Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

ASCG • Joachimsthaler Str. 34 • 10719 Berlin

Sustainability Reporting Technical Committee

Phone: +49 (0)30 206412-12

E-Mail: info@drsc.de

Berlin, 29. July 2022

Mr Emmanuel Faber
Chair of the
International Sustainability Standards Board
c/o IFRS Foundation
Columbus Building, 7 Westferry Circus,
Canary Wharf,

London E14 4HD

Dear Emmanuel,

ISSB Exposure Draft ED/2022/S2 *Climate-related Disclosures*

On behalf of the Accounting Standards Committee of Germany (ASCG) we are writing to comment on the Exposure Draft ED/2022/S2 Climate-related Disclosures issued for consultation by the ISSB on 31 March 2022 (herein referred to as 'ED').

The ASCG's Sustainability Reporting Technical Committee supports the ISSB's efforts in developing sustainability reporting standards designed to provide a global baseline helping individual jurisdictions/regions to build their own reporting requirements on them. In this respect, we also see clear benefits in building the IFRS Sustainability Disclosure Standards (IFRS SDS) on the structure of the recommendations of the Task force on Climate-related Financial Disclosures (TCFD), i.e., to make explicit reference to the requirements on governance, strategy, risk management, and metrics and targets. In our view, this is an important element for the alignment of this IFRS SDS standard with other international developments, such as the proposed SEC disclosure requirements.

In this context, we consider the ISSB's definition of relevant users and their information needs including the ISSB's conclusion to define investors' enterprise value considerations as the purpose of climate-related disclosures, to be in line with the needs of international capital markets. First, we observe that investors are increasingly monitoring climate-related impacts resulting from an entity's business activities. Second, those climate-related impacts (greenhouse gas emissions or production of climate-friendly products) are an essential part of investors' enterprise value considerations.

We also welcome the ISSB's efforts to further develop the terms of cooperation with the Global Reporting Initiative (GRI) to form a globally consistent reporting framework for sustainability also offering particular information for other relevant stakeholders. This will also help the work of EFRAG which will nevertheless need to take on board specific European reporting requirements, such as the EU sustainable finance legislation.

Contact:
Joachimsthaler Str. 34
D-10719 Berlin
Phone: +49 (0)30 206412-0
Fax: +49 (0)30 206412-15
E-Mail: info@drsc.de

Bank Details:
Deutsche Bank Berlin
IBAN-Nr.
DE26 1007 0000 0070 0781 00
BIC (Swift-Code)
DEUTDEBBXXX

Register of Associations:
District Court Berlin-Charlottenburg, VR 18526 Nz
President:
Georg Lanfermann
Vice President:
Prof Dr Sven Morich

However, we would like to express some issues of concern that are outlined in more detail in the appendix to this letter.

First, regarding the reporting of climate-related information in management commentary (even if not required), IASB and ISSB should ensure consistent language and requirements in the Practice Statement on Management Commentary and the IFRS S2 and other IFRS SDS.

Second, the use of climate scenarios for resilience and risk considerations requires a high level of experience and resources from entities, which many do not (yet) have. The comply-or-explain clauses proposed in this context are, therefore, essential and should be expressed in a clear way.

Third, we support the ISSB's proposal to develop sector-based requirements by taking on board the standard-setting work of SASB. This helps to avoid the burden of requiring excessive reporting requirements from each and every entity that reports under IFRS S2. However, we have concerns that by simply deleting US-specific references and adding other items, IFRS S2 may fall short, as the SASB standards significantly differ in terms of structure and characteristics compared to IFRS S2.

Our detailed responses to the questions raised in the ED are laid out in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

Georg Lanfermann

President

Appendix – Answers to the questions in the ED

Question 1—Objective of the Exposure Draft

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

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

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

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

We are in agreement with (a), (b), and (c).

In our view, focusing on the information needs of investors is an appropriate approach to developing standards on climate reporting aiming at a global baseline approach satisfying the needs of international capital markets. Investors' enterprise value considerations are mostly based on their expectations on financial returns in the future through their financial engagement in an entity. Those future returns depend directly on the expected future development of the entity, i.e., on the future success of its current and/or future strategy, business model, operational behaviour.

There is no doubt, that any corporate behaviour can only be successful in the future if it takes climate change, the political and economic countermeasures as well as any other adaption processes into account. In addition, developments in recent years show that external climate-related effects caused by entities' business (such as GHG emissions) are being addressed increasingly through political measures (e.g., phasing out coal-fired power generation in Germany, prohibition of heating based on the combustion of oil in several countries in Europe); also, market behaviour is a driver for change in our view. Investors' demand for climate-related information from entities has also risen sharply in recent years.

Furthermore, we believe, that impacts from corporate behaviour with regards to climate will always or at least in most cases have a rebound effect on entities, partly coming at later stages of a corporate life cycle.

As entities report on the climate-related impacts resulting from their business activities, investors are provided with the relevant information to develop their expectations on those

rebound effects and to take these into account in their enterprise value considerations (which we understand is the ISSB's assumption, too). This can be reflected either by adjusting cash flow expectations and/or adjusting discount factors. Models and techniques used for the consideration of climate-related risks for enterprise valuation might not yet have reached a level of maturity that ensures their uniform consideration; however, we believe that this is an inherent issue of enterprise valuation to some extent. This is because even using well-developed business valuation techniques to model financial risks, such as the capital asset pricing model, will not result in different investors valuing entities in the same way.

However, we strongly believe the line of argumentation on how an entity's sustainability related **impacts** are sufficiently reflected in enterprise value considerations should be explicitly discussed in the IFRS Sustainability Standards. For a more detailed outline of our line of thinking in this respect we refer to our comment letter on the ED IFRS S1.

Question 2—Governance

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

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

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

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

We agree with the proposed disclosure requirements.

First, we welcome that the ISSB proposes to align the structure of the ED with that of the TCFD recommendations very closely, i.e., to build the requirements on the TCFD's four-tiers structure: governance, strategy, risk management, and metrics and targets. This is an important prerequisite for the international alignment towards S2 is striving.

We also note that in traditional management reporting, detailed information on the management's role in monitoring and managing financial risks (e.g., market risks, interest rate risks, etc.) has long been required and reported. For this reason, it seems reasonable to require information on the management's role with regard to sustainability-related and, in particular, climate-related risks. In addition, we observe that investors are increasingly interested in information on climate-related corporate governance to the same extent as in information on corporate governance focused on "traditionally" financial aspects.

Therefore, we believe that information on how the governance bodies' responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies are of high relevance for investors and other stakeholders in order to assess the priorities given to climate matters that are highly sensitive for the entity and enterprise value considerations. Even if we observe that the TCFD recommendations are worded more generally in this respect, and do not contain such specific requirement, we think the ISSB's specification is appropriate as it makes more explicit the general requirement taken over from TCFD and will help preparers in identifying relevant information. This is also true regarding the requirement to provide information on whether and how the climate-related performance is considered in executive management's remuneration policies.

Question 3—Identification of climate-related risks and opportunities

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

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

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

We basically agree with the proposal to identify and to disclose a description of significant climate-related risks and opportunities. We believe that information on risk and opportunities from sustainability – in particular: climate related – matters should be just as relevant to investors as "traditional" information on financial risks (e.g., interest rate risks). In this respect, we support the ISSB in introducing and defining climate-related technical terms as, for example, *transitional risk*, *physical risk* including *chronic* and *acute* physical or transition risks. We also support requiring consideration of these when reporting climate-related risks and

opportunities, as these terms and notions are generally accepted and established and, therefore, even meeting the information needs of users in general. Furthermore, we think that considerations on climate-related risks are likewise helping reporting entities in supporting their strategic decision making.

We agree that entities should not be bound on how to define their time horizons (short, medium, long term) as this remains an entity-specific definition.

However, we would like to address particular areas of improvement, including issues addressed in question 3b:

We note, that the IASB has recently expressed the opinion that "management commentary could be an appropriate location for information about environmental and social matters that an entity's management has identified by applying other requirements or guidelines, and that is material to investors and creditors in the context of management commentary" (see Basis for Conclusions on the Exposure Draft ED/2021/6, BC13). The ISSB's considerations expressed in para 73 of the ED IFRS S1 are consistent in this regard. In our opinion, there are many good reasons for including sustainability information in management commentary or management reports; however, we concede there might be reasons against that. For the general discussion on the location of sustainability disclosures please see our comment letter on the ED IFRS S1. In order to ensure that sustainability information based on IFRS SDS can be included in management commentary appropriately, we think the IASB and ISSB should be consistent in using notions, terms, language, and requirements in the Practice Statement on Management Commentary and IFRS SDS.

First, we note the traditional risk reporting in management reports include information on type, extent, and timing of risks and opportunities. In addition, we understand that the IASB's Exposure draft ED/2021/6 Practice Statement (PS) Management Commentary contains such characteristics in relation to information on risks, i.e., extent and timing. To achieve compatibility with the IASB's final recommendations on management commentary we believe it is necessary to align language and terms in the PS Management Commentary and in the IFRSs on sustainability disclosures as long as same issues are concerned. In particular and with regard to risk, we think the ISSB should also consider using terms like *extent* and *timing* for characteristics of risk related information on climate issues

Second, we note the ED introduces the notion of *disclosure topics*, a term used in the SASB standards. The ED further contains a requirement in para. 10 according to which entities should refer to these *disclosure topics* in identifying significant climate-related risks and opportunities. We fail to understand the meaning of that notion. Is the term *disclosure topics*, for example, meant to describe another characteristic of climate-risk related information, or is it meant to describe another type of sustainability matters with regard to climate? In other words: The concept and its meaning within the design of the ED remains unclear. Regardless, the term introduces a new layer of complexity to the requirements and should – in our view – be reconsidered in any case.

Third, we cannot conclude if the wording of the requirements in IFRS S2 clarify, whether risks are required to be reported on a gross basis (i.e., before consideration of measures to minimise or avoid risks) or on a net basis (remaining risks after consideration of measures to mitigate or to avoid risks). We recommend the ISSB to make that clear in the standard.

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

Paragraph 12 of the Exposure Draft proposes requiring disclosures that are designed to enable users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on an entity's business model, including in its value chain. The disclosure requirements seek to balance measurement challenges (for example, with respect to physical risks and the availability of reliable, geographically-specific information) with the information necessary for users to understand the effects of significant climate-related risks and opportunities in an entity's value chain.

As a result, the Exposure Draft includes proposals for qualitative disclosure requirements about the current and anticipated effects of significant climate-related risks and opportunities on an entity's value chain. The proposals would also require an entity to disclose where in an entity's value chain significant climate-related risks and opportunities are concentrated.

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

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

First and foremost, we support the ISSB's proposal that the definition of the reporting boundaries for climate-related disclosures is consistently oriented towards the concept of the *reporting entity* for financial reporting and, by consequence, only requiring qualitative information for other parts of the value chain.

However, it should not be forgotten that effects associated with the value chain which the entity belongs to are also in the realms of investors' information needs. Risks for other companies in the reporting entity's value chain may always have an impact on the reporting entity itself, regardless of whether or not these risks are within the reporting entity's control. Therefore, we think the consideration of the value chain is inherent in the assessment of risks and opportunities from the reporting entity's perspective. For example, we strongly believe that reporting on Scope 3 greenhouse gas (GHG) emissions is relevant for investors, although there are arguments brought forward that this goes beyond the reporting-entity-based reporting boundaries.

For any user of corporate reporting, quantitative information is usually superior to qualitative information. One may come to a different conclusion if events that are considered a risk or an opportunity lie far in the future. As there are high discounting effects for events that lie far in the future, the quantities reported at the reporting date might have a low value, so that quantitative reporting on them is often not considered meaningful. In contrast, qualitative disclosures might have higher information value for users in these circumstances.

With the growing importance of sustainability-related disclosures in corporate reporting, the proportion of forward-looking disclosures is increasing, which also have longer time horizons compared to traditional financial reporting. Therefore, the minimum requirement proposed in the ED for the disclosure of qualitative information seems generally appropriate. In addition, entities should always be allowed to voluntarily provide additional quantitative disclosures.

Question 5—Transition plans and carbon offsets

Disclosing an entity's transition plan towards a lower-carbon economy is important for enabling users of general purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value.

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

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

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

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

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

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

We note that enterprise value considerations significantly depend on the assessment whether and to what extent an entity is able to respond (and adapt its business) to changes in the legal, market, and socio-cultural conditions. This ability forms the basis of an entity's transition plans. Therefore, we agree that disclosures on transition plans are relevant for enterprise value assessments.

To illustrate how and to what extent an entity's transition plans depend on offsets or compensation measures, the proposed disclosure on the consideration of offsets and compensatory measures is necessary. However, we note that there is still no fully established common view in public debate and company practice on how offsets should be used, on how they are defined exactly, and how offsets are to be distinguished from the *reduction measures* or *compensation measures*. We, therefore, suggest that the standard includes such discussion.

Question 6—Current and anticipated effects

The Exposure Draft proposes requirements for an entity to disclose information about the anticipated future effects of significant climate-related risks and opportunities. The Exposure Draft proposes that, if such information is provided quantitatively, it can be expressed as a single amount or as a range. Disclosing a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value may be more appropriate.

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

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

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

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

(a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?

(b) Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?

(c) Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?

Basically, we agree with ISSBs proposals. Some remarks and concerns are set out below.

On question a:

In our opinion, quantitative information are relevant for users and seem – in case of climate-related (current and expected future) impacts on an entity's financial position, financial performance, and cash flows – more or at least likewise meaningful as qualitative information only. Therefore, we believe that quantitative reporting should be strived for in the long term. However, we have some concerns about a fundamental requirement to provide quantified information (we are aware financial reporting conventions shall be adhered to, anyway). Therefore, we consider an exemption clause necessary for the following reason:

We observe that entities' entry into climate reporting can be facilitated if they are given the opportunity to report qualitative information only, in the first years of their climate reporting. Practical experience has revealed that the extent of quantitative sustainability related disclosures in entities' reports increases as they gain more experience. We are of the opinion that entities should first be required to provide qualitative information with the perspective of requiring quantitative information in the long term. However, we think the ISSB should be more specific regarding the "unable to do" clause in para 14 of the ED. The board might borrow from the wording contained in IFRS 8 Operating Segments. Para 18 of IFRS 8 reads "unless the necessary information is not available and the cost to develop it would be excessive".

In addition, we think the ISSB should consider whether entities may be further exempted to disclose climate-related information to the extent that sensible and climate-related opportunities are concerned. This is because we see a risk that the entity may relinquish a competitive advantage by disclosing that detailed information. In this respect, a clear definition might be necessary as to when a sufficiently high risk to one's competitive advantage may be assumed. We concede this is a challenge; however, we recommend the ISSB to consider this issue.

Furthermore, we note the ED is silent on whether an entity is expected to disclose anticipated quantitative effects as a point forecast or whether the disclosure of ranges is likewise possible. We are aware of the principles-based approach the ISSB takes in developing the standards and that this may result in not having addressed this question; however, we strongly believe that the disclosure of ranges shall also be considered as compliant to the standard's requirements.

On question b:

As a matter of principle, risk and opportunities have to be disclosed once they are assessed material from the perspective of the reporting date, in particular if an entity's risk assessment concerns financial position, financial performance, and cash flows. Para 14(b) of the ED contains a requirement to disclose "climate-related risks and opportunities […] for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year." We fail to see the meaning of this requirement as we believe that the knowledge on possible impairments to be recognised in the next financial year shall trigger their recognition already in the current

financial year. In case the ISSB refers to circumstances in which knowledge on those risk do not result in impairments for current year's reporting because the recognition criteria are not met, we recommend the ISSB to elaborate on that in more detail in the standard.

On question c:

As an organisation in a European Jurisdiction, we have to take account of EU specific requirements in addition. With regard to para 14(c)(i) of the ED on investment plans we note some redundancies and overlaps with the requirements of the European Taxonomy Regulation (EU/2020/852) with regard to CapEx plans as set out in the Appendix 1, No. 1.1.2.2. of the Delegated Regulation EU/2021/2178). The scope of the EU Taxonomy Regulation comprises specific economic activities. In other words: Entities that are not active in the sectors specified by the Delegated Regulation EU/2021/2178 are not required to report CapEx or CapEx plans associated with ecologically sustainable activities. In contrast, IFRS S2 is designed to capture all activities of all sectors; in other words: all entities may be in the scope of IFRS S2. Furthermore, CapEx under the Taxonomy Regulation is considered ecologically sustainable only if certain criteria are met (for example the *Do-no significant-harm-condition*), whereas the CapEx reported according to para 14(c)(i) of the ED are not subject to such criteria. As a result, reporting entities will have to report a part of CapEx twice, once as taxonomy relevant CapEx and once as CapEx as required by the ED because the latter may include the former.

Although, the ISSB might not be in the position to solve this issue unilaterally, we believe that both, the European Commission and the ISSB need to closely cooperate in order mitigate the risk of double reporting and overlaps.

Question 7—Climate resilience

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

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

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

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

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

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

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

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

Requiring disclosure of information about climate-related scenario analysis as the only tool to assess an entity's climate resilience may be considered a challenging request from the perspective of a number of preparers at this time—particularly in some sectors. Therefore, the proposed requirements are designed to accommodate alternative approaches to resilience assessment, such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests. This approach would provide preparers, including smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, represents an iterative learning process, and may take multiple planning cycles to achieve. The Exposure Draft proposes that when an entity uses an approach other than scenario analysis, it disclose similar information to that generated by scenario analysis to provide investors with the information they need to understand the approach used and the key underlying assumptions and parameters associated with the approach and associated implications for the entity's resilience over the short, medium and long term.

It is, however, recommended that scenario analysis for significant climate-related risks (and opportunities) should become the preferred option to meet the information needs of users to understand the resilience of an entity's strategy to significant climate-related risks. As a result, the Exposure Draft proposes that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted. Consideration was

also given to whether climate-related scenario analysis should be required by all entities with a later effective date than other proposals in the Exposure Draft.

Paragraphs BC86–BC95 of the Basis for Conclusions describe the reasoning behind the

Exposure Draft's proposals.

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

Basically, we agree from a users' perspective to the items listed in para 15(a) of the ED on the objective of an entity's analysis of climate resilience. However, in our opinion it is not just the user who should be enabled to understand the issues listed in that paragraph. We believe that any entity itself needs sufficient clarity on its resilience to climate issues for its own business model and strategic considerations including uncertainties. Without such an analysis an entity's management will hardly be able to assess whether or not the entity's current business model, product portfolio, manufacturing processes etc. will be ready for future developments.

On question b and c:

We agree to the ISSB questions b (i) and (ii) and c.

As mentioned above we believe that any entity should analyse its climate resilience in its own interest and should manage the business accordingly. We agree that the use of climate scenarios might be the best way to do this exercise. The TCFD Guidance on Scenario Analysis for Non-Financial Companies provides helpful guidance on the use of climate scenario for entities in their own analyses. In addition, we observe that an increasing (but still small) number of entities are using climate scenarios.

We further note, the ISSB proposes in para 14(b)(i) that an entity shall disclose how the analysis has been conducted, including which scenarios were used for the assessment and

the sources of the scenarios used and whether the analysis has been conducted by comparing a diverse range of climate-related scenarios. From a theoretical perspective (and ignoring practical considerations) it might seem appropriate to take into account the Guidance on Scenario Analysis for Non-Financial Companies by the TCFD to a larger extent in this respect. The TCFD recommends the use of two different or opposing scenarios. A scenario with high transitory effects might be contrasted with a scenario with high physical effects,[1] as, in our view this approach captures the range of possible future developments very well.

As indicated, this is a theoretical line of argumentation. From a practice perspective, one needs to understand that climate scenario analyses require sufficient level of knowledge, experience, and huge capacities as it is highly complex. In particular, small and medium sized entities might not be capable of conducting such analyses without support of external service providers, and even larger companies without sufficient experience will face significant challenges. Therefore, we suggest considering a phased approach. A requirement to undertake climate-related scenario analysis to assess climate resilience could be introduced over time allowing time for the different entities depending on their nature. In addition, we urge the ISSB to keep the comply-or-explain-clause in the standard as this is highly desirable from a practical perspective as outlined above. Although, we suggest that the ISSB should be more specific regarding the wording of this clause. As mentioned in our response on question 6, the ISSB might borrow from the wording contained in IFRS 8 Operating Segments.

Question 8—Risk management

An objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities, to enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise value. Such disclosures include information for users to understand the process, or processes, that an entity uses to identify, assess and manage not only climate-related risks, but also climate-related opportunities.

Paragraphs 16 and 17 of the Exposure Draft would extend the remit of disclosures about risk management beyond the TCFD Recommendations, which currently only focus on climate-related risks. This proposal reflects both the view that risks and opportunities can relate to or result from the same source of uncertainty, as well as the evolution of common practice in risk management, which increasingly includes opportunities in processes for identification, assessment, prioritisation and response.

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

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

[1] Examples of a "2°C or lower scenario" (high transitory effects) are the SSP1-1.9 and the SSP 1-2.6 of the Intergovernmental Panel on Climate Change (IPCC) as well as the Net Zero Emissions by 2050 scenario and the Sustainable Development scenario of the International Energy Agency (IEA). Examples of scenarios with high physical risks are the IPCC's SSP5-8.5 or the IEA's Stated Policies Scenarios (STEPS).

We agree with the proposed disclosure requirements for the risk management processes. Furthermore, in our view it is appropriate to extend the remit of disclosures about risk management beyond the TCFD Recommendations because risks and opportunities shall be treated in an equal manner, not only in climate reporting. The German Commercial Code as well as the German Accounting Standard No. 20 on Group Management Reporting contain a similar requirement (although not specifically addressing climate or sustainability risk and opportunities). A biased focus on risks only will result in an incomplete depiction of the factors that could affect the entity's ability to create value and generate cash flows in the future.

In addition, we particularly welcome the guidance proposed in para 18 of the ED: If an entity manages its oversight of sustainability-related risks and opportunities on an integrated basis, integrated risk management disclosures will often be more beneficial than separate disclosures for each significant sustainability-related risk and opportunity in order to understand the overall situation at the reporting entity.

Furthermore, we note para 17 of the ED distinguishes between disclosure of the "process, or processes, it uses to identify climate-related (i) risks and (ii) opportunities" on one hand and disclosure of "the process, or processes, it uses to identify climate-related risks for risk management purposes". We struggle to understand the difference the ISSB has in mind and shall recommend the Board to reconsider this issue. We have noted a comparable issue para 26 of the ED on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information.

Lastly, we would like to point to the fact that disclosure of opportunities is often part of the reporting on an entity's objectives and targets. We believe, this should continue to be possible under the standard's requirements and should be given appropriate weight.

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

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

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

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

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

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

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

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

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

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

For Scope 3 emissions, the Exposure Draft proposes that:

- an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;
- an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;

- if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement; and
- if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure.

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

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

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

   (i) the consolidated entity; and
   (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?

(f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

In general, we agree with the ISSB in its proposals on disclosure of metrics and targets. Some reservations and additional remarks are outlined below.

On question a:

The ISSB proposes in para 21(a)(ii) to require disclosure of GHG emissions on an intensity basis per unit of physical or economic output by scopes (Scope 1, 2, 3). Although we think that GHG emission intensity figures are meaningful, we believe this may not be the case for a breakdown by scopes. Many (if not most) entities generate their output of goods or services

as well as their turnover in a network across the stages of the value chain. In addition, the depth of value creation differs across entities, even within the same sector. Therefore, we think a breakdown of emission intensity figures by scopes might be artificial for a number of entities. When requiring such a breakdown by scope, a segment-based disclosure would be of higher information value if it is based on physical output.

The ISSB further proposes in para 21(a) to require disclosure of internal carbon prices. We observe that carbon pricing schemes are used in practice for managing an undertaking's greenhouse gas emissions. However, there are a variety of other instruments also used by undertakings in this regard. In our opinion, undertakings should be required to disclose their schemes for monitoring and managing GHG emissions, in general. The requirements may point to carbon pricing schemes as an example amongst others. However, we believe that a dedicated and exclusive requirement on carbon pricing is not meaningful as it ignores the diversity of other schemes.

On question c:

In our view, the reference to the GHG Protocol as the most relevant external literature for the climate standard ESRS E1 is appropriate, as the GHG Protocol is a globally accepted framework on measuring, managing, and reporting GHG emissions. In addition, we note that many other frameworks and standards refer to the GHG Protocol, e.g., GRI. Therefore, we agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2, and Scope 3 emissions.

However, we note the GHG Protocol has remained unamended since 2016 and might, therefore, need to be reviewed and updated in due course. As an example, negative emissions (aka GHG removals) are gaining in importance in practice and are even addressed in the ED. However, this aspect is not covered by the GHG Protocol. Therefore, the ISSB will have to make sure, that future amendments of the GHG Protocol are still consistent with the requirements of IFRS S2; in other words, the ISSB might be required to amend the standard in case of amendments to the GHG Protocol. Another example for a shortcoming that might be subject to amendments to the GHG Protocol is that it does not include a detailed discussion on how to calculate emission factors to quantify emissions in CO_2 equivalents from the combustion of fuels.

We further note, that the GHG Protocol contains a discussion of three different approaches to circumscribe the reporting boundaries, i.e., the equity share approach, the financial control approach, and the operational control approach. According to para 21(a)(iv) of the ED all approaches are proposed to be available to a reporting entity. However, we wonder whether all of these approaches are consistent to the reporting boundaries defined in ED IFRS S1. It might be worth for the ISSB to reconsider this issue. In addition, please see our response on question e below.

On question d:

Basically, we agree with the ISSB to propose that an entity should provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3 expressed in CO_2 equivalent. However, if a company's GHG emissions are significantly determined by one of the six other GHGs, entities should disclose that fact, accordingly; however, the ED does not contain such

a requirement. Entities in the agricultural sector, for example, could be affected, as methane is often the main GHG here.

On question e:

We believe, it is necessary for consistency reasons that the determination and reporting of Scope 1 and 2 GHG emissions is based on the same group of consolidated entities as for financial reporting. A separate disclosure for consolidated entities on the one hand and for associated entities, joint ventures on the other hand is not reasonable.

On question f:

We agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities. Such a requirement enhances the comparability of emissions across different organisational settings for a reporting entity. One particular example is Outsourcing: Outsourcing should not be relevant for reporting on GHG emissions. In practice, reporting entities could decide to outsource certain parts of their business activities to third parties still being part of their business model. Without a disclosure requirement on Scope 3 emissions, the reporting entity would not report these emissions anymore, although the emissions are a result of the reporting entity's business model. By including a general requirement to disclose Scope 3 emissions, the issue of outsourcing becomes neutral for the reporting of GHG emissions as effects are covered by reporting regardless of whether outsourcing has taken place or not.

Question 10—Targets

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

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

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

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

Basically, we agree with the proposed disclosure about climate-related targets. In particular, the disclosure proposed in para 23(e) of the ED on how the entity's targets compare with those prescribed in the latest international agreement on climate change is useful in our view. However, in order to demonstrate alignment of an entity's targets with, for example, the Paris agreement 2015, the entity needs to consider the SBTi pronouncements and models. Such an exercise has turned out to be very complex and may, in a first instance, be overly burdensome for many entities if such requirement is introduced without lead-up time.

One difficulty is that such agreements (e.g., the Paris agreement) do not involve emissions reduction targets. Another one is that parties to the agreement are states, not entities. Therefore, for determining an alignment of the entity's targets to the Paris agreement, the SBTi modelling would need to be applied.

Furthermore, if compensations are part of an entity's GHG target setting, the consideration of those could, for example, be based on the SBTi specifications, as the SBTi literature contains specific proposals. Net-zero targets must result in at least 90% from "real reductions" (gross consideration) and a maximum of 10% from removal measures (natural or technological sinks). Higher limits are set for some sectors, e.g., 99% for electric power generation.

In addition, there needs to also be a clear focus on target paths in relation to concrete emission targets in order to ensure that climate targets also include real emission reductions. This is necessary because the target value for a specific year neglects the GHG budget. Such target paths (considering the GHG budgets) are also addressed by the SBTi.

In summary, the information how the entity's targets compare with those prescribed in the latest international agreement on climate change is of key importance. This does not withstand the fact that SBTi-compliant net-zero targeting is currently hardly widespread in practice. Therefore, users of climate-related disclosures might be interested in getting informed whether an entity considers aligning its GHG targets with the latest international agreement on climate change in future. We believe that the ISSB should consider a disclosure requirement in this regard.

Question 11—Industry-based requirements

The Exposure Draft proposes industry-based disclosure requirements in Appendix B that address significant sustainability-related risks and opportunities related to climate change. Because the requirements are industry-based, only a subset will apply to a particular entity. The requirements have been derived from the SASB Standards. This is consistent with the responses to the Trustees' 2020 consultation on sustainability that recommended that the ISSB build upon existing sustainability standards and frameworks. This approach is also consistent with the TRWG's climate-related disclosure prototype.

The proposed industry-based disclosure requirements are largely unchanged from the equivalent requirements in the SASB Standards. However, the requirements included in the Exposure Draft include some targeted amendments relative to the existing SASB Standards. The proposed enhancements have been developed since the publication of the TRWG's climate-related disclosure prototype.

The first set of proposed changes address the international applicability of a subset of metrics that cited jurisdiction-specific regulations or standards. In this case, the Exposure Draft proposes amendments (relative to the SASB Standards) to include references to international standards and definitions or, where appropriate, jurisdictional equivalents.

Paragraphs BC130–BC148 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals to improve the international applicability of the industry-based requirements.

(a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?
(b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?
(c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

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

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

(d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?
(e) Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?
(f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?
(g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?
(h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?

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

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

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

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

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

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

In our view, the ISSB's idea to develop industry-based requirements by considering existing reporting standards (as the SASB Standards) is a good starting point. However, the approach proposed by the ISSB raises questions on how SASB Standards are taken over in detail. Although the ISSB foresees a number of alterations in order to improve the international applicability of the SASB literature, we still have reservations for mainly two reasons:

First, the SASB requirements as evidence-based standards are generally of a rules-based nature, whereas the ISSBs general approach to the IFRS SDS is generally principles-based. It is essential that both concepts will be brought closer together to ensure the interoperability of the different elements in S2.

Second, we have concerns regarding the different terminology of the SASB standards in comparison to the ED, in particular regarding the meaning of *disclosure topics*. We would like to refer to our response to question 3 in this respect.

On questions a and b:

Further amendments to the elements originating from the SASB Standards are necessary to improve their international applicability. We acknowledge that a general deletion of US-specific provisions in Annex B has taken place, but certain definitions are no longer referred to (e.g., renewable fuel), although these seem helpful.

We understand that references to jurisdiction-specific regulations or standards in an international reporting standard are not desirable. By consequence, the ED proposes to require entities to indicate the specifications or the standard the entity refers to when determining if certain conditions are met (e.g., when fuel is considered renewable). In this regard, we are of the opinion that, as a matter of principle, it would make sense to use internationally applied or accepted definitions (if available) as a substitute for those US-specific definitions which are deleted. We acknowledge that in the short time period to develop S2 that references to internationally applied definitions may not have been easily identified at short notice. In case, such definitions do not exist, the reference should (alternatively) be allowed to be made to national definitions. However, an entity should be required to disclose and explain that fact.

Regarding the takeover of SASB's terminology regarding *disclosure topics* we have already commented on question 3 (please see above). In Appendix B, we note that it generally includes disclosure topics that are not directly related to the climate aspect but also to other sustainability matters (such as waste management).

On question d:

We doubt that the definition of category 15 (investments) of the GHG Protocol for Scope 3 emissions will result in entities taking facilitated emissions into account when determining Scope 3 emissions. However, the inclusion of this sub-category seems reasonable. The "Global GHG Accounting and Reporting Standard for the Financial Industry" released by the Partnership for Carbon Accounting Financials (PCAF) addresses this particular issue.

On question e:

We agree with the approach in principle, but we believe the ISSB should consistently use the term “carbon intensive industries”, instead of “carbon-related industries” (as in the ED). This would be consistent with the terminology used by PCAF and from a regional perspective, the EU Taxonomy Regulation.

On question f:

In our view, both absolute and intensity-based emission indicators should be disclosed in case an entity has set both targets. Although the provision of absolute metrics would be consistent to the global objective to reduce absolute GHG emissions, the need for intensity-based metrics might be supported by the limited informative value of absolute figures in certain circumstances, e.g., when the transition of the business model is to be presented. GHG emissions might be reduced in absolute terms by either shrinking the business and/or by enhancing processes (e.g., changed production processes) without a decrease in output produced. In order to better understand the way, the entity addresses its measurable targets

it might be meaningful to present both absolute and intensity-based emission indicators if addressed by the entity.

On question g:

The proposal to explain the method for determining facilitated emissions is helpful for reporting entities as the concept of facilitated emissions is relatively new.

On question h:

In principle, we believe that the number of frameworks/ standards/ codes of conduct etc. of other organisations referenced in the ED should be kept to a minimum. If such third-party references are used, there should not be any encouragement of expanding this third-party literature. The reference to the guidance contained in the GHG Protocol for the determination of GHG emissions is in our view most important. However, a further reference to the PCAF recommendations would make sense in order to enable comparability across entities regarding the determination and presentation of facilitated emissions. This is important because PCAF provides guidance on this particular issue, whereas the GHG Protocol does not. In this context, it seems desirable to limiting this requirement (including the reference) to the specific guidance for the financial sector.

On question i:

We believe that the ED's proposal to require entities to disclose the scope 3 emissions of asset managers in relation to assets under management is appropriate. In doing so, an entity should consider both the concept of financed emissions and the concept of facilitated emissions (based on PCAF Discussion Paper 2021). The concept of the attribution factor (see also PCAF) could also be applied to facilitated emissions in an adapted form in order to reflect the large variety and diversity of (financial) products.

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?

On question a:

In our view, the orientation towards established standards and frameworks (e.g., TCFD recommendations, GHG Protocol) is apparent in the ED and is to be welcomed. We believe that the application of ISSB standards will become more important for entities’ access to the capital market in the future. Large investors have already been demanding compliance with the requirements underlying the ED for some years. There is also broad international support

for the ISSB by the investor community. Other stakeholder groups will explicitly benefit from the ISSB's work via the cooperation agreement with GRI.

On question b:

As regards the costs element, we do not expect that the implementation of IFRS S2 will pose significant unreasonable challenges for entities that already have experience in applying established standards and frameworks on sustainability – in particular, climate – reporting. New adopters (and these will presumably be in the vast majority in the European Union), on the other hand, are expected to face major challenges if they have not applied TCFD or other related frameworks/standards addressing climate and other issues, such as SASB, that formed the starting point of IFRS SDS. However, we think the discussion on the scope definition cannot be addressed vis-à-vis the ISSB, as this is a matter for individual jurisdictions / regions.

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 think that a particular challenge of (not only climate-related) sustainability reporting is posed by the focus on forward-looking disclosures, which results in a higher degree of judgement to be made by entities for reporting purposes. Also, we consider this forward-looking element is a significant change in perspective compared to traditional financial reporting. A high degree of judgement is also required for disclosures on actuals, such as the determination of scope 3 GHG emissions, even if established procedures already exist for a large part of such disclosures. In this respect, verifiability and enforceability do not only result in major new challenges to auditors and other organisations auditing sustainability information; also governing bodies of entities (e.g., audit committees) and supervisory authorities are concerned. The development of corresponding competences and experience is therefore not limited to the auditors in the narrower sense.

We recommend that the ISSB continues and, where appropriate, intensifies its cooperation with professional organisations in the field of auditing (IFAC or IAASB) in order to promote appropriate and broad verifiability and enforceability of the disclosure requirements.

Question 14—Effective date

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

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

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

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

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

On question a:

We believe that IFRS S1 and IFRS S2 should have the same application date, as both standards are intertwined. However, as with the scope issue, the decision lies with the jurisdictions that will require the application of the global baseline. We therefore favour a late application date and the option of earlier first-time application, as is the case with IFRS 17, for example.

On question b:

We believe that both financial and sustainability disclosures should generally be published at the same time, as this meets the information needs of investors. When adopting new IFRS

Sustainability Disclosure Standards, a transitional provision on the effective date seems appropriate.

We welcome the possibility for entities to voluntarily report earlier.

Question 15—Digital reporting

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

It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation. Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

From our point of view, reporting should be done digitally in the long term. This also involves tagging of information to ensure machine readability. In view of corresponding requirements in financial reporting, this would be a logical step. However, due to the variety of linguistic nuances in narrative information, we wonder how the machine-based processing and analysis of tagged narrative information (e.g., policies, transition plans, methods, assumptions) can or should be done. Readability and interpretability of such information are still under technical development. Artificial intelligence technologies are in development, but not yet generally available. However, the machine-based processing of numerical data might also be difficult in cases where different methods are permitted, and the numerical data can therefore only be compared if the underlying methods are known. Since the information on methods and assumptions is also predominantly narrative in nature, machine processing is not yet fully meaningful even for a number of numerical figures in sustainability reporting. In this context, further developments in technology for the machine readability and machine-based analysis of texts are needed. The current technical possibilities of evaluating narrative information should be carefully considered when designing tagging.

In order to achieve an alignment with the ISSBs global baseline we think “alignment” should not just comprise the content but also the digital taxonomy for reporting. Therefore, we urge the ISSB to closely cooperate with EFRAG and the European Commission also on this regard.

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?

We do not see particular aspects in the ED that would limit the ability of IFRS Sustainability Disclosure Standards to be used as a Global baseline. However, we have addressed some general comments on that issue in our comment letter on ED IFRS S1.

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

We do not have other comments.