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Exposure Draft (ED) IFRS S2 Climate-related Disclosures

Dear Mr. Faber,

Mazars is pleased to comment on the International Sustainability Standards Board's first EDs issued in March 2022, i.e. IFRS S1 on General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 on Climate-related Disclosures, which constitute the proposals aiming at establishing a global baseline of sustainability disclosures, meaning a set of standards to be used around the world to meet primary users' needs. The following comment letter should be read in conjunction with our comment letter on IFRS S1 which includes general comments regarding the ISSB's work which are also applicable as regards IFRS S2 proposals.

Although we believe the ISSB can play a major role in the development of transparent and reliable corporate reporting of an entity's value creation model and support its mission to achieve a comprehensive global baseline to meet the information needs of investors, we have reservations with the proposals made so far.

First, we believe IFRS S2 ED should be further aligned with the equivalent draft Standard on climate-related disclosures which is being developed at European level by EFRAG in the context of the Corporate Sustainability Reporting Directive (i.e. ESRS E1) especially as regards information on transition plans and the use of carbon offsets. In particular, we believe transition plans should be compatible with the transition to a climate-neutral economy and with limiting global warming to 1.5 °C in line with the Paris Agreement. This will allow to meet users' expectations without creating different layers of reporting requirements thus avoiding excessive burden for entities should they need to apply both Standards.

We welcome the decision to prioritise climate-related disclosures given the major challenges here and the urgent need for high-quality disclosure standards to cover this topic while avoiding greenwashing. We are happy to support a phased approach in respect of other environmental disclosures despite the interconnectedness of these with climate as the scale of change required here is so large and complex. A gradual elaboration of IFRS Sustainability Disclosure Standards is justified by the complexity of the task for the ISSB and the need to take the time necessary to publish high-quality Standards. In the meantime, and as raised in our answer to IFRS S1 ED, we do not believe the ISSB should fill the gap on topics other than climate by requesting entities to look at various sources of guidance not endorsed by the ISSB. This being said, we also recommend a phasing-in implementation of the climate-related disclosure requirements suggesting there be an option to omit areas of Scope 3 emissions disclosures at least for a limited transitional period, provided that a company clearly explains the reasons why it was unable to provide this information (please consider our answer to question 9).

We support the ISSB's decisions to build-upon the well-established framework of TCFD Recommendations. We believe this will ease transition to IFRS S2 for companies already used to providing climate-related disclosures in accordance with this framework. At this stage, we think current proposals should not include industry-based requirements given the evidently limited time available for adaptation of these to the ISSB and TCFD frameworks and for use in mandatory rather than voluntary standards, and lack of due process and scrutiny here. At the very least, this guidance should be non-mandatory and cannot be considered, as suggested, as part of the ISSB's body of work in their current form. We also note that, despite the efforts to remove domestic US references, more work needs to be done here to internationalise these standards and to make them self-contained. The ISSB should therefore first and foremost focus on cross-industry disclosures allowing itself the necessary time later to develop key and common industry-based requirements. Requesting a full introduction of industry-based requirements at this stage is likely to result in adoption being too high a hurdle for jurisdictions and companies to endorse / adopt IFRS S2 thus preventing the ISSB from establishing a global baseline for climate-related disclosures.

Though IFRS S2 makes explicit references to IFRS S1 especially in order to avoid duplicating information, we also believe general disclosure requirements regarding governance, strategy and risk management should be presented in IFRS S1 only for clarity purpose and to ease implementation for companies. Therefore, it seems that the overall architecture and interaction between Standards can be improved.

We also reiterate certain key terms should be more completely defined and clarified making it easier to consistently identify the climate-related disclosures to be provided since IFRS S2 is no clearer than IFRS S1 in this regard: definitions on key terms are missing; there is no clear guidance on how an entity should identify its significant climate-related risks and opportunities; the interaction between the concept of information materiality and the identification of significant risks and opportunities is unclear.

Last but not least, we are concerned that these proposals will not lead to comparable and relevant information for users, while representing a significant cost for preparers. Also, verifiability of climate-related disclosures, especially by auditors, will be challenging in particular as regards information to be provided in consideration of the value chain (especially Scope 3 GHG emissions) and forward-looking information in respect of quantification of climate-related impacts. IFRS S2 and associated guidance need to ensure and drive scalability and auditability.

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Our additional detailed comments on the questions raised in the ED are set out in the Appendix below.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

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Head of Financial Reporting Advisory	*Head of Quality Management & Compliance*

Appendix 1 – ED IFRS S2 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?

We support the objective that has been established for the ED and believe it will enable users of general-purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value. However, the disclosure requirements set out in the ED may fail to meet the objective set by the ISSB for IFRS S2 since they lack clarity.

As mentioned in our comment letter on IFRS S1 ED, IFRS S2 should include very strong definitions of key terms notably 'significant'. IFRS S2 should also include more guidance on how the significant risks and opportunities in relation with climate are to be identified should the ISSB decide to maintain the structure of IFRS S2 and IFRS S1. Actually, we recommend that IFRS S1 be converted into a cross-cutting standard applicable to all ESG topics, leaving to IFRS S2 only the specific requirements for climate-related disclosures in particular as regards metrics and targets.

Based on the current proposed architecture of IFRS S2, the ED does not clearly state whether an entity has to conduct a structured materiality analysis (the disclosure requirements of paragraph 17 in this regard are too vague) or whether the entity should only refer to the disclosure requirements provided by the Standards (pursuant to paragraph 10) in order to assess whether they are applicable / lead to providing material information, considering the concept of information materiality under IFRS S1.

In our opinion, IFRS S2 should describe a systematic and logical approach to be followed based on which the entity will be able to demonstrate that the significant climate-related risks and opportunities have been properly identified notably in light of the feedback from the entity's stakeholders. The identification of significant climate-related risks and opportunities should therefore not only reflect management's view of them based on a high-level assessment. Besides, for a lot – the majority potentially – of entities, sustainability reporting and materiality assessment in particular will be entirely new exercises. We therefore cannot assume that these entities will know how to go about the materiality assessment part. Thus, the ISSB should ensure that it provides sufficient detail on how to implement such analyses, which are complex to carry out in practice. Auditors should be able to rely on procedures that properly document the approach that has been conducted and its outcome.

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?

We agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. We welcome the fact that the ED especially builds upon the well-established TCFD Recommendations. This will ease first-time application for companies already applying this framework.

However, and as raised with our comments under question 1, general disclosure requirements for the governance pillar should be removed from IFRS S2 since they are already included in IFRS S1. Hence paragraph 6 is useful but not sufficient to address repetitive disclosure requirements between both Standards. IFRS S2 disclosure requirements on governance should only complement the information already provided from a cross-cutting point of view i.e. independently from any particular ESG topic. We recommend that IFRS S2 be explicit on that.

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?

We do not believe that the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities are sufficiently clear. This is a major point where the ISSB's proposals fall short. Without a proper identification of significant climate-related risks and opportunities, there is a high risk that the information provided by the company will not be useful to the primary users of general purpose financial reporting as some relevant material disclosures may be missing whereas other disclosures may be irrelevant because they address climate-related risks and opportunities that are not material.

In our cover letter (which should be read in conjunction with our comment letter on IFRS S1) and under question 1, we further explain why we consider that the proposals should provide clearer guidance as to how to identify and disclose a description of significant climate-related risks and opportunities.

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?

We deem it relevant and very important to understand the effects of significant climate-related risks and opportunities on an entity's business model including in its value chain even though such assessment may be very challenging to make. In this regard, we refer to the comments raised in our answer to IFRS S1 ED (question 5).

We are concerned that, in some circumstances, qualitative disclosure alone will not provide meaningful information in relation to the concentration of an entity's climate-related risks and opportunities. This very much depends on how an entity defines 'concentrated', and we believe that as part of the disclosure requirement, an entity should be required to explain their process for identifying where in its value chain, risks and opportunities are concentrated.

We understand that it will not always be practical or appropriate for entities to provide quantitative disclosure so, on balance, we agree with the requirement to disclose qualitative

information about an entity's concentration of climate-related risks and opportunities, rather than quantitative.

Given this difficulty, the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain may not lead to comparable information, at least in the first years of application of the Standard. Besides, this information is also likely to be difficult to audit.

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?

Transition plans are the main expression of an entity's strategy in respect of climate-change and reflect the entity's response, setting targets and actions for the future. The information to be disclosed in this regard must therefore be precise, clear and transparent, in particular to avoid greenwashing.

As mentioned in our cover letter, we believe IFRS S2 should clearly refer to the Paris Agreement instead of only referring to the 'latest international agreement on climate change' – and be updated if necessary (i.e. when a new international agreement on climate change is reached). The Paris Agreement should therefore be the reference to be used by an entity in order to set its targets to mitigate climate change so that users get relevant information about the compatibility of its transition plan with limiting global warming to 1.5°C.

We note that the definition of a transition plan given under appendix A indicates that actions for an entity's transition towards a lower-carbon economy include actions 'such as' reducing greenhouse gas emissions.

We strongy recommend that IFRS S2 be explicit about the fact that a relevant transition plan should include a target of reducing gross greenhouse gas (GHG) emissions expressed as metric tons of CO_2 equivalent in proportion to historic levels and, where relevant, by disaggregating this information according to various perimeters (geographical areas or sectors of activity). Such information is crucial in order to make the link with the information to be disclosed under paragraph 21(a) regarding key relevant metrics.

Besides, we recommend that the ISSB retain the same approach as the one proposed in ESRS E1 meaning that the disclosure of the climate-related targets the entity has adopted in relation with its transition plan should only relate to targets for the reduction of the entity's GHG emissions in Scope 1, 2 and 3 as well as other targets to manage significant climate-related risks and opportunities i.e. we support an approach to reducing GHG emissions based on a gross reduction approach, with other reduction measures, like carbon offsets, being complementary only. In order to provide useful and relevant information to users, and in anticipation to question 9 on cross-industry metrics, we also consider that the proposed provisions under paragraph 13(b) (iii) of IFRS S2 could be clearer on the requirement to provide quantitative information to explain the extent to which the entity's emission targets rely on the use of carbon offsets. Indeed, emission targets may be achieved using very different means thus impacting the entity's business model in very different ways. It would therefore be relevant to require the separate disclosure of a quantitative indicator as to the metric tons of CO_2 equivalent of GHG 'cancelled' by the use of carbon offsets and the proportion of gross emissions this represents. Information could also be asked for GHG removals in the entity's own operations and throughout its value chain; also for avoided GHG emissions from products and services, where relevant (e.g. the automotive industry).

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?

We concur with the general view that disclosing quantitative information on the anticipated effects of climate-related risks and opportunities on an entity's financial position, financial performance and cash flows requires the use of many assumptions and estimates, and therefore a great deal of judgement, in a context often marked by much uncertainty since the consequences of climate change remain difficult to grasp. We also point out that forward-looking information is often very complex to audit.

We therefore welcome the relief provided under paragraph 14(e) enabling an entity to only disclose qualitative information if it is impracticable to provide quantitative information and would recommend adding practical examples of the sort of situations the ISSB envisages. However, we expect that having gained more experience over the years, a company could, in the end, provide quantitative information at least to some extent.

More generally, we consider that one of the main challenges in providing relevant information about the current and anticipated future effects of significant climate-related risks and opportunities is that these effects are often due to a combination of several sustainability-risks and opportunities but also of business-related risks and opportunities and that it very difficult not to say impossible, in practice, to precisely isolate climate-specific effects.

As mentioned in our comment letter answering to IFRS S1, connected information is key and lies primarily in the consistency that must be found between the information provided for sustainability purpose and for financial statements purpose. We believe paragraph 14 should be amended in order to state more clearly which information should be available by directly accessing the financial statements and which information should complement the financial statements keeping in mind that the strategy to address significant climate-related risks and opportunities should be considered in a coherent way while preparing sustainability-related information and the financial statements. Joint deliberations between the ISSB and the IASB in this regard would help refine the proposals.

Finally, even if we agree with the proposal regarding time horizons based on the reasoning provided under BC 70 (i.e. rather than prescribing specific time frames across industries, the ED includes a proposal that would require an entity to determine what it considers the ‘short’, ‘medium’ and ‘long’ term), we recommend that the ISSB provides application guidance in order to ensure consistency in the judgements made by entities to determine the applicable time frames.

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.*

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 disclose 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(c) 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?*

We agree that 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 and that the use of climate-related scenario analysis to assess an entity's climate resilience is relevant.

Even if the proposals under IFRS S2 offer the possibility of using alternative techniques, we would recommend the ISSB to provide more guidance on how, in practice, to conduct such climate-related scenario analysis as they are complex to implement. Illustrative examples would also be very useful. Indeed, only companies currently applying TCFD Recommendations (and only a small proportion of these) will be comfortable with providing the information required under paragraph 15(b)(i) of the ED as soon as IFRS S2 is effective.

Besides, while supporting the disclosure of scenario analysis, it may be worth noting that this could be particularly challenging for assurance providers and may be well an area that could give risk to disagreement between the entity and the assurer.

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?

We 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. We welcome the fact that the ED especially builds upon the well-established TCFD Recommendations. This will ease first-time application for companies already applying this framework.

However, and as raised with our comments under question 1, general disclosure requirements for the risk management pillar should be removed from IFRS S2 since they are already included in IFRS S1. Hence paragraph 18 is useful but not sufficient to address repetitive disclosure requirements between both Standards. IFRS S2 disclosure requirements on risk management should only complement the information already provided from a cross-cutting point of view i.e. independently from any particular ESG topic. We recommend that IFRS S2 be explicit on that.

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 share 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 non-mandatory 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?

We overall 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 though we have some comments as mentioned below, particularly in relation with the fact that limited guidance is provided in the ED to help entities disclose consistent information about these metrics. This leaves room for significant variation in interpretation by preparers and we are concerned that this will eventually be detrimental to comparability.

We welcome the fact that the ED proposes that the GHG Protocol be applied to measure GHG emissions, though note that this faces some technical issues and that the Board has not detailed what should happen or how it should monitor changes when the protocol is updated. Principally, however, we believe there is a huge challenge for entities reporting on Scope 3 emissions which should not be underestimated. Even if entities are able to collect appropriate data for Scope 3, these emissions will also present a significant challenge for assurance providers, especially where emissions in the value chain have not been subject to assurance (e.g. the entities in the value chain are outside the scope of reporting / assurance requirements) or where another assurance provider has been used by an entity in the value chain (where it may not be possible to place assurance on their work). This is an area where the assurance report will have to clearly state the extent of assurance and could get lengthy / complicated as a result. We also struggle determining whether Scope 3 emissions can actually be assured and, if so, to what level. Also, we wonder how the assurance provider will gain comfort over the completeness of emissions data (especially Scope 3). To a lesser degree, there will also be similar challenges around Scope 2 emissions depending on the source of purchased electricity and what assurance those electricity generators have received. This being said, we suggest there be an option to omit areas of Scope 3 emissions disclosures at least for a limited transitional period, provided that a company clearly explains the reasons why it was unable to provide this information.

We also have reservations with the cross-industry metric category of climate-related opportunities (see paragraph 21(d)) as the requirement to disclose the amount and percentage of assets or business activities 'aligned with climate-related opportunities' may be hard to measure, consistently with the fact that opportunities are often more difficult to identify than risks, depending on the sector or industry at stake.

Regarding the information to be disclosed in relation with internal carbon prices (as per paragraph 21(f)), we believe such information could be complemented with information on the type of internal carbon pricing scheme used, the specific scope of application of the carbon pricing schemes (activities, geographies, entities, etc.) and the carbon prices applied according to the type of scheme and critical assumptions made to determine the prices.

Lastly, we regret that IFRS S2 does not include a disclosure requirement regarding an entity's energy consumption and mix of sources (broken down by non-renewable / renewable sources such as natural gas, coal, crude oil, etc.), and regarding its energy consumption associated with activities in high climate impact sectors.

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?

We note that the information to be disclosed in relation with an entity's climate-related targets is very principle-based which is probably relevant in order to fit all jurisdictions where IFRS S2 may be applied. However, we believe IFRS S2 could be strengthened by adding examples notably to illustrate sector or science-based initiatives (which probably relate to a mitigation or adaptation objective, paragraph 23(d) of the ED not being clear in this regard).

As already mentioned in our answer to question 5 on transition plans and carbon offsets, we deem it very important to explicitly require that targets relating to GHG emissions reduction be presented based on absolute gross amounts thus making a clear distinction with actions undertaken in order to 'cancel' (though the use of carbon offsets), remove or avoid GHG emissions.

In addition we believe the ISSB should oblige entities to report targets at the same level of disaggregation and for the same segments or other components as metrics, based on the most reasonable and relevant approach.

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?

The content of Appendix B should not be considered an integral part of the Standard and, at best, could be a source of non-mandatory guidance. The reasons we believe it is unsuitable are:

- It has not been subject to proper due process and we do not believe that the way it is presented in the current ED qualifies as due process. If considered as guidance however, it might be possible to amend the content to address the issues noted below and release as guidance at a later date.
- It refers outside itself to further "standards" which have also not undergone appropriate due process and could change subsequent to issue of the ISSB's Standard on climate (e.g. to the Higg Brand and Retail Module in B1 CG-AA-440a 1). References to non-ISSB work (or that of its antecedent bodies) need to be removed before it can be considered as an ISSB's Standard.
- Despite being nominally an appendix to the climate Standard, it covers areas not linked to climate (water use and social safeguards) suggesting these are necessary to meet the ISSB's climate Standard. While these may be important, they are not part of IFRS S2.
- It is not structured under the same pillars of governance, strategy, risk management and metrics and targets as the TCFD basis (used in IFRS S1 and IFRS S2).
- Despite some amendments, it remains very US focused and unsuitable for use in other countries.
- These requirements have not been designed with enforcement through legislation in mind as they were designed as voluntary standards. Because of their original purpose, they are not sufficiently precise or well-defined to allow a regulator to be able to take action against a company implementing them badly. They are also far too complex and wide ranging to allow a company to have certainty that it can defend its treatment to a regulator.
- Appendix B is very lengthy and in a number of areas duplicative of IFRS S2 and, if adopted, risks a 'tick box mentality' from issuers and excessive workload.

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?

The costs of implementing IFRS S2 are likely to be very different depending on whether a company was already applying the TCFD Recommendations or not. We encourage the ISSB, before issuing the final Standard, to conduct field-work testing in order to more accurately measure the cost-benefit ratio of the proposals.

This being said, even when this has become 'business as usual', the complexity and volume of information to be disclosed is likely to cause significant recurring costs, which should nonetheless hopefully be offset by the expected benefits that are likely to result from the transparency and quality of climate-related disclosures.

As already mentioned, the ISSB should coordinate as much as possible with EFRAG to ensure the interoperability of IFRS S2 and ESRS E1.

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.

As already mentioned in our answer to question 9, verifiability of GHG for scope 3 emissions will be particularly challenging.

Forward-looking information and related assumptions as regards climate-related risks and opportunities are also, by nature, very difficult to verify. However, it is hoped that as companies gain experience and benchmark across sectors, the verifiability of reported information will gradually improve.

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?

(a) We believe the effective date of IFRS S2 should be the same as that of IFRS S1 since both Standards form an initial consistent package. Considering the interactions between both Standards and the fact that IFRS S1 provides general disclosure principles, it does not seem possible to apply IFRS S2 before IFRS S1 since key features for reporting high-quality information would be missing. Besides, and as explained in our comment letter on IFRS S1 ED, the first-time application of IFRS S1 could be made easier by excluding proposals that lead to requiring disclosures even on matters not already covered by standards issued by the ISSB.

(b) Consistently with the IASB's approach when the Board issues IFRS Accounting Standards that constitute major changes with previous accounting requirements, we believe there should be at least two years between when IFRS S2 is issued and its effective date. Early adoption should nonetheless be permitted.
We also believe that the ISSB should not minimize the fact that, apart from the very large companies which already disclose sustainability information with a level of requirement close to that which will be expected with the IFRS Sustainability Standards, most companies do not currently have the information and internal control systems enabling them to easily fulfil the disclosure requirements listed in the standards. Therefore, it is very important that the ISSB allow sufficient time for them to properly set their internal reporting systems and procedures to comply with the IFRS requirements.

(c) All the requirements related to governance could probably be applied sooner than other requirements. However, we do not believe it makes sense to 'split' the standard and provide for a differentiated effective date for this or that climate-related disclosure requirement since users of sustainability information will be far more interested in having the overall picture. Therefore climate-related information would be less useful if fragmented.

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)?

We support the digitisation of reporting and believe that the ISSB can capitalise on the IASB's experience in this regard and should develop a taxonomy that is consistent with IFRS Accounting taxonomy on topics for which there is an overlap in order to main connectivity within digital reporting.

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?*

Should the ISSB finally decide to require the application of SASB Standards in order to provide industry-based requirements, we believe this would inhibit the wide application of a global baseline for sustainability reporting that is widely applied because it would be too costly and too challenging to implement.

As mentioned in our cover letter, the ISSB should go on working in particular with EFRAG in order to seek alignment / interoperability between its own and other sets of standards as much as possible.

Question 17—Other comments *Do you have any other comments on the proposals set out in the Exposure Draft?*

Given the fact that there will probably be a significant period of time before IFRS S1 and IFRS S2 become effective and are widely applied, we would suggest the ISSB create a "Transition Resource Group" in the same way the IASB did it when it published major standards such as IFRS 15 or IFRS 17. This will allow entities and any other interested party to raise application issues already identified before the IFRS Sustainability Disclosure Standards are applied for the first time. This should foster consistent application and therefore contribute to providing comparable information.