

29 July 2022

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**Re.: IFRS Sustainability Disclosure Standard, Exposure Draft:  
ED/2022/S2: [Draft] IFRS S2 Climate-related Disclosures**

Dear Mr. Faber,

We would like to thank you for the opportunity to provide the ISSB with our comments on the IFRS Sustainability Disclosure Standard, Exposure Draft: ED/2022/S2: [Draft] IFRS S2 Climate-related Disclosures, hereinafter referred to as “the Exposure Draft”.

The Institute der Wirtschaftsprüfer would also like to take this chance to welcome the ISSB and acknowledge its presence in Frankfurt and also to wish the new Board every success in establishing a suite of sustainability-related reporting standards to serve as a global solution or global baseline for jurisdictional sustainability reporting initiatives.

Before addressing some of the individual questions raised in the Paper, we will provide some general comments.

**General Comments**

Whilst the IDW agrees with much of the proposed approach and that ED IFRS S1 and S2 would generally provide a suitable global baseline for sustainability reporting we highlight a few issues we detail further in our responses to specific questions:

GESCHÄFTSFÜHRENDER VORSTAND:  
Prof. Dr. Klaus-Peter Naumann,  
WP StB, Sprecher des Vorstands;  
Dr. Daniela Kelm, RA LL.M.;  
Melanie Sack, WP StB

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### Relationship between IFRS S1 and IFRS S2

As far as IFRS S2 is concerned, as drafted, ED IFRS S1.51 requires an entity to refer to IFRS S2 and in addition to consider the standard setting work and non-mandatory guidance of others (ED IFRS S1. 51 (a)- (c)) and the reporting practices of other entities (ED IFRS S1. 52 (d)) in identifying sustainability-related risks and opportunities about which information could reasonably be expected to influence decisions that the users of general-purpose financial reporting make on the basis of that information, but only to refer to IFRS S2 in identifying disclosures, including metrics, about a significant climate-related risk or opportunity.

We refer to our comment letter regarding ED IFRS S1 in which we suggest the ISSB further consider and clarify more fully the relationship between IFRS S1 and IFRS Sustainability Disclosure Standards – currently ED IFRS S2.

### The need for robust criteria, including definitions

In our comment letter regarding ED IFRS S1, we note that preparers need firm criteria, including robust definitions as do all assurance service providers, since they will seek to compare management's assertions against such criteria. We also suggest that definitions of terms such as "direct and indirect mitigation", "adaptation efforts", "vulnerable", "resilience", "reasonably expects" used throughout the suite of IFRS Sustainability Disclosure Standards would be helpful. This also applies specifically to IFRS S2.

### Reporting on the entity's climate resilience

We agree that managing and reporting on an entity's climate resilience is important. In our response to question 2, we suggest that climate resilience be specifically acknowledged in para. 5 within the disclosures required on governance. In our response to question 15 we suggest that the wording be revised so as not to imply that the use of a climate-related scenario analysis is "automatically" superior to the use of an alternative method or technique to assess its climate resilience. This may not hold true in all cases, however, whilst we agree that it may be desirable for many entities to use climate-related scenario analysis, we are concerned that, in the short term, many entities may not be immediately able to do so.

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### Transition measures for Scope 3 disclosures

In our response to question 4, we note that obtaining information of adequate veracity from others within the entity's value chain may, in some cases, be extremely challenging for preparers, including their governance bodies. This would equally be challenging from an assurance perspective, potentially impacting the content of an assurance report. We elaborate more on this issue in our response to question 13. In regard to information concerning the entity's supply chain, we would also support the ISSB considering transitional measures – and related disclosures – especially for first time application over a certain period where information of sufficient quality is unavailable, or disclosures have to be estimated by other means.

### Scalability

We would encourage the ISSB to address the issue of scalability as uptake of its standards progresses and smaller entities as well as those within global supply chains may come within scope as the ISSB's standards are adopted in particular jurisdictions or used voluntary. The Exposure Draft is heavily focused on reporting by larger entities, and several of our responses include a few suggestions in this regard.

### Assurance implications

We share concerns of many as to the potential for greenwashing and therefore believe that independent high-quality assurance has a key role to play in sustainability reporting. Entities must have robust data collation and internal control systems to ensure their ability to report information that is reliable and verifiable – and they therefore need sufficient time and resources to develop and mature their systems before a meaningful assurance engagement can be undertaken. We refer to our response to q. 13 in this context.

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We would be pleased to provide you with further information if you have any additional questions about our response, and would be pleased to be able to discuss our views with you.

Yours truly,

Klaus-Peter Naumann  
Chief Executive Officer

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Bernd Stibi  
Technical Director Reporting

## APPENDIX

### Questions for respondents

#### **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.*

- Do you agree with the objective that has been established for the Exposure Draft? Why or why not?*
- 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?*
- Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?*

We do not disagree with the overall objective, but suggest the wording be closely aligned with the overall objective of IFRS S1 – i.e., referring specifically to primary users and their assessment of the effects of significant climate related risks and opportunities on the entity's enterprise value in the context of their decisions whether to provide resources to the entity (the later should be added). Subsets (b) and (c) of para. 1 are enablers of this overall objective whereas subset (a) depicts part of this overall objective rather than constituting a separate aspect. In our response to q. 3, we also note some misalignment of the citation of the objective in para. B5 of Appendix B.

We generally agree that compliance with the disclosure requirements set out in the Exposure Draft should be sufficient to meet these objectives.

## **Question 2—Governance**

*Paragraphs 4 and 5 of the Exposure Draft propose that an entity be required to disclose information that enables users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. To achieve this objective, the Exposure Draft proposes that an entity be required to disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and a description of management's role regarding climate-related risks and opportunities.*

*The Exposure Draft's proposed governance disclosure requirements are based on the recommendations of the TCFD, but the Exposure Draft proposes more detailed disclosure on some aspects of climate-related governance and management in order to meet the information needs of users of general purpose financial reporting. For example, the Exposure Draft proposes a requirement for preparers to disclose how the governance body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies. The related TCFD's recommendations are to: describe the board's oversight of climate-related risks and opportunities and management's role in assessing and managing climate-related risks and opportunities.*

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

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

We suggest the wording of para. 4 be expanded to refer to governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities and also the entity's climate resilience.

Since reporting entities need to have appropriate governance processes, controls and procedures used to monitor and manage all of their climate-related risks and opportunities i.e., not only those classified as significant, we agree that the reference in the objective in para. 4 is rightly not limited to the entity's significant climate related risks and opportunities. However, we would suggest that where the entity focuses specific aspects of its governance processes, controls and procedures on the relative significance of climate-related risks and opportunities, this should be clearly disclosed. Currently only the requirements

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of subset (f) specifically refer to significant climate-related risks and opportunities.

In line with our suggestion to include climate resilience within the objective (see above), we suggest some refinement of the wording of the required disclosures. We suggest either an additional subset be included within para. 5 to require disclosure of how the entity's governance processes, controls and procedures consider the issue of climate resilience as required to be disclosed in para. 15, or climate resilience be added to para. 5 (e). This aspect would also include consideration of the entity's value chain, and so might also usefully be mentioned specifically here. We also believe that the entity's governance processes, controls and procedures will also monitor and manage (and track the likely time horizon of) impacts of the financial position, financial performance and cash flows as required to be disclosed by para. 14 and suggest these aspects also be more clearly outlined; possibly within para. 5 (e).

To the extent that the requirements of para. 5 shall apply to smaller or less complex entities, which may have relatively simplistic governance structures, it would be helpful for the ISSB to acknowledge that reporting on governance matters may be expected to be less detailed and possibly even more integrated than would be expected of a highly sophisticated large multinational entity.

### **Question 3—Identification of climate-related risks and opportunities**

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

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

- (a) *Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?*
- (b) *Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the*

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*identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?*

We have commented in more detail in our response to ED IFRS S1 on the issue of an entity's determination of significance in relation to sustainability related matters as well as the relationship between IFRS S1 and S2. These comments apply equally to the entity's determination of which climate related risks and opportunities are significant.

In this context we note certain anomalies, e.g., the objective of ED IFRS S2 in para. 1 refers specifically to significant climate related risks and opportunities, whereas in citing this objective in Appendix B, para. B5 the word "significant" needs to be added. We also note instances of different terminology being used which will cause confusion. For example, as noted in our response to q. 1, the objective of ED IFRS S1 includes a reference to primary users' decisions whether to provide resources to the entity – we suggest that climate related issues also impact this aspect and should be added to para. 1 of IFRS S2. In this regard, we also suggest that in citing this aspect of objective in para. B5 of Appendix B the word "economic" would need to be deleted.

We acknowledge that risk classification proposed is aligned to the recommendations of the TCFD, and view this as appropriate.

**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*

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*also require an entity to disclose where in an entity's value chain significant climate-related risks and opportunities are concentrated.*

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

- (a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?*
- (b) Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?*

We generally agree with the proposed disclosure requirements, in as far as they relate to the significant climate-related risks and opportunities determined by the reporting entity. We refer to our letter relating to ED IFRS S1 regarding the need for better clarification of the terms “significant“, in the context of sustainability related matters, and “material“, in relation to information to be disclosed thereon. Clarification will be key if preparers are to report on significant climate-related risks and opportunities on their business model and value chain as intended and explained in BC.66. This notwithstanding, the degree of detail disclosed will likely vary in practice and thus impact comparability, such that further guidance or illustrative guidance for this aspect of ED IFRS S2 may be helpful.

Obtaining information of adequate veracity from others within the entity's value chain may be extremely challenging for preparers including their governance bodies in some cases. This would equally be challenging from an assurance perspective, potentially impacting the content of an assurance report. We elaborate more on this issue in our response to q. 13. In regard to information concerning the entity's supply chain, we would also support the ISSB considering transitional measures – and related disclosures – especially for first time application over a certain period where information of sufficient quality is unavailable, or disclosures have to be estimated by other means.

#### **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*

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*entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value.*

*Paragraph 13 of the Exposure Draft proposes a range of disclosures about an entity's transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general purpose financial reporting to understand the effects of climate-related risks and opportunities on an entity's strategy and decision-making, including its transition plans. This includes information about how it plans to achieve any climate-related targets that it has set (this includes information about the use of carbon offsets); its plans and critical assumptions for legacy assets; and quantitative and qualitative information about the progress of plans previously disclosed by the entity.*

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

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

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

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

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- (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?*

We agree that reporting on transition plans and, given political, legal and societal interests information, where relevant, on carbon offsets, provides essential information to primary users when they assess the entity's enterprise value and decide whether to provide resources to the entity.

We agree that disclosures necessary for users' understanding of the credibility and integrity of carbon offsets used and intended to be used by the entity is essential. In this regard we suggest para. 13 (b) (iii) (4) refer to both offsets currently used and those intended to be used.

More guidance of the factors that could be relevant might be helpful in this often subjective and sensitive area, as users are left to assess the level of credibility and integrity that they perceive to be attached to the specific carbon offsets an entity uses to reach its targets. For example, possibly the example of permanence could be either defined or replaced with assumptions as to the assumed lifespan or longevity of the carbon offset.

#### **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*

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*a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value may be more appropriate.*

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

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

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

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

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

We agree that the issue of time horizons is an entity-specific issue and support the ISSB's decision not to specify firm time periods for use globally. However, the selection of meaningful time horizons is a further matter of judgement preparers need to make and that will also require attention in any assurance engagement. Therefore, we suggest the ISSB set basic criteria for developing time horizons on a basis reasonable for the entity's sector or individual circumstances to the extent possible.

In addition, disclosure of future-oriented information based on estimates and assumptions will inevitably be subject to differing degrees of inherent uncertainty, so this fact – and the nature or degree of uncertainty – needs to be very clearly disclosed. There also needs to be recognition of what “unable to do so” means beyond unavailability of information or excessive costs to develop, that entities may be familiar with in an IFRS 8 context – i.e., in terms of quality and usefulness of potentially possible but not appropriate disclosures, to prevent quantitative disclosures being made that cannot appropriately fulfil the qualitative characteristics in Appendix C to ED IFRS S1. There may well be instances where qualitative disclosure especially as to medium- and long-term time horizons are more appropriate than quantitative disclosures, but even so these may not be suitable for appropriately fulfilling the qualitative characteristics. Firmer criteria on this aspect would be helpful to drive the preparation and assurance decisions as to whether quantitative or qualitative disclosures are suitable to meet the qualitative characteristics proposed by the ISSB.

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Indeed, we would strongly encourage the ISSB to liaise fully with the IAASB in regard to the Exposure Draft, especially in regard to requirements to disclose forward looking information.

In our response to q. 2, we refer to the fact that an entity's governance processes, controls and procedures will also monitor and manage (and track the likely time horizon of) impacts of the financial position, financial performance and cash flows, as required to be disclosed by para. 14, suggesting the ISSB improve the link to the governance objective in para. 5. This would inevitably support timely recognition of issues as appropriate in the financial statements, too. We suggest it would be helpful to users if this aspect were clearly included in requirements on the governance section, as well as the connectivity to the entity's information in its financial statements.

### **Question 7—Climate resilience**

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

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

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

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*increasingly requesting entity-specific climate-related risks to be included in risk mapping with scenarios reflecting different climate outcomes and the severity of their effects.*

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

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

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

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

*Requiring disclosure of information about climate-related scenario analysis as the only tool to assess an entity's climate resilience may be considered a challenging request from the perspective of a number of preparers at this time—particularly in some sectors. Therefore, the proposed requirements are designed to accommodate alternative approaches to resilience assessment, such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests. This approach would provide preparers, including smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, represents an iterative learning process, and may take*

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*multiple planning cycles to achieve. The Exposure Draft proposes that when an entity uses an approach other than scenario analysis, it disclose similar information to that generated by scenario analysis to provide investors with the information they need to understand the approach used and the key underlying assumptions and parameters associated with the approach and associated implications for the entity's resilience over the short, medium and long term.*

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

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

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

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- (d) *Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?*
- (e) *Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?*

We generally agree with the approach to scenario analyses proposed in the Exposure Draft. We particularly appreciate the flexibility in approach for entities not already familiar with a scenario analysis approach, and suggest that the wording be revised so as not to imply that the use of climate-related scenario analysis is “automatically” superior to the use of an alternative method or technique to assess its climate resilience. This may not hold true in all cases, however, whilst we agree that it may be desirable for many entities to use climate-related scenario analysis, we are concerned that, in the short term, many entities may not be immediately able to do so.

In addition, we refer to our response to q. 6 above in regard to the intended meaning of the term “unable to do” and related disclosures, as these comments equally apply in this context, including related assurance implications.

Indeed, we would strongly encourage the ISSB to liaise fully with the IAASB in regard to the Exposure Draft, especially in regard to requirements to disclose forward looking information.

### **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*

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*of uncertainty, as well as the evolution of common practice in risk management, which increasingly includes opportunities in processes for identification, assessment, prioritisation and response.*

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

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

We agree with the proposed approach in the Exposure Draft.

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

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

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

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

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*Exposure Draft proposes that the GHG Protocol be applied to measure GHG emissions.*

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

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

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

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

*Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energy-efficient products or seek to enable or incentivise upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a*

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*lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to identify the most significant GHG reduction opportunities across an entity's entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs.*

*For Scope 3 emissions, the Exposure Draft proposes that:*

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

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

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

- (a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?*
- (b) Are there any additional cross-industry metric categories related to climate-related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.*

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- (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 CO<sub>2</sub> equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH<sub>4</sub>) separately from nitrous oxide (NO<sub>2</sub>))?*
- (e) *Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:*
  - (i) *the consolidated entity; and*
  - (ii) *for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?*
- (f) *Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?*

We appreciate the ISSB's rationale for the proposed approach in the Exposure Draft.

The limitations noted as applicable to preparer also have a significant impact on the assurability of reported information, which is especially challenging with regard to Scope 2 and even more so Scope 3 emissions.

In addition to the requirement in para. 21 (a) (iv) (3) "*when the entity's measure of Scope 3 emissions includes information provided by entities in its value chain, it shall explain the basis for that measurement*" we suggest the entity be required to explain any inherent limitations applicable to this reported information e.g., if an estimation is used or the entity itself is unable to obtain evidence as to the veracity of that information. Users need to be made aware of the nature of Scope 3 reporting, as it may impact the reliability and completeness of the entity's reporting on Scope 3.

In this context, although we generally agree with the approach taken in para. 21 (a) (iv) (4) to allow an entity to exclude Scope 3 emissions information provided by entities within its value chain with a requirement to explain the reasons for such omission, including an inability to obtain faithful measure, we suggest it would be appropriate for the ISSB to clarify that the need to omit information on Scope 3 disclosures should be the exception and would seldom be used in

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practice. Our members note that the estimation techniques currently available and in use are generally suitable for providing a reasonable approximation of Scope 3 emissions. We suggest the ISSB provide further criteria to enable the entity to determine when it is appropriate to use information provided by entities within its value chain (and what to disclose as to the nature of the information – see preceding paragraph), when to use an estimate instead, including as to the use of estimation techniques and when it is appropriate to omit the information together with a disclosure as to the reasons for such omission. We do not believe that the omission of disclosures on significant categories of Scope 3 emissions will often be justified.

We strongly suggest the ISSB liaise with the IAASB in this regard.

### **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?*

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

We agree with the approach in the Exposure Draft for global application. It is important that entities set themselves targets that are realistic for their activities and their strategy. For global comparability we accept that it is helpful for entities to provide transparency as to how their targets compare with targets created in the latest international agreement on climate change.

### **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*

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

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

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

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

- (d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?*
- (e) Do you agree with the industries classified as ‘carbon-related’ in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?*
- (f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?*
- (g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?*
- (h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to*

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*provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?*

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

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

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

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

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

- (j) *Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?*
- (k) *Are there any additional industry-based requirements that address climate-related risks and opportunities that are necessary to enable users*

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*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?*

We accept that it is pragmatic for the ISSB to build upon existing sustainability standards and frameworks and that it is appropriate for the ISSB to make certain changes in order to improve the international applicability of the industry-based requirements.

We generally support the proposed changes relative to existing SASB Standards that aim to address emerging consensus on the measurement and disclosure of financed or facilitated emissions in the financial sector, except as outlined below.

However, we note that BCs explain, amongst other things:

- BC149: “The measurement of financed and facilitated emissions generally builds on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments),
- BC151 “... it was recognised that because the disclosure of financed and facilitated emissions is still a fairly novel practice, the SASB Standards do not contain requirements for financed emissions in the relevant industries.”,
- BC152 “(b): “the Partnership for Carbon Accounting Financials (PCAF) has done significant work to advance the understanding and calculation of GHG emissions for financial organisations under the GHG Protocol, allowing financial preparers to disclose their Scope 3 GHG emissions in a more comparable and complete manner.”,
- BC154: “Furthermore, financial sector entities increasingly agree on methods of measuring and disclosing financed and facilitated emissions. In November 2020, PCAF issued the first edition of the Global GHG Accounting and Reporting Standard for the Financial Industry (the PCAF Standard). The PCAF Standard builds on the GHG Protocol Scope 3 rules.”

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Our concern is that whilst some financial sector entities currently apply the PCAF Standard, there is no requirement presently for all such entities to comply therewith. Accordingly, we are not in a position to comment as to the suitability or otherwise of this approach in regard to all of the segments of the financial sector that may potentially report sustainability related information in accordance with the ISSB's standards in future.

**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?*

We firmly believe that a global baseline is a sensible way to minimise duplication of effort and cost. This equally applies to entities required to report on sustainability-related matters under more than one regime and other stakeholders seeking global comparability in their resource allocation decisions. Factors such as the use of differing terminology for matters having the same intended meaning adds costs. We therefore believe that coordination between standard setters is essential.

The German auditing profession has been involved in the provision of voluntary assurance services to many of the larger German companies who are currently required to report so-called non-financial information. The costs and resources needed to establish robust systems for the collation of sustainability related data and internal control mechanisms to support sustainability reporting should not be underestimated – and equally relevant – nor should the time reporting entities will need. These will be especially acute for entities required to prepare and present sustainability reports for the first time. We appreciate the ISSB's acknowledgement of certain challenges in question 14 and urge the ISSB to

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make policy makers who ultimately determine the applicability of sustainability reporting aware of this.

**Question 13—Verifiability and enforceability**

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

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

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

We share concerns of many as the potential for greenwashing and therefore believe that independent high-quality assurance has a key role to play in sustainability reporting. As noted above, entities must have robust data collation and internal control systems to ensure their ability to report information that is reliable and verifiable – and they therefore need sufficient time and resources to develop and mature their systems before a meaningful assurance engagement can be undertaken. Cases for which inherent limitations in measurement and evaluation are a particular issue for sustainability information included in the entity’s sustainability report, from the upstream and downstream supply chains from outside the entity (or corporate group), because in these cases the entity may have no leverage other than market power to obtain such information and, other than relying on third-party assurance, assurance practitioners may not be able to assure such information.

The ISSB’s role is to establish clear criteria, including robust definitions, as we suggest in specific instances in our response to this consultation. This should include criteria to support entities’ decisions as to when to substitute a theoretically possible disclosure with estimations or to omit that information, and when to provide qualitative rather than quantitative disclosures. We also believe that the ISSB must consider the need to require disclosure of the nature of

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information reported when such information is subject to inherent limitations such that users have realistic expectations as to the limitations of reported information for their various decision-making purposes. Requirements to report estimates in place of factual information, forward-looking information and estimated outcomes may be particularly challenging for reporting entities their governance bodies in terms of how to measure and when to include and for assurance, but users will also find it challenging thus transparency as to the nature and limitations of reported information will be essential in certain instances.

It is therefore absolutely crucial for users to be made aware through disclosures in the sustainability report of any inherent limitations in measurement, evaluation or assurance to which such information is subject.

Finally, we note that the IAASB has agreed to start work on assurance standards and view liaison between the two Boards as essential in finalizing their respective standards.

#### **Question 14—Effective date**

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

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

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

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*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?*

Policy makers will determine application, but we acknowledge and support the ISSB's having alerted its constituents to the issue of application challenges by posing this question.

We have commented above on reporting entities' needs for sufficient time and resources to establish and mature the data collation and internal control systems essential to ensure quality sustainability reporting, given that robust systems will be a prerequisite for assurance. We urge the ISSB to consider the views of the reporting entities potentially affected by its suite of standards as setting an overly ambitious timeframe for the effective date is not desirable.

From a German perspective we note that the ED ESRS Suite of Standards currently under development by EFRAG will be comprehensive, as required by European Corporate Reporting Sustainability Directive (CSRD). We believe that this is the right approach for meeting stakeholders' needs – and encourage the ISSB to adopt a similar approach in developing further standards which together will comprise a global baseline – although, as noted in our response to ED IFRS S1, scalability will be an issue for smaller companies.

### **Question 15—Digital reporting**

*The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure*

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

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

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

We support the ISSB's stated intention to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards.

### **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?*

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We fully support the development of a global baseline and the intention of the ISSB to foster alignment with the establishment of its jurisdictional working group that includes representatives of the European Union. We refer to our response to ED IFRS S1 in this regard.

**Question 17—Other comments**

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

We would encourage the ISSB to address the issue of scalability as uptake of its standards progresses and smaller entities as well as those within global supply chains may come within scope. The Exposure Draft is heavily focused on reporting by larger entities, and our responses do include a few suggestions in this regard, but, by no means, do we purport to have identified each issue that the ISSB may need to consider in this regard.