29 July 2022

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

Via: commentletters@ifrs.org

Dear Chair Emmanuel Faber and Vice-Chair Sue Lloyd,

Consultation: Exposure Drafts: IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information & IFRS S2 Climate-related Disclosures

The Corporate Reporting Users' Forum (CRUF) welcomes the opportunity to provide the International Sustainability Standards Board and the IFRS Foundation our comments with regard to IFRS S1 and S2.

The CRUF was established in 2005 and we have been holding regular meetings since. The CRUF has prepared this comment letter based on discussions in CRUF meetings and a global survey across all CRUF participants. As always, we do not seek to reach a consensus within the CRUF but to reflect a broad spectrum of users' views. We have highlighted any contrasting views in our response. Our comments are based on our professional experience as users of corporate reporting.

Overall comments

Caution over timing – due process

As we have made clear in our earlier letters, CRUF participants are strong supporters of the creation of the International Sustainability Standards Board and firmly wish to see it succeed in its mission of developing high-quality global standards for sustainability reporting by companies, which should lead to a rationalisation of the complex web of standards that currently exists. In order to succeed as global standards, the IFRS Sustainability Standards need to be adopted by the local authorities of countries and regions around the world. A necessary basis for adoption will be that the ISSB demonstrates robust and unquestioned due process.

The issuance of S1 and S2 by the chair and vice-chair of the ISSB ahead of the appointment of other Board members – and ahead therefore of the ISSB being quorate – had positive aspects, not least by demonstrating a positive declaration of intent to deliver. We welcome the ambition that this early publication demonstrates. However, it does mean that the proposed standards have not been through the public board debate processes that would be a necessary expectation of the ISSB fully demonstrating due process. Given recent appointments (and we welcome in particular the strong investor credentials of one of the recent appointees), the board will now be quorate for the first time at its July meeting, and we understand that further board members will be added in the coming months. However, these two standards are probably the most important that the board will produce and deserve debate and discussion by a full board – and we expect that the high quality board members would themselves insist upon such full debate

We therefore believe it is simply necessary either to pause the process and proceed with developing S1 and S2 when the Board is complete or to revisit and reissue the draft standards at that point. This may require re-deliberation and reissuance of draft standards. Acting precipitately risks damaging the ISSB's reputation for due process in ways that would hinder our collective aim that these standards are adopted globally. While S2 has faced some public testing through its prior existence as TCFD standards, S1 has been subject to less testing and given its fundamental nature to the whole of the ISSB's future work, a clear formal due process by the whole board when it exists seems the only appropriate step. A small delay is a price well worth paying for the greater good of broad support and adoption around the world.

Materiality and the business model

Our experience is that company reporting, across all narrative and financial reporting, most successfully communicates matters of value to investors where it takes the company's business model and strategy as its starting point. This brings coherence and sense to the disclosures, and helps provide a natural basis for determining what reporting matters – and is therefore material. We would urge that this thought process runs through the ISSB's work and is reflected in S1 in particular, and that consideration is given to giving further prominence to the reporting company's business model.

Further, we are concerned that currently the drafting seems to use 'significant' and 'material' interchangeably – or it has at least not made clear any distinction that it draws between the two terms – and we would welcome this being clarified, preferably by using just the single term material as this is widely understood in the reporting community. If significant is intended to mean something other than material, this needs to be made explicit.

The focus on the business model as the driver for what matters and is therefore material to be reported makes it extremely helpful that the introduction to the standard references the business model. It also helpfully considers enterprise value and other concepts capturing the operation of companies as businesses. The importance of the business model means that challenges and threats to the business model – such as the implications of a move to a less carbon-intensive economy for many businesses – should be a key aspect of sustainability reporting. This frame should help make discussions of asset lives and impairment assessments more informative and insightful. We are not sure that the definition of enterprise value is yet as clear as it may need to be so that the assessment of materiality can be made on an appropriate basis (considerations might need to include the definition of net debt, inclusion of lease liabilities and the implications of debt within subsidiaries with minority shareholders). Further, it may be that companies will need guidance on how sustainability issues could affect their enterprise value and the different components of it.

The area of reputational risks – something that can rapidly affect a company's licence to operate and customer perception, particularly in a world with instantaneous communications – is one that we believe needs to be given more active consideration in the standard. It is among the issues that can impact a company's resilience and long-term viability. We would welcome this being explicitly drawn out as an area of sustainability-related risks that should be considered in company disclosures.

The concept of dual materiality, measuring the effect of a company on the world around it as well as the effect on enterprise value, is one that we believe needs to be incorporated into the standard.

Sector-based standards

We want to emphasise the importance to investors that there be sector-based standards for sustainability reporting. While all reporting will need to be tailored by companies to reflect their business model, a framing for that reporting within a sector-based standard would drive consistency and enable greater understanding. Sustainability reporting standards cannot be one-size-fits-all but rather must be set within this sector context. The former SASB standards had a helpful sector-based framing – though in our view there were gaps in the coverage of those sectors, both in terms of sectors that did not have individual standards, and material areas of sustainability that were not covered within the individual sector standards. We look forward to working with the ISSB to help ensure that its sector-based standards are more fully and appropriately comprehensive.

We also note that investors have existing and clear views about industry sectors and we believe that if the ISSB is seeking capital markets adoption of its standards then it needs to align its sector approach with the investor's understanding of sectors. Introducing a new version of sectoral analysis will introduce further confusion and not assist in investor adoption and support for ISSB standards.

Among the various issues that need actively to be considered, and which were typically absent from SASB sectoral standards, are:

- capturing supply chains within reporting in ways that remove any incentive to outsource activities with negative externalities,
- ensuring that the sectoral approach does not become the end of intelligent judgement about what is included in reporting; rather, that materiality should continue to be applied such that issues that matter are covered in an individual company's reporting even where they are not explicitly mentioned in its sectoral standard, and
- the impacts of products in use – and any work to limit impacts at the end of product life.

Assurance and audit

We recognise that standards for the audit and assurance of sustainability reporting – indeed whether the reporting should be audited or assured at all – will not sit in the hands of the ISSB. But we would urge the Board actively to engage with the International Audit and Assurance Standards Board to help ensure that IAASB standards align with ISSB requirements, and that there can be investor confidence in the reporting from companies in this regard. We recognise that many of the issues disclosed under sustainability reporting standards cannot be subject to the same testing and assessment as financial reporting – and would not wish audit and assurance requirements to lead to a reduction in the material that companies disclose – but investors want to have sufficient confidence in the reliability of the reporting that companies produce.

The market and the planet will not be served well by companies that produce volumes of reporting that is no more than greenwash. Financial markets regulators as well as auditors will have a clear role to play in leaning against such wasteful disclosures – as will investors themselves.

Investors place some weight on the consistency check that auditors carry out on narrative reporting, assessing its consistency not just with the financial statements but also with what the auditor has learned about the company through the audit process. As the ISSB works with the IASB to ensure greater connectivity between sustainability reporting and the financial statements, this consistency check will gain greater and greater significance. We urge that the ISSB should work to ensure that the consistency check is indeed applied to reporting under its standards; this is likely to require that reporting is within the annual report itself, or incorporated within the reporting perimeter by being a required report made at the same time as the annual report.

Responses to the questions raised in the consultation that relate to the issues that concern investors are set out below. These responses are based on a survey of all global participants in the CRUF network. In each case we have provided an overview of the general perspective(s) of CRUF participants, followed by a selection of the most insightful comments from participant responses to give ISSB further insight into the range of views and different perspectives among the global investor base represented on the CRUF.

[Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Question 1—Overall approach

The Exposure Draft sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it.

Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value.

a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?

CRUF participants broadly agree with this approach. Some added further comments:

- One issue is, if there is not a IFRS Sustainability Disclosure Standard, what should an entity take sustainability-related to mean? Shouldn't sustainability-related be defined? For example, define as being covered by one of the UN Sustainable Development Goals.
- Paragraphs 2 and 50 require disclosure of all risks and opportunities, even if they are not required in the ISSB standard. In order to clarify, paragraphs 2 and 50 can specify that

disclosure is required even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard.

- I agree with this on the grounds that the Exposure Draft requires significant sustainability-related risks and opportunities to be disclosed on a material basis. However, I feel that the exposure draft is not written to cover what is not addressed there. Guidance on disclosure should be enhanced on the premise that companies make decisions based on materiality.

b) **Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)?**

A majority of CRUF participants broadly agree with the proposed requirements and approach.

- Broadly agree:
  - From a capital markets participant point of view, I agree that the Exposure Draft aims to assess the impact of significant climate-related risks and opportunities on corporate value.
  - The objective is very narrow. It assumes that investors are only interested in committing resources to an entity. Investors want information that also allows them to hold companies and boards to account over the sustainability commitments they make or perhaps their lack of ambition on sustainability. There may be some factors which have significant long-term implications for a business and its enterprise value. Investors may want information that allows them to evaluate trends and developments over the longer term. The objective implies a here and now binary decision to be made by investors: Do I leave my money invested in the company or do I take it out? The decision-making process and the opportunities for engagement between the parties mean that the true relationship is more complex. Consider for example the issue of whether Glencore should retain its coal mining interests. Climate campaigners and activists want the company to sell its coal interests as quickly as it can. The Company, however, argues that selling assets into unscrutinised private hands, or spinning them into smaller pure-play companies, carries the risk that mines will be extended, corners cut, rehabilitation short-changed or mining communities cut adrift.

- Broadly disagree: A principles-based standard approach should be required to achieve the objectives of paragraph 1. Additionally, the definition of “significant” should be clarified. There are only provisions in BC 40 for "significant risks."

c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 Climate-related Disclosures? Why or why not? If not, what aspects of the proposals are unclear?

CRUF participants broadly agree with this approach.

- The relationship between mandatory disclosure requirements and materiality judgements should be made clearer. It is difficult to determine whether disclosure regulations in each country or jurisdiction comply with the ISSB, or whether disclosure based on materiality judgement by individual companies complies with the ISSB standards.

d) **Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?**

A majority of CRUF participants broadly agree with the proposed requirements and approach.

- However, of those who disagree, the case that they make is that ISSB standards should also be developed with this in mind, as there are issues to be resolved for the level of standards-based disclosure and the effectiveness of disclosure regulation and assurance practices.

Question 2—Objective (paragraphs 1–7) The Exposure Draft sets out proposed requirements for entities to disclose sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities on an entity's enterprise value. Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information in an entity's financial statements and sustainability-related financial information. Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Sustainability related financial information should, therefore, include information about the entity's governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements. Sustainability-related financial information also depicts the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy, or about the entity's development of knowledge-based assets. The Exposure Draft focuses on information about significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity's enterprise value.

a) **Is the proposed objective of disclosing sustainability-related financial information clear and appropriate? Why or why not?**

CRUF participants broadly agree with the proposed objective with the following comments:

- One issue is, if there is not a IFRS Sustainability Disclosure Standard, what should an entity take sustainability-related to mean? Shouldn't sustainability-related be defined? For example, define as being covered by one of the UN Sustainable Development Goals.
- I agree that the objective of disclosure should emphasise the effects on the enterprise value.
- I agree that the ISSB is seeking information that is financially beneficial based on single materiality, but I can't necessarily judge the logic and effectiveness of the disclosure and items to the extent that they are financially beneficial.

b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

Some CRUF participants broadly agree with the definition. Those who broadly disagree commented: It needs to define what "sustainability-related" covers, such as the UN SDGs.

- "Sustainability" is described in BC 30 and 31, but it is simplified compared with the prototype.
- Although each item is related to the other, it does not appear to have been examined in detail as to how this will result in financial performance.

Question 3—Scope (paragraphs 8–10)

Proposals in the Exposure Draft would apply to the preparation and disclosure of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Sustainability-related risks and opportunities that cannot reasonably be expected to affect users' assessments of the entity's enterprise value are outside the scope of sustainability-related financial disclosures.

The Exposure Draft proposals were developed to be applied by entities preparing their general purpose financial statements with any jurisdiction's GAAP (so with IFRS Accounting Standards or other GAAP).

a) Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

CRUF participants broadly agree with this approach.

- The issue of international comparability of financial information due to differences between GAAP exists as a separate issue from the subject of this exposure draft. We agree with this proposal as long as sustainability information is linked to GAAP.

Question 4—Core content (paragraphs 11–35)

The Exposure Draft includes proposals that entities disclose information that enables primary users to assess enterprise value. The information required would represent core aspects of the way in which an entity operates.

This approach reflects stakeholder feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting and builds upon the well-established work of the TCFD.

Governance
The Exposure Draft proposes that the objective of sustainability-related financial disclosures on governance would be:

> to enable the primary users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities.

Strategy
The Exposure Draft proposes that the objective of sustainability-related financial disclosures on strategy would be:

> to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.

Risk management
The Exposure Draft proposes that the objective of sustainability-related financial disclosures on risk management would be:

> to enable the users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall also enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.

Metrics and targets
The Exposure Draft proposes that the objective of sustainability-related financial disclosures on metrics and targets would be:

> to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.

a) **Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?**

CRUF participants broadly agree with this approach.

- However, the order of the four categories may not be quite right as Strategy should come before Governance, as Governance arrangements tend to come out of Strategy. Also, Metrics and targets may need to include material sustainability-related events and the actions and activities responding to such events.

- The disclosure objectives are clear and appropriately defined because those are based on the widely accepted TCFD recommendations.
- The four core contents are understandable in the sense that they follow what has been described as the four pillars. However, the disclosure of "opportunities in risk management" is not clear. In addition, it has not been verified whether the metrics are appropriate for analysing the financial impact by industry.
- With regard to strategy, there is some confusion in the objective (para 14) over whether a company is required to disclose how sustainability related risks and opportunities affect the business model and strategy or whether it is being asked to present a strategy for dealing with these risks and opportunities. The paras which follow (15-24) suggest that it is primarily the former (risks and opportunities affecting the business strategy) that need to be reported.
  However, there is a case for specifically requesting that information should be provided on the strategy for managing risks and opportunities where implementation of this strategy could have a material effect on enterprise value. For example, the strategy for dealing with major risks could involve early withdrawal from certain markets or activities which may involve heavy write-downs of assets associated with these activities. The strategy might also involve heavy investment in new and potentially risky areas of activity with uncertain outcomes.
  In some cases strategies to mitigate climate- change risks might be a key part of the business strategy itself. In other cases they might simply constitute a series of actions to mitigate the risks or enable the company to take advantage of opportunities.

b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

CRUF participants broadly agree with this approach. However, the following comments were made

- As noted in response to the previous question, the order of the four categories may not be quite right because Strategy should come before Governance, as Governance arrangements tend to come out of Strategy. Also, Metrics and targets may need to include material sustainability-related events and the actions and activities responding to such events.
- The disclosure items for opportunities in risk management are not clear and may not be appropriate.
- Note the comment to the previous question about the unclear distinction between risks surrounding the business strategy from sustainability issues and strategies for mitigating sustainability risks.
  I have doubts about the practicality of some of these disclosures. In some cases companies may feel that they are being required to make disclosures about issues that are commercial and in confidence – such as decisions to withdraw from operating in certain parts of the world, cease obtaining suppliers from certain parts of the world or withdraw

entirely from certain activities. Similarly, they may not wish to disclose plans to make significant entries to new markets until much nearer the time.

The volume and detail of information that some companies may feel obliged to release also raises concerns. In some cases many investors may simply not have the knowledge and industry-specific expertise to evaluate the information that is being provided. In other cases this could become an incitement to preparers to provide boiler plate compliance material which ticks the disclosure box but doesn't tell investors what they really want to know.

Requirements such as those outlined in para 29 (metrics) sound good but in reality they still leave the door wide open for companies to devise metrics which allow them to hit a target while completely missing the point. Supermarkets, for example, are masters at telling us how they collect rainwater off their roofs, cut energy consumption in their stores and reduce the food waste from their stores. They are much less good at telling investors how much food they cause to be wasted by demanding absurd standards of appearance for produce (no wonky carrots or potatoes etc.) or the waste they cause by encouraging suppliers to over-produce just in case they have a poor crop one year. Worldwide food production is the biggest source of greenhouse gas emissions, by far the biggest user of freshwater and accounts for much of the world's marine and river pollution. Reducing global food waste has surely to be a key area for action – and this is before we get onto the increasing health-problems in many of the richest countries caused by obesity.

Better guidance is needed on the types of metrics that companies should disclose depending on the sector and nature of their business. Leaving this up to the companies themselves is not sufficient.

Question 5—Reporting entity (paragraphs 37–41)

The Exposure Draft proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements.

The Exposure Draft proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Such risks and opportunities relate to activities, interactions and relationships and use of resources along its value chain such as:

- its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain;
- the assets it controls (such as a production facility that relies on scarce water resources);
- investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and
- sources of finance.

The Exposure Draft also proposes that an entity disclose the financial statements to which sustainability-related financial disclosures relate.

a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?

CRUF participants broadly agree with this approach.

- If financial statements are produced at a group (consolidated) level, then the sustainability-related disclosures should be for the same level.
- As long as the information to be disclosed is "financial" information related to sustainability, it is only natural that the scope of entities should be aligned.

b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear, appropriate and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

CRUF participants' views vary in this area.

- For some companies (for example, ones that are largely UK-based) these disclosures may not be too difficult. For multinational companies with many different operations and many suppliers (and supply chains) across the world these disclosures could be very complex. Companies sourcing from, say Chinese suppliers, who are using electricity generated by coal-fired power plants may have difficulty providing an accurate analysis of the sustainability issues raised by this. There is also the issue of the 'so-what?' question. What as investors are we supposed to make of the information provided or do about it? A further issue is the risk that a company may be over-dependent on a supplier in an area that is at risk from serious flooding, bush fires or other natural disasters caused by climate change. It is not clear in such cases what the company is supposed to report that will be useful to investors and allow them to make a judgement of the potential impact on enterprise value.
- Broadly disagree:
    - The "value chain" is specified in Section 40, Appendix A and BC 51, and the description is expanded compared with the prototype. However, it is still difficult to determine the extent of that, and it is necessary to enhance guidance to ensure practical judgement as a global standard.
      In addition, the information on confidential matters of the company and business partners across the value chain should be disclosed as much as possible depending on the circumstances of the company.
    - It is useful to consider the value chain in value evaluation, but it is difficult to relate to the scope of reporting companies.

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

CRUF participants broadly agree with this approach.

- The scope of accounting and financial reporting is clear, but it should be clear whether 100% or the ownership ratio.

Question 6—Connected information (paragraphs 42–44) The Exposure Draft proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between (a) various sustainability-related risks and opportunities; (b) the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets; and (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements.

a) **Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?**

CRUF participants' views vary in this area.

- Broadly agree: It is important for investors to be able to gain a coherent understanding of the sustainability-related risks and opportunities that a company faces and how it plans to manage them. Fragmentation of information is not helpful. Where it is impossible to avoid fragmenting the presentation of some information, links need to be provided so that investors can easily find the related content.
- Broadly disagree: But this should be, as with all standards, for only material items - so material connections.
- The description has been expanded compared with the prototype, such as adding an example in BC 57. However, it is necessary to clarify in more detail the method of determining materiality of connectivity in order to ensure practical judgement as a global standard.

b) **Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?**

CRUF participants on the whole broadly agree with this approach .

- Broadly agree: In order to realise high-quality disclosure, it is necessary to provide practical supplementary guidance, such as case studies on various environmental and social issues.

- Broadly disagree: Only if the connections are material (see explanation for previous question).

Question 7—Fair presentation (paragraphs 45–55) The Exposure Draft proposes that a complete set of sustainability-related financial disclosures would be required to present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation would require the faithful representation of sustainability-related risks and opportunities in accordance with the proposed principles set out in the Exposure Draft. Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation. To identify significant sustainability-related risks and opportunities, an entity would apply IFRS Sustainability Disclosure Standards. In addition to IFRS Sustainability Disclosure Standards to identify sustainability-related risks and opportunities, the entity shall consider the disclosure topics in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies. To identify disclosures, including metrics, that are likely to be helpful in assessing how sustainability-related risks and opportunities to which it is exposed could affect its enterprise value, an entity would apply the relevant IFRS Sustainability Disclosure Standards. In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk and opportunity, an entity shall use its judgement in identifying disclosures that (a) are relevant to the decision-making needs of users of general purpose financial reporting; (b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and (c) are neutral. In making that judgement, entities would consider the same sources identified in the preceding paragraph, to the extent that they do not conflict with an IFRS Sustainability Disclosure Standard.

a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?

CRUF participants broadly agree with this approach.

- Broadly agree: The explanation of the disclosure requirements itself is generally appropriate. However, there is a problem in the international applicability of the industry classification in the SASB standard and the disclosure requirements (metrics) in it.
- Other views: I think that the disclosure topics in the industry based SASB Standards have been developed for US companies and may not be adapted for companies in other

countries. Therefore, I do not believe that detailed SASB standards are suitable as a baseline global reporting standard.

b) **Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.**

CRUF participants on the whole broadly agree with this approach, but there are a range of detailed views expressed.

- Broadly agree: The explanation of the disclosure requirements itself is generally appropriate. However, there is a problem in the international applicability of the industry classification in the SASB standard and the disclosure requirements (metrics) in it.
- Broadly disagree:
    - See comments above re defining "sustainability-related". Suggest pointing to UN SDGs.
    - Reference to guidance is mandated in identifying sustainability-related risks and opportunities (paragraph 50), but BC 68 states that "applying those pronouncements would not be a formal requirement." In addition, Paragraph 50 also ultimately requires disclosure of all risks and opportunities, even those not addressed in the ISSB standard. Therefore, it should not be obligatory to refer to the guidance, and the disclosure should be more flexible based on the judgement of materiality of the company.

Question 8—Materiality (paragraphs 56–62)

The Exposure Draft defines material information in alignment with the definition in IASB's Conceptual Framework for General Purpose Financial Reporting and IAS 1. Information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'.

However, the materiality judgements will vary because the nature of sustainability related financial information is different to information included in financial statements. Whether information is material also needs to be assessed in relation to enterprise value.

Material sustainability-related financial information disclosed by an entity may change from one reporting period to another as circumstances and assumptions change, and as expectations from the primary users of reporting change. Therefore, an entity would be required to use judgement to identify what is material, and materiality judgements are reassessed at each reporting date. The Exposure Draft proposes that even if a specific IFRS Sustainability Disclosure Standard contained specific disclosure requirements, an entity would need not to provide that disclosure if the resulting information was not material. Equally, when the specific requirements would be insufficient to meet users' information needs, an entity would be required to consider whether to disclose additional information. This approach is consistent with the requirements of IAS 1.

The Exposure Draft also proposes that an entity need not disclose information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. In such a case, an entity shall identify the type of information not disclosed and explain the source of the restriction.

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

CRUF participants on the whole broadly agree with this approach, but there are a range of detailed views expressed.

- Broadly agree: It is clear. It captures the principle that the information should be relevant to the entity and its activities; it covers the issues such as the significance and appropriateness of the information.
- Broadly disagree: In the case of material information that has a significant effect, the difference between significant and materialized is difficult to see. There seems to be a difference between materiality in accounting and financial reporting and materiality established in the sustainability community.

To note, we appreciate that there is a difference between materiality in accounting and financial reporting and materiality established in sustainability and responsible investment. The second response in a) above highlights the need for clear wording in the standard.

b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?

CRUF participants broadly agree with this approach.

- BC 72 seems to be useful for the judgement of the enterprise. It should be specified in the S1 standard for clarification.
- It is not certain that disclosure required or judged as material will provide information that can be used to specifically estimate the impact on the financial and Enterprise Value.
- I have some concerns here. It is not just the identification of a range of material sustainability-related risks and opportunities that matters. A key issue is the mitigating action that a company can take if, say, certain risks materialise. This isn't a particular worry with the wide range of high probability / low impact risks that most entities face all the time. The difficulty occurs with the low-probability / high-impact risks (Para 57). Very often these are not actually 'risks' (i.e. where probability can be ascribed), they are matters of uncertainty – things which may never have happened before but could happen in future. Many potential future environmental-related risks fall into this category. It is very difficult for companies to list these uncertainties in any meaningful way and even more difficult to predict how they would plan (or even be able) to respond.

c) **Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?**

CRUF participants broadly agree with this approach.

- I believe that the illustrative guidance specified a process for determining materiality is useful. However, IG6 should be further clarified and examples other than corporate governance should be added. Additionally, in order to further enhance the guidance, specific examples should be added to ensure practical judgement.
- Since this type of disclosure has no experience or track record unlike financial reporting, we believe that the guidance will play a significant role, although in principle disclosure should be based on principles and materiality.
- Broadly agree but see note above in response to previous question. [I have some concerns here. It is not just the identification of a range of material sustainability-related risks and opportunities that matters. A key issue is the mitigating action that a company can take if, say, certain risks materialise. This isn't a particular worry with the wide range of high probability / low impact risk that most entities face all the time. The difficulty occurs with the low-probability / high-impact risks (Para 57). Very often these are not actually 'risks' (i.e. where probability can be ascribed), they are matters of uncertainty – things which may never have happened before but could happen in future. Many potential future environmental-related risks fall into this category. It is very difficult for companies to list these uncertainties in any meaningful way and even more difficult to predict how they would plan (or even be able) to respond.]

d) **Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?**

CRUF participants broadly agree with this approach.

- Although the appropriateness of laws and regulations is a separate issue, it is natural that the government should not disclose what is prohibited in each country or jurisdiction.
- This is a constraint which cannot be ignored. To do so would place reporting entities in an impossible position. This issue should be addressed on a 'comply-or-explain' basis.

Question 9—Frequency of reporting (paragraphs 66–71) The Exposure Draft proposes that an entity be required to report its sustainability related financial disclosures at the same time as its related financial statements, and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements.

Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

CRUF participants' broadly agree this would be desirable but have concerns about the practicality.

- It is desirable, but there are practical difficulties. Flexible standard setting is necessary.
- Ideally, simultaneous is desirable. However, given the timing of information and data to be disclosed, it is practical to provide a grace period for requests for disclosure during the same period.
- I am not convinced by this. Superficially it looks compelling and plausible. However, for some companies the amount of sustainability-related information they need to release could make the annual report unmanageable. A further consideration is that, while it makes sense to have a defined cut-off point for the publication of the financial results, the nature of sustainability-related risks and opportunities is not such that they are likely to be very different, say, three months before or three months after the publication of the Annual Report. It might be better to have a separate report for sustainability related matters, produced annually but not necessarily to coincide with publication of the Annual Report. In such cases, the Annual Report should refer back to relevant material factors in the sustainability report which might affect enterprise value. A further option would be to have a full sustainability report published at the half-yearly point each year with an interim update published at the same time as the Annual Report. The possibility of adopting these options is indicated in paras 72 -78 of the ED which seem to acknowledge that the release of sustainability-related information might not necessarily coincide with the release of the financial statements.
- I believe the principle of comply or explain can be applied to all requirements in the standards, a similar approach proposed in the IFRS Practice Statement Exposure Draft Management Commentary. An entity should be required to make a statement of compliance if all of the requirements in applicable IFRS Sustainability Disclosure Standard are met, and if not, be required to explain why not. This would facilitate international adoption as a global baseline, and would also facilitate audit and assurance if the extent of an entity's statement of compliance (whether it is fully or partially compliant) is disclosed.

  In addition, when applying the relief when prohibited by local laws or regulations, the requirement to disclose an explanation as to the reason/background why the information cannot be disclosed should be added.

Question 10—Location of information (paragraphs 72–78)

The Exposure Draft proposes that an entity be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting—ie as part of the same package of reporting that is targeted at investors and other providers of financial capital.

However, the Exposure Draft deliberately avoids requiring the information to be provided in a particular location within the general purpose financial reporting so as not to limit an entity's ability to communicate information in an effective and coherent manner, and to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting.

The proposal permits an entity to disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. However, the entity would be required to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information.

Information required by an IFRS Sustainability Disclosure Standard could also be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements.

The Exposure Draft also proposes that when IFRS Sustainability Disclosure Standards require a disclosure of common items of information, an entity shall avoid unnecessary duplication.

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

CRUF participants broadly agree with this approach.

- It is practical to combine statutory and voluntary disclosure based on various differences between financial and sustainability information. Furthermore, it is considered appropriate to utilize cross-referencing after ensuring a certain level of reliability.
- See comment relating to previous question. [For reference: I am not convinced by this. Superficially it looks compelling and plausible. However, for some companies the amount of sustainability-related information they need to release could make the annual report unmanageable. A further consideration is that, while it makes sense to have a defined cut-off point for the publication of the financial results, the nature of sustainability-related risks and opportunities is not such that they are likely to be very different, say, three months before or three months after the publication of the Annual Report. It might be better to have a separate report for sustainability related matters, produced annually but not necessarily to coincide with publication of the Annual Report. In such cases, the Annual Report should refer back to relevant material factors in the sustainability report which might affect enterprise value. A further option would be to have a full sustainability report published at the half-yearly point each year with an interim update published at the same time as the Annual Report. The possibility of adopting these options is indicated in paras 72 -78 of the ED which seem to acknowledge that the release of sustainability-related information might not necessarily coincide with the release of the financial statements.]

b) **Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?**

No CRUF participants identified any such requirements.

c) **Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced? Why or why not?**

CRUF participants broadly agree with this approach.

- Broadly agree:
- I agree with the proposed disclosure. However, BC 81 should be clearly stated in the standard from the perspective of understandability for users.
- I think that it is realistic to use both statutory disclosure and voluntary disclosure based on various differences between financial information and sustainability information, and that cross-referencing should be used based on a certain level of reliability.
- I agree in respect of paras 76 and 77. With regard to para 75 I would be happy to see the annual report and financial statements cross-referenced to a sustainability report that had appeared up to six months beforehand and with an interim sustainability-update published at the same time as the general financial statements.
- Other: It is preferable that important information is not cross-referenced.

d) **Is it clear and appropriate that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?**

CRUF participants broadly agree with this approach.

- Since the four core contents are related to each other, it is appropriate to treat them in an integrated manner. The ISSB standard is for the time being climate-related information, but when other ESG information is added, decomposition and integration become important.

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)

The Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8. However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable —ie the comparatives would be restated to reflect the better estimate.

The Exposure Draft also includes a proposed requirement that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements, to the extent possible.

a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?

CRUF participants are broadly supportive of this approach.

- I generally agree with this proposal, but we cannot judge whether it is actually feasible.

b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?

CRUF participants on the whole broadly agree with this approach.

- Broadly agree: Provided that for a period of say two consecutive years following the introduction of the new metric the result using the old metric is also shown alongside.
- Note, however, that paras 84-90 deal with errors rather than improvements to metrics. In the case of errors, these should be corrected with the corrections backdated over at least the previous five years and with the effect of the error/ correction shown for each of the previous five years.
- Broadly disagree: Although I would like to agree from the viewpoint of information users, it is possible that retroactive information is difficult or not useful in the past due to rapid changes in information. Therefore, the effectiveness is uncertain.

c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

CRUF participants broadly agree with this approach.

- I agree in general. However, the "as far as possible" condition should be applied clearly and appropriately because the effectiveness is uncertain.

Question 12—Statement of compliance (paragraphs 91-92)

The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements.

The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

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

CRUF participants on the whole broadly agree with this approach.

- Broadly agree: BC 85 states that "the entity could still assert compliance with IFRS Sustainability Disclosure Standards as long as its disclosures explain that fact when an entity might not be managing some of its significant risks and opportunities or established metrics and targets. In order to clarify, the description should be specified in the standard. However, I would like to clarify the exception in BC85 that "the entity would need to meet the specific disclosure requirements such as Scope 1 GHG emissions proposed in IFRS S2".
- Broadly disagree: It depends on the impact of disclosure regulations in each country and jurisdiction and the materiality judgement of individual companies.

Question 13—Effective date (Appendix B)

The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard.

a) **When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.**

- Financial statement periods beginning on or after a year from the issue date. This will give entities broadly two years to assess and collate required disclosures, most of which should already be managed within entities' strategies and business activities.
- Since the ISSB standard is just a global baseline, it will depend at least on the timing of the implementation of disclosure regulations in each jurisdiction. In addition, consideration of allowing phased disclosure of controversial information required by the ISSB standards in order to be adopted by more jurisdictions.

- Companies should have a grace period of at least 12months following the introduction of the new standard. This would mean that all companies would have between 12 and 23 months (depending on their year-end) to start reporting in accordance with the new standard.

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

CRUF participants on the whole broadly agree with this approach.

- Broadly agree: Agree in relation to earlier disclosure and proposal in para B2.
- Broadly disagree: Same as above. [For reference: Since the ISSB standard is just a global baseline, it will depend at least on the timing of the implementation of disclosure regulations in each jurisdiction. In addition, consideration of allowing phased disclosure of controversial information required by the ISSB standards in order to be adopted by more jurisdictions.]

Question 14—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 sustainability-related risks and opportunities. 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?

CRUF participants on the whole believed that there might be such limits – though some did not agree.

- Yes: A principles-based standard approach should be required to achieve the objectives of paragraph 1.
- Yes: Although it is primarily a matter for regulatory authorities, it is also important to develop standards for safe harbor rules for the problem of false statements, because disclosure of forward-looking information may cause conflicts with disclosure of securities issuance in the primary market.
- Other: I think that the disclosure topics in the industry based SASB Standards have been developed for US companies and may not be adapted for companies in other countries. Therefore, I do not believe that detailed SASB standards are suitable as a baseline global reporting standard.

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 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 S2 Climate-related Disclosures 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)?

None.

Question 16—Costs, benefits and likely effects The ISSB is committed to ensuring 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?**

   A uniform bullish disclosure requirement is considered to balance costs and benefits based on materiality judgements and the reliability of information (Metrics methodology, warranty issues), and this should be further clarified.

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

   None.

[Draft] 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?

CRUF participants broadly agree with this approach.

- I'm assuming a general application of materiality when applying the requirements of the standard so it is not necessary to say material before risks and opportunities.
- I agree with the objective of disclosure that emphasizes the effects on the enterprise value.
- As a capital markets participant, I agree that the Exposure Draft aims to assess the impact of significant climate-related risks and opportunities on corporate value.
- Broadly disagree: As with the commentary on General Requirements ED I have some concerns about the narrowness of the objective. The objective is framed in terms of entities assessing and responding to specific, identified climate-related risks. However, enterprise value can be affected by a wider range of risks which are not climate-related in themselves but which relate more to issues of management culture in the face of climate change. These include reputational damage due to inept responses by management to legitimate climate-related concerns on the part of stakeholders. A good example of this, (albeit more of a heritage / environmental issue than a climate-related one) was the destruction of the Juukan Gorge caves by RTZ in 2020. Another example, perhaps more closely related to climate issues, would be the Brumadinho dam disaster in Brazil in 2019. Both of these events will have had a damaging effect on enterprise value for the entities concerned. However, one suspects that, as risks, neither looks very likely to fall within the ambit of the objective set out in the ED.

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?**

CRUF participants broadly agree with this approach.

- Generally yes, but see above comment in Q1a on narrowness of the objective.

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?**

CRUF participants broadly agree with this approach.

- I can't suggest any other way of setting out the disclosure requirements. However, it may be worth clarifying that an entity's exposure to climate related risks and opportunities is two ways - the impacts from these on it and the impacts of it on climate related risks and opportunities.
- A principles-based standard approach should be required to achieve the objectives of paragraph 1. Additionally, the ISSB Exposure Drafts S2 includes the disclosure requirements regarding environmental issues other than climate change, such as water resources, especially in industry-based requirements. I understand that climate-related issues connect with various environmental issues, but the disclosure requirements may overlap if new standards are developed in the future. Therefore, at this stage, the climate-related topics should be focused in order to expand globally high-quality climate-related disclosure.
- Broadly agree but with the qualification/s mentioned in comments to Q1a on the narrowness of the objective.

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?

CRUF participants broadly agree with this approach.

- However, I would put strategy ahead of governance as governance requirements tend to come out of strategy.

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 and appropriate? Why or why not?**

CRUF participants on the whole broadly agree with this approach .

- Broadly agree: The proposed requirements in Paragraph 9 is clear. However, the wording of "cash flow in paragraph 8 which is seemed to be based on the conceptual framework in IFRS can be replaced to with "enterprise value". That is because (1) the ISSB can be applied to any jurisdiction's GAAP and (2) the wording is consistent with the objective of the ISSB S2 (Paragraph 1). At the same time, the wording of the "cost of capital" which is included in "enterprise value" should be deleted.
- Broadly disagree: Industry segmentation in accordance with SASB standards and the usefulness of metrics are not considered to have sufficient international relevance.
- In principle, the information that companies are being asked to provide makes sense. However, I have serious doubts about the practicalities. Many areas of risk reporting (in

general) are already very poor, as are reporting on the business model and business strategy. Often we are presented with generalised lists of risks without any real attempt to explain how they have been prioritised or how they might be mitigated. Much of what is presented is boilerplate. It is not clear how, just because we are dealing with climate-change issues, this tradition of writing obfuscation and waffle is going to change. There is a need for the ISSB to consider the definition of 'risk'. Risk is something for which probability and impact-of-outcome can be ascertained. Many areas of climate-change involve a significant amount of uncertainty. This is particularly true as the time horizon for planning is extended. It is not helpful to encourage companies to comment on future events that they foresee as if they were the result of detailed and quantified analysis when in many cases they will be based on nothing more than 'best-guess' analysis (or just a 'finger-in-the-air').The requirement for companies to produce information that is industry-sector specific is a significant step in the right direction. However, it still leaves plenty of scope for companies to present information which is of limited use to investors. Business model reporting is, in many cases, even worse than risk reporting. Many business models are presented in a way that is totally unenlightening. It is common to see business models presented in a way that is utterly patronising to investors. Some use diagrams and images that seem to assume that investors can't even read.The requirements set out in paragraph 9 of the ED are laudable. However, fundamental change is required in the way in which company reports are prepared if the outcomes intended are to be achieved. This may require some form of rigorous assurance. It seems likely, however, that other measures will also be required. Without a fundamental change of attitude on the part of preparers, annual reports will continue to expand with more and more compliance boilerplate and climate-related greenwash.

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?**

CRUF participants' views differ widely on this issue. Those who disagreed made the following comments:

- The wording of "shall refer to" should be changed to the wording of "may refer to" or "can refer to". The industry classification used in the SASB Standard may not be appropriate for the circumstances of each country or the business of a company, and for some companies, the disclosure topics may not be material business issues.
- Same as above. [Industry segmentation in accordance with SASB standards and the usefulness of metrics are not considered to have sufficient international relevance.

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?

CRUF participants broadly agree with this approach.

- I agree with the proposed disclosure requirements. However, the information on confidential matters of the business partners across their value chain should be as much as possible, depending on the circumstances.
- The proposals in 12a and 12b are not by themselves sufficient. It is not enough, for example, to ask companies to state where in their value chain they see significant climate-related risks. Investors also need to know why they see significant risks in these areas. The reasons and their full implications may not be obvious to people outside the business.

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?

CRUF participants on the whole broadly agree with this approach.

- Broadly agree:
  - We agree with qualitative information disclosure because quantitative information disclosure may be difficult. However, if quantitative information can be disclosed, there is no need to prevent it.
  - To complement the limitations of the effectiveness of quantitative disclosure, it is reasonable to allow qualitative information disclosure. However, qualitative disclosure does not always take precedence.
  - Agree with this but it makes it all the more important that investors are not fobbed off with generalisations, compliance boilerplate and greenwash. Some

form of external assurance is almost certainly going to be required if basic standards of credibility and usefulness are to be set and maintained.

- Broadly disagree: It should be both qualitative and quantitative and allow for explanation of constraints if providing such information is extremely difficult.

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?**

CRUF participants on the whole broadly agree with this approach.

- I agree with the proposed disclosure requirements in Paragraph 13 (a). However, the information on confidential matters of the company should be as much as possible, depending on the circumstances. In addition, in order to improve the quality of disclosure, "explicit connections" in BC74 should be clarified in the guidance.
- Transition plans that adapt over time are important. However, the term legacy assets and disclosure requirements should be reconsidered as they themselves would lead to an immediate impairment.
- It is difficult to make definitive comments on this because I am not sufficiently expert in the field of offsets etc. to comment on precisely what disclosures are required. However, I have the following concerns:
    - In many cases transition plans may be medium-term or, perhaps more often, long-term in nature. It is very difficult to make meaningful projections and set realistic targets and plans over a ten-year timescale, let alone a fifteen to twenty-year timescale.
    - In the medium to long term a wide range of factors related to climate change is likely to affect enterprise value – including imponderables such as future government policy towards management of climate change.
    - Most investors will not be in a position to assess whether the information they are being given on issues such as carbon credits is reliable. It is worth noting that Mark Carney, a UN Climate Change Ambassador was, until recently, unaware that 'emissions avoided' did not count towards the achievement of net-zero. I fear that these proposals on their own could result in investors being deluged with information much of which they will be unable to understand or evaluate. This reinforces the requirement for independent assurance.

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.**

CRUF participants do not think any additional disclosures are necessary.

- The general requirements with the proper application by entities and their management of materiality should be sufficient to capture required material disclosures. Better to be principles based than rules based as lists of disclosures will lead to a disclosure problem, mainly too many irrelevant disclosures.

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?**

CRUF participants on the whole broadly agree with this approach.

- I agree that the proposed disclosure requirements regarding carbon offsets. However, to increase the credibility of carbon offsets, I believe that it is important not to overestimate. Regarding "the extent to which the targets rely on the use of carbon offsets;" (Paragraph 13 (b)(iii)(1)), the information, such as the coverage of offset, the assumption of emission reduction effects (especially for avoided emissions) should be needed. And regarding "any other significant factors necessary for users to understand the credibility and integrity of offsets intended to be used by the entity (for example, assumptions regarding the permanence of the carbon offset)" (Paragraph 13 (b)(iii)(4)) should be more clarified in the guidance.
- Although I basically agree with this proposal, the effectiveness and reliability of carbon offset disclosure are questionable, and guidance should be developed with certainty.
- I don't think that most investors have the knowledge and technical competence to do this. I suspect that most will rely on experts to interpret the information for them and to point out any weaknesses, flaws or omissions.

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?

To the extent that they have views, CRUF participants broadly agree.

- I am doubtful about this. However, it has to be acknowledged that the larger investment firms will probably employ specialists to analyse and assess the information provided by companies. It is less clear what resources preparers will have at their disposal to ensure that disclosures are complete, comprehensive and accurate.

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?**

CRUF participants broadly agree with this approach.

- To complement the limitations of the effectiveness of quantitative disclosure, it is reasonable to allow qualitative information disclosure.
- It would be good if this can be achieved. However, given the caveats expressed by the TCFD I suspect that the true complexities and difficulties of achieving meaningful and reasonably reliable quantitative information are being glossed over.

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?**

CRUF participants on the whole broadly agree with this approach.

- Broadly agree: Generally agree, but note reservations above. [It would be good if this can be achieved. However, given the caveats expressed by the TCFD I suspect that the true

complexities and difficulties of achieving meaningful and reasonably reliable quantitative information are being glossed over.
- Broadly disagree: I am not sure whether the indicators required for each industry are globally versatile or sufficient to predict financial impact.

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?**

CRUF participants broadly agree with this approach .

- I agree with the proposed disclosure requirements. The effects on the financial statements for the short, medium and long term after the next financial year is basically assumed to be based on scenario analysis, and this should be clearly stated in the practical supplementary guidance.
  Furthermore, the TCFD ' s Recommendation requires the clarification of assumptions regarding forward-looking information (Appendix 3: Fundamental Principles for Effective Disclosure, Principle 3), and such basic principles should also be stipulated in the ISSB in order to prevent investor misidentification.
- I broadly agree but note reservations expressed above. [It would be good if this can be achieved. However, given the caveats expressed by the TCFD I suspect that the true complexities and difficulties of achieving meaningful and reasonably reliable quantitative information are being glossed over.

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?**

CRUF participants broadly agree with this approach.

- I agree with the proposed disclosure requirement in paragraph 15 (a). However, in order to improve the quality of disclosure, "explicit connections" in BC74 should be clarified in the guidance.
- The theory proposed by the ISSB is appealing but I am not convinced that it is practical. The ISSB seems to accept that scenario analysis, particularly in the area of climate-change, lacks practical development and that its reliability may be suspect at present.
- I worry that many of these disclosure requirements are going to be overly ambitious and that many companies will struggle to provide information that is both useful and reliable.
- I am also concerned about the sheer volume of information that some companies may feel they need to provide and the practicality of presenting this within the annual report.
- Furthermore, for scenario analysis to make much sense, companies need to be able to articulate their business model much better than most do at present. Anyone with any doubts about this should read, for example, Rolls Royce's statement about its business model for the aero engine division in its 2019 annual report. Not only was it difficult (based on a reading of what the Company said, as opposed to what might also have been gleaned from other sources) to understand exactly how the business model worked, it also became clear that the 'sustainable business model' that RR trumpeted was (in the light of the ensuing pandemic) anything but sustainable. If a company like RR is unable to present the business model for one of its key divisions in a clear, rational and dispassionate way then there is little chance of us getting very much from them in relation to the potential impact of climate change on the business (i.e. given the uncertainties that surround many areas of climate change).

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?**

CRUF participants broadly agree with this approach.

- Not all industries/companies need it. Given the cost and difficulty of scenario analysis, alternative approaches should be allowed to an appropriate extent.

- Agree, although I fear that many will fall back on this as a way of avoiding the complexities of scenario analysis.

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?

CRUF participants on the whole broadly agree with this approach.

- Broadly agree:
    - Where a requirement cannot be done, there should always be a requirement to disclose the reasons.
    - Yes – the rule should be 'comply or explain'.

- Broadly disagree: It is sufficient to disclose in the case of material, and in the case of difficulty to disclose in an alternative method.

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 the next question and if so, why?

Overall: No.

- Scenario analysis should only be required if climate-related risks and opportunities are material to an entity; so if assessed as not material, this could be disclosed.
- It is not necessary for all companies to use scenario analysis to assess resilience. Where the effects of climate-related risks and opportunities are not material, there is little value in devoting resources to that, given the limited effects on enterprise value.
- No. I don't think that this is practical. I also think that given the practical limitations, forcing companies to do scenario analysis could end up seriously damaging the credibility of the whole process.

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

CRUF participants on the whole broadly agree with this approach .

- Broadly agree:
- I agree with proposed disclosures. Paragraph 15 requires companies to disclose resilience taking into consideration a company's identified significant climate-related risks and opportunities and related uncertainties. Scenario analysis and alternative approaches may be required for a wide range of companies. First, the definition of "significant" should be clarified in the ISSB Exposure Drafts.
- But note my fundamental doubts about the practicality of scenario analysis for imparting information about entities' exposure to climate change risks at the present time.

- Broadly disagree: The need for scenario analysis and the balance of costs and benefits vary by industry and company.

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?**

CRUF participants broadly agree with this approach .

- I agree with the proposed disclosure that allows alternative techniques. However, examples of disclosure using each alternative technique should be covered by supplementary guidance.
- Agree but in the context of reservations above. [But note my fundamental doubts about the practicality of scenario analysis for imparting information about entities' exposure to climate change risks at the present time.]

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?**

CRUF participants broadly agree with this approach.

- Businesses should be able to assess or should have already assessed the material relevance of climate related disclosures to their businesses and therefore need to incur costs to do this meaningfully and as a result have the information for users of relevant reporting of climate related disclosures including their resilience to climate change.
- I am really not sure that they do. For some companies the whole exercise of full disclosure could be gargantuan and the costs of compliance could be very significant. Nor is it clear what benefit investors will get in terms of being able to answer the 'So what? question (i.e. Armed with this information, what do I do about it?).

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?

CRUF participants on the whole broadly agree with this approach.

- The disclosure of "opportunities in risk management" is not clear.

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.

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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?**

CRUF participants on the whole broadly agree with this approach.

- I agree with the cross-industry metrics, but all companies are required to disclose them, and the following improvements should be considered.
  - (1) GHG emissions Scope 1 and 2of associates, joint ventures, unconsolidated subsidiaries or affiliates (paragraph 21 (a) (iii) (2)), GHG emissions Scope 3 (paragraph 21 (a) (i) (3)), migration risk (paragraph (b)), physical risk (paragraph (c)), opportunity (paragraph 12 (d)), and capital investment (paragraph 12 (e)) of jointly controlled entities and non-consolidated subsidiaries. From the perspective of cost-effectiveness of disclosure, we propose that disclosure be limited to cases in which an entity judge the disclosure to be material in its business activities.
  - (2) Internal carbon price (paragraph 21 (f)), remuneration (paragraph 21 (g)) The usefulness for users was relatively low in TCFD public consultation (October 2021). Therefore, disclosure should be depended on the circumstances of companies.
  - (3) "Percentage" of migration risk (paragraph 21 (b)), physical risk (paragraph (c)) and opportunity (paragraph (d)) In order to increase comparability, it is essential to set guidance so that calculation methods are unified.
- Broadly, yes. However, there is a risk here that companies will over-simplify the impact they have on the emissions of others in the value chain. Worldwide food production is by far the biggest source of greenhouse gas emissions. The supermarkets play a major role in 'stoking' emissions unnecessarily:
  - By encouraging growers to over-plant so that in the event of a poor harvest with lower than expected crop yields the growers can still meet the commitment that they have made to the buyer. As a result, in an average year, around 30% of root crops and other crops (salads etc.) is ploughed back into the soil without ever being harvested.
  - They apply ridiculous standards of appearance (including size etc.) so that much produce is 'graded out' and sent for animal feed or other low-margin uses.
  - They themselves 'over-buy' and end up throwing away significant amounts of food. The situation is not helped by absurd 'use-by' dates set by government

agencies. These result in good food which has gone all the way through the supply chain being thrown away.
    - They encourage customers to over-buy (and end up wasting food) by offering buy-one-get-one-free deals and other promotional incentives.

The obvious and outward manifestation of these practices is mammoth amounts of food waste. Inherent in this is an enormous amount of unnecessary carbon generation. The industry categories need to be able to pick up the carbon emissions that companies cause as a result of the serious levels of waste that they create through the supply chain. It is not clear that this is happening at present. Arguably, there is too much emphasis on measuring greenhouse gas emissions and not enough emphasis on the true causes of these emissions as a result of seriously wasteful commercial practices.

- Broadly disagree: Industry classification based on SASB standards is not versatile.

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.

CRUF participants provided a few comments in this area:

- Yes: The use of carbon offsets is important in the transition and may increase in the future. Therefore, in relation to the achievement of the emissions targets set in paragraph 14 (b) (iii) (3), it may be an option to develop disclosure items as cross-industry metrics in the future.
- In this case, as explained in the response to Question 5, it is essential to disclose the assumptions, scope, and uncertainty of the effects of carbon offsets (excluding widely recognized certification schemes) so as not to overestimate the effects of carbon offsets. However, it is also necessary to develop an auditing and assurance system so that such information can be included in statutory disclosure documents. Further studies are needed regarding the disclosure of "additionality" and "permanence" of carbon offsets (BC 82 and 83).
- Yes: Yes, see comments above on waste.

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?

CRUF participants broadly agree with this approach.

- Already being used.
- We support the GHG Protocol because it is a globally accepted standard. However, in some cases, such as the legal system in Japanese, different measurement methods have been established based on the GHG protocol. Therefore, in order to increase flexibility, I propose that the wording of "in accordance with the corporate standards of the GHG

Protocol" in paragraph 21 (a) (i) should be replaced with the wording of "in accordance with the corporate standards of the GHG Protocol."

- Should the reliability of information disclosure through the GHG Protocol be re-examined?

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))?

CRUF participants broadly agree with this approach.

- GHGs as a whole need to be reduced to zero as far as I am aware, so they should be aggregated and it is hard to imagine that the non CO2 GHGs will be material separately.
- I agree with proposed disclosures. The method is widely used.
  The disclosure of each component of the seven greenhouse gases is specified in the industry-specific requirements of Appendix for some industries, and it is useful to make it available for reference when companies judge it to be material.
- A breakdown should be provided so that differences in the effects of different GHG types can be appropriately determined.
- For the time being aggregate all seven greenhouse gasses unless companies wish to disaggregate them.

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?

CRUF participants on the whole broadly agree.

- Broadly agree: I agree with proposed disclosures. However, (i) it would be useful for major consolidated subsidiaries to be disclosed separately as described in the notes to financial information.
  In addition, (ii) disclosure of Scope 1 and 2 of GHG emissions by associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated group would be useful to understand the actual situation of the group. From the perspective of cost-effectiveness of disclosure, it should be clarified only when such information is determined to be material.
- Broadly agree: To ensure consistency with financial analysis, differences in the positioning and degree of control of entities in consolidated accounting should be reflected.
- Broadly disagree: Happy to follow financial statement reporting - so if consolidated are produced, just have consolidated entity disclosures.

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?**

CRUF participants broadly agree.

- From the viewpoint of cost-effectiveness of disclosure, Scope 3 requests for disclosure of GHG emissions should be limited only when such information is determined to be material by a company.
  However, in order to increase reliability for disclosure, it is necessary to have a discussion about providing a safe harbor for false statements and an audit and guarantee system, regarding forward-looking statements and Scope 3 emissions.
- Basically, I agree, but the boundary and data of Scope 3 may not be reliable, so careful consideration is required.

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?**

CRUF participants on the whole broadly agree with this approach.

- Broadly agree:

- However, it would be useful to add material events and responses as an additional disclosure to strategy, governance, risks and metrics and targets.
- I agree with proposed disclosures. It is necessary to specify the characteristics of climate-related targets as set in the TCFD ' s Supplementary Guidance "Guidance on Metrics, Targets, and Transition Plans" (2021). Additionally, paragraph 20 (d) should also specify the reference to paragraph 23.

- Broadly disagree: I am not sure whether the indicators required for each industry are globally versatile or sufficient to predict financial impact.

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?

CRUF participants on the whole broadly agree with this approach.

- Broadly agree: but see comments in response to carbon offsets questions. [Not sure about carbon offsets as referred to above and therefore not sure these should be allowed to show how entities are transitioning to zero GHGs each year.]
- Broadly disagree: For clarification, we propose the wording of "the latest international agreement on climate change, as determined by the United Nations Framework Convention on Climate Change".
- Other: It should be broadly defined without limiting or specifying

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?**

- Broadly disagree: I understand that climate-related risks and opportunities tend to be industry-specific, but industry-specific metrics based on SASB standards have challenges as international standards, Based on principle-based approach, I propose that the company can select and disclose industry-specific metrics that could have a material financial effects on the company.
- Broadly disagree: There are two reasons for disagreeing. One is that the SASB's requirements are developed for US companies and the other is that the industry categories are too detailed and may not to fit in many countries. It is too details for base line standards.
- Other: I don't know if it will improve.

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? Please select which industries you would like to comment on. If you would like to comment on all industries select 'All industries'. Please add comments specific to the industries you have selected in the box below.**

- All industries: Broadly agree as too generalist to really comment.
- All industries: The industry categories are too detailed for baseline standards.
- Investment Banking & Brokerage: "Incorporating ESG factors", which is a broad term, not only lacks comparability but also poses a risk of greenwashing. If the definition cannot be clearly defined, the deletion of the item is proposed.

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?**

CRUF participants did not feel able to conclude on this issue.

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? Please select which industries you would like to comment on. If you would like to comment on all industries select 'All industries'. Please add comments specific to the industries you have selected in the box below.

- All industries: I do not agree with the industry categories based on the SASB standards.
- Investment Banking & Brokerage: I do not agree with the proposed disclosure because the criteria for calculating facilitated emissions are under discussion globally and it is difficult to calculate GHG emissions per business line (Scope 1, Scope 2 and Scope 3).

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?

CRUF participants on the whole broadly agree with this approach. However, one participant disagreed and commented:

- In the proposed S2 commercial bank disclosure proposal, even if commercial banks provide funding for companies in the industries exemplified as carbon-related industries to work on greenhouse gas reduction, for example, green power generation by electric power companies or EV development of the automobile industry, those investment and loan would be included in the exposure to carbon-related industries. Disclosures of such exposures by commercial banks should allow disclosures that reflect the greenhouse gas reduction efforts of the investee and borrower companies. Otherwise, no matter how enthusiastic the company is working to reduce greenhouse gas emissions and disclosing it, commercial banks could avoid the funding needed to help these companies work to reduce greenhouse gas emissions. As a result, I am afraid it would hinder the efforts of companies classified as carbon-related industries to reduce greenhouse gases. SASB's disclosure standards for commercial banks were revised in 2018. The pre-revision standard required disclosures such as FN0101-18. Total loans to companies in the following sectors / industries: Energy / Oil & Gas, Materials / Basic Materials, Industrials, and Utilities. However, the current standard has removed this provision. I hear that PCAF is expected to set up a working group to handle a wider range of sustainable finance, including transition finance and green bonds, to discuss the need for new measurement methods that give some consideration to companies' efforts to reduce greenhouse gases. The content of the disclosure should be based on the examination of these organizations.

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

CRUF participants on the whole broadly agree with this approach.

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?**

CRUF participants broadly agree with this approach.

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?**

CRUF participants broadly agree with this approach.

- I agree that the ISSB is based on the PCAF. However, reference to that standard should be specified in this standard.

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?**

CRUF participants on the whole broadly agree with this approach.

- Broadly disagree: Asset managers and their funds are intermediaries in the investment chain and their investments' disclosures should be sufficient. If anything these should be aggregated at a fund level and disclosed in those funds' reporting (not at the asset manager level - although they should then be able to report emissions at a total fund level).

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?

On the whole, CRUF participants broadly disagreed with this approach.

- I understand that climate-related risks and opportunities tend to be industry-specific, but industry-specific metrics based on SASB standards have challenges as international standards, based on principle-based approach, I propose that the company can select and disclose industry-specific metrics that could have a material financial effect on the company.
- There are two reasons for disagreeing. One is that the SASB's requirements are developed for US companies and the other is that the industry categories are too detailed and may not fit in many countries. It is too detailed for baseline standards.
- Although it is understood that climate-related risks tend to vary from industry to industry, there are several areas that still need to be improved in applying the industry-specific requirements based on the SASB standard as an international standard.

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.

Few CRUF participants identified additional such requirements.

- See comments above on the need to highlight levels of waste generated by some industries – such as the large food retailers.
  They are not the only ones. The water companies are very significant users of energy (for pumping water). Yet in 2020, the water companies in England and Wales lost some 3 billion litres (660 million gallons) of water every day due to leakages according to BBC News. Across the UK approximately 23% of water put into the public supply is lost because of leaks. The energy consumed in pumping water that is wasted due to leakages in the network is enormous. This is a further reason for requiring greater disclosure on waste in companies' activities rather than just looking at emissions.

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?

Few CRUF participants made any additional such comments or suggestions.

- If the industry classification or the disclosure topics of the SASB standard does not match the circumstances of the country or business of each company, useful information for assessment of enterprise value will not be provided.

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?**

- No other than ISSB should challenge any preparer's bias to costs outweighing benefits.
- I am not sure how the 'benefits' should be defined. Essentially the benefits revolve around investors being able to derive useful information which will allow them to determine a company's enterprise value and then act on that information. Any outcome which results in investors coming up with an EV which they feel is debatable (for whatever reason) undermines the benefit achieved.
  There also have to be concerns that some of the information that companies disclose will (perhaps for a variety of reasons) fail the answer the 'so-what?' question - i.e. what is this trying to tell me? Does it really answer the question? What can I do with it or about it?

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

No.

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?**

No.

It is very hard to tell from the ED. The true costs and benefits are only going to become clear once the proposals start to be implemented. However, some of the proposals look as though they could be an attempt to 'boil the ocean' in terms of the volume and level of detail that some disclosure might require .

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.

CRUF participants' views on this were mixed.

- Yes: Forward-looking information and Scope 3 GHG emissions are difficult to audit and guarantee. I believe that in order to increase the quality of disclosures, national regulators should discuss the set of safe harbors for misstatements of forward-looking information.
- No: I don't know but I suspect that an auditor with specialist skill and knowledge of climate change issues would be able provide an acceptable level of assurance for most investors. However, those specialist skills would be essential within the (financial) audit team. Without them the audit team would struggle to provide satisfactory assurance. My understanding is that the FRC is already acquiring these specialist skills within its own ranks.

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?**

CRUF participants' views on this were mixed.

- The same as: See comment for general requirements ED.
- The same as: Since S1 and S2 are integrated criteria, the effective date of Exposure Drafts of S2 should be the same as that of S1
- The same as: S1 and S2 are integral. Some of the content of S2 may require stepwise disclosure.
- Earlier: given S2 has been tested already in the form of TCFD standards, it could be given effect earlier as the newer and less well tested and considered S1
- Later: Given the potential complexities of introducing some of the climate related disclosures I would prefer to see the General Requirements for Sustainability disclosures introduced first. It may be that there will be lessons that can be learnt from this which will save time, cost and trouble when it comes to implementing the climate-related disclosures.

  One participant commented further: Industry-specific disclosure requirements in Appendix B, which are very contentious and expected to take time to address and adjust, should be separated and standardized. Meanwhile, disclosure topics in Appendix B should be moved to the main text of S2 standards. I believe these changes would reduce the risk of any delay in finalization and implementation of S2.

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.**

- Same as General Requirements - accounting periods beginning on or after a year of the issue.
- The date of application shall be in relation to the regulations of each jurisdiction.
- At least 12 months.

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?

CRUF participants' views on this were mixed.

- Broadly agree: I recognize that corporate governance and risk management are relatively advanced, and I believe that they can be applied first.
- Broadly disagree: Can't see any reason to differentiate.
- Other: Early application may be permitted. Disclosure should be left to companies.

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)?

None.

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?

CRUF participants' views on this were mixed. One respondent noted: The disclosure requirements in the ISSB Exposure Drafts are based on TCFD, but differ from the TCFD recommendations in that they include disclosure requirements for all companies and industry-specific requirements. I believe that the disclosures should be more flexible and principles-based.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers, investors and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations depending on their area of interest or expertise. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. Also, it would not be correct to assume that nonparticipants agree with the initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally and provided by participants in drafting the response. Differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer or other organisations they are a member of or associated with. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective employer or other organisations. The participants in the CRUF that have specifically endorsed this response are listed below.

Signatures

Peter Parry

Chie Mitsui

Peter Reilly

Paul Lee

Charles Henderson

Robert Morgan

Andy Burton

Masayuki Kubota, CFA

Naoki Hirai

Goro Kumagai

Yosuke Mitsusada

Naoko Seriguchi

Patricia Hutchinson