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Comments on the Exposure Draft (ED/2022/S2) *Climate-related Disclosures*

Introduction

1. The Sustainability Standards Board of Japan ('the SSBJ' or 'we') welcome the opportunity to provide our comments on the International Sustainability Standards Board (the 'ISSB')'s Exposure Draft (ED/2022/S2) IFRS S2 *Climate-related Disclosures* ('proposed S2 Standard'), published in March 2022. Our comments on the Exposure Draft (ED/2022/S1) IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ('proposed S1 Standard') have been submitted separately and we expect that they are read together with our comments in this letter. In this letter, we refer to the proposed S1 Standard and the proposed S2 Standard collectively as the 'ED'.

Need to clarify the structure of standards

2. We are of the view that, if the overall basic structure of IFRS Sustainability Disclosure Standards is that the proposed S1 Standard sets out the general requirements of IFRS Sustainability Disclosure Standards, the thematic standard (the main text of the proposed S2 Standard) sets out specific disclosure requirements, and the industry-based requirements (Appendix B of the proposed S2 Standard) supplement the disclosure requirements of the thematic standard, such structure will be easy to understand for users of IFRS Sustainability Disclosure Standards.
3. Paragraph 2 of the proposed S2 Standard proposes that an entity shall apply the S2 Standard in preparing and disclosing climate-related disclosures in accordance with

the S1 Standard. While this paragraph may indicate the relationship between the S1 and S2 Standards, we are concerned that the ISSB's intentions may not have clearly reached the users of the proposals. For example, we note there are some who think that the guidance in paragraph 60 of the proposed S1 Standard stating that an entity need not provide specific disclosures if the information resulting from those disclosures are not material, would not apply to requirements in the S2 Standard.

4. Accordingly, in order to ensure that sustainability-related financial disclosures are not prepared by referring only to the S2 Standard, it should be clearly specified in the S2 Standard that the requirements in the S1 Standard apply to matters that are not referred to in the S2 Standard. However, regarding the concept of materiality, the description in paragraph 60 of the proposed S1 Standard should be replicated in the S2 Standard and be emphasised to avoid any misunderstanding. We think this should be the case for future Standards (S3 and onwards) to avoid any misunderstanding that the treatment would be different for Standards that refer to the concept of materiality and those that do not.
5. When an entity discloses sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards, we believe that the ISSB should establish a process to achieve the overall disclosure objectives of IFRS Sustainability Disclosure Standards (disclosure of material information about all of the significant sustainability-related risks and opportunities) by applying thematic-based requirements, and to further achieve the overall disclosure objectives by disclosing industry-based information by applying industry-based disclosure requirements. Because it is not necessarily clear, the ISSB should explain the overall structure, including the relationship between the thematic standards and industry-based standards, of IFRS Sustainability Disclosure Standards.
6. In addition, as discussed in the comment letter to the proposed S1 Standard, we are of the view that the S1 Standard should be separated into different standards, namely a standard that covers the '*core content*' section and a standard that covers the '*general features*' section.
7. We believe that separating the proposed S1 Standard will clearly distinguish between the disclosures of the four elements of the '*core content*' to be described at the entity level and the theme-specific disclosures. We also believe that separating the proposed S1 Standard will clarify the relationship between thematic standards, which require detailed disclosures on the specific theme, and the general standards that

apply in the absence of specific thematic standards. Furthermore, we also believe that separating the proposed S1 Standard will clarify that requirements regarding the general features apply to all IFRS Sustainability Disclosure Standards. In the absence of specific thematic standards, we believe that it would be too onerous to require entities to provide disclosures with the granularity prescribed in the proposed S2 Standard, and that, in the absence of the specific thematic standards, disclosures of relatively low granularity should be permitted. If the relationship between thematic standards and general standards is clarified as we propose, users of the Standards can understand the differences in the intended granularity of the disclosures.

8. Furthermore, we believe that separating the proposed S1 Standard into two Standards will clarify that descriptions relevant to general features are applied to all IFRS Sustainability Disclosure Standards, and will reduce the risk of users of the Standards misunderstanding the ISSB's intentions, such as the misunderstanding described in paragraph 3 above.

Developing standards based on the principles-based approach

9. There are many detailed requirements in the proposed S2 Standard. Specially, Appendix B seems to adopt a rules-based approach that requires detailed and fixed disclosures. In particular, with respect to the industry-based metrics, certain metrics seem to be chosen without consideration and it is unclear whether the disclosure of those metrics is necessitated by the disclosure objectives. As we note in our comment letter to the proposed S1 Standard, we are of the view that the ISSB should adopt a principles-based approach in developing IFRS Sustainability Disclosure Standards as the '*global baseline*' and should explicitly declare this policy.
10. In this regard, although a wide range of disclosure requirements are proposed throughout the proposed S2 Standard, there are some items that do not include sufficient descriptions in the Basis for Conclusions on the proposed S2 Standard as to why such disclosure requirements are necessary. In addition, although the proposed S2 Standard could be read to have a structure where the objective of the proposed S2 Standard is set out in paragraph 1 and the individual disclosure objectives of the four elements of the '*core content*' are indicated at the beginning of each element accompanied by a list of individual disclosure requirements, it is unclear how the disclosure requirements were derived from the disclosure objectives.
11. We believe that, for entities to provide entity-specific disclosures in accordance with

principles-based standards that are derived from disclosure objectives, entities need to understand how the disclosure requirements were derived from the disclosure objectives, why such disclosures are necessary and how the users are likely to use the disclosures. By providing such information, we believe that the benefits of requiring disclosures will become clear, and such information will be helpful for entities in determining how they should provide disclosures when it is not necessarily clear from the requirements in the Standards. In addition, we believe that such information is likely to be useful in conducting audits (or providing assurance) and for regulatory enforcement. Accordingly, we are of the view that the ISSB should provide such information in the Basis for Conclusions on the IFRS Sustainability Disclosure Standards.

Greenhouse gas emissions

Using the GHG Protocol

12. We recognise that the GHG Protocol is the most widely used standard for measuring greenhouse gas emissions. Accordingly, at this time, we agree with the requirement to account for GHG emissions based on the methodologies set out in the GHG Protocol.
13. However, we have reservations with proposals suggesting that guidance published by organisations other than the ISSB which the ISSB cannot control automatically forms part of IFRS Sustainability Disclosure Standards. Protocols that form the basis for calculating GHG emissions are considered critical in ensuring the reliability and comparability of the disclosed information. We are concerned that the ISSB Standards will lack stability by allowing organisations other than the ISSB to amend such critical guidance. Accordingly, we suggest that matters such as the structure with 3 Scopes, the basic principles of emission factors, and the treatment of associates and joint ventures should be defined by the ISSB in the proposed S2 Standard. For other details, the ISSB should prescribe disclosure requirements, for example, to measure greenhouse gas emissions based on internationally widely used measurement criteria.
14. We acknowledge that comparability may be enhanced by referring to the GHG Protocol in the ISSB's publications. As we suggest in our comment letter to the proposed S1 Standard, we think guidance published by the ISSB can be classified into two, namely '*the main text*' and '*the addendum*'. '*The main text*' would prescribe only the most core disclosure requirements. The requirements prescribed

in *'the main text'* generally are not expected to be amended frequently, and thus the common understanding would be that *'the main text'* will continue to be used for a certain period of time, thereby achieving the stability of the ISSB Standards. As such, new additions or amendments to *'the main text'* are likely to warrant a relatively long comment period. On the other hand, *'the addendum'* would prescribe guidance that is expected to change relatively frequently. *'The addendum'* may specify metrics and references to organisations other than the ISSB regarding the measurement of such metrics to enhance comparability. We provide the GHG Protocol as an example to be included in *'the addendum'*. If the GHG Protocol is modified, we suggest that the ISSB consider the validity of the change and consider whether to amend *'the addendum'*. The comment period for changes to *'the addendum'* would generally be shorter than the comment period for changes to *'the main text'*, thereby maintaining the flexibility in modifying standards in a timely manner.

Scope 3 emissions

15. We consider Scope 3 emissions to be useful information for users to understand significant climate-related risks and opportunities in the value chain and to assess the enterprise value. On the other hand, at present, we observe that diversity exists in the quality and quantity of disclosures depending on the industry and the entity. We also note that the Task Force on Climate-related Financial Disclosures (the 'TCFD') recommendations encourage all organisations to disclose Scope 1 and Scope 2 emissions independent of the materiality assessment, but Scope 3 emissions are subject to the materiality assessment. Our understanding is that the calculation of Scope 3 emissions is largely based on estimates, and practices are currently evolving, including how to obtain information in a timely manner and the details of calculation methodologies of estimation.
16. Accordingly, for the time being, we think it is appropriate to adopt an approach that would enhance disclosures in phases, in line with the evolution of calculation practices. For example, within the 15 categories of Scope 3 emissions, the ISSB may decide to require disclosures for categories that have been identified to have concentrated significant climate-related risks and opportunities in accordance with paragraph 12(b) of the proposed S2 Standard (in this case, the categories covered by the calculation should be disclosed as proposed in paragraph 21(a)(vi)(2) of the proposed S2 Standard). When enhancing disclosures, we expect the ISSB to take the lead in developing guidance that can be applied globally regarding: (1) specific

calculation methodologies (including whether or not to distinguish calculation methodologies for the financial (such as PCAF), and non-financial sectors, and whether or not to allow jurisdiction-specific calculation methodologies); (2) general principles for the data to be used (such as to use data as of when or which period, how to simultaneously pursue data quality and timely provision of information and how to consider the trade-off between the two); and (3) detailed guidance for the 15 categories.

17. In addition, we think it is not necessarily clear how the materiality of Scope 3 emissions should be assessed in practice. Accordingly the ISSB should consider, clarifying the process for determining materiality in the proposed S1 Standard and re-emphasising that the disclosure of Scope 3 emissions is also subject to materiality assessment, and further to provide guidance on how in practice the materiality of Scope 3 emissions should be assessed (for example, to illustrate when the disclosure of Scope 3 emissions may affect user decisions, such as when it affects the understanding of significant climate-related risks and opportunities in an entity's value chain).

Industry-based requirements

18. As we note in our comment letter to the proposed S1 Standard, we are of the view that there are many issues that the ISSB needs to resolve if it were to incorporate the SASB Standards into IFRS Sustainability Disclosure Standards. (Nevertheless, we think the disclosure topics are useful in identifying sustainability-related risks and opportunities.) In addition, it is our understanding that the SASB Standards have been developed to address a wide range of sustainability-related themes and thus they should not be '*processed*' to become guidance limited to climate-related industry-based standards. Nevertheless, because the ED tries to isolate climate-specific industry-based standards within the SASB Standards, the ED includes disclosure topics or metrics that have little relevance to climate. As a result, we are concerned that these disclosures could be onerous to entities. For the reasons discussed above, we recommend that, as the policy of developing the '*comprehensive global baseline*', the ISSB give higher priority to the development of the thematic requirements (including disclosure topics), and develop industry-based requirements once the above issues have been resolved.

If the ISSB were to proceed with the development of industry-based requirements at this stage, our views are shown from paragraphs 19 through 24 of this cover letter as follows.

19. We note that the industry-based disclosures proposed in the proposed S2 Standard have the following major problems.
- (a) Our understanding is that the industry classifications in the proposed S2 Standard is derived from the industry classification developed by SASB (Sustainable Industry Classification System[®]; SICS[®]). We believe that some entities currently use SICS[®] in disclosing metrics based on the SASB Standards because it is the only industry classification that is currently available to disclose metrics of sustainability-related financial information. We also believe that those entities may not necessary consider SICS[®] as the best industry classification to use because there is no clear global consensus on the use of SICS[®] as the industry classification for sustainability-related financial information. Our understanding is that the SASB Standards have been developed so as to address various sustainability-related themes and not necessarily limited to climate. Nevertheless, we believe that the ISSB should consider whether the industry classification in the proposed S2 Standard will serve as the appropriate industry classification even when developing industry-based standards that address sustainability-related themes other than climate.
 - (b) We note that there are quite a few disclosure topics and related metrics that are duplicative or are almost the same with minor differences that are prescribed across several industries (We list a few examples in paragraph 67 of the Appendix to this letter). We believe that these disclosure topics can be standardised and such standardisation would streamline the large amount of requirements included in Appendix B of the proposed S2 Standard and would improve the understandability of the Standards.
 - (c) For the individual metrics presented for each industry, many seem to lack the explanation as to why the disclosures of those metrics are necessary. For industry-based metrics, explaining how the metrics relate to the disclosure topics and how the disclosure topics relate to the disclosure objectives in the proposed S2 Standard would clarify the benefits of providing such disclosures. Furthermore, such information will be helpful for entities in determining how they should provide disclosures when it is not necessarily clear from the requirements in the standards. In addition, we believe that such information is likely to be useful in conducting audits (or providing assurance) and for regulatory enforcement.

- (d) In these days, it is inevitable to address climate-related issues together with the issues related to natural capital. Although we agree with the ISSB's plan to prioritise developing climate-related standards ('climate first'), we think it is inappropriate to isolate climate-related industry-based metrics. We observe that the Task Force on Natural-Related Financial Disclosures (TNFD) is considering prescribing disclosures based on the four core elements proposed in the TCFD recommendations. Accordingly, we believe that the ISSB should take into account the future direction regarding natural capital when developing climate-related industry-based metrics.
 - (e) We note that the unit of measurement is defined for each relevant industry-based metric. However, we believe that the ISSB should allow using alternative units of measurement if the conversion ratios are readily available, such as using kilometres instead of miles, provided that the units of measurement are explicitly specified.
20. For the reasons above, if the ISSB were to develop industry-based requirements at this stage, we propose that the ISSB consider taking the steps outlined below:
- (a) Develop an international industry classification based on global consensus, starting from scratch (which may result in an industry classification that is similar to SASB's industry classification).
 - (b) With regard to duplicative or similar disclosure topics and relevant metrics, integrate them and develop a list of '*overarching disclosure topics*'.
 - (c) Based on the industry classification developed in step (a), create a mapping table of industries and disclosure topics by designating one or more disclosure topics for each industry from the list created in step (b).
 - (d) Require an entity to identify one or more industries relevant to the entity's business and, for each industry identified, disclose the industry-based metrics related to the disclosure topics specified in the mapping table created in step (c).
 - (e) Develop guidance about the scope of disclosures to be made by entities engaged in multiple business (typically conglomerates).
21. We believe that '*overarching disclosure topics*' described in paragraph 20(b) above would be useful in developing standards related to various sustainability-related themes, even beyond climate. In this regard, we expect that disclosure topics

included in the climate-related industry-based requirements may need to be re-organised, such as removing a certain disclosure topic included in the climate-related industry-based requirements and including it in a newly established thematic-based requirements if the latter theme is more relevant to that disclosure topic.

22. In addition, we note that, in the industry-based disclosure requirements in Appendix B of the proposed S2 Standard, there are many proposals saying:

The entity shall consider [the name of the guidance published by an organisation other than the ISSB] as a normative reference, thus any updates to the guidance made year-on-year shall be considered updates to this guidance.

23. As we described in paragraph 13 above, we have reservations with proposals suggesting that guidance published by organisations other than the ISSB which the ISSB cannot control automatically forms part of IFRS Sustainability Disclosure Standards. As noted above, when the ISSB refers to guidance published by organisations other than the ISSB, we recommend that the ISSB list up those guidance in ‘*the addendum*’ as we propose in our comment letter to the proposed S1 Standard, and update ‘*the addendum*’ as necessary after the ISSB discusses the validity of the changes in guidance published by organisations other than the ISSB.
24. Furthermore, Appendix B *Industry-based disclosure requirements* of the proposed S2 Standard provides ‘*Industry Description*’ for each industry. We recommend that these descriptions be replaced with definitions of each industry, which would increase its international applicability.

Comments on the specific questions

25. For our comments on the specific questions in the proposed S2 Standard, please refer to the Appendix to this letter. We hope our comments are helpful for the ISSB’s consideration. If you have any questions, please feel free to contact us.



Yours sincerely,

Y. Kawanishi

Yasunobu Kawanishi
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Sustainability Standards Board of Japan

Question 1—Objective of the Exposure Draft

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

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

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

- (a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?
- (b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?
- (c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

Clarifications of the overall objectives and explanations of the relationship with individual disclosure requirements

1. Regarding the objective of the proposed S2 Standard, while we agree with paragraph 1(a) of the proposed S2 Standard, we believe that the following considerations are necessary with respect to paragraphs 1(b) and (c) of the proposed S2 Standard.

- (a) Our understanding is that the proposed S2 Standard is a thematic standard that is specific to climate-related disclosures within the framework of the proposed S1 Standard that sets out the general requirements for disclosure of sustainability-related financial information.
- (b) The objective of the proposed S1 Standard is proposed as *'to require an entity to disclose information about its significant sustainability-related risks and opportunities that is useful to the primary users of general purpose financial reporting when they assess enterprise value and decide whether to provide resources to the entity'* (paragraph 1 of the proposed S1 Standard).
- (c) Considering the objective of the proposed S2 Standard in light of the objective of the proposed S1 Standard, the objective of the proposed S2 Standard should be *'to enable users of the general purpose financial reporting to assess the effects of significant climate-related risks and opportunities on the entity's enterprise value'*, which corresponds to the proposal in paragraph 1(a) of the proposed S2 Standard.
- (d) On the other hand, the proposal in paragraph 1(b) *'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 significant climate-related risks and opportunities'* and the proposal in paragraph 1(c) *'the entity's ability to adapt its planning, business model and operations to significant climate-related risks and opportunities'* are necessary information to assess the effects of significant climate-related risks and opportunities on the entity's enterprise value.
- (e) Accordingly, these objectives should not be treated at the same level as the objective proposed in paragraph 1(a) of the proposed S2 Standard. If they are treated as explanations to bridge the overall (disclosure) objectives of the proposed S2 Standard described in paragraph 1(a) of the proposed S2 Standard and the specific disclosure objectives of the four elements of the *'core content'* described in paragraphs 4, 7, 16 and 19 of the proposed S2 Standard, we think it would facilitate the user's understanding of the Standards as to why the individual disclosures described in the proposed S2 Standard are required.
- (f) We believe that if the ISSB explains the need for individual disclosure

requirements, it may help entities (and where applicable, auditors (assurance providers) and regulators) to exercise their judgement about materiality.

- (g) In order to adopt an objectives-based approach, we believe that it is necessary to explain the need for individual disclosure requirements from concise and clear overall (disclosure) objectives through specific disclosure objectives.

Structuring the standard based on the TCFD recommendations

- 2. We note that the recommendations by the Financial Stability Board’s Task Force on Climate-Related Financial Disclosures (the ‘TCFD’) are widely accepted. Accordingly, we support the ISSB in developing the ‘core content’ section of IFRS Sustainability Disclosure Standards based on the structure of the TCFD recommendations (that is, to require disclosures in the international sustainability disclosure standards in relation to the four elements of ‘governance’, ‘strategy’, ‘risk management’ and ‘metrics and targets’).

Question 2—Governance
<p>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.</p> <p>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.</p>

Question 2—Governance

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?

Governance

3. We agree with paragraphs 4 and 5 of the proposed S2 Standard.
4. As discussed in paragraph 6 of the cover letter, we are of the view that the S1 Standard should be separated into different standards, namely a standard that covers the ‘*core content*’ section and a standard that covers the ‘*general features*’ section. We believe that it will clarify whether there is a difference in the granularity of disclosure requirements regarding the ‘*core content*’.

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.

Question 3—Identification of climate-related risks and opportunities

- (a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?
- (b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

Identification of ‘significant climate-related risks and opportunities’

5. The proposed S2 Standard does not define nor explain the terms ‘*climate-related risks*’ or ‘*climate-related opportunities*’. Regarding the term ‘*significant*’, only an explanation of ‘*significant risks*’ is included in paragraph BC40 of the proposed S1 Standard.¹
6. As a result, ‘*significant climate-related risks and opportunities*’ that is intended by the proposed S2 Standard may not be appropriately communicated to the users of the proposed S2 Standard and thus ‘*significant climate-related risks and opportunities*’ may not be comprehensively or properly identified by entities.
7. For example, although an entity may identify a variety of risks and opportunities in its operations, the entity may conclude that they are not ‘*significant climate-related risks and opportunities*’ or the entity, considering the characteristics of its business, may not treat them as being ‘*significant climate-related risks and opportunities*’.
8. Accordingly, we suggest that the ISSB take the following actions to clarify the

¹ Paragraph BC40 of the proposed S1 Standard states, ‘*Significant risks are those that an entity prioritises for management responses. They include risks and events that in the short, medium or long term could disrupt the entity’s business model or its strategy for sustaining and developing the business model that could affect the resources or relationships on which the entity depends or that threaten the viability of, or creates opportunities for, the entity.*’

requirements for identifying ‘*significant climate-related risks and opportunities*’:

- (a) The proposed S2 Standard should define or explain ‘*climate-related risks*’ and ‘*climate-related opportunities*’.
- (b) The proposed S1 Standard should explain ‘*significant sustainability-related risks and opportunities*’ based on the explanation of ‘*significant risks*’ in paragraph BC40 of the proposed S1 Standard. The proposed S2 Standard should refer to ‘*significant climate-related risks and opportunities*’, by referring to the concepts in the proposed S1 Standard.

Use of ‘disclosure topics’

9. Appendix B of the proposed S2 Standard *Industry-based disclosure requirements* provides climate-related disclosure topics relevant to individual industries (for example, ‘*raw materials sourcing*’, ‘*product lifecycle environmental impacts*’, ‘*energy management in manufacturing*’, ‘*wood supply chain management*’) as well as the ‘*topic summary*’ which provides an explanation of the disclosure topic. Such disclosure topics are considered to be useful because they indicate directions to the entity in identifying ‘*significant climate-related risks and opportunities*’.
10. In this regard, we note that there are quite a few disclosure topics and related metrics that are duplicative or are almost the same with minor differences that are prescribed across several industries in the proposed S2 Standard (for example, ‘*energy management*’, ‘*water management*’, ‘*greenhouse gas emissions*’). Accordingly, we think similar disclosure topics can be integrated into a single disclosure topic and referred to as ‘*overarching disclosure topics*’ (please refer to paragraph 67 of the Appendix to this letter for further details).

Disclosures of the definitions of short-, medium- and long-term

11. Paragraph 9(b) of the proposed S2 Standard proposes an entity to disclose how it defines short-, medium- and long-term. Given that how climate-related risks and opportunities emerge in the future may vary depending on the business, we agree with providing flexibility in determining the future period categories. We believe that it is more useful for users to understand and relatively less onerous to the entity to categorise future periods into appropriate multiple time periods in which climate-related risks and opportunities are expected to emerge in light of its own business. Accordingly, the disclosure required by paragraph 9(b) of the proposed S2 Standard

is considered to be useful for users to understand the entity's categorisation methodologies regarding future periods.

12. In addition, for entities, typically conglomerates, that engage in multiple businesses, the appropriate categorisation methodologies regarding future periods could be different depending on the business. In order to provide connected information, we suggest that the entity be permitted to categorise future periods into multiple time periods for each of its major business. One idea might be to disclose the multiple periods by reportable segments reported in the segment information disclosures in the financial statements.

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?

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

- (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?

Provision of information on the value chain

13. Information on the effects of significant climate-related risks and opportunities in an entity’s value chain is considered useful information to assess enterprise value. On the other hand, if the ED requires the provision of information about the value chain, we are concerned that entities may misunderstand that information of those in their value chain must be obtained with the same precision as subsidiaries. For this reason, when providing quantitative information about the value chain, the standard should explicitly state that information is not necessarily limited to information directly measured or reported by entities other than the reporting entity, but that such information may be disclosed by the reporting entity using estimation.

In this case, both data quality (in general, data quality is considered to be higher for directly measured or reported information and lower for estimates. A similar concept is adopted in the standards of the Partnership for Carbon Accounting Financials (PCAF)) and timely provision of information are to be pursued, but there can be trade-offs between the two. Accordingly, guidance should be provided by the ISSB on how entities should pursue both and how the trade-offs between them should be considered, taking into account existing practices.

Disclosure requirements based on qualitative information

14. Information on the effects of significant climate-related risks and opportunities in the value chain could, given its availability, be more likely to be provided qualitatively rather than quantitatively. However, we are of the view that such information does not need to *‘be qualitative rather than quantitative’* and that whether quantitative information, qualitative information, or a combination thereof should be used could be properly determined by the entity in light of the disclosure objectives.

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.

Question 5—Transition plans and carbon offsets

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

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

- (a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?
- (b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.
- (c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity’s approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?
- (d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity’s approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

Disclosure requirements for strategies and decisions (including transition plans)

15. We are concerned that the disclosure requirements proposed in paragraph 13 of the proposed S2 Standard include too many requirements for the initial set of the ‘*global baseline*’. Although we acknowledge that the proposed set of information is likely to be useful for users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on an entity’s strategy and decision-making (including its transition plans), overall, these proposals require information that is much broader and granular than the TCFD recommendations.

16. For example, we think information about *'adaptation and mitigation efforts'* in the context of paragraph 13(a)(i)(2) and (3) of the proposed S2 Standard is appropriate because they would be considered particularly useful in understanding an entity's attitudes towards climate-related issues. On the other hand, we think that information about *'plans and critical assumptions for legacy assets'* would be appropriate as an example and not a requirement, because currently practices related to legacy assets are immature. With regard to the description *'including strategies to manage carbon-energy and water-intensive operations, and to decommission carbon- energy and water-intensive assets'* in paragraph 13 of the proposed S2 Standard, we believe that its relationship with legacy assets is not clear. Accordingly, if the ISSB were to include this as an example, we believe the reasons for including this as an example should be clearly stated.
17. We believe that, in developing the *'global baseline'*, the ISSB should take a principles-based approach in developing IFRS Sustainability Disclosure Standards and should clearly explain how specific disclosure requirements are derived from relevant disclosure objectives. However, we are concerned that, particularly in relation to paragraph 13 of the proposed S2 Standard, the reasons for requiring each disclosure item (except for carbon offsets) is not sufficiently clear. Accordingly, we believe that the ISSB should clarify the reasons in the Basis for Conclusions on the proposed S2 Standard.
18. We are also concerned that paragraph 13 of the proposed S2 Standard uses the terms *'include'* and *'including'* frequently. We think it is not necessarily clear whether each item is required to be disclosed or merely an example.
19. With respect to paragraph 13(b)(iii) of the proposed S2 Standard, we believe the ISSB should require disclosure of an entity's objectives and its reasons regarding how it plans to address climate-related risks and opportunities after considering a wide range of options, including the use of carbon offsets, and then require disclosure of the targets in achieving these objectives. In addition, when carbon offsets are used, our understanding is that it would be useful to require the disclosure about the nature and the type of carbon offsets as well as about third-party verification or certification scheme to which the offsets will be subject to.

With respect to the information about *'the extent to which targets rely on the use of carbon offsets'*, some agree that it should be a requirement because this would provide useful information to understand how an entity is trying to meet its emissions

targets, while others have suggested it should be an example rather than a requirement, because there are uncertainties regarding the progress of technological development related to carbon offsets and the economic rationality of carbon offsets, as well as uncertainties regarding the future development of common infrastructure.

In addition, we note that paragraph 13(b)(iii)(3) of the proposed S2 Standard implies that emission avoidance is considered as carbon offsets, although its definition in Appendix A of the proposed S2 Standard does not seem to include emission avoidance. Accordingly, we believe the ISSB should address this inconsistency in order to ensure consistency within the standards and to develop coherent standards.

20. Furthermore, we believe the ISSB should develop guidance about materiality judgements in the context of disclosing the entity's strategy, because we think it may be difficult to apply materiality judgements in this area.

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

Question 6—Current and anticipated effects

separable for the purposes of climate-related disclosure (for example, if the value of an asset is considered to be at risk it may be difficult to separately identify the effect of climate on the value of the asset in isolation from other risks).

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

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

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

- (a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?
- (b) Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?

Question 6—Current and anticipated effects

- (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?

Disclosure requirements for quantitative information on current and anticipated effects

21. Quantitative disclosures of financial effects on significant climate-related risks and opportunities are useful to users, because information provided in the financial statements, namely information about the financial position, financial performance and cash flows of the entity are presented quantitatively. As proposed in the proposed S2 Standard, permitting disclosures not only in a single amount but also in a range of amounts may facilitate the disclosure of quantitative information for those entities that do not believe that uncertain information should be provided.
22. On the other hand, the anticipated effects of sustainability-related risks and opportunities, including those climate related, require estimates for longer periods than the accounting estimates in the financial statements and we think the issue should be addressed as follows:
- (a) The proposed Standard should require entities to disclose information that enables users to understand how they made the estimates, including key assumptions and the inputs used in the estimates.
 - (b) The proposed Standard should clearly state that disclosures of the anticipated effects are not promises about the future, but that they are best estimates made by the entity under the assumptions that the outcome may be completely different than what was estimated. Because disclosures of anticipated effects are likely to become of particular concern to auditors and regulators if such disclosures become subject to audit (assurance) and regulation, we urge the ISSB to work closely with the International Auditing and Assurance Standards Board (IAASB) and the International Organization of Securities Commissions (IOSCO).

Requirements to disclose the financial effects of a reporting period

23. The disclosures of the financial effects of climate-related risks and opportunities are considered to be useful information for users to understand how climate-related risks and opportunities have affected financial information.
24. On the other hand, the financial effects of climate-related risks and opportunities may vary in scope and methodology, depending on the identified climate-related risks and opportunities.
25. For example, if an entity were to calculate the financial effects related to climate for ‘*raw material sourcing*’ in the current period, an entity may calculate ‘the effect on net income is CU1 million as a result of a 5% increase in sourcing costs compared to 10 years ago due to the effects of climate change’. However, there are many issues that need to be resolved before requiring disclosures of such financial effects, including how the base year for comparison should be determined, how non-climate factors (for example, the effects of changes in the exchange rate) should be eliminated, and how to consider suppliers when they were replaced.
26. Given that climate-related risks and opportunities are identified by reference to the disclosure topics in Appendix B *Industry-based disclosure requirements*, of the proposed S2 Standard in accordance with paragraph 10 of the proposed S1 Standard, and if the ISSB were to proceed with the development of industry-based standards, we suggest that the technical protocol regarding how to calculate the financial effects for the reporting period shall be developed for each disclosure topic and that entities be required to refer to that technical protocol in preparing the disclosures.

Requirements for disclosure of the financial effects on future periods

27. For disclosures of the financial effects of climate-related risks and opportunities for future periods, the discussions in paragraphs 23 through 26 of the Appendix to this letter also apply.

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

Question 7—Climate resilience

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

Question 7—Climate resilience

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

Question 7—Climate resilience

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

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

- (a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?
- (b) The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.
 - (i) Do you agree with this proposal? Why or why not?
 - (ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?
 - (iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?
- (c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?
- (d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?

Question 7—Climate resilience

- (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?

Disclosure requirements related to climate resilience

28. Our understanding is that information related to climate resilience is useful for users of general purpose financial reporting to understand the entity’s strategy (including its business model). We also understand that an increasing number of entities are incorporating scenario analysis in developing their strategies. We believe that scenario analysis is a useful tool to assess the impacts on industries because this is derived from evidence-based multiple future scenarios, which we believe is also an effective methodologies to assess climate-related impacts. However, our understanding is that the practice of scenario analysis continues to improve. Accordingly, we believe that the ISSB should permit methodologies other than scenario analysis to assess the climate resilience of an entity’s strategy.
29. Paragraph 15 of the proposed S2 Standard states that *‘the entity shall use climate-related scenario analysis to assess its climate resilience unless it is unable to do so’*. If the proposed S2 Standard is finalised as it is, we are concerned that there might be practical issues to determine when it is considered *‘unable to do so’* and when otherwise. If the cases where *‘unable to do so’* is effectively defined from the perspective of auditing (assurance) or regulations in a very limited manner, entities would practically have no choice but to use scenario analysis.
30. We believe that the ISSB need not require use of scenario analysis for all cases because, in our view, there are circumstances where the entity can assess the climate resilience of its strategy without conducting scenario analysis. Our understanding is that entities generally incur a certain amount of costs upon implementing scenario analysis and thus requiring all entities to conduct scenario analysis may not be justified from a cost-benefit perspective.
31. Paragraph 15(b)(ii)(7) of the proposed S2 Standard requires entities to disclose why they were not able to use scenario analysis and, therefore, we believe it is unlikely

that entities would arbitrarily avoid disclosing scenario analysis when they have actually conducted the analysis. Accordingly, we believe that the ISSB should permit methodologies other than scenario analysis to assess the climate resilience of an entity’s strategy, if the entity can justify its approach not to use scenario analysis (for example, an entity can assess the climate resilience of its strategy by conducting risk assessment in an equivalently sufficient manner as by conducting scenario analysis).

32. For the reasons above, we believe that the sentence in paragraph 15 of the proposed S2 Standard *‘the entity shall use climate-related scenario analysis to assess its climate resilience unless it is unable to do so’* could be reworded as *‘the entity shall use climate-related scenario analysis to assess its climate resilience unless it is unable to do so or it can be justified not to do so. (For example, the entity can assess the climate resilience of its strategy by conducting risk assessment in an equivalently sufficient manner as by conducting scenario analysis.)’*

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.

Question 8—Risk management

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?

Risk Management

33. We agree with paragraphs 16 and 17 of the proposed S2 Standard.

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

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

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.

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

Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energy-efficient products or seek to enable or incentivise upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to identify the most significant GHG reduction opportunities across an entity's entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs.

For Scope 3 emissions, the Exposure Draft proposes that:

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

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

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

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

- (a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?
- (b) Are there any additional cross-industry metric categories related to climate-related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.
- (c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?
- (d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3—expressed in CO₂ equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH₄) separately from nitrous oxide (NO₂))?
- (e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:
 - (i) the consolidated entity; and
 - (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?
- (f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

Cross-industry metric categories (other than greenhouse gas emissions)

34. We basically agree with the seven cross-industry metric categories, because these categories are aligned with the TCFD recommendations. We have not identified any cross-industry metric categories in addition to these seven categories.

Our comments on cross-industry metric categories (other than greenhouse gas emissions) are as follows:

Need for definition or explanation of terms

35. Of the cross-industry metric categories proposed in paragraph 21 of the proposed S2 Standard, regarding assets or business activities vulnerable to transition risks and physical risks (paragraphs 21(b) and (c) of the proposed S2 Standard), there is no definition nor explanation of ‘*vulnerable*’ in the proposed S2 Standard.

36. Similarly, regarding assets or business activities aligned with climate-related opportunities (paragraph 21(d) of the proposed S2 Standard) and capital expenditure, financing or investment deployed towards climate-related risks and opportunities (paragraph 21(e) of the proposed S2 Standard), there are no definitions nor explanations of ‘*aligned*’ and ‘*deployed*’ in the proposed S2 Standard.

37. The ISSB acknowledges in the Basis for Conclusions on the proposed S2 Standard (paragraph BC109) that such expressions are less specific and may require further evolution. However, if the proposed S2 Standard is finalised as it is, we are concerned that entities will face difficulties in applying the guidance and that the guidance may result in diversity in practice. For example, comparability may be impaired due to differences in perceptions between entities that have made disclosures based on TCFD recommendations and those that have not.

38. While it may be possible to roughly understand the concepts through the illustrative guidance of the proposed S2 Standard, we think the ISSB should explain the concepts of ‘*vulnerable*’, ‘*aligned*’ and ‘*deployed*’ in the proposed S2 Standard as well as adding references to the illustrative guidance in paragraph 22(a) of the proposed S2 Standard.

Internal carbon prices

39. Regarding internal carbon prices, we observe that, although the number of entities adopting is increasing, it is actually used by a limited number of large entities. For this reason, depending on how many entities are introducing this in the future, it is

conceivable to add the term *'if applicable'* for the internal carbon prices to paragraph 21(f) of the proposed S2 Standard.

40. We then agree with paragraph 21(f) (ii) of the proposed S2 Standard, as it is considered useful to explain how it is applied to decision making when the internal carbon price is used. Since these disclosures are considered to be relevant to the disclosure objectives of *'strategy'*, it may be included in the Standard that it is useful to linkage the disclosures with *'strategy and decision-making'*.
41. Within the proposals related to the internal carbon price, some have suggested that it is appropriate to require the disclosure of the internal carbon price itself as proposed in paragraph 21(f)(i) of the proposed S2 Standard, if applicable, as its disclosure provides the specific price at which decisions are being made. However, others have suggested that the disclosure of the internal carbon price itself should be voluntary because there is diversity in the methodologies used to determine such price varies, and there is a tendency that a higher price is always considered better. Those who think the disclosure of the internal carbon price itself should be voluntary are concerned that the enterprise value may not be properly assessed by making uniform comparisons and evaluations without sufficient consideration of the situation of individual entities, and that the information may be commercially sensitive. There is an opinion that it should not be a uniform requirement.

Because information on whether the pricing is implicit or explicit may provide useful information, instead of disclosing the internal carbon price itself, the ISSB may consider requiring the disclosure on how the internal carbon price is calculated.

Remuneration

42. Paragraph 21(g) of the proposed S2 Standard proposes disclosing the linkage between executive management remuneration and climate-related considerations. We note that executive management remuneration may not only be linked to climate-related considerations, but also to various sustainability-related considerations.
43. Users may need information regarding how the entity's efforts toward sustainability in general, including climate, are linked to executive management remuneration. In this regard, it may be useful to require in the proposed S1 Standard disclosures of quantitative or qualitative information (or a combination of both) that describes how considerations relating to sustainability in general are incorporated into executive management remuneration. In practice, executive management remuneration are

calculated in a variety of ways, and therefore, percentages that are tied to considerations related to sustainability in general should be one example of quantitative disclosures.

44. In cases in which the proposed S1 Standard is amended as above, regarding ‘*a description of how climate-related considerations are factored into executive remuneration*’ as proposed in paragraph 21(g)(ii) of the proposed S2 Standard, it will be sufficient for the proposed S2 Standard only to require any disclosures that are incremental to the disclosures provided in accordance with the amended proposed S1 Standard.
45. We note that some have suggested that it would be appropriate to make the disclosure of executive management remuneration voluntary and not mandatory, given that the TCFD recommendations are currently not mandatory but merely recommendations.
46. In addition, because it is likely to be useful to disclose remuneration metrics in connection with governance disclosures, we are of the view that this point should be noted in the proposed S2 Standard.

Greenhouse gas emissions

Using the GHG Protocol

47. We recognise that the GHG Protocol is the most widely used standard for measuring greenhouse gas emissions. Accordingly, at this time, we agree with the requirement to account for GHG emissions based on the methodologies set out in the GHG Protocol.
48. However, we are concerned with the proposal that guidance published by organisations that are beyond the ISSB’s control will automatically constitute IFRS Sustainability Disclosure Standards. Protocols that form the basis for calculating GHG emissions are considered critical in ensuring the reliability and comparability of the disclosed information. We are concerned that the ISSB Standards will lack stability by allowing organisations other than the ISSB to amend such critical guidance. Accordingly, we suggest that matters such as the structure with 3 Scopes, the basic principles of emission factors, and the treatment of associates and joint ventures be defined by the ISSB in the proposed S2 Standard. For other details, the ISSB should prescribe disclosure requirements, for example, to measure greenhouse gas emissions based on internationally widely used measurement criteria.

49. We acknowledge that comparability may be enhanced by referring to the GHG Protocol in the ISSB's publications. As we suggest in our comment letter to the proposed S1 Standard, we think guidance published by the ISSB can be classified into two, namely *'the main text'* and *'the addendum'*. *'The main text'* would prescribe only the most core disclosure requirements. The requirements prescribed in *'the main text'* generally are not expected to be amended frequently, and thus the common understanding would be that *'the main text'* will continue to be used for a certain period of time, thereby achieving the stability of the ISSB Standards. As such, new additions or amendments to *'the main text'* are likely to warrant a relatively long comment period. On the other hand, *'the addendum'* would prescribe guidance that is expected to change relatively frequently. *'The addendum'* may specify metrics and references to organisations other than the ISSB regarding the measurement of such metrics to enhance comparability. We provide the GHG Protocol as an example to be included in *'the addendum'*. If the GHG Protocol is modified, we suggest that the ISSB consider the validity of the change and consider whether to amend *'the addendum'*. The comment period for changes to *'the addendum'* would generally be shorter than the comment period for changes to *'the main text'*, thereby maintaining the flexibility in modifying standards in a timely manner.
50. Other than the Corporate Standard, the GHG Protocol also includes standards such as the Corporate Value Chain (Scope 3) standard, as well as guidance such as the Scope 2 guidance and the Scope 3 calculation guidance, so it may clarify that it refers to the GHG Protocol in the aggregate, including such standards and guidance.
51. In addition, some jurisdictions may require disclosures based on their own greenhouse gas measurement methodologies; therefore, when measuring greenhouse gases using these methodologies, the adoption of these methodologies could be permitted after requiring disclosure of major differences from the GHG Protocol.

Scope 1 and Scope 2 emissions

52. Associates, joint ventures, unconsolidated subsidiaries and affiliates are not included in the consolidated accounting group and thus are not included in the scope of the reporting entity. Accordingly, we acknowledge that, in practice, the information of the GHG emissions from these entities may be included in the *'Scope 3 emissions'* disclosures.

53. If the disclosure of Scope 1 emissions and Scope 2 emissions is required of associates, joint ventures, unconsolidated subsidiaries and affiliated companies which are not included in the consolidated accounting group, entities may need to change their existing practices, and this may lead to excessive burden on entities. Although ‘*affiliates*’ is a term defined in U.S. GAAP² (such as Topic 850 *Related-Party Disclosures*) and the term of ‘*associated/affiliated companies*’ is also defined in the GHG Protocol³, the proposed S2 Standard (or IFRS Accounting Standards) does not define the term ‘*affiliates*’. Accordingly, the scope of ‘*affiliates*’ is unclear and we are concerned that this may confuse in practice.
54. We are of the view that users need to understand the greenhouse gas emissions of the reporting entity (Scope 1 and Scope 2) and of the entire value chain other than the reporting entity (Scope 3). Not identifying the greenhouse gases of associates, joint ventures, unconsolidated subsidiaries and affiliates that are not included in the consolidated group as Scope 1 and Scope 2 would not hinder the assessment of enterprise value.
55. Accordingly, we are of the view that disclosures of Scope 1 and Scope 2 emissions should only be required for the scope of the reporting entity (that is, the ‘*consolidated accounting group*’ in paragraph 21(iii) (1) of the proposed S2 Standard).

Scope 3 emissions

56. We consider Scope 3 emissions to be useful information for users to understand significant climate-related risks and opportunities in the value chain and to assess the enterprise value. On the other hand, at present, we observe that diversity exists in the quality and quantity of disclosures depending on the industry and the entity. We also note that TCFD recommendations encourage all organisations to disclose Scope 1 and Scope 2 emissions independent of the materiality assessment, but Scope 3 emissions are subject to the materiality assessment. Our understanding is that the

² U.S. GAAP defines affiliates as ‘*a party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an entity*’.

³ The GHG protocol defines associated/affiliated companies as ‘*the parent company has significant influence over the operating and financial policies of the company, but does not have financial control. Normally, this category also includes incorporated and non-incorporated joint ventures and partnerships over which the parent company has significant influence, but not financial control. Financial accounting applies the equity share method to associated/affiliated companies, which recognizes the parent company’s share of the associate’s profits and net assets*’.

calculation of Scope 3 emissions is largely based on estimates, and practices are currently evolving, including how to obtain information in a timely manner and the details of calculation methodologies of estimation.

57. Accordingly, for the time being, we think it is appropriate to adopt an approach that would enhance disclosures in phases, in line with the evolution of calculation practices. For example, within the 15 categories of Scope 3 emissions, the ISSB may decide to require disclosures for categories that have been identified to have concentrated significant climate-related risks and opportunities in accordance with paragraph 12(b) of the proposed S2 Standard (in this case, the categories covered by the calculation should be disclosed as proposed in paragraph 21(a)(vi)(2) of the proposed S2 Standard). When enhancing disclosures, we expect the ISSB to take the lead in developing guidance that can be applied globally regarding: (1) specific calculation methodologies (including whether or not to distinguish calculation methodologies for the financial (such as PCAF), and non-financial sectors, and whether or not to allow jurisdiction-specific calculation methodologies); (2) general principles for the data to be used (such as to use data as of when or which period, how to simultaneously pursue data quality and timely provision of information and how to consider the trade-off between the two); and (3) detailed guidance for the 15 categories.
58. In addition, we think it is not necessarily clear how the materiality of Scope 3 emissions should be assessed in practice. Accordingly the ISSB should consider, clarifying the process for determining materiality in the proposed S1 Standard and re-emphasising that the disclosure of Scope 3 emissions is also subject to materiality assessment, and further to provide guidance on how in practice the materiality of Scope 3 emissions should be assessed (for example, to illustrate when the disclosure of Scope 3 emissions may affect user decisions, such as when it affects the understanding of significant climate-related risks and opportunities in an entity's value chain).

Question 10—Targets

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

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

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

- (a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?
- (b) Do you think the proposed definition of ‘latest international agreement on climate change’ is sufficiently clear? If not, what would you suggest and why?

Disclosure requirements for targets

59. We agree with the disclosure requirements for targets proposed in paragraph 23 of the proposed S2 Standard. However, since targets are also discussed in the ‘*strategy and decision-making*’ subsection within the ‘*strategy*’ section (paragraph 13 of the proposed S2 Standard), the ISSB should clarify the difference between these two.

Latest international agreement on climate change

60. Regarding the ‘*latest international agreement on climate change*’ set out in paragraph 23(e) and defined in Appendix A of the proposed S2 Standard, while the United Nations Framework Convention on Climate Change (the ‘UNFCCC’) (for example, *the Paris Agreement*) is the first that comes to the mind of many, there are international agreements other than *the Paris Agreement* that may set targets (for example, in the International Civil Aviation Organisation and International Maritime Organisation). Accordingly, the term ‘*agreement*’ in ‘*(t)he latest international agreement on climate change*’ should be written in the plural form (‘*(t)he latest international agreements on climate change*’). For the same reason, the definition of the ‘*latest international agreements on climate change*’ in Appendix A of the proposed S2 Standard should be amend so that the definition would not exclude international agreements other than those under the UNFCCC. For example, we propose the following definition:

‘The latest international agreements on climate change are an agreement by states, such as the United Nations Framework Convention on Climate Change and the Paris Agreement’.

61. In addition, in the event that *the Paris Agreement* is revised in the future, we note that the ‘*latest international agreement on climate change*’ may become different depending on the timing each jurisdiction ratifies the new agreement. Accordingly, it may be useful to disclose which agreements the entity considered to be the ‘*latest international agreement on climate change*’ when it sets targets. We believe that it should be required in paragraph 23(e) of the proposed S2 Standard to disclose the ‘*latest international agreement on climate change*’ that the entity referred to (for example, *the Paris Agreement*).

Sectoral decarbonisation approach

62. Paragraph 23(f) of the proposed S2 Standard requires an entity to disclose ‘*whether the target was derived using a sectoral decarbonisation approach*’ (SDA). We agree with this proposal because we believe it would provide useful information regarding whether the target has been set by using the SDA.

63. In Japan, not only operations that have already been decarbonised but also efforts toward ‘*transitions*’ to decarbonise emission-intensive industries are emphasised. Roadmaps for decarbonisation by industry have also been published by the

Government, and some entities refer to them and set targets based on them. Because there can be a variety of sectoral decarbonisation approaches, we think the ISSB should define the term ‘*sectoral decarbonisation approach*’ in paragraph 23(f) of the proposed S2 Standard. Where entities have used a sectoral decarbonisation approach in setting their targets, it may also be appropriate to require disclosure of which sectoral decarbonisation approach they have used.

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

Question 11—Industry-based requirements

of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?

- (b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?
- (c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

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

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

- (d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?
- (e) Do you agree with the industries classified as ‘carbon-related’ in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?
- (f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?

Question 11—Industry-based requirements

- (g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?
- (h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?
- (i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

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

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

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

Question 11—Industry-based requirements

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

- (j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?
- (k) Are there any additional industry-based requirements that address climate-related risks and opportunities that are necessary to enable users of general purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.
- (l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?

Whether to require industry-based disclosures for all entities

- 64. As we describe in paragraph 5 of the covered letter, we believe that the ISSB should establish a process to achieve the overall disclosure objectives of IFRS Sustainability Disclosure Standards (disclosure of material information about all of the significant sustainability-related risks and opportunities) by applying thematic-based requirements, and to further achieve the overall disclosure objectives by disclosing industry-based information by applying industry-based disclosure requirements.
- 65. As we note in our comment letter to the proposed S1 Standard, we are of the view that there are many issues that the ISSB needs to resolve if it were to incorporate the SASB Standards into IFRS Sustainability Disclosure Standards. (Nevertheless, we think the disclosure topics are useful in identifying sustainability-related risks and opportunities.) In addition, it is our understanding that the SASB Standards have been developed to address a wide range of sustainability-related themes and thus they

should not be *'processed'* to become guidance limited to climate-related industry-based standards. Nevertheless, because the ED tries to isolate climate-specific industry-based standards within the SASB Standards, the ED includes disclosure topics or metrics that have little relevance to climate. As a result, we are concerned that these disclosures could be onerous to entities

For the reasons discussed above, we recommend that, as the policy of developing the *'comprehensive global baseline'*, the ISSB give higher priority to the development of the thematic requirements (including disclosure topics) and develop industry-based requirements once the above issues have been resolved.

If the ISSB were to proceed with the development of industry-based requirements at this stage, our opinion for that process would be as follows.

Approach to revise the SASB Standards

66. Our understanding is that the industry classifications in the proposed S2 Standard is derived from the industry classification developed by SASB (Sustainable Industry Classification System[®]; SICS[®]). We believe that some entities currently use SICS[®] in disclosing metrics based on the SASB Standards because it is the only industry classification that is currently available to disclose metrics of sustainability-related financial information. We also believe that those entities may not necessary consider SICS[®] as the best industry classification to use because there is no clear global consensus on the use of SICS[®] as the industry classification for sustainability-related financial information. Our understanding is that the SASB Standards have been developed so as to address various sustainability-related themes and not necessarily limited to climate. Nevertheless, we believe that the ISSB should consider whether the industry classification in the proposed S2 Standard will serve as the appropriate industry classification even when developing industry-based standards that address sustainability-related themes other than climate.
67. In addition, we note that there are quite a few disclosure topics and related metrics that are duplicative or are almost the same with minor differences that are prescribed across several industries. We believe that these disclosure topics can be standardised and such standardisation would streamline the large amount of requirements included in Appendix B and would improve the understandability of the standards.

Examples of duplicated disclosure topics (not exhaustive)

Disclosure topics	Examples of industries in which the disclosure topics are included
Energy Management	<ul style="list-style-type: none"> • E-commerce (CG-EC) • Alcoholic Beverages (FB-AB) • Drug Retailers (HC-DR) • Electrical & Electronic Equipment (RT-EE) • Auto Parts (TR-AP)
Water Management	<ul style="list-style-type: none"> • Household & Personal Products (CG-HP) • Meat, Poultry & Dairy (FB-MP) • Chemicals (RT-CH) • Electronic Manufacturing Services & Original Design Manufacturing (TC-ES)
Greenhouse Gas Emissions	<ul style="list-style-type: none"> • Agricultural Products (FB-AG) • Pulp & Paper Products (RR-PP) • Airlines (TR-AL)

Examples of duplicated industry-based metrics (not exhaustive)

Disclosure topics	Metrics	Examples of industries in which the metrics or similar metrics are included
Energy Management	(1) Total energy consumed, (2) percentage grid electricity, (3) percentage renewable	<ul style="list-style-type: none"> • E-commerce (CG-EC) • Alcoholic Beverages (FB-AB) • Electrical & Electronic Equipment (RT-EE) • Auto Parts (TR-AP)
Water Management	<ul style="list-style-type: none"> • Description of water management risks and discussion of strategies and practices to mitigate those risk 	<ul style="list-style-type: none"> • Household & Personal Products (CG-HP) • Meat, Poultry & Dairy (FB-MP) • Chemicals (RT-CH)

	(1) Total water withdrawn, (2) total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress	<ul style="list-style-type: none"> Household & Personal Products (CG-HP) Meat, Poultry & Dairy (FB-MP) Chemicals (RT-CH)
	Number of incidents of non-compliance with water quality permits, standards, and regulations	<ul style="list-style-type: none"> Metals & Mining (EM-MM) Meat, Poultry & Dairy (FB-MP) Chemicals (RT-CH)
Greenhouse Gas Emissions	Gross global Scope 1 emissions	<ul style="list-style-type: none"> Agricultural Products (FB-AG) Pulp & Paper Products (RR-PP) Airlines (TR-AL)
	Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets	<ul style="list-style-type: none"> Agricultural Products (FB-AG) Pulp & Paper Products (RR-PP) Airlines (TR-AL)

68. We also note that disclosure topics and related metrics included in Appendix B of the proposed S2 Standard include those related to other sustainability-related topics, such as those related to water. We understand that disclosure topics and relevant metrics related to other sustainability-related topics are included to some extent when climate-related disclosure topics and related metrics are presented, because sustainability-related themes are interrelated. However, we observe that some disclosure topics and related metrics that are less relevant to climate-related industry-based requirements, such as land-use and chemicals. Accordingly, when the ISSB develops other thematic-based requirements in the future, we think that it might be necessary to reorganise the disclosure topics included in the climate-related industry-based requirements, such as by removing a certain disclosure topic included in the climate-related industry-based requirements and including it in the newly established thematic-based requirements if the latter theme is more closely related to that

disclosure topics.

69. For the reasons above, if the ISSB were to develop industry-based requirements at this stage, we propose that the ISSB consider taking the steps outlined below:
- (a) Develop an international industry classification based on global consensus, starting from scratch (which may result in an industry classification that is similar to SASB's industry classification).
 - (b) With regard to duplicative or similar disclosure topics and relevant metrics, integrate them and develop a list of '*overarching disclosure topics*'.
 - (c) Based on the industry classification developed in step (a), create a mapping table of industries and disclosure topics by designating one or more disclosure topics for each industry from the list created in step (b).
 - (d) Require an entity to identify one or more industries relevant to the entity's business and, for each industry identified, disclose the industry-based metrics related to the disclosure topics specified in the mapping table created in step (c).
 - (e) Develop guidance about the scope of disclosures to be made by entities engaged in multiple business (typically conglomerates).
70. We note that paragraph BC36 of the Basis for Conclusions on the proposed S2 Standard implies that industry-based disclosure requirements could be industry-specific material to address a range of sustainability-related risks and opportunities, rather than being linked to climate or other thematic standard. We agree with this idea in dealing with industry-based disclosure requirements. We believe it might be useful in the future to prepare the '*overarching disclosure topics*' described in paragraph 68(b) above for a range of sustainability-related themes and not limited to climate.

Industry description

71. Appendix B *Industry-based disclosure requirements* of the proposed S2 Standard provides '*Industry Description*' for each industry. We recommend that these descriptions be replaced with definitions of each industry, which would increase its international applicability.

Unit of measurement

72. We note that the unit of measurement is defined for each relevant industry-based metric. However, we believe that the ISSB should permit using alternative units of measurement if the conversion ratio is readily available, such as kilometres and miles, provided that the units of measurement are explicitly specified.

Activity metrics

73. As described in paragraph B4 (e) of the proposed S2 Standard, activity metrics are defined to ‘*quantify the scale of specific activities or operations by an entity*’. However, some activity metrics included in Appendix B *Industry-based disclosure requirements* of the proposed S2 Standard do not seem to be appropriate for representing the scale of a particular activity or operation by an entity. For example, with regard to the number of checking and savings accounts (FN-CB-000.A) as well as the number of loans (FN-CB-000.B) for commercial banks and the number of insurance policies in force by segment (FN-IN-000.A) for insurance companies, whether the size of an account is large or small depends on the counterpart. Accordingly, we believe that the ISSB should reconsider whether the number of contracts, transactions, and accounts, etc. is appropriate to be used as activity metrics. Even if the ISSB concluded that it would be appropriate, we believe that the ISSB should clarify the definition and specify how that number should be measured:

Proposed amendments intended to improve international applicability

74. We note that the ISSB made technical refinements that are narrow in scope for 36 of the 350 metrics included in Appendix B of the proposed S2 Standard to enhance international applicability by using the following three proposed approaches (from paragraphs BC130 through BC142 of the Basis for Conclusions on the proposed S2 Standard).

- (a) Revision Approach 1: Referring to an internationally applicable standard, definition or calculation methodology
- (b) Revision Approach 2: Providing a general definition (if Revision Approach 1 cannot be applied)
- (c) Revision Approach 3: Referring to jurisdictional requirements (if Revision Approach 1 and 2 cannot be applied)

75. We believe that an entity should disclose information about regulations that is relevant to its operations, which would enable users of general purpose financial reporting to appropriately assess the entity's transition risks. Our understanding is that some industries, such as the 'Airlines' industry, are subject to regulations that are applied internationally, whereas other industries, such as the 'Home Builders' industry, are subject to local regulations.
76. Accordingly, we urge the ISSB to consider the differences in the international applicability of regulations within industries when developing industry-based disclosure requirements. We believe that the ISSB could enhance the international applicability of IFRS Sustainability Disclosure Standards by taking either of the following two approaches: develop requirements based on a general definition so that entities can apply those requirements regardless of whether the regulations they are subject to are applied internationally or not; or to limit the requirements to explanations of disclosure topics and treat the technical protocol as application guidance (which makes local standards, definitions or calculation methodologies outside the requirements). We also believe that the ISSB should require an entity to disclose the standards, definitions or calculation methodologies it used, to facilitate the understanding of users of general purpose financial reporting.
77. We note that there are still some descriptions of laws and regulations specific to the United States in Appendix B of the proposed S2 Standard (for example, the metric CG-AM-410a 2 in the 'Appliance Manufacturing' industry includes references to the Association of Home Appliance Manufacturers (AHAM) sustainability standard), and we have concerns that the ISSB has not completed its comprehensive review of the international applicability.
78. As we note in paragraphs 66 through 69 of the Appendix to this letter, if the ISSB intends to enhance the international applicability in a true sense, we believe that the ISSB should reconsider the industry classification.

References to guidance published by organisations other than the ISSB

79. The ED refers to guidance published by organisations other than the ISSB. Appendix B *Industry-based disclosure requirements* of the proposed S2 Standard includes many proposals saying:

The entity shall consider [the name of the guidance published by an external organisation other than the ISSB] as a normative reference, thus

any future updates made year-on-year shall be considered updates to this guidance.

80. We have reservations with proposals suggesting that guidance published by organisations other than the ISSB which the ISSB cannot control automatically forms part of IFRS Sustainability Disclosure Standards. If the ISSB were to prescribe requirements that refer to organisations other than the ISSB in IFRS Sustainability Disclosure Standards, we suggest that the ISSB's due process clearly state and thus the ISSB comply, in accordance with its due process, with a process that would require the ISSB to validate any guidance (including any updates or amendments thereto) published by organisations other than the ISSB.

Rationale for requiring industry-based metrics

81. For the individual metrics presented for each industry, many seem to lack the explanation as to why the disclosures of those metrics are necessary. For industry-based metrics, explaining how the metrics relate to the disclosure topics and how the disclosure topics relate to the disclosure objectives in the proposed S2 Standard would clarify the benefits of providing such disclosures. Furthermore, it would help entities determine how they should provide disclosures when it is not necessarily clear from the requirements in the standards. In addition, such information is likely to be useful in conducting audits (or providing assurance) and for regulatory enforcement.

Examples of disclosures of industry-based metrics

82. Stakeholders in our jurisdictions note that there are psychological hurdles to apply the proposals in the ED because it is difficult to imagine how the whole picture of the disclosures resulting from the ED would look like.
83. Accordingly, we suggest that the ISSB consider whether it should provide illustrative examples of disclosures of sustainability-related financial disclosures in order to facilitate the application of IFRS Sustainability Disclosure Standards. For example, we think it would be useful to clarify in the illustrative examples whether disclosing relevant industry-based metrics in explaining the entity's strategies would meet the industry-based disclosure requirements.

Financed emissions and facilitated emissions in the financial sector*Financed emissions and facilitated emissions*

84. Financed emissions accounts for the majority of the total GHG emissions of financial organisations, and we acknowledge that the information needs from users of general purpose financial reporting is high. Our understanding is that an increasing number of financial organisations, around the world, are disclosing information related to financed emissions. Considering the substantial impacts that financial organisations have on society, we support that the ISSB in requiring financial organisations to disclose industry-based disclosures related to financed emissions.

We believe it would be efficient and effective for Appendix B of the proposed S2 Standard to leverage the concepts of the standards published by Partnership for Carbon Accounting Financials (PCAF) as a starting point when developing the disclosure requirements related to financed emissions, because the use of the standards published by PCAF is expanding in practice and is expected to expand in the future.

85. On the other hand, we think the ISSB should take a phased approach for implementing the disclosure requirements related to financed emissions, which is in line with our proposals about other disclosure requirements related to Scope 3 emissions, for the following reasons:

(a) The current standards published by PCAF (the first edition of the Global GHG Accounting and Reporting Standard for the Financial Industry (the PCAF Standard)) provides methodological guidance to assist in the measurement and disclosure of GHG emissions associated with only six asset classes: (1) listed equity and corporate bonds, (2) business loans and unlisted equity, (3) project finance, (4) commercial real estate, (5) mortgages and (6) motor vehicle loans. The current PCAF Standard do not address the calculation of GHG emissions for other asset classes included in Appendix B of the proposed S2 Standard (for example, derivatives and undrawn loan commitments).

(b) When calculating financed emission, the PCAF Standard permit the use of data from years that are different from an entity's reporting year (for example, the previous year of the entity's reporting year) if the data is the most recent or otherwise appropriate data available, considering the time lag of obtaining data. Our understanding is that this is partly because financed emissions are calculated

based on the data included in the annual reports of the investee or counterparty, unlike how Scope 3 emissions are calculated for other categories. However, the ED requires the calculation of Scope 3 emission to cover the same reporting period as the related financial statements.

We note in our comment letter to the proposed S1 Standard that *‘while it is desirable for the disclosures of sustainability-related financial information and financial statements to cover the same reporting period, the ISSB should permit different reporting periods’*. However, we note that covering the same reporting period as that covered in the financial statements is especially difficult for the disclosure of financed emissions, because the calculation of such financed emissions would be based on the information provided by the investee or counterparty. Accordingly, we believe that the ISSB should consider whether the disclosures on financed emissions could cover reporting periods that are different from the reporting entity’s reporting period, considering the current practices of financial organisations and the nature of data required in the calculation.

We also note that, if the ISSB were to require the disclosures on financed emissions to cover the same reporting period that of the entity’s reporting period, financial organisations may need time to meet the requirements because they will need to change their current calculation processes, including the underlying data to be used. Accordingly, the ISSB should take this into account when considering the timing of implementation of the disclosure requirements related to financed emissions.

86. We believe there are several options regarding how to implement the disclosure requirements related to financed emissions in a phased manner, including: (1) implementing the disclosure requirements from the industries of the investee or counterparty that are considered to have relatively high transition risks; (2) implementing the disclosure requirements from the asset classes for which calculation methodologies have been established; (3) implementing the disclosure requirements starting with Scope 1 and Scope 2 emissions of the investee or counterparty, and then implementing Scope 3 emissions of the investee or counterparty; or (4) a combination of the above. Considering the evolving nature of practices to calculate and disclose financed emissions, we believe the ISSB could permit an entity to select from these approaches upon implementation of the disclosure requirements.

87. As for facilitated emission, our understanding is that PCAF has only published a Discussion Paper in November 2021 and has not published related standards. Given that methodologies are yet to be developed compared to financed emissions, we believe that it is too early for the ISSB to require the disclosures on facilitated emissions. Accordingly, we believe that the ISSB should adopt a phased approach for the disclosure requirements related to facilitated, taking into account the developments in calculation practices.

Industries classified as ‘carbon-related’

88. We note that the proposed definition of ‘carbon-related’ industries is derived from the industry classification developed by SASB (SICS[®]). However, our understanding is that the industry classification actually used by financial organisations in practice varies (for example, the Global Industry Classification Standard (GICS) or the industry classification in the TCFD recommendations). Accordingly, we believe that the ISSB need not provide a uniform definition of ‘carbon-related’ industries. This is because our understanding is that the ISSB’s intention is to enable users of general purpose financial reporting to understand the financial organisations’ exposure to risks associated with ‘carbon-related’ industries identified by those financial organisations through the disclosures of their gross exposure to ‘carbon-related’ industries. We also believe that it would be more appropriate for the ISSB to prescribe the methodologies to define ‘carbon-related’ industries, and require financial organisations to define ‘carbon-related’ industries in accordance with the methodologies prescribed by the ISSB and disclose the definition they used in providing the disclosures.

Absolute- and intensity-based financed emissions

89. We believe that the ISSB should require the disclosure of both absolute- and intensity-based financed emissions. Information based on absolute terms is helpful for users of general purpose financial reporting to understand the overall status of GHG emissions, while information based on intensity enables users to understand the trend of an entity’s exposures related to transition risks and facilitates comparisons across entities. For example, in cases where absolute-based financed emissions increase because of increases in economic output (such as outstanding loans or investments), but intensity-based financed emissions decrease, the disclosure of both pieces of information would enhance the understanding of users of general purpose financial reporting about the status and trend of financed emissions.

90. On the other hand, we note that the denominator used to calculate intensity-based financed emissions would be determined by each entity. In this regard, we are concerned that if the different denominators are used, the comparability of relevant disclosures across entities may be impaired. Accordingly, we believe that it would be helpful that the ISSB developed industry- or sector-specific (for example, of the investee or counterparty) guidance or guidelines about the denominators to be used to calculate the intensity-based financed emissions.

Disclosures of the methodologies used to calculate financed emissions

91. We note that disclosure requirements about the methodologies used to calculate financed emissions included in Appendix B of the proposed S2 Standard require more detailed information than the requirements included in paragraph 21(a)(vi) of the proposed S2 Standard related to the cross-industry metric categories (for example, the approach to collecting underlying emissions data, and the use of estimations, proxies and assumptions). We agree with this proposal from the perspective of providing more useful information and enhancing the comparability of disclosures across entities, especially considering the substantial impacts financial organisations have on society as we note above.

Prescribing more specific methodologies

92. We agree not to prescribe specific methodologies in the ISSB's Standards because the standards related to financed emissions and facilitated emissions have not been established yet for all asset classes.

93. However, we believe that an increasing number of financial organisations is applying or expected to apply the PCAF Standard. Accordingly, we believe that it would be beneficial that the ISSB included the PCAF Standard in 'the addendum' which we propose in our comment letter to the proposed S1 Standard in order to enhance comparability.

Reporting by entities engaged in multiple businesses

94. In our jurisdiction, many entities, typically conglomerates, engage in multiple businesses and often set up subsidiaries for each business. As a result, some of these entities, for example, entities called 'general trading companies', have hundreds of subsidiaries and associates. Such entities operate in a number of jurisdictions and often hold minority stakes due to the laws and regulations that apply in the

jurisdiction in which they operate. For these reasons, such entities consider entities that are classified as associates to be part of the same group and manage them as such.

Subsidiaries and associates may have investors other than the reporting entity, and contracts may stipulate that the consent of such other investors must be obtained before information about the subsidiaries or the associates can be obtained and disclosed. The form of such agreements varies from subsidiary to subsidiary and from associate to associate, and are subject to laws and regulations that apply in each jurisdiction, which can be very different. Accordingly, it may require considerable time and effort to gather information from each of these entities, even when they relate to material information.

95. For those entities referred to in the preceding paragraph, these entities may be involved in a number of industries based on the SIC^S, making it difficult for these entities to select more than one industry by exercising materiality judgements. Moreover, even if the industries can be identified, for the reasons discussed above, there may be restrictions on the availability of information, which may make it difficult for these entities to disclose certain metrics.
96. Based on the discussions above, we believe that the ISSB should address the issues of selecting the industry (or industries) and collecting information when the entity has a number of subsidiaries and associates that engage in many industries and thus the disclosures of sustainability-related financial information could be onerous. We propose the following measures:
 - (a) The ISSB should re-emphasise that an entity is not required to provide disclosures for all of the industry-based disclosure requirements which relate to the entity's relevant industry (or industries); rather the entity is required to identify significant sustainability-related risks and opportunities from the perspective of a reporting entity as a whole and disclose material information about all of the significant sustainability-related risks and opportunities. The ISSB could also clarify that the scope of subsidiaries whose information would be collected may differ depending on the item to be disclosed based on materiality judgements. In paragraph 48 of the Appendix to our comment letter to the proposed S1 Standard, we suggest that the ISSB develop guidance on materiality, and we think this point should be clarified in this guidance.
 - (b) The ISSB should permit an entity not to disclose information about subsidiaries and associates for which it is impracticable to collect disclose information due

to the contractual terms with the investors other than the reporting entity, provided that the entity discloses that fact and the reasons for the impracticability.

Question 12—Costs, benefits and likely effects

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

- (a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?
- (b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?
- (c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

Impact analysis and costs of continuing application

97. The costs of implanting the proposals and ongoing application should not be considered solely for jurisdictions and entities that have been involved in providing sustainability-related financial disclosures but also the jurisdictions and entities that will begin providing sustainability-related financial disclosures in the future.

Cost versus benefit

98. Our comments on cost versus benefit are referred to individually in each question.

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.

Question 13—Verifiability and enforceability

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.

Drafting the standards

Terms that indicate requirements

99. Our understanding is that the proposed S2 Standard uses the term ‘*shall*’ throughout the Standard to indicate requirements. However, Appendix B *Industry-based disclosure requirements* of the proposed S2 Standard uses the term ‘*should*’ as well. Alternatively, there are some items that are not necessarily clear as to whether they are requirements or not because they are written in the present form:

Examples in which ‘*should*’ is used

CG-BF-410a.1. Description of efforts to manage product lifecycle impacts and meet demand for sustainable products

4. The entity may discuss its use of Life Cycle Assessment (LCA) and Environmental Product Declarations (EPD) in the context of its approach to reducing environmental impact and maximizing product resource efficiency.

4.1.Improvements to the environmental efficiency of products should be discussed in terms of LCA functional unit service parameters (i.e., time, extent, and quality of function).

<p>4.2.LCA <u>should</u> be based on ISO 14040 and ISO 14044; EPD <u>should</u> be based on ISO 14025 and ISO 21930:2017 for construction products.</p>
<p>Examples in which the present form is used, which could be read to indicate requirements</p> <p><i>CG-BF-410a.1. Description of efforts to manage product lifecycle impacts and meet demand for sustainable products</i></p> <p>1 The entity shall discuss its strategies to assess and manage the environmental impact of products throughout their lifecycle.</p> <p>1.1 Relevant strategies and efforts to assess product lifecycle impacts <u>include</u> the use of environmentally focused design principles, the use of sustainability performance standards, and the use of screening tools and sampling methods, among others, including the operational processes it employs for these assessments.</p> <p>While paragraph 1 requires a discussion about the entity’s strategies to assess and manage the environmental impact of products throughout their lifecycle, paragraph 1.1 states that the relevant strategies and efforts include the items described after ‘include’. It is not necessarily clear as to whether the items are mandatory disclosures or not.</p>

100.Our understanding is that IFRS Accounting Standards use the term ‘*shall*’ in the main text of the standards, whereas the Basis for Conclusions, that does not form part of the standards, uses the term ‘*should*’. However, Appendix B *Industry-based disclosure requirements* of the proposed S2 Standard uses the term ‘*should*’ in the sections that form part of the standard rather than in the Basis for Conclusions. In addition, it is not necessarily clear as to whether the items written in the present form are mandatory disclosures or not.

101.It is not necessarily clear as to whether ‘*should*’ is intentionally used in Appendix B *Industry-based disclosure requirements*. If it is intentionally used, the difference from the term ‘*shall*’ is not clear. If the standards become subject to audit (or assurance) or enforcement in the future, we think whether these items are mandatory

disclosures or not will become an issue. Accordingly, in drafting the standards, we think it is necessary to consider clearly distinguishing between items that are mandatory requirements and others, including which term to use and whether to use the present form.

English used in the standards

102. The ISSB should carefully select the words to be used in the standards to develop standards, and should prepare draft standards in plain and clear English for the words and sentences so that they will be easy to understand for stakeholders in jurisdictions where English is not their native language.

103. We note that Appendix B *Industry-based disclosure requirements* of the proposed S2 Standard includes a number of sentences in which it is difficult to understand the relationship between clauses and phrases. We think such drafting is inappropriate as international standards.

Referring to the drafting principles of the IASB

104. Regarding the above, we believe that the drafting principles of the ISSB can refer to the drafting principles of the IASB. We are concerned that it may affect the credibility and reputation of the IFRS Foundation unless the ISSB prescribes its standards in plain English, with an easy-to-understand grammatical structure and clear distinctions between mandatory requirements and others.

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.

Question 14—Effective date

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

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

- (a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*? Why?
- (b) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparation that will be required by entities applying the proposals in the Exposure Draft.
- (c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

Effective date

105. As noted in our comment letter to the proposed S1 Standard, we believe that the ISSB should adopt a phased approach where the ISSB would initially set out the most core disclosure requirements as 'global baseline' that are useful to both users and

preparers and are actually applicable in each jurisdiction, and once those core requirements are accepted in each jurisdiction, the ISSB would enhance the core requirements. In this regard, we propose the following phased application and relief regarding the effective date.

Our proposal to develop thematic standards ahead of industry-based standards

106. As we note in our comment letter to the proposed S1 Standard, we are of the view that there are many issues that the ISSB needs to resolve if it were to incorporate the SASB Standards into IFRS Sustainability Disclosure Standards (Nevertheless, we think the disclosure topics are useful in identifying sustainability-related risks and opportunities).

In addition, it is our understanding that the SASB Standards have been developed to address a wide range of sustainability-related themes and thus they should not be ‘processed’ to become guidance limited to climate-related industry-based standards. Nevertheless, because the ED tries to isolate climate-specific industry-based standards within the SASB Standards, the ED includes disclosure topics or metrics that have little relevance to climate. As a result, we are concerned that these disclosures could be onerous to entities.

For the reasons discussed above, we recommend that, as the policy of developing the ‘comprehensive global baseline’, the ISSB give higher priority to the development of the thematic requirements (including disclosure topics) and develop industry-based requirements once the above issues have been resolved.

Aligning the effective date with the proposed S1 Standard

107. While some may have the view that the proposed S2 Standard on climate-related disclosures should be applied earlier than the proposed S1 Standard because of the increased awareness about climate-related issues, we believe that the effective date of the proposed thematic S2 Standard should not be earlier but should be the same as that of (the ‘general features’ section of) the proposed S1 Standard. The reasons are as follows:

- (a) The ‘general features’ section of the proposed S1 Standard includes general disclosure requirements regarding sustainability-related financial disclosures. These disclosure requirements establish the basis for the presentation of sustainability-related financial disclosures and are essential to the organised

preparation and comparability of sustainability-related financial disclosures.

- (b) In addition, Appendix C *Qualitative characteristics of useful sustainability-related financial information* of the proposed S1 Standard sets out the fundamental and enhancing qualitative characteristics of sustainability-related financial information. These characteristics should be taken into account when providing sustainability-related financial information as part of general purpose financial reporting, which provides useful information to primary users.
- (c) As described in (a) and (b), we believe that the proposed S1 Standard is intended to establish a framework that serves as the foundation of sustainability-related financial disclosures. On the other hand, the proposed S2 Standard is intended to set disclosure requirements under this framework, focusing on the theme of ‘climate’. Accordingly, we are concerned that, if the proposed S2 Standard were to be applied on a stand-alone basis, global and consistent climate-related disclosures may not be achieved, which may prevent the ISSB from meeting the objectives of its establishment.

Our proposal to delay the implementation of certain disclosure requirements in the proposed S2 Standard

108. We are concerned that, if the proposed S2 Standard were to be finalised as it is, there would be some disclosure requirements which need more time for the preparation than others, including the following items:

- (a) Requirements to disclose quantitative information regarding the anticipated effects of significant climate-related risks and opportunities on an entity’s financial position, financial performance, and cash flows over the short, medium and long term (paragraphs 8(d) and 14 of the proposed S2 Standard)
- (b) Disclosure requirements on climate-related scenario analysis to assess an entity’s resilience (paragraphs 8(e) and 15 of the proposed S2 Standard)
- (c) Disclosure requirement on Scope 3 greenhouse gas emissions (paragraph 21(a)(i)(3) of the proposed S2 Standard)
- (d) Disclosure requirements on Scope 1 and Scope 2 greenhouse gas emissions of associates, jointly ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group (paragraph 21(a)(iii)(2) of the proposed S2 Standard)

109. The items listed in the previous paragraph are not required (or required only when they are material) in the TCFD recommendations, which we believe is the basis for developing the proposed S2 Standard, but require quantitative calculations in the proposed S2. Accordingly, we believe that not only entities which currently do not disclose the information based on the TCFD recommendations, but also other entities which already disclose the information in accordance with the TCFD recommendations may need a certain amount of time to provide these disclosures.

110. Therefore, we propose the ISSB to include a relief in the proposed S2 Standard to delay the effective date for the disclosure requirements listed in paragraph 108 of the Appendix to this letter.

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)?

Digital Reporting

111. There are no specific comments on digital reporting.

Question 16—Global baseline

IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of climate change. Those needs may be met by requirements set by others including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

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

'Global baseline'

112. There are many detailed requirements in the proposed S2 Standard. Specifically, Appendix B seems to adopt a rules-based approach that requires detailed and fixed disclosures. In particular, with respect to the industry-based metrics, certain metrics seem to be chosen without consideration and it is unclear whether the disclosure of those metrics are necessitated by the disclosure objectives. As we note in our comment letter to the proposed S1 Standard, we are of the view that the ISSB should adopt a principles-based approach in developing IFRS Sustainability Disclosure Standards as the *'global baseline'* and should explicitly declare this policy. Specifically, the following objectives-based approach may be adopted.

Objectives-based approach

- (a) Establish overall disclosure objectives initially.
- (b) Develop specific disclosure objectives (including why the users need the

disclosures and how those users are likely to use the disclosures) to meet the overall disclosure objectives in (a).

- (c) Develop specific disclosure requirements that would become the '*global baseline*' based on (b), taking into account the costs and benefits of the requirements.
- (d) Describe, in the Basis for Conclusions, how the disclosure requirements were derived from the disclosure objectives (including the relationship between the overall disclosure objectives in (a) and the specific disclosure objectives in (b), and why the specific disclosure requirements in (c) are necessary to meet the disclosure objectives in (a) and (b)).

113. In this regard, although a wide range of disclosure requirements are proposed throughout the proposed S2 Standard, there are some items that do not include sufficient descriptions in the Basis for Conclusions on the proposed S2 Standard as to why such disclosure requirements are necessary. In addition, although the proposed S2 Standard could be read to have a structure where the objective of the proposed S2 Standard is set out in paragraph 1 and the individual disclosure objectives of the four elements of the '*core content*' are indicated at the beginning of each element accompanied by a list of individual disclosure requirements, it is unclear how the disclosure requirements were derived from the disclosure objectives.

114. We believe that, for entities to provide entity-specific disclosures in accordance with principles-based standards that are derived from disclosure objectives, entities need to understand how the disclosure requirements were derived from the disclosure objectives, why such disclosures are necessary and how the users are likely to use the disclosures. By providing such information, we believe that the benefits of requiring disclosures will become clear, and such information will be helpful for entities in determining how they should provide disclosures when it is not necessarily clear from the requirements in the Standards. In addition, we believe that such information is likely to be useful in conducting audits (or providing assurance) and for regulatory enforcement. Accordingly, we are of the view that the ISSB should provide such information in the Basis for Conclusions on the IFRS Sustainability Disclosure Standards.

Question 17—Other comments

Do you have any other comments on the proposals set out in the Exposure Draft?
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115. We do not have any other comments.

