an entity that is unable to perform climate-related scenario analysis can use alternative methods or techniques to assess the climate resilience of its strategy.

Q7(c) Yes, we agree with the proposed disclosures about an entity's climate-related scenario analysis.

Q7(d) Yes, we agree with the proposed disclosure about alternative techniques for the assessment of climate-resilience of an entity's strategy.

Substantive comments

In Appendix 1, section 6, we recommend that the requirement to use other methods when an entity is 'unable to' use scenario analysis is amended, such that entities would provide disclosures on scenario analysis 'when it is used by management', and otherwise provide the alternative disclosures.

Question 8 Risk management

Yes, we agree with the proposed disclosure requirements for the risk management processes that are used to identify, assess and manage climate-related risks and opportunities.

Additional technical comments

See our response on 'Risk identification' and 'Opportunity identification' in Appendix 2, Q4.

Question 9 Cross-industry metric categories and greenhouse gas emissions

Cross-industry metrics

We respond as follows.

Q9(a) Yes, we agree with the seven proposed cross-industry metric categories.

Q9(b) We have not identified any additional categories of cross-industry metric that should be disclosed.

Additional technical comments

Use of metrics: Clarify proposed IFRS S2.21 to identify whether all metrics should be disclosed or solely those monitored by management in the course of running the business. We note that the objective in proposed IFRS S2.19 is to understand "how an entity measures, monitors and manages its significant climate-related risks and opportunities." This would imply that disclosure is limited to metrics used by management. However, the text in proposed IFRS S2.20(a) and 21 indicates that the cross-industry metrics should be disclosed whether or not they are used.

GHG emissions

We respond as follows.

Q9(c) Yes, subject to our substantive comments below, we agree that the GHG Protocol represents the best option to define and measure Scope 1, Scope 2 and Scope 3 emissions because it is the most commonly used global standard for measuring GHG emissions.

Q9(d) Yes, subject to our substantive comments below, we agree that the cross-industry metric for GHG emissions is an aggregation of all seven greenhouse gases. Where a disaggregation of gases is material to disclose and not included as an industry-specific metric, this can be disclosed as an entity-specific metric.

Q9(e) No, due to our substantive comments below, we do not agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for the consolidated entity and for any associates, joint ventures, unconsolidated subsidiaries and affiliates.

Substantive comments

In Appendix 1, section 3, we support the ISSB working together with the GHG Protocol to update their requirements and drive consistency and comparability in the reporting of GHG emissions. This would include providing guidance on the measurement and disclosure of emissions from associates, joint ventures, unconsolidated subsidiaries and other investments. For this reason, we suggest that IFRS S2.21(a)(iii) is removed.

We also have substantive comments on transition options relating to GHG emissions (see Appendix 1, section 8), including for entities who are required to use a GHG measurement approach that is not aligned with the GHG Protocol.

Other technical comments

GHG Protocol references: Amend the drafting of references to the GHG Protocol to remove ambiguity about how its guidance should be used alongside the requirements detailed in proposed IFRS S2, including its Appendix B.

As currently drafted, proposed IFRS S2 refers to the GHG Protocol Corporate Accounting and Reporting Standard. The GHG Protocol Corporate Value Chain (Scope 3) Standard provides methodology guidance for Scope 3 emissions, but is not referred to within proposed IFRS S2 (except in the Basis for Conclusions). This standard also requires that Scope 2 guidance is followed to achieve compliance, but allows flexibility on which categories of Scope 3 emissions are reported. We do not believe that this is consistent with the requirements of proposed IFRS S2.21(a)(vi) and as such, the references to the GHG Protocol should be amended.

Question 10 Targets

We respond as follows.

Q10(a) Yes, we agree with the proposed disclosure about climate-related targets and believe that the level of granularity over targets set is useful.

Q10(b) Yes, we agree that the proposed definition of 'latest international agreement on climate change' is sufficiently clear.

Other technical comments

Base periods: As part of the future project on the reporting entity, we recommend that the ISSB provide application guidance specifically in relation to updating base periods for GHG emissions targets, which could be based on the GHG Protocol.

Question 11 Industry-based requirements

Internationalisation of SASB Standards

We respond as follows.

Q11(a) Yes, we agree with the approach taken to revising the SASB Standards.

Q11(b) Yes, we agree with the proposed amendments to the SASB Standards.

Q11(c) No, we have not identified any amendments that would prevent 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.

Financed and facilitated emissions

We respond as follows.

Q11(d) Yes, subject to our substantive comments below, we agree with the proposed industry-based disclosure requirements for financed and facilitated emissions. However, we encourage the ISSB to consider the views of financial institutions on the practical challenges arising from the proposed requirements.

Q11(e) Yes, we agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities.

Q11(f) Yes, subject to our substantive comments below, we agree with the proposed requirement to disclose both absolute and intensity-based financed emissions.

Q11(g) Yes, we agree with the requirement to disclose the methodology used to calculate financed emissions.

Q11(h) Yes, we agree that entities should use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions.

Substantive comments

Over time, we recommend that the ISSB issues more comprehensive guidance on emissions measurement, which would include financed emissions.

See Appendix 1, section 8 for proposed transition options relevant to the disclosure of GHG emissions.

Other technical comments

Add the agricultural sector to the industries classified as ‘carbon-related’.

Other questions on Appendix B *Industry-based disclosure requirements*

We respond as follows.

Q11(j) We recognise that the proposed industry-based requirements have already been subject to the SASB’s own due process and support that they are now subject to this consultation. We encourage the ISSB to consider the views of global preparers on the applicability of SASB disclosure topics and metrics. We also encourage the ISSB to consider the best way to maintain the standards as part of the agenda consultation, ensuring that the process recognises that materiality is dynamic and there is an efficient process to identify and resolve practical challenges that become apparent on adoption.

Q11(k) We have not identified additional industry based requirements that are necessary to enable users of general purpose financial reporting to assess enterprise value. We encourage the ISSB to consider the views of global preparers.

Q11(l) See our comments below on the industry classifications.

Other technical comments

We support the fact that a relatively broad interpretation of ‘climate-related’ has been applied when identifying which of the SASB disclosure topics to include within Appendix B. Whilst this could give rise to overlap between metrics identified as relevant under multiple future topical standards (e.g. several metrics may be both ‘water-related’ and ‘climate-related’), this overlap can be managed and reduces the risk that entities fail to make links between relevant interconnected risks and opportunities.

Industry-specific transition plan guidance: As practice of reporting under the standard evolves and matures, consider additional industry-specific guidance either as application guidance to final IFRS S2, or incorporated within separate industry-specific standards. For example, in addition to metrics covered by SASB Standards, practice around components of transition plans or scenario analysis methodology may converge to such a level that it is appropriate to reduce the flexibility afforded by the standard in order to drive greater comparability. This would be for future consideration because current practice is not yet sufficiently mature to allow such guidance to be formalised without restricting the development of good practice or provision of relevant reporting.

Classification system: We recognise that the industry classification system used by the SASB Standards is not consistent with approaches commonly used in financial reporting, or within the EU for Taxonomy or proposed European Sustainability Reporting Standards. Where this divergence is retained in final standards, this could create the need for reconciliations or duplicated reporting for businesses subject to multiple sets of requirements. We support the ISSB working together with local jurisdictions to ensure maximum convergence between requirements to minimise the burden for preparers.

Materiality guidance: Contain the guidance on materiality within final IFRS S1, rather than reproducing guidance on materiality within Appendix B, unless such guidance would relate solely to climate-related disclosures. As drafted, we suggest that the considerations included in proposed IFRS S2.B3 and B5–B7 would apply to all industry-specific metrics and disclosures and as such belong in final IFRS S1.

Question 13 Verifiability and enforceability

Our comments on general requirements in Appendix 2, Q1 relating to enhancing the assurability of the proposals are also relevant to the application of proposed IFRS S2. This includes comments about the need for guidance on materiality (see Appendix 1, section 2) and the reporting entity (see Appendix 1, section 3) in final IFRS S1.

We note that the quality of assurance on requirements to isolate and report on financial implications would be lower unless our substantive comments are addressed (see Appendix 1, section 4).

Question 14 Effective date

We respond as follows.

Q14(a) Subject to our substantive comments below, we believe that the effective date of both standards should be the same. Whilst it would be our clear preference for entities to adopt both proposed IFRS S1 and S2 at the same time, we would not want the adoption of proposed IFRS S2 to be delayed in order to prepare for reporting on other sustainability-related topics under proposed IFRS S1.

Q14(b) We encourage the ISSB to carefully consider the responses from preparers regarding the time they need to prepare for implementation of the proposals. See our response to proposed IFRS S1 Question 13 (Appendix 2, Q13).

Q14(c) Subject to our substantive comments below, we believe that some entities may be able to adopt certain requirements in proposed IFRS S2 before others.

Substantive comments

See Appendix 1, section 8 for our substantive recommendations in relation to transition options, including both a modified statement of compliance and phased introduction of requirements.

Question 16 Global baseline

See our response in Appendix 2, Q14.