Tel: +44 20 7893 3300
Fax: +44 20 7487 3686
@: abuchanan@bdoifra.com
www.bdointernational.com

BDO IFR Advisory Limited
Contact: Andrew Buchanan
55 Baker Street
London W1U 7EU
United Kingdom

International Sustainability Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

27 July 2022

Dear Sir

Exposure Draft: Climate-related Disclosures

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network, this letter summarises views of member firms that provided comments on the ED.

We strongly support the formation of the ISSB and its development of sustainability disclosure standards to be used as a global 'baseline' of reporting requirements. These can then be adopted in multiple jurisdictions, giving a consistent starting point, with country-specific requirements being added as considered appropriate by different jurisdictions. This approach, which would result in converged terminology, definitions and concepts, is critical in avoiding fragmentation of jurisdictional requirements and the potential for entities to be required to prepare multiple sustainability reports.

We note that a number of sustainability reporting initiatives are currently in progress, including in the EU and the US, and encourage the ISSB to work with the organisations involved in developing requirements to maximise a building blocks approach and minimise the risk of regulatory fragmentation which would result in non-comparable, inconsistent information for investors and potentially significantly increased costs for preparers. Convergence of requirements is necessary, rather than alignment where what appear to be similar reporting requirements are structured and defined differently.

We agree with many of the proposals in the ED. However, as noted in our responses to the detailed questions, we believe that it would be appropriate to define a number of additional terms that are used in the ED in order to clarify their requirements. We also note that in some cases, disclosures are required unless an entity is 'unable to do so'. This appears to be a very high hurdle, and we consider that a different threshold may be more appropriate, such as whether it is impracticable to obtain certain information, or it cannot be obtained without undue cost or effort.

A ‘climate first’ approach

The ED would require entities to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. This is, of course, appropriate; however, there are different levels of maturity in sustainability reporting around the world, and there is currently significant focus on climate-related matters.

In this context, we believe that it may be appropriate for disclosures about climate-related matters to be prioritised, with an earlier effective date than wider sustainability disclosures. This could be achieved through a later effective date for paragraphs in IFRS S1 which require reporting on wider sustainability matters, with earlier adoption being strongly encouraged.

This approach would have the potential for consistent climate-related disclosures being made sooner than would be the case if entities needed immediately to disclose information about all significant sustainability-related risks and opportunities because entities would be able to report more quickly on a single sustainability topic. It might also encourage and enable jurisdictions in which sustainability reporting is relatively immature to adopt IFRS Sustainability Disclosure Standards at an earlier date.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan

Andrew Buchanan

Global Head of IFRS and Corporate Reporting

Appendix

Question 6

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?

<u>BDO response</u>

Question 6(a) – although we agree that an entity should provide quantitative information, we do not agree that 'unable to do so' is an appropriate for threshold for determining whether an entity may provide qualitative information instead.

Consistent with our response to the IFRS S1 exposure draft, we interpret that an entity being 'unable to do so' is a very high hurdle to demonstrate, since this would mean that there is no potential way for an entity to obtain the necessary information. We believe this would be difficult to demonstrate in practice and to verify from an audit perspective.

We recommend that the ISSB consider revising this threshold using terminology that is better understood and consistent with existing terminology already used by preparers and auditors. For example, in IFRS Accounting Standards, the threshold may be set at a level of when it is impracticable to obtain the information, or the information cannot be obtained without undue cost or effort.

Question 6(b) – we agree with the proposed disclosure requirements, however, we recommend that the ISSB clarify what types of information may sufficiently describe the 'financial effects' of climate-related risks and opportunities.

Some may interpret 'financial effects' to mean a hypothetical 'what if' scenario. For example, if a distribution facility owned by an entity was cut-off from shipments due to the effects of wildfires, those wildfires would have a financial effect on the entity (e.g. reduced turnover, increased costs). Determining the financial effect expressed in monetary terms (e.g. in an amount of turnover or profit) may be challenging as it would require a hypothetical scenario that would be challenging to audit, and in some cases, this type of information may not be permitted to be disclosed by applicable securities regulation. This prohibition on hypothetical historical financial information was experienced by many entities during the peaks of the COVID-19 pandemic where some entities wished to present pro forma financial information under the assumption that the pandemic had not occurred.

We believe that in some cases, the financial effects of climate-related risk and opportunities may be more reliably disclosed using qualitative and/or historical financial information. For example, continuing from the wildfire scenario set out above, the entity may disclose that in the prior year, when activities were not affected by wildfires, turnover and shipments from the affected facilities were X, whereas they were Y in the current period which was affected by wildfires. This type of disclosure is useful, verifiable and consistent with the requirements of securities legislation.

Question 6(c) – we agree with the proposed disclosure requirement. However, consistent with the views expressed in our response to question 6(b), we believe that the meaning of 'anticipated effects' should be clarified.

Question 7 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?

BDO response

Question 7(a) – we agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy. This information allows users to assess the sensitivity of the entity's strategy to significant risks, many of which are not entirely captured by traditional financial reporting.

Question 7(b) – although we agree that the items listed in paragraph 15(a) should not be required for all entities, we do not agree with the threshold of 'unable to do so' for the reasons noted in our response to question 6(a). We do not believe that an entity would be capable of demonstrating that it is 'unable' to perform scenario analysis, as any entity is capable of doing so with sufficient financial and time resources. We suggest a revised threshold, as noted in our response to question 6(a).

We do not believe that all entities should be required to undertake climate-related scenario analysis to assess climate resilience. We believe that the need for this type of sophisticated analysis will scale appropriately based on the size and complexity of the entity itself, as long as an appropriate threshold for not performing scenario analysis is determined.

BDO serves many clients in the mid-market, many of which will not readily be able to incorporate scenario analysis into their planning due to the scope and scale of their operations. A small or medium-sized entity with a relatively straightforward set of activities may be able to provide the information necessary for users by meeting the disclosure requirements in paragraphs 15(a) and (b)(ii) rather than 15(a) and (b)(i). Requiring all entities to perform scenario analysis may add undue cost and effort for smaller entities and, based on paragraph BC94 in the Basis for Conclusions, it would appear that it was not the intention effectively to require all entities to conduct a scenario analysis (although it is the preferred approach).

We suggest that the requirements are amended to clarify that scenario analysis is the preferred (or strongly encouraged), but not required, approach. If local jurisdictions wish to require scenario analysis for certain entities (e.g. all entities with turnover >X, market capitalisation >Y, or all entities listed on a 'premium' market), then this requirement could be added to the baseline requirements of IFRS S2.

Question 7(c) – we agree with the proposed disclosures about an entity's climate-related scenario analysis. We believe that this information provides users the information necessary to understand the major inputs and assumptions used in performing the analysis.

Question 7(d) – we agree with the proposed disclosure about alternative techniques. We believe that they would providers users with the information necessary to assess climate resilience for entities that have not performed scenario analysis. See our response to question 7(e), where we emphasise the need for scalability in these requirements.

Question 7(e) – we believe the disclosure requirements appropriately balance the costs of applying the requirements with the benefits of the information, as long as the requirements strike an appropriate balance pertaining to the entities that will be required to perform scenario analysis. As noted in our response to question 7(b), we do not believe that all entities should be required to perform scenario analysis.

Question 9 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?

BDO response

Question 9(a) – we agree with the cross-industry requirements because we believe they provide a base set of information that is useful to users regardless of the industry or industries in which an entity operates. This is because the cross-industry requirements all relate to fundamental aspects of how an entity affects climate change (e.g. scope 1, 2 and 3 greenhouse gas emissions) and how climate change affects the entity and its enterprise value (e.g. transition risks, physical risks, and opportunities).

Question 9(b) – we do not believe that any additional cross-industry metric categories are required. While it is possible to identify additional information that may be useful to users in assessing an entity's enterprise value, the scope of the existing requirements, when taken together with applicable industry metrics are already extensive and will provide a significant amount of information to users. We also note that the proposals will be complex to implement for many entities (see our response to question 14). Any information required by an additional cross-industry metric would introduce additional costs for every entity applying IFRS Sustainability Disclosure Standards. Consequently, any additional cross-industry metrics must have their benefits weighed appropriately against the corresponding cost of producing the information, especially in the initial implementation period where costs will be higher than an ongoing basis.

Question 9(c) – we agree that entities should be required to use the GHG Protocol to measure scope 1, scope 2 and scope 3 emissions. The GHG Protocols are the best understood and most accepted set of requirements for carbon accounting. Requiring entities to use the GHG Protocols will also reduce transition costs as many entities currently apply the GHG Protocols when preparing voluntary sustainability reports.

We also understand that many carbon accounting systems and software solutions already use principles set out in the GHG Protocols to estimate emissions, therefore, requiring the GHG Protocols be used would reduce the extent of changes that would be required to be made by entities with existing systems and processes.

Question 9(d) – we agree that entities should be required to provide a CO_2 equivalent measure for emissions. Using a CO_2 equivalent measurement also users to easily compare the emissions of entities in various industries. This is because different entities may produce varying types of greenhouse gases (e.g. methane in the cattle industry vs. nitrous oxide in the fossil fuel power generation industry).

We have considered whether entities should also be required to disclose a disaggregation by the seven constituent greenhouse gases. A benefit of this type of disclosure would be that disaggregation generally provides users with greater information and ability to compare entities. For example, the amount of methane emitted by two different cattle producers may significantly affect the decision making of a user when determining which entity to invest in based on the ability of those entities to reduce methane emissions. Entities will also be required to design systems and processes to track each of the seven constituent greenhouse gases because each gas is converted into a CO_2 equivalent using a different formula, meaning that this disaggregated information should already be captured by entities.

An alternative approach would be to only require specific greenhouse gases to be disclosed based on industry metrics (e.g. methane for the cattle industry as explained earlier), because specific greenhouse gases may be relevant for specific industries more than others.

On balance, we recommend the former approach of requiring disclosure of the disaggregation of the seven constituent greenhouse gases, as the information required to make this disclosure would be available to the entity in order for it to prepare its CO_2 equivalent disclosure.

Question 9(e) – we agree that entities should be required to separately disclose scope 1 and scope 2 emissions for the consolidated entity and for any associates, join ventures, unconsolidated subsidiaries and affiliates. This requirement is consistent with the fact that the consolidated entity represents the operations that the entity is able to control. Therefore, disclosing scope 1 and scope 2 emissions separately for the operations an entity does control vs. those it does not control provides users with information about the scope and effect of the entity's decision making.

The requirement to disclose emissions for unconsolidated subsidiaries also ensures that these emissions are reported regardless of whether the applicable financial reporting framework permits or requires subsidiaries to not be consolidated (e.g. investment entities in IFRS Accounting Standards).

Question 9(f) – we agree that scope 3 emissions should be disclosed as a cross-industry metric category by all entities, subject to materiality. While we acknowledge the complexity in disclosing scope 3 emissions, it has been demonstrated that scope 3 emissions regularly make up a significant portion, if not the overwhelming majority of GHG emissions for many entities. Requiring only the disclosure of scope 1 and scope 2 emissions would also introduce the opportunity to structure operations artificially to reduce total GHG emissions. For example, if an entity was only required to report scope 1 and scope 2 emissions, that entity could outsource aspects of its value chain, of which the GHG emissions would not be captured or reported.

We also agree that scope 3 emissions should be disclosed on a gross basis because the efficacy of carbon off-sets has not been well demonstrated.

We believe that certain aspects of the exposure draft relating to scope 3 emissions should be clarified. Paragraph 21(a)(vi)(2) states (**emphasis added**):

an entity shall disclose the categories 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;*

As drafted, we believe that this requirement may be interpreted to mean that an entity is able to include or exclude from its measure of scope 3 emissions any categories it wishes. Paragraph 21(a)(vi)(4) provides that greenhouse gas emissions in an entity's value chain (paragraph 21(a)(vi)(3)) may be omitted if an entity is 'unable to obtain a faithful measure', but this does not apply to the requirement in paragraph 21(a)(vi)(2).

BC116 states:

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. For example, an entity might be exposed to risks or opportunities related to the GHG emissions arising out of third-party transportation and distribution services it buys for outbound logistics of products sold to customers. The entity would include that information about such emissions if material to the users of its general purpose financial reporting in their assessment of its enterprise value.

We believe the intention of paragraph 21(a)(vi)(2) is to provide users with information about the types of scope 3 emissions included in the measure based on an assessment of materiality. For example, in determining which of the 15 categories of scope 3 emissions to measure, an entity might determine that only 5 of those categories are material (e.g. the entity does not have any physical offices and therefore employee commuting is minimal, so category 7 is excluded).

If this is the intention of the ISSB, we recommend that this be clarified in the paragraph 21(a)(vi)(2). One approach might be to amend the paragraph as follows (<u>added text underlined</u>):

an entity shall disclose the categories 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 <u>based on the entity's assessment of which of the 15 categories are material</u>;

Additionally, we do not understand what 'unable to obtain a faithful measure' (paragraph 21(a)(vi)(4) means. Consistent with our response to the IFRS S1 exposure draft, the IFRS S1 and S2 exposure drafts use various terms to establish thresholds, including 'to the extent possible', 'unless an entity is unable to do so', and 'unable to obtain a faithful measure'. None of these terms are well understood or clear in their meaning. Although this is also true for some terms used in IFRS Accounting Standards, practice has evolved over time and these terms were introduced incrementally, whereas it is proposed that IFRS Sustainability Disclosure Standards would introduce new terms without a definition or interpretative guidance.

Question 11 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?

BDO response

Question 11(a) – we agree with the approach taken. The SASB Standards were originally developed with certain jurisdictional-specific requirements embedded (e.g. disclosures involving the Energy Star certification program for appliances). We believe that the approach to maintaining the SASB Standards, which have already been subject to significant due process, while appropriately adapting them for an international audience, is appropriate.

Question 11(b) – we agree with the proposed amendments.

Question 11(c) – we agree.

Question 11(d) – we agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, however, consistent with our response to the S1 exposure draft and question 14 of this exposure draft, we believe that a phased approach should be taken relating to this financed and facilitated emissions.

We agree that certain industries contribute significantly to global emissions by providing financing and investment services to entities, which is why disclosure of financed and facilitated emissions would provide users with important information about the carbon intensity of entity's loan portfolios, assets under management, etc.

While this information is important, we also acknowledge the complexity and difficulty in estimating financed and facilitated emissions. Measuring an entity's own scope 3 emissions (including from the investment category) will be challenging as the relationship that reporting entities have with borrowers may not readily facilitate the estimation and sharing of this information. This problem is further exacerbated for financed and facilitated emissions, since Appendix B, which accompanies IFRS 2, requires financed and facilitated emissions to include scope 3 financed emissions (Appendix B, FN-CB-3, paragraph 1 and 1.1). Many entities will be required to develop entirely new systems in order to capture an estimate of financed and facilitated emissions, which may require amendments to contracts and the assistance of borrowers in estimating emissions, which borrowers may not have otherwise been required to do previously.

We recommend that the ISSB take an approach similar to the Global GHG Accounting & Reporting Standard for the Financial Industry, issued by the Partnership for Carbon Accounting (PCAF). PCAF's requirements for scope 3 emissions included in financed emissions are 'phased in' over a number of years by sector (e.g. 2021 for the energy and mining sector, and 2024 for transportation, construction, buildings, materials and industrial activities).

Identifying specific industries where certain entities must disclosure the concentration of their financed or facilitated emissions is also consistent with this requirement, as the exposure draft already proposes additional disclosure requirements for 'carbon-related' industries (e.g. FN-CB-1, paragraph 1). The ISSB could consider requiring disclosure of financed and facilitated emissions initially only for the carbon-related industries, or a subset of those industries.

The phasing in of these requirements would allow entities sufficient time to adapt their systems and processes. If entities are required to disclose all financed and facilitated emission immediately upon adoption of IFRS Sustainability Disclosure Standards, we believe the effective date of the requirements would need to be significantly deferred (see our response to question 14).

Question 11(e) – we agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities. These industries are consistent with classifications made by other carbon accounting guidelines, such as those issued by the PCAF (see our response to question 11(d)).

Question 11(f) – we agree with the proposed requirements. Intensity-based financed emissions (e.g. metric tonnes of CO_2-e per USD 1 million of revenue) provide a useful measure of GHG emissions based on the scale of the activities of the borrower. For example, Entity A may have higher absolute gross CO_2-e than Entity B, but if Entity A has lower intensity-based financed emissions, then this allows users to evaluate the carbon-efficiency of the entities' operations.

Question 11(g) – we agree with the requirement to disclose the methodology used to calculate financed emissions. The GHG Protocols and the GHG Protocol Corporate Value Chain (Scope 3) Standard provide guidance on estimating financed emissions. However, this practice is still nascent and evolving. Multiple techniques may be used to estimate emissions, and during the initial periods where such reporting is required, there may be diversity in the approaches taken by various entities. Disclosing the methodology used will increase the transparency of disclosures.

Question 11(h) – we agree with the ISSB not prescribing a more specific methodology for determining financed emissions. While the practice of disclosing financed emissions has increased in recent years, it is still a nascent area. One might consider that a greater amount of guidance may ease the transition to disclosing financed emissions by a large number of entities. However, more explicit requirements also carry additional costs in terms of complexity.

If the standard is issued as proposed in the exposure draft, we recommend that this decision be revisited once practice and methodology relating to the disclosure of financed emissions has been allowed sufficient time to mature.

Question 11(i) – we believe the disclosure of financed emissions associated with total assets under management provides useful information for the assessment of an asset manager's indirect transition risk. An asset manager makes fiduciary decisions for its clients relating to the investments that are made on the client's behalf. Information about the financed emissions in an asset manager's portfolio provides the asset manager's clients and other stakeholders information about the carbon-intensity of the investment portfolio.

This allows users to make decisions about whether they wish to place their assets under management with the entity, or whether the investment portfolio is exposed to significant climate-related risks, including transition risks, due to the carbon intensity of the investments made (e.g. an asset manager that invests heavily in the fossil fuels industry).

Question 11(j) – we agree with the proposed industry-based requirements. The majority of these requirements are unchanged from those previously issued by the SASB, which have already been subject to significant due process and have been found to be useful for users of sustainability-related financial information.

Question 11(k) - While it is possible to identify additional industry-based requirements that may be useful to users in assessing an entity's enterprise value, the scope of the existing requirements is already extensive, will provide a substantial amount of useful information to users, and will be complex to implement for many entities (see our response to question 14). We do not believe that any additional industry-based requirements are necessary at this time.

Question 11(l) – we do not have any comments or suggestions relating to the industry descriptions.

Question 13 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.

<u>BDO response</u>

The disclosure of scope 3 emissions and financed and facilitated emissions will be particularly challenging to verify and enforce because these disclosures will generally require significant assumptions to be made. For example, a manufacturer may have dozens, if not hundreds of suppliers and sub-suppliers. Estimating the scope 3 emissions in an entity's value chain will be challenging even when suppliers are able to make information available.

As noted in our response to question 11(d), many lenders may not have sufficient systems and processes to estimate financed emissions initially. An additional practical barrier to making accurate estimates may be that borrowers may not be required to provide information to lenders that is necessary to estimate financed emissions because those requirements were not contemplated when loan and investment agreements were executed. Lenders and other entities subject to financed and facilitated emissions disclosure requirements may then be required to make estimates based on the information that is available to them, which may be less entity specific and be subject to higher estimation uncertainty.

Question 14

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?

BDO response

Question 14(a) - Our views on the effective date of IFRS S1 and S2 are expressed in our response to the IFRS S1 exposure draft.

In summary, we believe a phased 'climate first' approach should be taken. This would involve IFRS S1 and S2 being effective at the same date, except for paragraphs 2, and 50-55 of IFRS S1, along with any other paragraphs requiring the identification of all sustainability-related risks and opportunities which would become effective at a later date. This would mean that initially, entities would only be required to provide sustainability-related financial disclosures set out in IFRS S2 relating to climate.

While many sustainability-related risks and opportunities affect enterprise value, we believe the urgency of climate-related disclosures is significant in comparison to other disclosure topics. Climate change and a just transition to a greener economy are fundamental to all businesses, governments and peoples. Initially requiring disclosure of only climate-related information would allow jurisdictions to require implementation of IFRS Sustainability Disclosure Standards more quickly than if entities were required immediately to disclose information about all sustainability-related risks and opportunities.

The reasons for our view are included in our response to the IFRS S1 exposure draft.

Question 14(b) – We observe that entities were provided with 3 or more years to implement complex and pervasive IFRS Accounting Standards (e.g. IFRS 16, IFRS 17). Providing sustainability disclosures of any kind will be a significant undertaking for many entities, including gathering the necessary information and implementing and adapting systems, processes and controls to estimate information such as scope 1, 2 and 3 greenhouse gas emissions, and financed/facilitated emissions for certain financial services entities. In the case of accounting standards, entities may have had to adapt their existing systems and processes to implement new requirements. However, almost all entities began from a starting point of having existing systems, processes and controls in place, whereas for sustainability reporting, many entities will be starting from a position of having no existing processes and systems.

Assuming that the ISSB pursues a phased 'climate first' approach as we have described, we believe the effective date for IFRS Sustainability Disclosure Standards should be no earlier than 3 years from the date the standards are issued. If the ISSB does not pursue a phased 'climate first' approach, the effective date should be longer (at least 4 years).

Question 14(c) – see our response to question 11(d). We believe that the ISSB should phase in the requirement for scope 3 financed emissions, with carbon-related industries being included earlier than other industries.

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

BDO response

We do not have any other comments.