ACCOUNTANCY EUROPE.

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Submitted via website

Brussels, 28 July 2022

Subject: Accountancy Europe's response to Exposure Draft IFRS S2 Climate-related Disclosures

Dear Mr Faber,

Accountancy Europe is pleased to respond to the International Sustainability Standards Board (ISSB or the Board) IFRS S1 Exposure Draft: General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1 ED) as well as IFRS S2 Exposure Draft: Climate-related Disclosures (IFRS S2 ED). As an important means to the end objective of a more sustainable economy, the European accountancy profession is committed to advancing the development of high-quality, transparent, comparable, and reliable sustainability reporting. Transforming companies' business models towards more sustainable ones is a journey, and reporting has an important role to play.

Accountancy Europe congratulates the ISSB and the IFRS Foundation on their work in developing these proposals. We have long believed that the IFRS Foundation had an important role to play in interconnected standard setting for corporate reporting.

We support international sustainability standards that address both investors and broader stakeholders' needs for sustainability related information. To this end, we applaud the collaboration agreement with the Global Reporting Initiative.

Hereinafter we provide some main areas of feedback and suggestions for the Board's consideration regarding the proposals in these Exposure Drafts (EDs).

Structure and content

We find the architecture of the standards, which is based on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), familiar and useful. In addition, the proposals are

concise and easy to follow, whilst overall meeting the objective of providing investors and capital markets with useful sustainability-related information that will help them assess enterprise value.

Nonetheless, we strongly suggest the ISSB clarifies the guidance provided in IFRS S1 ED on identifying sustainability-related risks and opportunities and the related disclosures in cases where there are no other topic-specific ISSB standards. Specifically, we are concerned that, as currently drafted, the guidance may be read as requiring companies to simultaneously comply with these additional resources, i.e., SASB standards, CDSB framework, or other standards to claim compliance with ISSB standards. This creates unrealistic expectations for preparers to look at all these materials, and would potentially generate reporting overload, as well as raise discussions with auditors and enforcers in determining 'sustainability-related risks and opportunities'.

Materiality

We welcome the standards' focus on 'enterprise value' and appreciate that the ISSB integrates it as a fundamental concept in the materiality assessment, which we believe covers to a large extent the double materiality perspective.

However, we think that the term 'significant' to determine risks and opportunities creates confusion with the materiality concept and may raise practical issues. We suggest the ISSB provides guidance and clarify the differences between 'significant' and 'material'.

In addition, we suggest the ISSB provides further guidance and examples on how to determine materiality. This would include guidance on the processes to be carried out to assess material sustainability-related financial information including the outcome of this assessment as well as defining time horizons.

Connectivity and collaboration with the IASB

Accountancy Europe welcomes the considerations on connectivity in these EDs. However, this topic should be addressed both by the ISSB and the IASB, which should determine their respective scope of works and boundaries in addressing interconnected topics.

We also suggest having a framework for connected reporting to facilitate connectivity and underpin both sets of standards. This framework could build on the principles of the Integrated Reporting Framework (soon to become part of the IFRS Foundation structures via the Value Reporting Foundation consolidation, and the Management Commentary (an ongoing project by the IASB).

Collaboration with regional initiatives

We support the ISSB's collaboration with jurisdictions via its jurisdictional working group and future Sustainability Standards Advisory Forum. This will help build a global baseline of sustainability standards that is flexible, does not conflict with jurisdictions and would ultimately be easy to adoption.

European Sustainability Reporting Standards (ESRS), developed by EFRAG with a double materiality lens to serve broad stakeholders, will be mandated in the European Union. Whilst ESRS address a broader scope, we believe that there are great commonalities with the ISSB's standards. Therefore, both initiatives should be aligned to the greatest extent to facilitate applicability of ISSB standards. Accountancy Europe will also contribute to the EFRAG Project Task Force on ESRS's consultations on the ESRS Exposure Drafts.

In case this alignment does not happen, it will unnecessarily impair reporting outputs' convergence by ending up in information overload and ineffective reporting which does not drive real change for companies, is not in the public interest and nor does it improve transparency.

Definitions and more guidance

Accountancy Europe suggests the ISSB defines all relevant terminology (e.g., 'low-probability and high-impact outcomes', 'risks', 'opportunities', 'climate related' and 'vulnerable') and provides the necessary guidance to help with the operationalisation of these standards. Particularly, we suggest the ISSB defines 'sustainability' as part of IFRS S1 ED in order to help companies better determine the scope and boundaries of their assessments for sustainability risks and opportunities.

Reporting boundaries

Turning to IFRS S2 ED, we agree that reporting greenhouse gas (GHG) emissions should be aligned with the GHG Protocol requirements, but do not support applying the reporting boundaries from the GHG Protocol: none of the three boundary-definitions in the GHG Protocol are fully aligned with the financial boundaries and this is problematic for many reasons that we detail in the consultation response. We understand that the GHG Protocol is in the process of being revised to tackle this issue. We believe the ISSB should coordinate with the GHG Protocol on this revision exercise and find a way to bridge requirements' non-alignment in the short term.

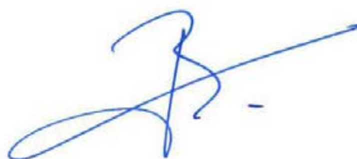
We believe that the boundaries should be financial as stated in IFRS S1 paragraph 37, and that this principle should apply for all sustainability-related reporting requirements, including GHG emissions.

* * *

We kindly refer to Annex of this letter for our detailed response to the IFRS S2 ED as well as this link for our detailed feedback to the IFRS S1 ED.

Please do not hesitate to contact Noémi Robert (noemi@accountancyeurope.eu) in case of any questions or remarks.

Sincerely,



Myles Thompson
President

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Chief Executive

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ANNEX: IFRS S2 ED CLIMATE-RELATED DISCLOSURES

Question 1—Objective of the Exposure Draft

Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting:

- *to assess the effects of climate-related risks and opportunities on the entity's enterprise value;*
- *to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and*
- *to evaluate the entity's ability to adapt its planning, business model and operations to climate-related risks and opportunities.*

Paragraphs BC21–BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

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

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

c) *Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?*

(1) We generally agree with the proposed objective and welcome the ISSB's approach of enabling users of an entity's general purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise value. We note that this approach can be operationalised by the proposed requirements but highlight the following points for consideration.

(2) We believe that the reporting boundaries proposed in the IFRS S2 Exposure Draft (S2 ED) should be aligned with the boundaries applicable for financial reporting. This is further explained in our response to Question 9.

(3) We refer to our letter responding to IFRS S1 ED where we include comments on the enterprise value concept, as well as the various existing concepts of materiality.

Question 2—Governance

Paragraphs 4 and 5 of the Exposure Draft propose that an entity be required to disclose information that enables users of general-purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate related risks and opportunities. To achieve this objective, the Exposure Draft proposes that an entity be required to disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and a description of management's role regarding climate-related risks and opportunities. The Exposure Draft's proposed governance disclosure requirements are based on the recommendations of the TCFD, but the Exposure Draft proposes more detailed disclosure on some aspects of climate-related governance and management in order to meet the information needs of users of general-purpose financial reporting. For example, the Exposure Draft proposes a requirement for preparers to disclose how the governance body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies. The related TCFD's recommendations

are to: describe the board's oversight of climate related risks and opportunities and management's role in assessing and managing climate-related risks and opportunities.

Paragraphs BC57–BC63 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

(4) We welcome the proposed disclosure requirements for governance controls and procedures used to monitor and manage climate-related risks and opportunities. We think it is beneficial that the reporting requirements are based on the TCFD recommendations with respect to structure and content.

(5) However, it is unclear how the consideration of climate-related risks and opportunities by the body and its committees links to the entity's development of scenario analysis and its output. Experience to date on the TCFD reporting has shown that the various pillars or scenarios and the generic risk chapter could be linked better. This would help to understand better the purpose of reporting on scenario analysis. To compare with what is currently under discussion at European level, EFRAG's draft sustainability standard defines a requirement for developing scenario analysis.

(6) We also note that there is potentially a lack of interconnectivity with financial reporting. The link between financial and sustainability data needs to be better embedded. If something is identified as a risk to be disclosed, we believe it would have an impact on the entity's financials eventually. It is, therefore, necessary to be clearer that it needs to be considered when reporting on assets, cash flows and potential off balance sheet items.

(7) Furthermore, the governance bodies' definition used in the ED may be perceived as quite restrictive and not reflecting the simplified organizational governance structure put in place in some entities. Indeed, in these entities, management might oversee sustainability matters without specific mandates or not being part of the governance bodies. S2 ED could possibly include or specify that this type of simplified governance may exist. We also recommend that this disclosure requirement should be limited to the position of the individual within the entity rather than the name of a particular individual. Entities would be able to voluntarily provide the name of an individual, if they deem it appropriate, but it should not be mandated.

Question 3—Identification of climate-related risks and opportunities

Paragraph 9 of the Exposure Draft proposes that an entity be required to identify and disclose a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity would be required to refer to the disclosure topics defined in the industry disclosure requirements (Appendix B).

Paragraphs BC64–BC65 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?

b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any

additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

(8) We support the proposed identification and disclosure of climate-related risks and opportunities and applaud the fact that guidance for risk classification is strongly based on the TCFD recommendations.

(9) We encourage more clarity on how 'significant' is determined and consistency in language to guide preparers in identifying the appropriate risks and opportunities. There is a lack of clarity on the (difference in the) use of the concepts 'significant' and 'material'. We refer to our response to IFRS S1 ED in this regard.

(10) We agree with the proposed structure including cross-industry metrics as well as industry-specific disclosure requirements that are largely based on the SASB standards. We note, however, that it could be made clearer how the industry-specific disclosure requirements are connected to the cross-industry metrics, for instance, how they might add to the cross-industry metrics. More examples or illustrative guidance could prove useful for preparers.

(11) We note that while paragraph 9(c) mentions certain disaggregation levels of physical risks (acute and chronic risks) and transitional risks (regulatory, technological, market, legal or reputational risks), there is no requirement to report on such disaggregated levels. We expect investors having an interest in such disaggregated levels of risks considered by the entity before they can aggregate to portfolio level. In practice, we should also note that many entities already report on these disaggregated levels. Perhaps some illustrative guidance could be included stating that disaggregation might be useful information for users and those disclosures could, therefore, be added on a voluntary basis.

(12) To further enhance comparability, in the risk chapter, it would also be beneficial to include a set of minimum physical or transition-related factors that must be considered, for instance, impacts from extreme weather or chronic weather changes, change in oil price, change in CO2 taxes or ban/restriction of combusting or emitting specific substances.

(13) Furthermore, we support reporting on both risks and opportunities, but we acknowledge that reporting on opportunities can be seen as challenging, especially for listed companies in jurisdictions where specific legal requirements apply for this kind of reporting. While we believe it is important to remain aligned with the TCFD recommendations as developed so far, we welcome paragraph 62 of IFRS S1 ED and suggest making a clear reference to it so that listed companies can use it as a safe harbour in case reporting on opportunities is too challenging in their national legislative environment. It will help tackle the challenging aspect of reporting on opportunities in certain regions as flagged above and enhance comparability and ensure coherence with the risk chapter, i.e., link with impairments, provisions, etc.

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

Paragraph 12 of the Exposure Draft proposes requiring disclosures that are designed to enable users of general-purpose financial reporting to understand the effects of significant climate-related risks and opportunities on an entity's business model, including in its value chain. The disclosure requirements seek to balance measurement challenges (for example, with respect to physical risks and the availability of reliable, geographically specific information) with the information necessary for users to understand the effects of significant climate-related risks and opportunities in an entity's value chain. As a result, the Exposure Draft includes proposals for qualitative disclosure requirements about the current and anticipated effects of significant climate-related risks and opportunities on an entity's value chain. The proposals would also require an entity to disclose where in an entity's value chain significant climate-related risks and opportunities are concentrated.

Paragraphs BC66–BC68 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) *Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?*

b) *Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?*

(14) We refer to our response to Question 9 where we note that the company's sustainability reporting boundaries should be consistent with the financial reporting boundaries to achieve a better consistency between the two.

(15) We agree that the company's value chain might be a huge factor when assessing enterprise value, including with respect to climate related risks and opportunities. Therefore, information on the value chain is strategic for users when assessing enterprise value.

(16) We believe ED S2 should be clearer and more detailed about what is considered as "significant". The basis for conclusion paragraph 66 states that "*the information that the ED would require an entity to provide is limited to that which enables users of general-purpose financial reporting to assess an entity's enterprise value—so the impact arising from the value chain needs to be relevant to this assessment—and the information provided is that which is material*". This should be clarified to better understand the expectations towards preparers.

(17) If we consider the whole value chain and enterprise value, we note that the expectations in terms of level of detail, level of value chain inclusion etc. will extensively vary and believe that qualitative information will not help comparability.

(18) The best way for the ISSB to better define the value chain could be first to consider the sector in which the company operates. Depending on the sector, it would be easier to refer to the material tiers of the given sector (often tier 1 and tier 2) as expected level of inclusion. However, we acknowledge that this might be too early in the ISSB's standard-setting process.

(19) We believe that, generally, the ISSB should think about putting in place transitional measures. Currently, many companies lack up-to-date sustainability information and they will need standard-setting support to guide them on where it is important to put efforts in moving forward. If we compare with the journey companies had to perform in implementing IFRS, IFRS 1 was instrumental in supporting the transition.

(20) As flagged in our response to Question 7, preparers have to undertake their own journey to set appropriate conditions for assurance with suitable reporting criteria. Applying judgement would be a challenge for all parties in the reporting chain, starting with preparers, management and those charged with governance.

Question 5—Transition plans and carbon offsets

Disclosing an entity's transition plan towards a lower-carbon economy is important for enabling users of general-purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value.

Paragraph 13 of the Exposure Draft proposes a range of disclosures about an entity's transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general-purpose financial reporting to understand the effects of climate related risks and

opportunities on an entity's strategy and decision-making, including its transition plans. This includes information about how it plans to achieve any climate-related targets that it has set (this includes information about the use of carbon offsets); its plans and critical assumptions for legacy assets; and quantitative and qualitative information about the progress of plans previously disclosed by the entity.

An entity's reliance on carbon offsets, how the offsets it uses are generated, and the credibility and integrity of the scheme from which the entity obtains the offsets have implications for the entity's enterprise value over the short, medium and long term. The Exposure Draft therefore includes disclosure requirements about the use of carbon offsets in achieving an entity's emissions targets. This proposal reflects the need for users of general-purpose financial reporting to understand an entity's plan for reducing emissions, the role played by carbon offsets and the quality of those offsets.

The Exposure Draft proposes that entities disclose information about the basis of the offsets' carbon removal (nature- or technology-based) and the third-party verification or certification scheme for the offsets. Carbon offsets can be based on avoided emissions. Avoided emissions are the potential lower future emissions of a product, service or project when compared to a situation where the product, service or project did not exist, or when it is compared to a baseline. Avoided-emission approaches in an entity's climate-related strategy are complementary to, but fundamentally different from, the entity's emission-inventory accounting and emission-reduction transition targets. The Exposure Draft therefore proposes to include a requirement for entities to disclose whether the carbon offset amount achieved is through carbon removal or emission avoidance.

The Exposure Draft also proposes that an entity disclose any other significant factors necessary for users of general-purpose financial reporting to understand the credibility of the offsets used by the entity such as information about assumptions of the permanence of the offsets.

Paragraphs BC71–BC85 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?

b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.

c) Do you think the proposed carbon offset disclosures will enable users of general-purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?

d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general-purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

(21) We agree that the evaluation of the enterprise value is based to a large extent on an assessment of the entity's ability to adapt to its environment, which includes political, legal and societal developments. This is why reporting on transition plans is especially important for users to assess enterprise value.

(22) We particularly welcome the proposed disclosure requirements on carbon offsets in order to transparently show how dependent an entity's business model and its transition plan is from carbon offsets. Entities trying to achieve net zero goals are typically more dependent on carbon offsets, while gross zero goals can only be achieved by carbon removal initiatives at entity level. In our view, it is key

to create transparency to enable users to see the full picture. Eventually having more specific quantitative KPIs will be necessary e.g., on what offsetting means in a specific sector or context.

(23) Moreover, it is important to align terminology and we believe that there is no convention on how 'permanence' is understood. Carbon capture, usage and storage (CCUS) may be regarded as permanent or as only temporary storage. Forests may be seen as permanent or as long term only as trees are not immortal. It would be useful if this was clarified. The standard could include reference to the internationally recognised conventions to enhance consistency.

(24) In paragraph 13 of the ED, we note that the requirement on transition plans only includes emissions. We suggest assessing whether a reference to transition plans on other climate measures should also be included. The outcome of this assessment will depend on the ISSB's strategy to standard-setting regarding the boundary of IFRS S2 and on whether the ISSB would potentially develop other environment and climate standards.

Question 6—Current and anticipated effects

The Exposure Draft proposes requirements for an entity to disclose information about the anticipated future effects of significant climate-related risks and opportunities. The Exposure Draft proposes that, if such information is provided quantitatively, it can be expressed as a single amount or as a range. Disclosing a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value may be more appropriate.

The TCFD's 2021 status report identified the disclosure of anticipated financial effects of climate-related risks and opportunities using the TCFD Recommendations as an area with little disclosure. Challenges include: difficulties of organisational alignment, data, risk evaluation and the attribution of effects in financial accounts; longer time horizons associated with climate-related risks and opportunities compared with business horizons; and securing approval to disclose the results publicly. Disclosing the financial effects of climate-related risks and opportunities is further complicated when an entity provides specific information about the effects of climate-related risks and opportunities on the entity. The financial effects could be due to a combination of other sustainability-related risks and opportunities and not separable for the purposes of climate-related disclosure (for example, if the value of an asset is considered to be at risk it may be difficult to separately identify the effect of climate on the value of the asset in isolation from other risks).

Similar concerns were raised by members of the TRWG in the development of the climate-related disclosure prototype following conversations with some preparers. The difficulty of providing single point estimates due to the level of uncertainty regarding both climate outcomes and the effect of those outcomes on a particular entity was also highlighted. As a result, the proposals in the Exposure Draft seek to balance these challenges with the provision of information for investors about how climate-related issues affect an entity's financial position and financial performance currently and over the short, medium and long term by allowing anticipated monetary effects to be disclosed as a range or a point estimate.

The Exposure Draft proposes that an entity be required to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (paragraph 14). The requirements also seek to address potential measurement challenges by requiring disclosure of quantitative information unless an entity is unable to provide the information quantitatively, in which case it shall be provided qualitatively.

Paragraphs BC96–BC100 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?

b) Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?

c) Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?

(25) In principle, we welcome the approach that time horizons remain an entity-specific concept. We agree that standards should not prescribe a certain timeframe for short-, medium- and long-term horizons.

(26) Nevertheless, firm criteria to apply when determining the time horizons would be helpful, linking it to the entity's asset lifecycle and its business model. Reporting on future prospects and impacts will be a challenging issue for preparers, in particular with the reference to the medium- and long-term horizon. Having a more precise view on the expected timeframe would be helpful to guide preparers, but also for the verifiability of the reported information.

(27) Paragraph 14 of S2 ED notes that if preparers are unable to disclose quantitative information, the entity can report qualitative information. As reporting should be seen as a journey, we welcome the flexibility offered and expect companies' reporting to evolve and improve over time. Peer pressure should also help to shape it better. Nevertheless, the first reporting year(s) will most likely be difficult to compare and will bring challenges for preparers, as well as for the verifiability of the reported information[1].

(28) Furthermore, we note that it is important to define more precisely what 'unable to do' means. We refer to our response to Question 7.

(29) Sustainability reporting should be interconnected with financial reporting. If these risks and opportunities are material, it will eventually have an impact on future cash flows, and that will also impact asset value and provisions. We therefore believe that these risks and opportunities should be properly embedded in financial reporting standards with reference to environmental risks in IAS 36 and IAS 37 guidance.

Question 7—Climate resilience

The likelihood, magnitude and timing of climate-related risks and opportunities affecting an entity are often complex and uncertain. As a result, users of general-purpose financial reporting need to understand the resilience of an entity's strategy (including its business model) to climate change, factoring in the associated uncertainties. Paragraph 15 of the Exposure Draft therefore includes requirements related to an entity's analysis of the resilience of its strategy to climate-related risks. These requirements focus on:

- *what the results of the analysis, such as impacts on the entity's decisions and performance, should enable users to understand; and*
- *whether the analysis has been conducted using:*
  - *climate-related scenario analysis; or*
  - *an alternative technique.*

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[1] We have explored the practical implications of sustainability information assurance as required under the EU Corporate Sustainability Reporting Directive (CSRD). We refer to pages 8-9 with the sections on preconditions for an assurance engagement and the assurance report: https://www.accountancyeurope.eu/wp-content/uploads/220401-Sustainability-assurance-under-the-CSRD-1-1.pdf

Scenario analysis is becoming increasingly well established as a tool to help entities and investors understand the potential effects of climate change on business models, strategies, financial performance and financial position. The work of the TCFD showed that investors have sought to understand the assumptions used in scenario analysis, and how an entity's findings from the analysis inform its strategy and risk management decisions and plans. The TCFD also found that investors want to understand what the outcomes indicate about the resilience of the entity's strategy, business model and future cash flows to a range of future climate scenarios (including whether the entity has used a scenario aligned with the latest international agreement on climate change). Corporate board committees (notably audit and risk) are also increasingly requesting entity-specific climate-related risks to be included in risk mapping with scenarios reflecting different climate outcomes and the severity of their effects.

Although scenario analysis is a widely accepted process, its application to climate related matters in business, particularly at an individual entity level, and its application across sectors is still evolving. Some sectors, such as extractives and minerals processing, have used climate-related scenario analysis for many years; others, such as consumer goods or technology and communications, are just beginning to explore applying climate-related scenario analysis to their businesses.

Many entities use scenario analysis in risk management for other purposes. Where robust data and practices have developed, entities thus have the analytical capacity to undertake scenario analysis. However, at this time the application of climate-related scenario analysis for entities is still developing.

Preparers raised other challenges and concerns associated with climate-related scenario analysis, including: the speculative nature of the information that scenario analysis generates, potential legal liability associated with disclosure (or miscommunication) of such information, data availability and disclosure of confidential information about an entity's strategy. Nonetheless, by prompting the consideration of a range of possible outcomes and explicitly incorporating multiple variables, scenario analysis provides valuable information and perspectives as inputs to an entity's strategic decision-making and risk-management processes. Accordingly, information about an entity's scenario analysis of significant climate-related risks is important for users in assessing enterprise value.

The Exposure Draft proposes that an entity be required to use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience.

Requiring disclosure of information about climate-related scenario analysis as the only tool to assess an entity's climate resilience may be considered a challenging request from the perspective of a number of preparers at this time—particularly in some sectors. Therefore, the proposed requirements are designed to accommodate alternative approaches to resilience assessment, such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests. This approach would provide preparers, including smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, represents an iterative learning process, and may take multiple planning cycles to achieve. The Exposure Draft proposes that when an entity uses an approach other than scenario analysis, it discloses similar information to that generated by scenario analysis to provide investors with the information they need to understand the approach used and the key underlying assumptions and parameters associated with the approach and associated implications for the entity's resilience over the short, medium and long term.

It is, however, recommended that scenario analysis for significant climate-related risks (and opportunities) should become the preferred option to meet the information needs of users to understand the resilience of an entity's strategy to significant climate related risks. As a result, the Exposure Draft proposes that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted. Consideration was also given to whether climate-related scenario analysis should be required by all entities with a later effective date than other proposals in the Exposure Draft.

Paragraphs BC86–BC95 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) *Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?*

b) *The Exposure Draft proposes that if an entity is unable to perform climate related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.*

   i. *Do you agree with this proposal? Why or why not?*

   ii. *Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?*

   iii. *Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14 and if so, why?*

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

d) *Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?*

e) *Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?*

(30) We agree that information about climate resilience of the company's strategy is important to users for their enterprise value assessment. We welcome the arguments brought forward in favour of using scenario analysis as this type of analysis represents a methodology that produces highly qualitative information for users. To that end, we support strong alignment, as proposed, with the TCFD recommendations, with which a lot of preparers are already familiar.

(31) However, preparers with less experience in sustainability reporting might struggle with starting off and preparing appropriate scenario analysis. Therefore, we welcome the suggested approach that scenario analysis clearly represents the "method of choice", but other methods such as sensitivity analysis, single-point forecasts, or qualitative analysis can be applied, if a company is unable to perform climate-related scenario analysis.

(32) We would hope that preparers would find themselves on a learning path and will eventually be able to perform scenario analysis. Until then, we agree with the requirement to disclose the reason for being unable to report on scenario analysis. However, as already flagged in our response to Question 6, preparers might need more guidance on how "unable to do" translates in practice, i.e., whether it refers to e.g., lack of data, lack of experience, lack of resources, or all of the above with reference to a cost-benefit analysis. We refer to IFRS 8, which could be used as an inspiration to develop clearer guidance on this issue. Disclosures are required "unless the necessary information is not available and the cost to develop it would be excessive" (e.g., IFRS 8.18).

(33) We call on the ISSB to consider the verifiability of S2 ED, and specifically on this disclosure requirement. The nature of the assurance work will be different depending on the nature of the disclosures. Generally, to set appropriate conditions for assurance, the reported information has to be verifiable, i.e.:

- with appropriate subject matter and suitable criteria with the suitability of the reporting criteria being key as it serves as a point of reference to evaluate the subject matter. Assessing the completeness and balance of the disclosure will be more challenging for qualitative information.
- with effective and properly managed internal processes and controls to collect reliable information from internal sources. That way, the reporting entity is confident about the quality of the data reported and able to provide appropriate evidence. The reliability of external data is also strategic, in particular for scenario analysis, but is far less dependent on internal processes.

(34) Additionally, we note that comparability of climate resilience disclosures will most likely be impaired in the first years of application, since preparers might use different models as suggested by the proposed requirements. However, as stated, we are confident that over time scenario analysis will be used more often and thus comparability will ultimately be achieved.

(35) In S2 ED, it seems that there is an assumption that a scenario analysis is performed every year or that the same information is reported year after year until a new analysis is performed. We would welcome a clarification or possibly guidance regarding the frequency with which scenario analysis should be performed and what needs to be disclosed in a year when a new one has not been performed.

Question 8—Risk management

An objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities, to enable users of general-purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise value. Such disclosures include information for users to understand the process, or processes, that an entity uses to identify, assess and manage not only climate-related risks, but also climate-related opportunities.

Paragraphs 16 and 17 of the Exposure Draft would extend the remit of disclosures about risk management beyond the TCFD Recommendations, which currently only focus on climate-related risks. This proposal reflects both the view that risks and opportunities can relate to or result from the same source of uncertainty, as well as the evolution of common practice in risk management, which increasingly includes opportunities in processes for identification, assessment, prioritisation and response.

Paragraphs BC101–BC104 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

(36) We welcome the proposed requirements for risk management disclosures as this provides valuable information to users on how climate-related risks and opportunities are identified, assessed, and managed.

(37) We also generally welcome the alignment with the TCFD recommendations with the inclusion of reporting both on risks and opportunities and refer to our response to Question 3 where we welcome paragraph 62 of IFRS S1 ED and suggests adding a clear reference to it.

(38) As the content of the disclosures on processes put in place to identify and assess risks and opportunities should normally be rather standing data, we are concerned by the potential overload of boilerplate information. We suggest the ISSB include flexibility on how to report such static element of the report. Depending on cultural, jurisdictional, or regulatory environment, inserting a secured, precise and unmodifiable hyperlink to the detailed processes in place and referring only to major changes, if

any, could be an option to consider. Such option would need to be properly assessed when putting in place the endorsement process though.

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

The Exposure Draft proposes incorporating the TCFD's concept of cross-industry metrics and metric categories with the aim of improving the comparability of disclosures across reporting entities regardless of industry. The proposals in the Exposure Draft would require an entity to disclose these metrics and metric categories irrespective of its particular industry or sector (subject to materiality). In proposing these requirements, the TCFD's criteria were considered. These criteria were designed to identify metrics and metric categories that are:

- *indicative of basic aspects and drivers of climate-related risks and opportunities;*
- *useful for understanding how an entity is managing its climate-related risks and opportunities;*
- *widely requested by climate reporting frameworks, lenders, investors, insurance underwriters and regional and national disclosure requirements; and*
- *important for estimating the financial effects of climate change on entities.*

The Exposure Draft thus proposes seven cross-industry metric categories that all entities would be required to disclose: greenhouse gas (GHG) emissions on an absolute basis and on an intensity basis; transition risks; physical risks; climate-related opportunities; capital deployment towards climate-related risks and opportunities; internal carbon prices; and the percentage of executive management remuneration that is linked to climate-related considerations. The Exposure Draft proposes that the GHG Protocol be applied to measure GHG emissions.

The GHG Protocol allows varied approaches to be taken to determine which emissions an entity includes in the calculation of Scope 1, 2 and 3—including for example, how the emissions of unconsolidated entities such as associates are included. This means that the way in which information is provided about an entity's investments in other entities in their financial statements may not align with how its GHG emissions are calculated. It also means that two entities with identical investments in other entities could report different GHG emissions in relation to those investments by virtue of choices made in applying the GHG Protocol.

To facilitate comparability despite the varied approaches allowed in the GHG Protocol, the Exposure Draft proposes that an entity shall disclose:

- *separately Scope 1 and Scope 2 emissions, for:*
    - *the consolidated accounting group (the parent and its subsidiaries);*
    - *the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and*
- *the approach it used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group (for example, the equity shares or operational control method in the GHG Protocol Corporate Standard).*

The disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. However, despite these challenges, the disclosure of GHG emissions, including Scope 3 emissions, is becoming more common and the quality of the information provided across all sectors and jurisdictions is improving. This development reflects an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity's carbon footprint.

Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energy efficient products or seek to enable or incentivise

upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to identify the most significant GHG reduction opportunities across an entity's entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs.

For Scope 3 emissions, the Exposure Draft proposes that:

- *an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;*
- *an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general-purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;*
- *if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement: and*
- *if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure.*

Aside from the GHG emissions category, the other cross-industry metric categories are defined broadly in the Exposure Draft. However, the Exposure Draft includes nonmandatory Illustrative Guidance for each cross-industry metric category to guide entities.

Paragraphs BC105–BC118 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) *The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?*

b) *Are there any additional cross-industry metric categories related to climate related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general-purpose financial reporting.*

c) *Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?*

d) *Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in CO2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))?*

e) *Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:*

   i. *the consolidated entity; and*

   ii. *for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?*

f) *Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?*

(39) We agree with the seven proposed cross-industry metric categories; they are certainly useful for an enterprise value assessment.

(40) We would welcome a reference to the fact that policies and assumptions applied should be disclosed. Additionally, we welcome the fact that there is no requirement for information disclosed at disaggregated level. Nevertheless, it could be mentioned that disaggregated information could be useful in some industries.

(41) We agree that reporting emissions should be aligned with the GHG Protocol requirements. It represents a well-established and internationally recognised framework for defining and measuring emissions and therefore contributes to full comparability of reported emissions. Nevertheless, given the fact that other frameworks are mandated in certain jurisdictions, such as ISO in France, we would welcome flexibility whereby companies should adhere to the GHG Protocol and only move to another framework if required by local law or regulation. The wording included in IFRS S1 ED paragraph 62 is welcome allowing entities to depart from ISSB's requirements if local laws or regulations require it. We would also advise having a requirement making it clear that any deviation from the GHG Protocol should not lead to disclosing less relevant information.

(42) Nevertheless, we do not support the reporting boundaries from the GHG Protocol: none of the three boundary-definitions in the GHG Protocol are fully aligned with the financial boundaries and this is problematic for many reasons that we detail below. We understand that the GHG Protocol is in the process of being revised to tackle this issue. We believe the ISSB should coordinate with the GHG Protocol on this revision exercise and find a way to bridge requirements' misalignment in the short term.

(43) As stated in IFRS S1 paragraph 37, the boundaries should be financial, and we believe this should be applied for all sustainability-related reporting requirements, including GHG emissions. The boundaries should be in line with the general concept of control within the financial statements. In this way, we secure the fact that non-financial data are integrated within, for instance, the entity's revenue, cost, assets, and cash flow. If the entity needs to include data from entities that are not part of the group according to the financial consolidation rules, this can be made under Scope 3 for GHG. Following such rules will ensure that data are comparable across companies – see also CDSB (2014)

(44) As GHG Protocol does not cater for leasing to date, we believe that using IFRS 16 would be instrumental in clarifying which assets' emissions and consumptions are within Scope 1 and 2 and which should be considered as Scope 3 - which the GHG Protocol does not do.

(45) Applying IFRS 16 would mean that:

- consumption and emissions from owned and used assets must be included
- consumption and emissions from leased and used assets must be included
- consumption and emissions from owned assets leased out to others' use, must not be included

IFRS 16 would also determine whether the lease truly is a lease – or if it is sale of services

(46) Applying the financial boundaries will also ensure that scope 1 and 2 data can be verified and assured for completeness with appropriate evidence. It will also enhance international comparability, as the draft US SEC Climate Law follow the financial boundaries as per US GAAP.

(47) Regarding including data from associates, joint ventures, or affiliates, we support considering them as part of Scope 3. It will allow alignment with the financial boundaries for Scope 1 and 2 as explained above, but also remove pressure from companies for obtaining GHG emissions information, as it is already currently problematic to obtain financial information for such unconsolidated entities.

(48) Using the financial boundaries will also enhance the companies' ability to re-use their existing consolidation systems for GHG data, which will reduce cost and time spent on GHG reporting.

Question 10—Targets

Paragraph 23 of the Exposure Draft proposes that an entity be required to disclose information about its emission-reduction targets, including the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives), as well as information about how the entity's targets compare with those prescribed in the latest international agreement on climate change.

The 'latest international agreement on climate change' is defined as the latest agreement between members of the United Nations Framework Convention on Climate Change (UNFCCC). The agreements made under the UNFCCC set norms and targets for a reduction in greenhouse gases. At the time of publication of the Exposure Draft, the latest such agreement is the Paris Agreement (April 2016); its signatories agreed to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit warming to 1.5 degrees Celsius above pre-industrial levels. Until the Paris Agreement is replaced, the effect of the proposals in the Exposure Draft is that an entity is required to reference the targets set out in the Paris Agreement when disclosing whether or to what degree its own targets compare to the targets in the Paris Agreement.

Paragraphs BC119–BC122 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?

b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?

(49) We generally support the disclosure as proposed. As a global baseline, we agree that it is important to accommodate regional differences and set principles-based targets. We understand that this is what is intended with the definition of 'latest international agreement on climate change' that refers to the UNFCCC agreement.

(50) Conceptually, setting fixed target years could be helpful for international comparability, in particular 2030 and 2050. It could also prove insightful for investors to aggregate such information at portfolio level and such aggregation would not be possible with diverse target years. Nevertheless, in practice, we believe that targets should fit to the company's strategy and not be strictly set by the reporting standards that should remain principles based.

Question 11—Industry-based requirements

The Exposure Draft proposes industry-based disclosure requirements in Appendix B that address significant sustainability-related risks and opportunities related to climate change. Because the requirements are industry-based, only a subset will apply to a particular entity. The requirements have been derived from the SASB Standards. This is consistent with the responses to the Trustees' 2020 consultation on sustainability that recommended that the ISSB build upon existing sustainability standards and frameworks. This approach is also consistent with the TRWG's climate-related disclosure prototype.

The proposed industry-based disclosure requirements are largely unchanged from the equivalent requirements in the SASB Standards. However, the requirements included in the Exposure Draft include some targeted amendments relative to the existing SASB Standards. The proposed enhancements have been developed since the publication of the TRWG's climate-related disclosure prototype.

The first set of proposed changes address the international applicability of a subset of metrics that cited jurisdiction-specific regulations or standards. In this case, the Exposure Draft proposes amendments (relative to the SASB Standards) to include references to international standards and definitions or, where appropriate, jurisdictional equivalents.

Paragraphs BC130–BC148 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals to improve the international applicability of the industry-based requirements.

a) *Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?*

b) *Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?*

c) *Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?*

The second set of proposed changes relative to existing SASB Standards address emerging consensus on the measurement and disclosure of financed or facilitated emissions in the financial sector. To address this, the Exposure Draft proposes adding disclosure topics and associated metrics in four industries: commercial banks, investment banks, insurance and asset management. The proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. The proposal builds on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments).

Paragraphs BC149–BC172 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals for financed or facilitated emissions.

d) *Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?*

e) *Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?*

f) *Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?*

g) *Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?*

h) *Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?*

i) *In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?*

Overall, the proposed industry-based approach acknowledges that climate-related risks and opportunities tend to manifest differently in relation to an entity's business model, the underlying economic activities in which it is engaged and the natural resources upon which its business depends or which its activities affect. This affects the assessment of enterprise value. The

Exposure Draft thus incorporates industry-based requirements derived from the SASB Standards.

The SASB Standards were developed by an independent standard-setting board through a rigorous and open due process over nearly 10 years with the aim of enabling entities to communicate sustainability information relevant to assessments of enterprise value to investors in a cost-effective manner. The outcomes of that process identify and define the sustainability-related risks and opportunities (disclosure topics) most likely to have a significant effect on the enterprise value of an entity in a given industry. Further, they set out standardised measures to help investors assess an entity's performance on the topic.

Paragraphs BC123–BC129 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals related to the industry-based disclosure requirements.

While the industry-based requirements in Appendix B are an integral part of the Exposure Draft, forming part of its requirements, it is noted that the requirements can also inform the fulfilment of other requirements in the Exposure Draft, such as the identification of significant climate-related risks and opportunities (see paragraphs BC49–BC52).

j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?

k) Are there any additional industry-based requirements that address climate related risks and opportunities that are necessary to enable users of general-purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.

l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?

(51) In general, we welcome the approach taken by the ISSB to build on well-established standards and frameworks. This approach does not only allow for quicker standard setting, but also allows preparers to continue the journey they had started while reporting for instance under the TCFD recommendations or the SASB standards.

(52) In order to enhance comparability, there could be merit in defining the GHG intensity more precisely, for instance with revenue as denominator. Nevertheless, it would still be important to allow for flexibility and accept the use of additional entity-specific physical metrics, such as standard prices or production level.

(53) Additionally, we would suggest the ISSB be clearer on the fact that financed emissions associated with total assets under management are only a proxy for the assessment of the entity's transition risk exposure. Nevertheless, we agree that they are decision useful as they provide insightful information, even if indirectly, and help generate comparability.

(54) Finally, as a general remark, depending on the ISSB's future strategy to standard-setting and whether the ISSB's intention is to develop future other environment-related standards for instance on biodiversity, pollution, water, etc., we would suggest going through all the requirements included in S2 ED and make sure that they all relate to climate disclosures.

Question 12—Costs, benefits and likely effects

Paragraphs BC46–BC48 of the Basis for Conclusions set out the commitment to ensure that implementing the Exposure Draft proposals appropriately balances costs and benefits.

a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?

b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

(55) Preparers with previous experience in sustainability reporting, particularly applying the TCFD recommendation and SASB standards, should be able to leverage their acquired knowledge to date when preparing for the first set of disclosures as per IFRS S2. First-time application of the proposed standards will inevitably bring some challenges to overcome.

(56) These challenges would be amplified in case the ISSB standards do not compare with the upcoming ESRS currently developed by EFRAG. We refer to our response to IFRS S1 ED that provides more detail on this matter. We bring to your attention certain potential significant matters, which may unnecessarily impair outputs' convergence:

- Different terminology, definitions and concepts - to work towards alignment, it is first important to use internationally recognised terms.
- Different disclosure requirements objectives and structure - as a matter of principle, where there are no differing objectives between Europe and the ISSB, convergence should be sought, from both sides.

(57) As mentioned in our response to Question 16, we welcome open and constructive dialogue between the ISSB and EFRAG SRB to ensure effective alignment.

Question 13—Verifiability and enforceability

Paragraphs C21–24 of [draft] IFRS S1 General Requirements for Disclosure of Sustainability related Financial Information describes verifiability as one of the enhancing qualitative characteristics of sustainability-related financial information. Verifiability helps give investors and creditors confidence that information is complete, neutral and accurate. Verifiable information is more useful to investors and creditors than information that is not verifiable.

Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

(58) As far as enforceability, we strongly encourage the ISSB in continuing engaging with other standard-setters, including international assurance standard-setting, international institutions, and policymakers. This is strategic for the future adoption of ISSB's upcoming standards.

(59) Professional accountants have been providing assurance services on sustainability information to companies in the European Union (EU) for over two decades. They have built up expertise in this area supported by the professional framework and standards they follow.

(60) One challenge for auditors and assurance providers will be on how to examine forward-looking information and related assumptions. For example, climate related targets or expected outcomes of key actions - inherently consists of estimation, judgement, and expectations about the future. Such information can heavily depend on scientific and estimation uncertainties or methodologies available at a given time. They can, therefore, lead to a high degree of uncertainty in the reported information.

(61) When the necessary steps have been taken by companies putting in place the right processes and procedures to deal with the impact of the inherent limitations linked to estimation, judgment and expectations about the future, practitioners should be able to provide assurance on whether the information is prepared, in all material respects, in accordance with the relevant reporting standards despite the inherent limitations faced. Assurance does not provide guarantee on outcomes portrayed in forward-looking statements, but it gives comfort to the users that the information is properly prepared and transparently disclosed, in line with the relevant reporting standards, and based on reasonable assumptions.

(62) Sustainability reporting standards must provide complete and clear reporting requirements for forward-looking information and should refer to quantification and measurement methodologies. To date, when a company conducts a scenario analysis following the TCFD recommendations, even with guidance, it is already a challenge to verify. In this context, to ensure the information be verifiable / assurable, we believe the ISSB should develop guidance that would include information on how the required disclosure should be prepared, for instance:

- how to conduct a climate-related scenario analysis
- if scenarios are not used, how to identify risks and opportunities
- how a company should assess how it expects its financial position to change over time, given its strategy to address significant climate-related risks and opportunities.

Question 14—Effective date

Because the Exposure Draft is building upon sustainability-related and integrated reporting frameworks used by some entities, some may be able to apply a retrospective approach to provide comparative information in the first year of application. However, it is acknowledged that entities will vary in their ability to use a retrospective approach.

Acknowledging this situation and to facilitate timely application of the proposals in the Exposure Draft, it is proposed that an entity is not required to disclose comparative information in the first period of application.

[Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information requires entities to disclose all material information about sustainability related risks and opportunities. It is intended that [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information be applied in conjunction with the Exposure Draft. This could pose challenges for preparers, given that the Exposure Draft proposes disclosure requirements for climate-related risks and opportunities, which are a subset of those sustainability-related risks and opportunities. Therefore, the requirements included in [draft] IFRS S1 General Requirements for Disclosure of Sustainability related Financial Information could take longer to implement.

Paragraphs BC190–BC194 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

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

b) *When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparation that will be required by entities applying the proposals in the Exposure Draft.*

c) *Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier, and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?*

(63) In our view, IFRS S1 and S2 should have the same effective date as these two standards are meant to be applied in conjunction.

(64) We also believe that it is not reasonable to identify specific requirements with later effective dates: first-time application should already produce a comprehensive set of non-financial information that should prove useful for users' assessment of enterprise value. The focus on climate-related disclosures already represents a subset of ESG information and as such should not be further broken down with staggered first-time application.

(65) We emphasize the need for timely availability of the final set of IFRS standards as a global baseline for sustainability reporting. Time is pressing as we urgently need a global baseline for climate-related disclosures. Developments in particular jurisdictions, such as the European Union, also move ahead at large speed.

Question 15—Digital reporting

The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption of sustainability-related financial information, as compared to paper-based consumption, is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information Standards are the sources for the Taxonomy.

It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

(66) We believe that developing a Taxonomy for digital non-financial reporting is essential. A timely draft and a finalised version shortly after the issuance of IFRS S1 and S2 would be strategically important for preparers.

Question 16—Global baseline

IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general-purpose financial reporting to enable them to make assessments of enterprise value, providing

a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of climate change. Those needs may be met by requirements set by others including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

(67) We welcome the ISSB's intention to develop sustainability reporting standards that can be used as a comprehensive global baseline for sustainability reporting. Serving as a global baseline can however only work if consistency and connectivity with other jurisdictional requirements is ensured. We refer to our response to IFRS S1 ED where we include more detail on this aspect.

(68) For this to come true, we urge the ISSB to collaborate with other relevant standard setters to harmonize reporting requirements as far as possible. We refer to our recent statement where we exposed the principles to operationalise a coordinated approach to sustainability reporting standard setting[2]. In this context, we explicitly welcome the ISSB's initiative to establish a working group to enhance compatibility between global baseline and jurisdictional initiatives and the new advisory body, the Sustainability Standards Advisory Forum, to facilitate dialogue with jurisdictions.

Question 17—Other comments

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

(69) Nothing to report.

[2] A constructive two-way cooperation to Sustainability reporting standard-setting (July 2021): https://www.accountancyeurope.eu/wp-content/uploads/A-constructive-two-way-cooperation-to-sustainability-reporting-standard-setting.pdf