28 July 2022

THE EUROPEAN BANKING FEDERATION

ON THE ISSB EXPOSURE DRAFT GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION (IFRS S1)

We are pleased to provide a response to the ISSB consultation questions on the IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (General Requirements Exposure Draft).

We will be pleased to respond any question you may have or provide more details.

General comments

While there is general agreement that currently sustainability reporting data is insufficient in terms of availability, relevance, and reliability, it is not necessarily due to the lack of reporting initiatives. To the contrary, the current patchwork of existing reporting frameworks leads to fragmentation, inconsistencies and is at times, hard to navigate. Companies are faced with multiple information requests from different stakeholders. A single set of comprehensive disclosure standards applying to both financial and non-financial firms is therefore critical in building the necessary data sets to facilitate better investment and financing decisions by all actors.

For all entities, financial and non-financial, especially for companies with a global footprint, it is desirable that they report information only once, based on a common set of indicators from one or shared amongst interoperable jurisdictional frameworks. Multiple reporting exercises should be avoided. It is therefore critical that the ISSB, contributes to jurisdictional developments, by developing a widely accepted baseline, that will provide structure and contribute to comparability across jurisdictions and firms worldwide.

Improving consistency, removing complexity, and increasing comparability and understandability should be the main objective of harmonized sustainability reporting. Climate change, but also other sustainability objectives are often global in nature, given the global nature of the underlying issues as well as the global value chain. We thus support the development of a global baseline standard, under robust governance and public oversight, which should be built on the current international initiatives and practices and with due regard to existing or newly built standards in different geographical jurisdictions such as the EFRAG's European Sustainability Reporting Standards.

We therefore welcome the establishment of the jurisdictional working group "comprised of several jurisdictions to enhance the compatibility between the ISSB's exposure drafts on sustainability disclosures and jurisdictional initiatives". We indeed encourage the ISSB to co-design the international sectoral standards with other standard setters, such as the EFRAG. This will help build coherence in disclosure regimes across jurisdictions, which we consider a top priority. We also welcome the MoU between the ISSB and GRI/GSSB, which together set out to define a baseline for the full suite of sustainability-related reporting.

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Access to data and data quality remain key barriers to the reliability and comparability of disclosures. Many banks are following the TCFD Guidelines, the OECD Guidelines for Responsible Lending and the UNGP (UN Guiding Principle Reporting Framework) and need information to be disclosed by corporates to comply with these frameworks and guidelines.

For firms in the banking sector, particularly but not exclusively those with international operations or lending exposure, a single set of comprehensive disclosure standards — applying to both financial and non-financial firms — are critical in building the necessary data sets to facilitate better investing and financing decisions by all actors.

Double materiality is an essential concept of sustainability as the impact of a company on the environment and society at large (inside out perspective) is considered key for investors and lenders to manage the alignment of their own portfolios with environmental and social objectives, including alignment with the climate objectives of the Paris Agreement. As such, double materiality is a core concept of the disclosure requirements in the European Union.

Even if the constitution of the IFRS foundation prevents the ISSB from proposing double materiality explicitly, we believe the ISSB may have some margin of manoeuvre to make the impacts on people, the planet, and the economy clearer. As double materiality will be captured by jurisdictional reporting requirements such as the EFRAG's European Sustainability Reporting Standards (ESRS), the concept of double materiality would therefore be, for some time, an "add on" to the ISSB's baseline standard. As a minimum, we urge the ISSB to provide more guidance regarding materiality and enterprise value and a clear explanation about how the divergent ISSB and EU approaches interoperate. It would help provide concrete examples of the link between concepts to better illustrate the interoperability of the two sets of standards.

Question 1—Overall approach

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

Notwithstanding our response to question 8 on materiality itself, yes, we believe it is clear that an entity would be required to identify and disclose material information about all the sustainability-related risks and opportunities to which it is exposed. It is clearly stated in paragraph 2: "*A reporting entity shall disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general-purpose financial reporting to assess enterprise value".* It is also stated in paragraph 51. In addition to IFRS Sustainability Disclosure Standards, an entity shall consider: (a) the disclosure topics in the industry-based SASB Standards; (b) the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures) (…)".

The materiality assessment is however performed by the entity and consequently the outcome is only dependent on the entity's interpretation of what is a material risk or opportunity, based on IAS 1.7 definition "*Information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions of the primary users to assess the enterprise value*".

We believe the definition of "enterprise value" and the core subject of materiality assessments needs clarification and enhancement given the risk of varying interpretations in different jurisdictions hence leading to comparability issues. It would help to:

- Provide concrete examples of the link between concepts including differences with existing methodologies widely used by the market participants such as PCAF methodology (that uses Enterprise Value Including Cash (EVIC) (sum of the equity and debt of the company). Definitions in the OECD Guidelines and UNGPs which lay out clearer text on materiality, including saliency should be considered. Saliency seems to be fully left out from the proposed ISSB text but is very important for affected stakeholders.
- Define long-term time horizons (which may vary by sector and/or topic) under which the impact on the enterprise value should be considered. For example, a minimum time horizon of 30 years could be considered to assess the financial materiality of climate related risks and opportunities

We would also appreciate clarity on the extent to which mitigating actions are included/quantified – e.g., when calculating enterprise value and impacts, should this be on a static basis, or with management action?

We also support that IFRS S1 clarifies that the ultimate goal is to cover all sustainability related risks and opportunities (ESG) and not only climate. We believe that it is essential, for the IFRS standard to play its targeted role of global baseline, that the topics underlying its concept of sustainability be further defined and clarified even before the establishment of dedicated topical standards in the future.

(b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?

- The proposed requirements meet their proposed objectives regarding financial materiality, but not materiality as viewed by affected stakeholders nor responsibility as defined by the OECD Guidelines.
- We also suggest that "impacts and dependencies" should be covered more explicitly by the ISSB ED. Depending on the interpretation of materiality, a company may decide not to report on its impacts. This situation may be detrimental to the environment but also to investors' full transparent information. The decision to invest may not exclusively rely on the undertaking's financial value. Rather, such decisions may, for example, be based on sustainability preferences or driven by sustainability strategies pursued by investors. Even if such impacts may not have a first-tier effect on enterprise value in the short run, where a sufficiently large group of investors relies on obtaining such information for its investment decision-making, they elicit a second-tier effect.

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

It is clearly stated in paragraph 2 of the [draft] IFRS S2 that: "*An entity shall apply this [draft] Standard in preparing and disclosing climate related disclosures in accordance with [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information",* and that entities should avoid *"unnecessary duplication in accordance with draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information" (paragraph 6 and 18*).

Nevertheless, there is no clear illustration of the sustainability statements' structure and how both standards would be articulated (such illustration is proposed by the EFRAG ESRS 1 in appendix E).

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

Yes, we believe that the Exposure draft could be a suitable basis for auditors and regulators, but we would like to stress that other relevant stakeholders also need to be able to use disclosures and that no common level of materiality is defined by the standard. We would recommend as a solution to provide clear guidance to companies on how to assess materiality of sustainability issues and associated disclosure of their materiality assessment.

Question 2—Objective (paragraphs 1–7)

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

The proposed objective of disclosing sustainability-related financial information as written is rather clear for investors and creditors.

We welcome that ISSB recognizes in §6 that sustainability-related financial information is broader than information reported in the financial statements and could include "…(c) information about the entity's reputation, performance and prospects as a consequence of the actions it has undertaken, such as its relationships with people, the planet and the economy, and its impacts and dependencies on them…".

ISSB should however address more clearly the disclosure needs of all affected stakeholders (e.g., social partners, civil society organizations, data and rating providers, consumers etc.), and not only investors.

Regarding information about opportunities related to sustainability matters, this is not as developed as the information about risk, therefore, we would ask the ISSB to develop more guidance on the content that is expected to be disclosed for opportunities in order to increase consistency and comparability between companies.

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

The definition of sustainability-related financial information seems clear and is also consistent with the definition of financial materiality given by the EFRAG (ESRS 1 – paragraph 52 to 56) "*sustainability matter is material from a financial perspective if it triggers or may trigger significant financial effects on undertakings, i.e., it generates or may generate significant risks or opportunities that influence or are likely to influence the future cash flows and therefore the enterprise value of the undertaking in the short-, medium- or long-term*". According to the EFRAG the materiality of financial impact is defined by the probability of occurrence and magnitude.

We support the reference to Enterprise Value, to the extent that it is clarified that market capitalization and future cashflows over the short/medium/long term may be impacted positively or negatively by the market perception of the ESG performance of the company. A strict interpretation of Enterprise Value, based on pure single materiality, would be too narrow, as it would not capture ESG related changes in consumer behaviors, market shares, brand value, investor preferences, etc. that are likely to impact companies' performance and therefore enterprise value over time.

In addition, point C5 on the accuracy of information and the fact that estimates, proxies, and forecasts are part of the accurate information is somewhat ambivalent and should be further clarified.

Question 3—Scope (paragraphs 8–10)

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

We agree that the proposals in the Exposure Draft could be used by entities that prepare their general-purpose financial statements in accordance with any jurisdiction's GAAP and all jurisdictions should be encouraged to use the proposals in the Exposure Draft to mandate sustainability reporting within their jurisdictions.

We would also like to remark that where consolidated financial statements are prepared, there should not be a requirement to also present local subsidiary disclosures on a standalone basis.

Question 4—Core content (paragraphs 11–35)

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

The disclosures objectives for governance, strategy, risk management and metrics and targets are built on the TCFD, which is a widely used and comprehensive framework for voluntary climate-related reporting. We positively welcome the fact that the ISSB requires a complete description of its transition plan to be included in an entity's strategy.

However, the framing is too narrow to allow investors to understand the full scope of sustainability risks their investment in an entity presents because IFRS standards are framed in terms of threats to enterprise value. This framing will ensure that investors continue to devote significant resources to eliciting information from investee companies on sustainability impacts and associated governance and mitigation strategies.

The objectives also overlook the reporting standards for human rights which are set out in the UNGP Reporting Framework.

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

We have identified the following issues:

- Although trade-offs are mentioned on p26, this should be more comprehensively explained so that more information on the likely transmission channels becomes available and better understood. There should be a requirement to disclose how to find the company's grievance and remedy mechanism. It could also include sectoral schemes or other legitimate offsetting schemes which a company participates in to enable accessible, effective processes and remedy and metrics related to these schemes. The strategy should not be limited to climate and GHG emissions but should include a description of all significant positive and negative risks, opportunities and impacts (once the double materiality is incorporated into the ISSB standard) related to the climate strategy. For example, workforce reduction and job losses (a human rights impact) in those areas should be well-described.

- Paragraph 15 (entity's strategy for addressing significant sustainability-related risks and opportunities), further completed by paragraph 21 and 22, requires entities to disclose their current and future investment plans and the anticipated effects on their financials. We believe that some of this information may be too sensitive to disclose to peers and would lead to an unleveled playing field. We believe that ISSB should find the right balance between the current granularity of information requested and the level of forward looking financial and strategic information

- Paragraph 17 requires each entity to assess its "impacts and dependencies", but they should only be reported if financially material, i.e., if they can affect the entity's performance or prospects, create or erode the value of the enterprise and the financial returns to providers of financial capital. Therefore, impact materiality is only implicitly considered. To avoid diverging interpretations, the obligation to report impacts and dependencies should be clarified. We recommend that the ISSB defines long-term time horizons (which may vary by sector and/or topic) under which the impact on the enterprise value should be considered. (e.g. minimum

- time horizon of 30 years could be considered to assess the financial materiality of climate related risks and opportunities).

Question 5—Reporting entity (paragraphs 37–41)

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

We believe that cohesiveness between sustainability-related financial information and the financial statement is key. Therefore, information should be required to be provided for the same reporting entity as the related financial statements.

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

We believe that the requirement is clear. The definition of value chain given in paragraph 40 and 41 and in Appendix A, or more precisely that "*a value chain encompasses the activities, resources and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption and end-of-life (…)*", seems compatible with the definition given by the EFRAG (albeit not with OECD guidelines), or more precisely "*products and services, its business relationships and its supply chain, shall be considered" and include "direct and indirect business relationships in the upstream and/or downstream value chain (EFRAG ESRS 1 – paragraph 24 and 64).*

While we welcome the compatibility between the EFRAG and the ISSB, we want to express a concern that requiring entities to "measure its significant sustainability-related risks and opportunities, including those related to its associates, joint ventures and other financed investments, and those related to its value chain" is complicated. In practice, it is complicated, if not impossible, to require complete coverage of a single company across its entire supply chain.

We therefore recommend to distinguish within the value chain two levels: a first level including exclusively suppliers and customers with whom the relevant entity has a direct contractual relationship, and a second level including all remaining parties of the value chain. We believe it is essential for stakeholders to understand clearly on which part of its value chain the entity has leverage.

We also recommend clarifying that the mainstream value chain of an entity includes suppliers and clients with whom the entity has a direct contractual relationship. For financial institutions, the materiality assessment should be done on the mainstream value chain only with regards to clients' own operations. Clients' upstream and downstream value chain should be excluded.

We also propose a phase-in approach with entities starting with a first level disclosure.

We would also like to understand whether "current and anticipated effects" as described in Paragraph 20 (a) is intentionally different from "actual and potential" as used by the EFRAG, or if the two are meant to mean the same. We would encourage the ISSB and EFRAG to work together to clarify instances where the ISSB and the EFRAG use words that are similar, and align the terminology where the meaning is intended to be the same.

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

See our response to question 6.

<u>Question 6—Connected information (paragraphs 42–44)</u>

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

We understand the purpose of the connectivity requirement as to provide evidence that the same underlying information about sustainability-related risks and opportunities have been used for preparing both sustainability reporting and financial statements. Paragraph 43 clearly states that "An entity shall describe the relationships between different pieces of information."

To answer this requirement, paragraphs 43 and 44 do not impose a single way to provide the information. The words used are clearly open ("Doing so could require…", "For example…", "an entity might need…") and paragraph 44 provides examples of connected information. We approve this approach as we consider that the entity must choose the best way to provide this information considering its materiality, its relevance, and its understandability, which is consistent with the last sentence of paragraph 14 "Information that describes connections shall be clear and concise."

Nevertheless, we are concerned about the application of this requirement in the first topical draft standard IFRS S2 in which we have noted that the examples provided in IFRS S1 become more mandatory: paragraph 14 requires the disclosure of information about the effects of significant climate-related risks and opportunities on the financial statement ("An entity shall disclose information…"). And the same paragraph states clearly that such information shall be quantitative unless the entity is unable to do so. The expectations are then very extensive as the same paragraph requires that "the entity shall disclose how significant climate-related risks and opportunities have affected its most recently reported financial position, financial performance and cash flows".
These requirements are not explicitly mitigated by a materiality assessment regarding these effects (the materiality is explicitly mentioned for the climate-related risks and opportunities but not with regards to the financial effects).

Furthermore, there is no explanation about the granularity of the effects to be disclosed.

And finally, regarding the requirements of paragraph 14 c and d about expected changes of financial position and performance over time, we are not sure that it will be easy to distinguish amongst several sources of changes the effects of the only climate-related ones as such effects are rarely the consequence of a single cause but the combined effects of several causes.

As we are supportive of double materiality, we therefore believe companies also need to explain the likely impact of their strategy on people and areas of the planet which are affected by their activities, including adverse impacts. Qualitative disclosures might be more suitable in this regard.

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

We believe that coherence between sustainability-related financial information and the financial statement is key, and that sustainability-related risks and opportunities shall be consistent with the corresponding financial data, metrics and target and assumptions included in the undertaking's financial statements.

Question 7—Fair presentation (paragraphs 45–55)

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

We agree with this principle and add that further guidance may be provided on this point especially concerning the reporting of information with an important geographic dimension (water consumption, location of assets).

We believe that the proposal to present the sustainability-related risks and opportunities to which the entity is exposed, beyond climate, is not clear. We understand that a company is allowed to use the existing standards and also its judgement. However, this approach will raise many implementation challenges on the one hand, and a suspicion of green washing on the other (as the high quality of the data cannot be guaranteed).

We propose that the ISSB clarifies that it has the intention to develop Sustainability Standards in the future for the other environmental objectives (biodiversity, pollution, water and marine resources and circular economy), social objectives and governance objectives, and when this should be expected. IFRS Sustainability Standards related to biodiversity should be developed only once the TNFD recommendations are finalized. Meanwhile, until the finalization of all the IFRS Sustainability Standards, it is absolutely key that a safe harbor be included in IFRS S1.

For the General Requirements in IFRS S1 and the Climate standards in IFRS S2, it is also key that a 2-3 year safe harbor is introduced, exactly as was foreseen when the IFRS financial standards were implemented.

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

Paragraph 51 states that in addition to IFRS Sustainability Disclosure Standards, an entity shall consider the disclosure topics in the industry based SASB Standards. For the financial sector, the SASB standard is based on the US banking system and is not appropriate for other jurisdictions, in particular not for EU banks. More generally, for all sectors, we believe there is an overreliance on SASB which is largely a US standard that does not fully embrace the same understanding of responsibility as the leading international standards regarding sustainability topics. If the standard aims to truly be a global one which addresses the main concerns, it should embrace the framing of the UNGPs and its "cause, contribute, directly linked" framing.

Also, while we generally agree with the procedure as outlined in para. 52-53, it is unclear why the sources presented under para. 51 shall only be used as guidance on which sustainability-related risks and opportunities may need to be reported on, but not as guidance on disclosures related to those risks and opportunities (in the absence of an IFRS Sustainability Disclosure Standard). Such sources, including GRI, should be used to define disclosure requirements under ISSB.

Question 8—Materiality (paragraphs 56–62)

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

It is clear, but we do not agree with focusing only on the financial impact side of the climate-related disclosures, although we understand that the ISSB deliberately does not cover double materiality given that the constitution of the IFRS foundation prevents them from doing so.

Double materiality is an essential concept of sustainability as the impact of a company on the environment and society at large (inside out perspective) is considered key for investors and lenders to manage the alignment of their own portfolios with environmental and social objectives, including alignment with the climate objectives of the Paris Agreement. As such, double materiality is a core concept of the disclosure requirements in the European Union.

We strongly believe in the importance of a broader stakeholder view and the broader concept of impact materiality, but understand that it is unlikely that this will be explicitly addressed by the ISSB at this stage, However, this broader view will be captured by jurisdictional reporting requirements such as the EFRAG's European Sustainability Reporting Standards (ESRS). The concept of double materiality would therefore be, for some time, an "add on" to the ISSB's baseline standard. We therefore recommend that the ISSB provides more guidance regarding materiality ad enterprise value, and clear explanations about how the divergent ISSB and EU approaches on materiality interoperate. It would help provide concrete examples of the link between concepts to better illustrate the interoperability of the two sets of standards.

Integration of impacts and dependencies:

To avoid diverging interpretations, the obligation to report "impacts and dependencies" should at least be clarified. We recommend that ISSB defines long-term time horizons (which may vary by sector and/or topic) under which the impact on the enterprise value should be considered. For example, a minimum time horizon of 30 years could be considered to assess the financial materiality of climate related risks and opportunities.

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

No. The ISSB has a narrow view of materiality and limits the primary users to capital market participants. We do not believe the focus on enterprise value is sufficient. The simple materiality approach does not provide sufficient decision useful information for investors and other stakeholders. We therefore believe companies should report sustainability matters on the basis of the double materiality principle which is also reflected in companies obligations and responsibilities under the already established standards laid out in the OECD Guidelines and UNGPs.

The definition of impact materiality in the ISSB exposure draft is in our view not going far enough. The ISSB states that: "An entity's sustainability-related risks and opportunities arise from its dependencies on resources and its impacts on resources, and from the relationships it maintains that may be positively or negatively affected by those impacts and dependencies. When such impacts, dependencies and relationships create risks or opportunities for an entity, they can affect the entity's performance or prospects, create or erode the value of the enterprise and the financial returns to providers of financial capital, and the assessment of enterprise value by the primary user".

We do understand that if an undertaking reports under ISSB standards it will not have to report its impact on the environment if it does not affect "the entity's performance or prospects, create or erode the value of the enterprise and the financial returns to providers of financial capital, and the assessment of enterprise value by the primary user". For example, a company that produces paper will not be required to report its impact on water resources (although water consumption and pollution may be important for this industry) if such impact does not affect the company's value. This is in contrast with the EU proposed standard under which an undertaking will have to report such impacts regardless of whether its value is impacted or not. It is important that double materiality is considered, so stakeholders are able to assess the overall impact of an entity on the environment and society

In addition to the above view on double materiality, we have the following comments:

- As stated above, the concept of double materiality is expected to be, for some time, an "add on" to the ISSB's baseline standard. We therefore recommend that the ISSB provides more guidance regarding materiality and enterprise value including an explanation on how the different concepts interoperate: we believe there is a need for more guidance on definitions of materiality and materiality assessment, given that interpretations could differ between users and providers. Linkage to IAS1 without further clarity may not answer this need fully.
- We do recommend that the ISSB provides more guidance regarding enterprise value. Currently, the concept of "enterprise value" appears to be the same as "underlying sustainability-related financial risks and opportunities" as described in European Sustainability Reporting Standard Exposure Draft ESRS 2, paragraph AG 6, sub-paragraph b. We recommend the IASB provides clarification and highlights differences, if any.
- Definitions of "material" and "risks/opportunities" are challenging – poor definitions could create challenges in undertakings' analysis across supply chains, second-derivative impacts, and lead to firms being forced to demonstrate to auditors why something is not material – which could be a significant burden. We would like to remind that the corporate responsibilities for supply chains and the related measurements do not end at first tier suppliers – either for environmental aspects or for human rights aspects. Clarity of requirements and quality of the reported data is key in this regard.

- Materiality/significance of some issues remain open to debate, e.g., derivative exposure: does an interest-rate swap on an ESG loan make it an ESG derivative? We would question the need for some of the SASB requirements, e.g., the number of loans issued or the number of underwriting/advisory transactions. We believe the OECD Guidance and UNGPs are a better basis than SASB and should be considered for international harmonization and standardization.

  - They lay out the obligation to meet the reporting needs of all stakeholders and ensure the perspective of those stakeholders is considered. As long as double materiality is not introduced, an IFRS 8-style "through the eyes of management" approach could be considered as it can lead to decision useful and disclosure of material risks and could avoid a laundry list of requirements.

The overlap or distinction between "significant" and "material" needs to be clarified. Significant risks should be considered material information. It would be beneficial to clarify whether the terms "material" and "significant" have different meanings, or whether instead they are used interchangeably.

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

The illustrative guidance is useful. Nevertheless, the EFRAG provides more details to assess the materiality of sustainability-related financial information: "Sustainability-related financial risks or opportunities are measured as a combination of a probability of occurrence and magnitude of financial effects" (ESRS1 – general principles). Moreover, the EFRAG gives information on the due diligence process to identify potential and actual impacts as material.

Additional ISSB guidance may be useful.

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

Yes.

<u>Question 9—Frequency of reporting (paragraphs 66–71)</u>

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

There are mixed views. On the one hand, providing the sustainability-related financial disclosures and financial statements at the same time is necessary to enhance cohesiveness and better understand the impact of sustainability risks on the value of the company. On the other hand, some question the necessity given that financial results are retrospective (backwards looking) while sustainability disclosures are mainly prospective (forward looking). It is also relevant to note that the information collected from third parties will have a one year delay (the latest available information). It would seem reasonable to provide for a one-year reporting gap between the companies reporting and the reporting of financial institutions, which will have to report on the basis of the data provided by their clients.

<u>Question 10—Location of information (paragraphs 72–78)</u>

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

We broadly welcome the proposal to report sustainability-related financial information as part of general-purpose reporting. However, the requirement to incorporate into general purpose reporting could lead to an increasingly long annual or similar reports, which in turn could lead to perverse pressure to reduce disclosures as firms seek to shorten their wider reports. Incorporation in general purpose reports could also create uncertainties and challenges around interpretation for the reader.

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

No, we are not aware of any.

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

As transparency and clearness is key, we support the fact that Sustainability Disclosure Standards can be included by cross-reference to avoid unnecessary information.

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

It is clear for us as it is stated in paragraph 74 "An entity might disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements" and in paragraph 75 " Information required by an IFRS Sustainability Disclosure Standard can be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced"

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

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

It is important to provide comparative information, so stakeholders are able to monitor the progress of a company regarding the way it tackles sustainability risks and opportunities. Providing relief from disclosing comparatives in the first year of application is granted. It will be complicated for entities to collect information from the previous year.

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

We believe that if an entity has a better measure of a metric reported in the prior year, it should be able to disclose the revised metric in its comparatives, always considering the cost-benefit of revising the comparatives. However, the specificities of organizations listed in the US where restatements have significant legal considerations and implications should be considered.

In ED IFRS S1, the ISSB acknowledges that "[*w]hen metrics cannot be measured directly and can only be estimated, measurement uncertainty arises". "The use of reasonable estimates is an essential part of preparing sustainability-related metrics…" (Paragraph 79*). The same is true for certain climate-related information and yet this acknowledgement is not included in ED IFRS S2.

The linkage to IAS 8 (without further clarity) may be unhelpful as it may restrict flexibility in restatements and limit helpful explanation of how processes / methodologies / data have improved due to requirement to follow accounting convention.

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

We agree in principle to this proposal. It is important to underline that entities will face important data gaps (for example to collect sustainability related information in their entire value chain, including information from companies with which the entity has no direct relationship and no control over e.g., subcontractors) and will be forced to rely on estimates.

Therefore, we would recommend clarifying that the mainstream value chain of credit institutions includes clients with whom financial institutions have contractual relationships. The materiality assessment should be realized in the mainstream value chain only with regards to these clients' own operations. The clients' upstream and downstream value chain should be excluded.

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

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

Yes.

Question 13—Effective date (Appendix B)

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

Large companies and internationally active entities already have to report ESG information, not only derived from mandatory regulation but also because other stakeholders demand it. Therefore, the sooner there is an international common mandatory framework for everyone, the sooner there will be homogeneous and comparable information. As the EFRAG and the SEC approach is to try to implement these standards as of December 2024, this would be the desirable date of implementation for the 3 frameworks with an "early adoption" approach so that entities which already give this kind of information can do it early under the ISSB framework.

There should however be safe harbor provisions, in line with the SEC proposals, for less mature elements of sustainability reporting that require estimates, while data and methodologies are being improved. Even where data is available, significant development is needed in data capture and reporting capabilities/controls.

Another option when information is not available and, to avoid estimates, could be the "disclose or explain" in the case when just a part of the information is available, giving the opportunity to the reporters to develop the complete information as soon as possible.

The ISSB should explicitly recognize that some areas of reporting, e.g., scenario planning, will evolve over time. Consequently, having some self-attestation of where a company has, and has not, met the requirements — noting reasons why it has not been possible — may be a helpful addition. This will enable progress to be made, maintain internal and market pressure to iterate, whilst recognizing challenges and risks.

In addition, IFRS S1 and IFRS S2 should be published at the same time to avoid risk of fragmentation, and to establish a baseline standard for those jurisdictions that decide to look at ESG issues beyond climate.

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

The relief from disclosing comparatives in the first year of application seems logical. It will be complicated for entities to collect information from the previous year.

Question 14—Global baseline

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?

Yes, we recommend that the ISSB clarifies that information on material sustainability impact is indeed relevant for investors to assess the enterprise value or independently from implications on enterprise value. Even if the constitution of the IFRS foundation prevent them from proposing double materiality explicitly, we believe the ISSB may have some margin of maneuver to make the impacts on people, the planet and the economy clearer. Otherwise it may impact the ambition of the ISSB to define a global baseline standard.

Second issue, albeit expected to be temporary, is that the ISSB only proposes a disclosure standard for climate as a first step, while the European standards focus on various topics, including biodiversity, social and governance aspects.

Third, paragraph 51 states that in addition to IFRS Sustainability Disclosure Standards, an entity shall consider the disclosure topics in the industry based SASB Standards, which may limit its application as a global standard.

Fourth, the scenario used by an entity to assess its resilience and targets should be based on the "latest international agreement on climate change", while the EFRAG refers clearly to 1.5°C scenarios. The disclosure requirement of transition plans is more detailed under the standard proposed by EFRAG. For example, when disclosing their alignment with the 1.5°C objective, undertakings must disclose their use of carbon offsets separately, while they can be bundled in the ISSB disclosure requirement. Moreover, under ISSB, the scenario used by an entity to assess is resilience and targets should be based on the "latest international agreement on climate change", while EFRAG explicitly refers to a 1.5°C-scenario.

We also believe that some of the definitions used in the ISSB exposure draft are slightly different from the definitions used by the EFRAG, for example regarding "significant ESG risks". Further alignment and more concrete guidance about significant risks and opportunities to ensure consistent treatment across companies is needed. We have concerns on proportionality and the amount of data required, in relation to significant risks. This is particularly the case for broader sustainability topics which are less well-developed.

It will be crucial, for a global recognition of IFRS Sustainability Disclosure Standards, to design an equivalence or substituted compliance regime for sustainability-related and climate-related disclosures so that they do not need to duplicate disclosures where the informational content is equivalent. For this to work, we underscore the importance of global alignment around common definitions.

The objective of the ISSB standard is exclusively to help primary users of general-purpose financial reporting to understand how an entity's enterprise value can be affected by significant sustainability risks and opportunities. The objective of the EFRAG standard is to provide double materiality information to both users and all impacted stakeholders such as civil society. Consequently, these diverging approaches generate a difference in terms of standards (for example, absence of due diligence related requirement, locked-in emissions) and in terms of granularity that may impede comparability. Please see our response to question 8.

Question 15—Digital reporting

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 believe that it is important to foster digital reporting, but it should be phased in once data and reporting has started to mature.

Question 16—Costs, benefits and likely effects

(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 analyzing the likely effects of these proposals?

Requirements will vary between companies and jurisdictions. The implementation will require changes to systems, education, and expertise. This will disproportionately impact especially non-large companies. Proportionality should be a key principle.

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

No comments.

Question 17—Other comments

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

No comments.

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